YOUR DESJARDINS ADVANTAGES

2014 ANNUAL REPORT
DESJARDINS GROUP

Desjardins

Cooperating in building the future

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Note to the reader

This annual report was produced by the Marketing, Communications and Cooperative Executive Division of Desjardins Group (Brand and Marketing Communications Division) and the Finance Executive Division and Office of the CFO of Desjardins Group (Finance Division).

MESSAGE FROM THE PRESIDENT

IN 2014, WE MADE GOOD HEADWAY ON OUR STRATEGIC PRIORITIES

2014 was a productive year for Desjardins Group. We stayed on course with our strategic plan and delivered a solid financial performance, posting $1.593 billion in surplus earnings, a modest increase over 2013. We also saw our operating income rise by 5.9% and our assets end the year at $229.4 billion, up 8.2% over the previous year.

Our capital ratios are among the best in the industry; this year, we recorded a Tier 1a capital ratio of 15,7% and a total capital ratio of 17,9% as at December 31, 2014. This is one of the reasons Bloomberg has ranked us the second strongest financial institution in the world—and number one in North America.

CONSTANTLY IMPROVING OUR REPORTING PRACTICES

With our 2014 annual report, we've taken steps to further align ourselves with the fourth generation (G4) of the Global Reporting Initiative's Sustainability Reporting Guidelines.

One aspect of these guidelines is consulting stakeholders to identify the indicators used in the reporting process. At Desjardins, our most important stakeholders, without question, are the more than 7 millions members and clients we serve. Thanks to our representative democratic model, they participate at every level of our governance structure, which is predominantly made up of elected representatives. These representatives ensure our members' voices are heard when it comes to deciding what the organization's priorities are and how we report on our results and achievements.

BRINGING EFFICIENCY AND TECHNOLOGY TOGETHER

The three pillars of our strategic plan are service, growth and efficiency. In 2014, we invest a great deal of effort on the efficiency front, working hard to increase our agility at the same time. We tightened timelines on several projects in order to deliver new business solutions to the caisses more quickly. Our Shared Services Centre has also increased its support for the caisses by taking on more and more administrative responsibilities on their behalf.

We also turned this focus on efficiency toward our clients, continuing to optimize the services we offer online and via smartphone and tablet apps. In 2014, we were proud to launch an instant-savings banking app and a mobile payment solution. Technology was also a priority in the design of our first 360d location, a service outlet designed to provide a fresh and modern banking experience to students and young adults.

EMPHASIZING SUPERIOR SERVICE

Running through all these projects has been a common thread: the drive to keep improving the service we provide our members and clients. In fact, service remains the most important of our strategic priorities.

Organization-wide, in each of our caisses and across all our business lines, we've introduced a series of initiatives to stimulate continuous improvement. And to make sure our caisse members fully benefit from the Desjardins difference, we added to the list of Desjardins Member Advantages in 2014. For example, members age 25 and under who insure their car with Desjardins Insurance now get $50 cashback every year, plus free access to Desjardins Roadside Assistance.

2014 also saw Desjardins Group join the prestigious ranks of Canada's top 50 employers. We're extremely proud that our employees consider Desjardins an attractive and stimulating place to work, with many opportunities to grow and succeed. We know that having satisfied and motivated employees results in better service to our members and clients.

SETTING OUR SIGHTS ON GROWTH

With growth as one of our strategic priorities, we're striving to expand our membership and extend our services to new clients. A perfect example of this ambition at work is our Greater Montreal development plan.

Another big step forward in our growth plan was our acquisition of the Canadian operations of State Farm, the U.S.-based insurance mutual. When the transaction was finalized in early 2015, we welcomed a network of nearly 500 agencies serving more than a million clients. Over time, we will introduce Desjardins products and services to a wider range of clientele across Ontario, Alberta and New Brunswick.

We also take pride in the tremendous success of the second International Summit of Cooperatives, which we hosted in October 2014 in partnership with the International Cooperative Alliance. The event saw nearly 3,000 participants from all over the world gather in Quebec City to network, build partnerships with other cooperative leaders, and reflect on the rise of the cooperative business model.

In light of some of the big challenges currently facing our societies, the global cooperative movement is seeking to expand its role on the world stage. We strongly believe that cooperative organizations, which tend to take a long-term vision and balance economic, societal and environmental issues, have a lot to offer a world looking for sustainable prosperity and development.

WORKING COLLECTIVELY

My last words are of thanks to our members and clients for trusting us with their business. I also want to thank all of the officers, managers and employees across Desjardins Group, whose hard work this past year has made 2014's list of impressive accomplishments possible.

Our focus on service, growth and efficiency has served us well so far. I am confident that by staying the course, we will continue to see benefits—not only for today's members and clients, but for generations to come.

Monique F. Leroux, C.M., O.Q., FCPA, FCA
Chair of the Board, President and
Chief Executive Officer of Desjardins Group

A DISTINCTIVE MISSION, A COMPELLING VISION AND STRONG COOPERATIVE VALUES

DESJARDINS GROUP'S MISSION

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

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

VISION

To leverage our position as Canada's leading financial cooperative group to inspire confidence around the world through the commitment of our people, our financial strength and our contribution to sustainable prosperity.

VALUES

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

2014 HIGHLIGHTS

DESJARDINS, PEOPLE FIRST

- More than 7 million members and clients (individuals and businesses)*
- 4,958 officers
- 45,966 employees

ON SOLID FINANCIAL FOOTING

- $229.4 billion in assets
- $1,593 million in surplus earnings
- Tier 1a capital ratio of 15.7%
- Operating income of $12,654 million

A FINANCIAL INSTITUTION WHERE AND WHEN YOU NEED IT

- 360 Desjardins caisses in Quebec and Ontario offering services at:
  - 805 service outlets
  - 2,225 ATMs
  - 44 Desjardins Business centres
- Through the caisses and subsidiaries, Desjardins offers a comprehensive range of financial services to individuals and businesses across Canada via a network of institutions and virtual platforms.
- Desjardins is also present in over 30 developing and emerging countries through Développement international Desjardins (DID).

215,000
DESJARDINS GROUP AND CAISSE **FOLLOWERS** ON FACEBOOK

AND ON SOCIAL MEDIA

- 215,000 Desjardins Group and caisse followers on Facebook
- 1,800,000 views on YouTube
- 15,000 Twitter followers
- 39,000 LinkedIn followers
- A stronger presence than ever on Pinterest and Instagram

156 caisses are on Facebook, and every month over 1.1 million people view content on Desjardins's Facebook pages.

DESJARDINS, WORLD'S 2ND STRONGEST FINANCIAL INSTITUTION

In 2014, Desjardins Group shot up the ranks on Bloomberg financial agency's top 20 list of the World's Strongest Banks, jumping from 13th to 2nd place.

2ND MOST SUSTAINABLE COOPERATIVE

Desjardins Group was ranked the world's second most sustainable cooperative and earned fifth place in the Best Corporate Citizens in Canada ranking by Toronto-based *Corporate Knights* magazine.

GOLD MEDAL FOR CLIENT CONTACT CENTRES

The Business and Personal client contact centres and caisses of Card and Monetico Services were honoured with a gold medal by The Global Association for Contact Center & Customer Engagement Best Practices, Americas edition.

2014 NOVAE CORPORATE CITIZENSHIP AWARD, MOBILITY CATEGORY

Desjardins earned the Novae Corporate Citizenship Award, Mobility category, for its alternative transportation program, "A new route for your commute." The initiative was recognized specifically for having a positive impact on reducing greenhouse gas emissions and promoting employee health.

LES PRIX novae DE L'ENTREPRISE CITOYENNE I 2015

DOUBLE THE RECOGNITION FOR INVESTMENTS

Desjardins' market-linked guaranteed investments (MLGIs) were recognized for the third straight year. Desjardins also received two awards from the organizer, Structured Retail Products:

- Best Sales, Canada
- Best Sales, Canada – GICs.

* As at January 1, 2015, following the acquisition of State Farm's Canadian activities.

PRODUCTS AND SERVICES WORKING FOR OUR MEMBERS AND CLIENTS

NEW ONLINE FEATURES WITH REAL-WORLD APPLICATIONS

START IMPULSE SAVING IN JUST ONE CLICK WITH OUR INSTANT SAVINGS TOOL!

Fun and easy to use, the Hop 'n S@ve instant savings tool allows you to save toward your goals by transferring money into a High Interest S@vings Account. Create a category (trip, purchase, etc.) for your savings goal, and the tool will try to motivate you in different ways to help you reach it.

Since Hop 'n S@ve launched in April, some 43,000 members have opened a High Interest S@vings Account, racking up **over $30 million in total savings.**

PAY RISK-FREE WITH YOUR SMARTPHONE

If you have a Visa Desjardins card, you can use your smartphone to make everyday purchases at a host of retailers. To pay, just hold your phone in front of the merchant's payment terminal for a few seconds.

This service is available on the Bell Mobility, Rogers™, Virgin Mobile and TELUS networks.

SUBMIT YOUR INSURANCE CLAIM IN 30 SECONDS

If you are a Desjardins insurance policyholder, you can submit a claim in 30 seconds or less using a new mobile app called Claim 360°.

Claim 360° is available on Apple® (iPhone, iPad and iPod touch) and Android™ smartphones and tablets. With Claim 360° you can:

- Track your mobile claims and most recent reimbursements
- Check the balance of your Health Spending Account

Between March and December 2014, this new feature was downloaded 22,528 times.

ACCÈSD ASSISTANT: ANSWERS TO YOUR QUESTIONS ONLINE

Use AccèsD Assistant, a new context-sensitive help tool. When you're in the middle of a transaction or not sure how to proceed, it's there with answers.

AccèsD Assistant, a new context-sensitive help tool, is available 24/7 if you have questions about:

- Paying bills
- Making a person-to-person transfer
- Making an *Interac*® transfer

TAKE ADVANTAGE OF FREE ASSISTANCE SERVICES

Desjardins offers to all of its individual members the following assistance services at no cost:

- Identity Theft Assistance
- Travel Assistance
- Estate Assistance
- Roadside Assistance*

PRODUCTS TO HELP YOU ACHIEVE YOUR LIFE GOALS

360d SPACE FOR 18-TO-30-YEAR-OLDS

A new financial service centre opened near the Université de Montréal campus aimed specifically at students and young workers ages 18 to 30. 360d is a fresh take on the traditional financial institution, with cluster areas designed specifically for their projects, including:

- Financing their studies
- Travelling
- Buying their first car
- Entering the labour market

Advisors versed in a range of areas are ready to help, and the centre is equipped with the latest technology, including touchscreens—a first in the North American financial sector.

INVEST IN A GREENER HOME

Desjardins has an exclusive offer to encourage you to invest in a greener, more environmentally friendly home. Under the Green Homes Program, if you buy a newly built home or make green renovations, you become eligible for a comprehensive offer that includes:

- Cashback
- Discounts
- Freebies
- Preferential rates
- And many other advantages

NEW TOOLS FOR BUSINESS OWNERS

ONLINE START-UP KIT FOR NEW ENTREPRENEURS

If you are starting a company or have been in business for less than a year, you are eligible for a Start-up Kit, which includes products, services, savings, tools and expert guidance. To take advantage of the tools in the Start-up Kit, you must have a SimpliciD plan and a Business Freedom.

MONETICO MOBILE, A SECURE AND INNOVATIVE PAYMENT SOLUTION

Desjardins's new mobile payment solution Monetico Mobile allows merchants like osteopaths, plumbers and home delivery providers to accept credit card payments using a card reader connected to their smartphones or tablets. A safe and efficient way to accept payments.

= A EXCLUSIVE ADVANTAGE FOR MEMBERS

* Desjardins Roadside Assistance service is offered to members who are 25 or under, reside in Quebec and have auto insurance with Desjardins Insurance or The Personal.

COMMUNITY-MINDED

SOLIDARITY AND COOPERATION GUIDE EVERYTHING WE DO

We work to build strategic partnerships with organizations at the community level so that we can help people in need make the best decisions, and provide them with suitable financing solutions.

DESJARDINS MUTUAL ASSISTANCE FUNDS

Through the Desjardins Mutual Assistance Funds, we take a practical approach to personal financial planning: recipients are given a microloan, with flexible repayment terms, to help them meet their immediate essential needs.

2014 RESULTS

Caisse participation rate	**58.0%**
Number of loans granted	**608**
Total loans	**$381,565**

TWO FINANCING PRODUCTS FOR VERY SMALL BUSINESSES

CRÉ*AVENIR* is a financing program to help young entrepreneurs who have little or no access to traditional credit get their business up and running.

2014 RESULTS

Caisse participation rate	**22.0%**
Total loans	**$591,216**
Total grants	**$201,589**

The ***Desjardins Microcredit to Businesses*** program provides micro-entrepreneurs and self-employed workers who have little or no access to traditional credit with the support they need to consolidate their business or get it off the ground.

2014 RESULTS

Caisse participation rate	**29.7%**
Total financing amount	**$363,589**

EDUCATION AND COOPERATION

THE INTERNATIONAL SUMMIT OF COOPERATIVES

The 2014 International Summit of Cooperatives drew 2,600 participants and 214 speakers from 93 countries, positioning itself as the headline event in the cooperative world. Not only does the Summit bolster the global cooperative movement's credibility, it provides an opportunity to document multiple facets of this business model through serious studies and research.

RELEASE OF THE BOOK *CONVERSATIONS ON COOPERATION*

Print and electronic versions of the book *Conversations on Cooperation* were released at the International Summit of Cooperatives. The work includes interviews with 20 global cooperative leaders from Canada and abroad. These influential figures share the paths that led them to the cooperative world, their personal definitions of cooperation, the challenges they face and their hopes for the future of cooperatives and mutuals.

CO-OPME AND OUR COMMITMENT TO EDUCATION AND COOPERATION

The Co-opme Program showcases the many initiatives we have implemented for our members, our clients and the general public. The program also makes clear our commitment to cooperation, education and financial education.

2014 HIGHLIGHTS

- Since 2011, we've used 1% of our surplus earnings to fund our Co-opme Program, which helps coordinate and bolster Desjardins actions with regard to education and cooperation
- The Co-opme section of the website has attracted some 500,000 page visits since its launch

SOMEWHERE WE CAN TALK

The innovation lab is a new virtual communication zone launched this year in the Co-opme section of Desjardins.com—there's nothing like it anywhere else in the Canadian financial sector. It allows us to:

- Use our members and clients as a sounding board as we develop new products, services and applications to meet their needs
- Get timely feedback to help us fine-tune solutions they're already using

Members can also participate in surveys, test new products and services and provide unique insight on various topics.

DESJARDINS FOUNDATION, AN ORGANIZATION THAT MAKES EDUCATION A PRIORITY

In 2014 the Desjardins Foundation handed out 729 scholarships, awards and donations in Quebec and Ontario, representing $1,349,900 in total financial aid.

DESJARDINS MUTUAL ASSISTANCE CAMPAIGN—MORE THAN $547,000 RAISED

Desjardins employees, officers and retirees came together once again this past year to show their generosity and participate in the third annual Desjardins Mutual Assistance Campaign.

A FUND SPECIFICALLY AIMED AT HELPING KIDS STAY IN SCHOOL

In 2014, 80% of the dollars raised through the Desjardins Mutual Assistance Campaign went to a fund specifically aimed at helping kids stay in school. The Foundation's goal is to support large-scale projects to find solutions to prevent dropouts before they happen.

TEACHING YOUNG ADULTS TO MAKE SOUND FINANCIAL DECISIONS

Personal Finance: I'm in Charge™ is a financial education program that primarily targets young adults ages 16 to 25. After following the program, young adults can make educated and responsible decisions by examining all their options as a consumer.

Some 2014 results for the Personal Finance: I'm in Charge™ program

- 4,575 unique participants
- 68 participating caisses
- 14 community partners and 3 public colleges involved

OVER $79 MILLION INVESTED IN TRAINING ACTIVITIES

The Desjardins Cooperative Institute (DCI) offers many training and education programs for elected officers, managers and employees. As our corporate university, it provides an environment for continual learning focused on Desjardins Group priorities and needs. It is also the nerve centre of knowledge transfer on **cooperation and business.**

In 2014 we invested some **$79 million**—or **2.91%** of our total payroll—in employee training and development activities, in large part through the DCI.

COMMUNITY STRENGTH

$82.3 MILLION

DISTRIBUTED AS DONATIONS AND SPONSORSHIPS

CORPORATE GIVING

Again this year, Desjardins Group demonstrated its commitment to sustainable community development. We reinvested some **$82.3 million** in our communities in the form of donations, sponsorships, and philanthropic partnerships and scholarships, including **$34.8 million** from caisse Community Development Funds.

ECONOMIC SPINOFFS

At Desjardins Group we play a direct and indirect role in improving the socioeconomic development of communities throughout Quebec, across Canada and around the world through:

- Local economic activity, thanks to our vast distribution network and decentralized operations
- Support for regional business and job development
- Our commitment to helping organizations working for a greener economy

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

	2014	2013	2012
Income taxes	**$434**	$439	$428
Indirect taxes	**1,044**	960	817
Salaries	**2,638**	2,541	2,396
Benefits	**562**	584	634

ENTREPRENEURSHIP

We run a number of programs that provide development support to business owners, such as:

- Development capital investments from Capital régional et coopératif Desjardins
- Support programs for up-and-coming farmers, with the Desjardins NextGen Farm Loan, for instance
- Desjardins Entrepreneur Awards

CAPITAL INVESTMENTS MANAGED BY DESJARDINS VENTURE CAPITAL IN 2014

Development capital investments (at cost) in Quebec	**$875 million**
Investments (at cost) in cooperatives or other businesses located in resource regions	**$270 million**
Development capital investments (at cost) in Quebec areas experiencing economic decline	**$9 million**
Number of Quebec businesses, cooperatives and funds supported	**420**

DESJARDINS DOES ITS PART FOR THE ENVIRONMENT

COMMUNITY DEVELOPMENT FUNDS

Our CDFs are a concrete example of the spirit of solidarity shared by Desjardins caisse members. In 2014 the CDFs paid out **$34.8 million** to support local initiatives.

AN EXAMPLE OF PROJECTS FUNDED BY THE CDFS

A participatory, cooperative and formative project in Saint-Lambert

The Agora Secondary School now boasts a cooperative cafeteria serving up hot, healthy, affordable lunches to students. The project, which fits with the school's overall philosophy, was an initiative by parents, students and community organizations, including Caisse Desjardins Charles-LeMoyne, a regular supporter of school projects.

There are remarkable similarities between the Desjardins caisse vision and the vision behind the democratic and cooperative Bistro de l'Agora project. Managed by a board of directors made up of students, parents and staff, the cooperative cafeteria also celebrates the values of entrepreneurship, social engagement and healthy living. The Bistro, it should be noted, won the regional finals of the Québec Entrepreneurship Contest, Bio-Food and Social Economy category, in April 2014.

REWARDING GOOD CITIZENSHIP: RURALIA-DESJARDINS AWARD

The Ruralia-Desjardins awards recognize citizen-based initiatives that succeed at rallying their local rural communities and stand out for their innovation and community spirit.

A YOUTH CENTRE THAT FOSTERS SOCIAL ENGAGEMENT

The project *"Partenaires 12-18: Des raccrocheurs de jeunes, des réveilleurs de leader du Centre-du-Québec"* won second prize and a $10,000 grant. Rethinking the traditional youth centre model, the initiative aims to encourage social engagement by giving young people an opportunity to propose and manage their own projects.

Participants work under an adult supervisor to form an accountable, responsible youth committee to plan and promote various activities that also engage other young people and local organizations. The projects have made them realize that they can improve their quality of life through volunteerism and good citizenship and become agents of positive change to help revitalize their community.

In 2014 we merged our sustainability measures with our environmental initiatives, making climate change the focus of our commitment to corporate social responsibility.

COOP CARBONE: PROVING THE POWER OF INTERCOOPERATION

In 2011 Desjardins joined forces with four other partners to found COOP Carbone, a cooperative. In 2014 COOP Carbone began providing GHG-producing companies with:

- Assistance on projects to reduce GHG emissions
- **Aggregation,** training, business intelligence and networking services. **Aggregation cooperatives** make the carbon market accessible to small businesses.

SOCIALLY RESPONSIBLE INVESTING

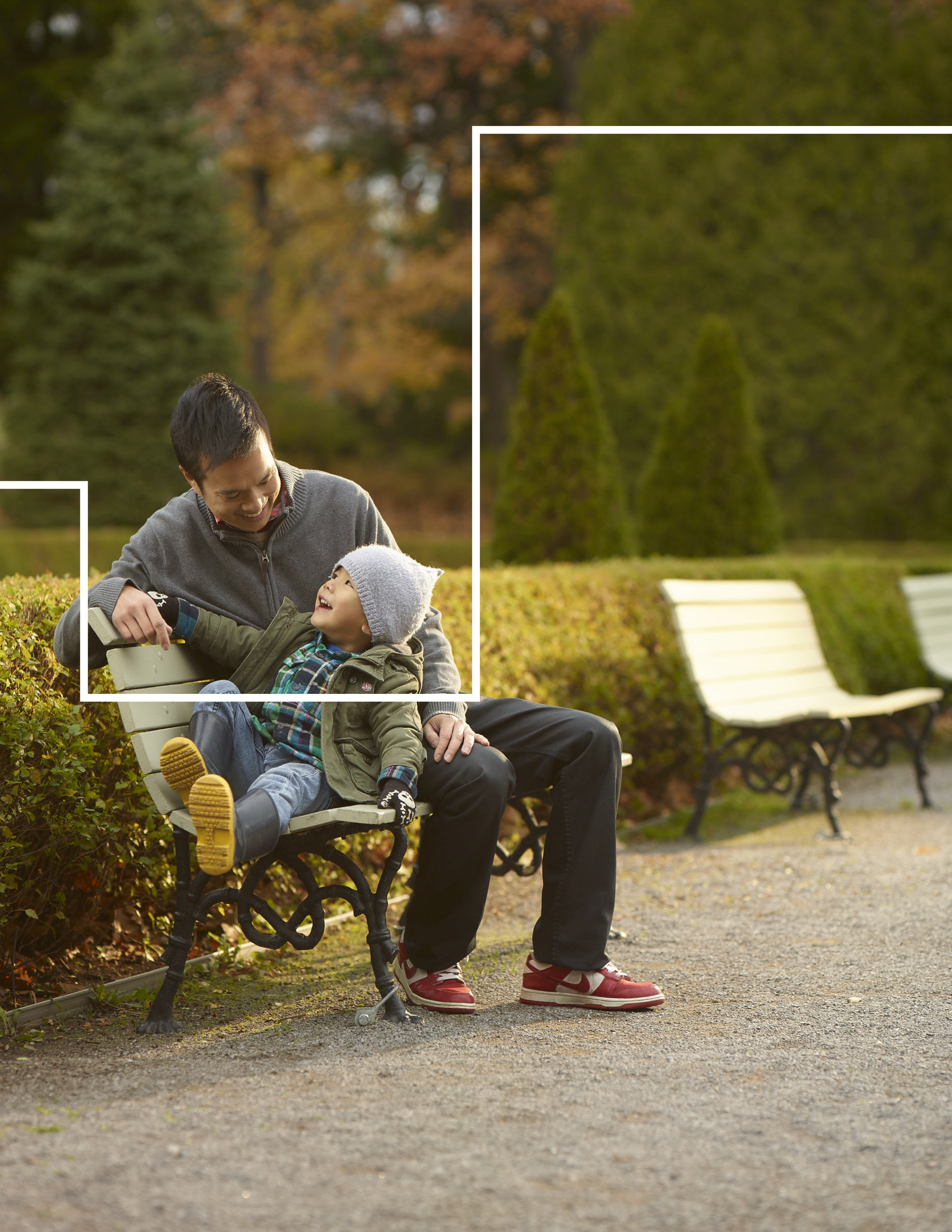
Desjardins has pioneered socially responsible investing (SRI) in Canada and is today a leading proponent of SRI right across the country. In 2014 we submitted over **$1.94 billion** in assets for positive or negative screening at the social and environmental levels.

ENCOURAGING ECO-FRIENDLY TRANSPORTATION CHOICES

Launched in 2010, our "A new route for your commute!" program encourages employees to use other transportation methods—shuttle, carpooling, public transit, or Bixi bike sharing—as an alternative to the one person, one car model.

DESJARDINS WINS THE 2014 CAR-FREE CHALLENGE, SUPRAREGIONAL CATEGORY, TWO YEARS IN A ROW

- 965 employees signed up
- 50 tonnes of GHGs saved in a single day



BALANCE SHEETS AS AT DECEMBER 31, 2014

2014 SEGMENT HIGHLIGHTS

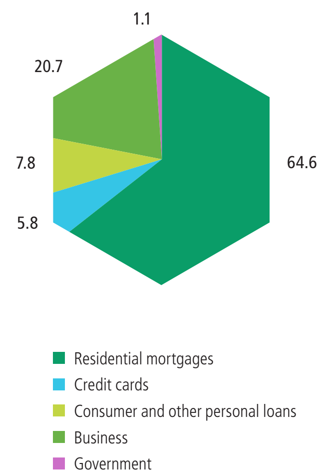
- Growth of 8.2% in total assets, which amounted to $229.4 billion as at December 31, 2014
- Residential mortgage loans outstanding up over the year by $6.1 billion, or 6.7%, to total $97.5 billion
- Quality loan portfolio, with a ratio of gross impaired loans to total gross loans of 0.34%
- Increase of 7.0% in savings recruitment, which amounted to $146.3 billion
- Year-over-year growth of $36.5 billion in assets under management and under administration to total $370.8 billion at the end of 2014
- Tier 1a capital ratio of 15.7% as at December 31, 2014, still among the highest in the banking industry

BALANCE SHEET AND INDICATORS
As at December 31
(in millions of dollars, as a percentage and as a coefficient)

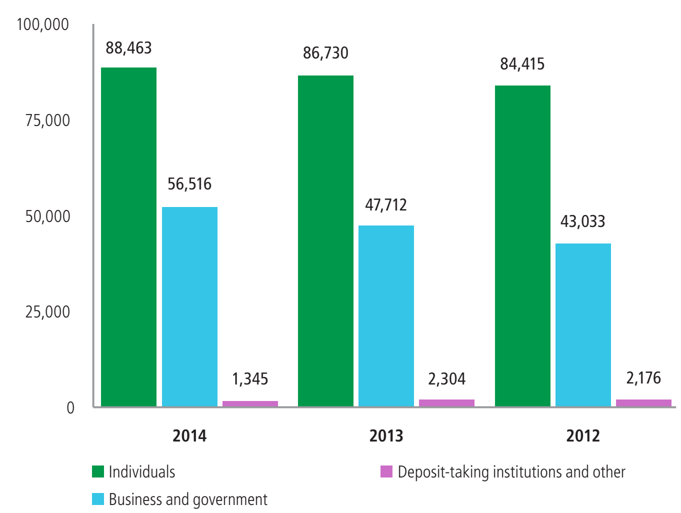
	2014	2013	2012
Balance sheet			
Assets	**$229,387**	$212,005	$196,818
Net Loans	**150,454**	140,533	132,576
Deposits	**146,324**	136,746	129,624
Equity	**18,893**	17,232	15,459
Indicators			
Assets under management and under administration(1)	**$370,768**	$334,245	$306,956
Tier 1a capital ratio(2)	**15.7%**	15.7%	s. o.
Tier 1 capital ratio(2)	**15.8%**	15.7%	16.8%
Total capital ratio(2)	**17.9%**	18.4%	19.3%
Gross impaired loans/gross loans	**0.34%**	0.33%	0.35%
Gross loans/deposits	**1.03**	1.03	1.03

(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.
(2) The 2014 and 2013 ratios were calculated pursuant to the AMF guideline on the adequacy of capital base standards applicable to financial services cooperatives under Basel III, while the ratio for 2012 was calculated in accordance with Basel II.

LOAN DISTRIBUTION BY BORROWER CATEGORY
As at December 31, 2014
(as a percentage)



DEPOSITS BY CATEGORY
(in millions of dollars)



FINANCIAL RESULTS FOR 2014

2014 SEGMENT HIGHLIGHTS

- Combined surplus earnings before member dividends of $1,593 million, up from 2013
- Growth of 5.9% in operating income, which totalled $12.7 billion
- Productivity index of 73.4%, compared to 73.5% in 2013

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

	2014	2013(1)	2012(1)
Results			
Net interest income	**$3,976**	$3,857	$3,881
Net premiums	**5,916**	5,558	5,126
Other operating income	**2,762**	2,536	2,293
Operating income	**12,654**	11,951	11,300
Investment income (loss)	**2,581**	(217)	1,178
Total income	**15,235**	11,734	12,478
Provision for credit losses	**351**	277	241
Claims, benefits, annuities and changes in insurance contract liabilities	**6,303**	3 ,259	4,397
Non-interest expense	**6,554**	6,229	5,908
Income taxes on surplus earnings	**434**	439	428
Surplus earnings before member dividends	**$1,593**	$1,530	$1,504
Amount returned to members and the community			
Member dividends	**$217**	$171	$279
Sponsorships and donations	**82**	81	85
	$299	$252	$364
Ratios			
Return on equity	**8.7 %**	9.4%	10.2%
Productivity index	**73.4**	73.5	73.1

(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.

2014 SEGMENT HIGHLIGHTS

SOME 2014 HIGHLIGHTS

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

- Surplus earnings before member dividends totalled $888 million, up $79 million, or 9.8%, compared to 2013
- Increase in residential mortgages, helping Desjardins to grow its Quebec market share
- Growth of 8.7% in business volume related to credit card services as at December 31, 2014
- Growth of $2.8 billion in on-balance sheet savings in Quebec, helping Desjardins to maintain its leadership in the province with an estimated 43% market share

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- Increase of 5.7% in the segment's surplus earnings, from $389 million in 2013 to $411 million in 2014
- Growth of 4.5% in net life and health insurance premiums, which totalled $3.5 billion as at December 31, 2014
- Growth of 54.0% in net sales of savings products, from $3,581 million as at December 31, 2013 to $5,516 million as at December 31, 2014
- Increase of 20.3% in insurance sales outside Quebec, with a total of $127.2 million as at December 31, 2014

PROPERTY AND CASUALTY INSURANCE

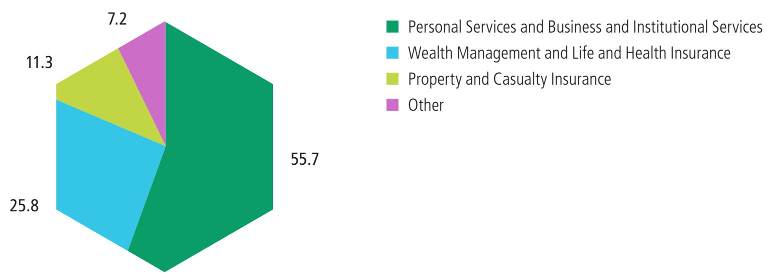
- The segment's net adjusted surplus earnings totalled $227 million, up 2.7%
- Growth of $143 million, or 6.7%, in net premiums, which totalled $2.3 billion
- Increase of 15.2% in other operating income as a result of organic growth and acquisitions realized by Western Financial Group Inc.
- Improvement in the loss ratio to 65.7% in 2014, compared to 66.8% in 2013

CONTRIBUTION TO COMBINED SURPLUS EARNINGS BY BUSINESS SEGMENT
For the years ended December 31
(in millions of dollars)

	2014	2013(1)	2012(1)
Personal Services and Business and Institutional Services	**$888**	$809	$813
Wealth Management and Life and Health Insurance	**411**	389	231
Property and Casualty Insurance(2)	**180**	212	200
Other	**114**	120	260
	$1,593	$1,530	$1,504

(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.
(2) Adjusted net surplus earnings of $227 million in 2014 to exclude the fees related to the acquisition of the Canadian businesses of State Farm.

SEGMENT CONTRIBUTIONS TO SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS IN 2014
(as a percentage)



CREDIT RATINGS AND ACQUISITION

CREDIT RATINGS OF SECURITIES ISSUED BY DESJARDINS GROUP

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
Caisse centrale Desjardins				
Short-term	R-1 (high)	A-1	P-1	F1+
Medium- and long-term, senior	AA	A+	Aa2	AA-
Capital Desjardins inc.				
Medium- and long-term, senior	AA (low)	A	A2	A+

In 2014, all four credit rating agencies confirmed the credit ratings of securities issued by Desjardins Group.

During the second quarter of 2014, Moody's downgraded its outlook for the ratings of the Canadian banking system from "stable" to "negative" on account of a possible reduction in government support for the banking sector, which nonetheless remains one of the most highly rated in the world. In its press release, Moody's confirmed the ratings of the seven leading banks in Canada, including Caisse centrale Desjardins. Moody's considers that the implementation of a "bail-in" regime for banks could reduce government support. Capital Desjardins inc.'s rating outlook was not affected by this announcement and remained unchanged at "stable."

In the third quarter of 2014, the rating agency Standard & Poor's downgraded its outlook for the six major Canadian banks from "stable" to "negative" on account of the possible reduction in federal government support for banks experiencing a financial crisis. Standard & Poor's stated that its decision was based on the idea that the proposed federal "bail-in" regime for banks could prompt it to lower the ratings of banking institutions in the next two years. The rating outlooks for Caisse centrale Desjardins and Capital Desjardins inc. were not affected by this announcement and remained "stable."

On January 23, 2015, Fitch confirmed the ratings of Caisse centrale Desjardins and Capital Desjardins inc., together with a stable outlook, which reflects the capitalization, asset quality and stable income of Desjardins Group. Fitch issued this confirmation as part of its periodic review of Canadian banking institutions.

CAISSE CENTRALE DESJARDINS AND CAPITAL DESJARDINS INC. THUS CONTINUE TO HAVE CREDIT RATINGS THAT ARE AMONG THE BEST OF THE MAJOR CANADIAN AND INTERNATIONAL BANKING INSTITUTIONS.

ACQUISITION

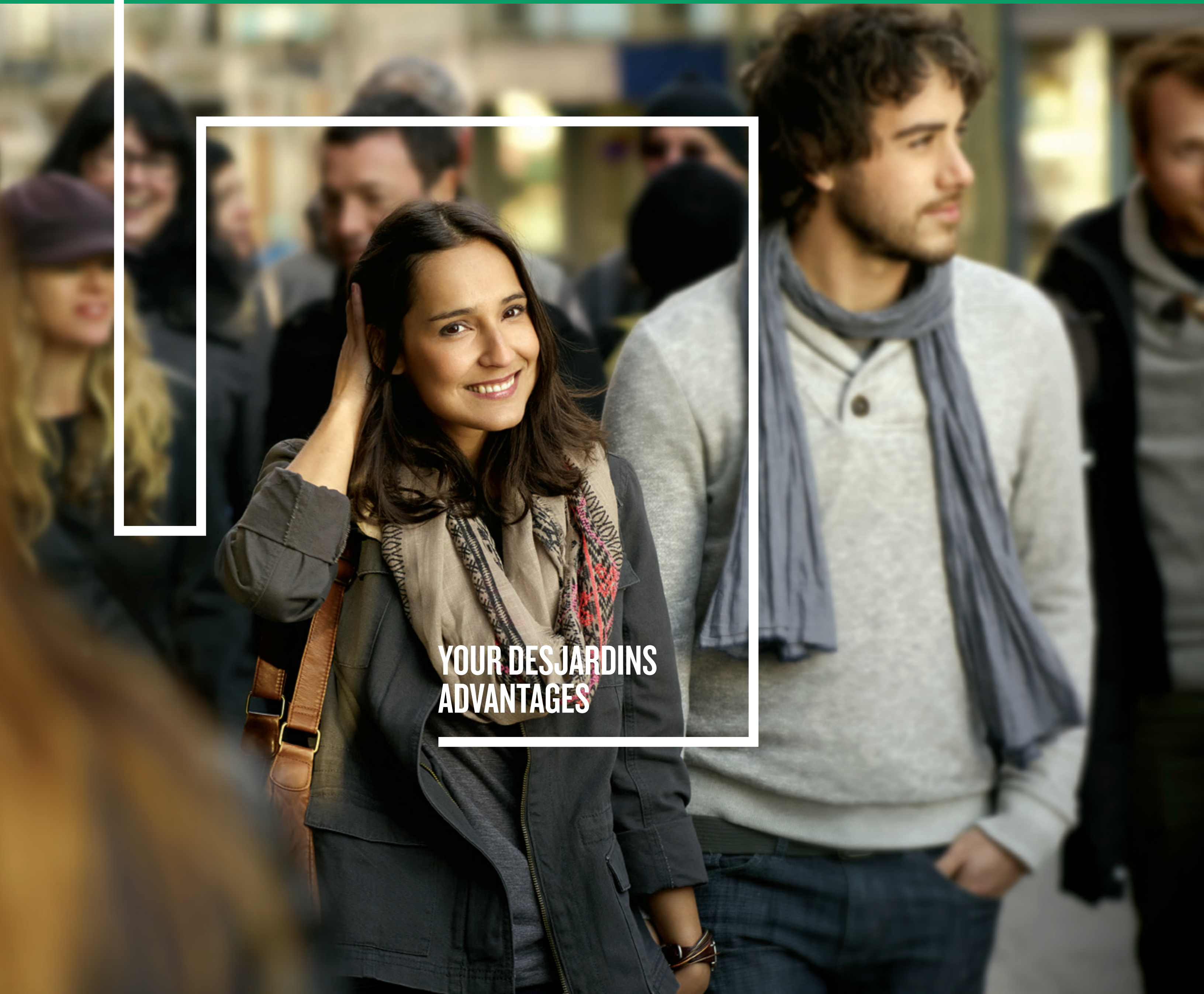
On January 1, 2015, Desjardins Group completed the acquisition of all the Canadian property and casualty (P&C) and life and health insurance businesses of State Farm Mutual Automobile Insurance Company (State Farm), as well as the shares of its Canadian mutual fund, loan and living benefits companies.

As a result of this acquisition, Desjardins has become the second largest P&C insurance provider in Canada, with a projected increase of approximately $1.7 billion in annual gross premiums written in 2015. This acquisition will further allow Desjardins Group to increase its life and health insurance subsidiary's annual gross premiums written by roughly $140 million in 2015. The transaction also improved Desjardins's geographic diversification of earnings and risk while providing a competitive advantage of scale and strengthening its position on the Canadian market. More than 1,900 employees in Canada and a network of close to 500 agents joined Desjardins Group on January 1, 2015, and continue to serve over 1.2 million customers in Ontario, Alberta and New Brunswick.

THOUSANDS OF PEOPLE SERVING MILLIONS MORE

Thanks to our 4,958 officers and 45,966 employees, Desjardins Group continues to fulfill its mission year after year. Their steadfast commitment to better serve our members and clients and their unwavering loyalty to Desjardins vision and values mean that our members and clients reap tangible rewards for being part of the Desjardins family.

Our thanks to all our officers, managers and employees!



DESJARDINS GROUP MANAGEMENT'S DISCUSSION AND ANALYSIS

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SECTION 1.0 **Desjardins Group**

This section gives a brief overview of Desjardins Group and its 2014 financial highlights. It also includes a description of the economic environment in 2014, industry trends, the economic outlook for 2015, priority financial objectives and the financial outlook for 2015.

SECTION 2.0 **Review of financial results**

This section provides an analysis of Desjardins Group's results for the year ended December 31, 2014. It contains information on each of Desjardins Group's business segments, including a profile, a description of the industry, the strategy and priorities for 2015, and an analysis of financial results. An analysis of fourth quarter results and quarterly trends is also included.

SECTION 3.0 **Balance sheet review**

This section provides commentary on Desjardins Group's balance sheet. It mainly addresses financing activities and recruitment of savings, as well as capital management and off-balance sheet arrangements.

SECTION 4.0 **Risk management**

This section focuses on the risk management framework and presents the various risks associated with Desjardins Group's operations. It also presents risk factors that could impact its future results.

SECTION 5.0 **Additional information**

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

NOTE TO THE READER

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

The Management's Discussion and Analysis (MD&A) dated February 24, 2015, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended December 31, 2014, in comparison to previous periods. Desjardins Group reports financial information in compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this National Instrument. However, it has chosen to apply the provisions thereof to demonstrate its willingness to comply with best practices in financial governance. Information on Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

The MD&A should be read in conjunction with the Combined Financial Statements, including the Notes thereto, as at December 31, 2014.

Additional information about Desjardins Group is available on the SEDAR website at **www.sedar.com** (under the *Capital Desjardins inc.* profile). The Annual Information Forms of *Caisse centrale Desjardins* (under the *Caisse centrale Desjardins* profile) and of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can also be found on SEDAR. More information is also available on the Desjardins website at **http://www.desjardins.com/ca/about-us/investor-relations**; however, none of the information presented on these sites is incorporated by reference into this report.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. For more information about the accounting policies used, see the Combined Financial Statements. Apart from an amendment to IAS 32, "Financial Instruments: Presentation", which did not affect Desjardins Group's results or financial position, the accounting policies used did not differ from those used in 2013. For further information, see Note 3, "Change in accounting policies", to the Combined Financial Statements.

This MD&A was prepared in accordance with the regulations in force on continuous disclosure obligations issued by the CSA. Unless otherwise indicated, all amounts are presented in Canadian dollars ($) and are primarily from Desjardins Group's Combined Financial Statements.

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

Average assets – Average loans – Average deposits – Average equity

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

Growth in operating income

Growth in operating income is used to measure growth. It is equal to the percentage change in operating income in relation to the corresponding period of the previous year.

Adjusted net surplus earnings - Property and Casualty Insurance segment

The net surplus earnings of the Property and Casualty Insurance segment are adjusted to exclude the fees, net of income taxes, incurred as part of the acquisition of the Canadian businesses of State Farm. These fees include the costs related to the transaction and the integration of operations as well as processing expenses. These costs were not significant for the other business segments.

The following table presents a reconciliation of the net surplus earnings of the Property and Casualty Insurance segment as presented in the Combined Financial Statements, and the adjusted net surplus earnings as presented in the MD&A.

(in millions of dollars)	**2014**	2013	2012
Presentation of the net surplus earnings of the Property and Casualty Insurance segment according to the Combined Financial Statements	**$ 180**	$ 212	$ 200
Fees related to the acquisition of the Canadian businesses of State Farm, net of income taxes	**47**	9	-
Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment according to the MD&A	**$ 227**	$ 221	$ 200

Productivity index

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

Net interest margin

Net interest margin is used to measure profitability. It is equal to net interest income expressed as a percentage of average assets.

Gross impaired loans/gross loans ratio

The gross impaired loans/gross loans ratio is used to measure loan portfolio quality and is equal to gross impaired loans expressed as a percentage of total gross loans.

Gross written premiums

Gross written premiums are used to measure growth in insurance operations. They are equal to the premiums stipulated in insurance policies issued during the year.

Combined ratio

The combined ratio is used to measure the profitability of the Property and Casualty Insurance segment. It is equal to incurred claims plus operating expenses expressed as a percentage of net premiums earned, excluding the market yield adjustment. Market yield adjustment is defined as the impact of changes in the discount rate on the provisions for claims and adjustment expenses based on the change in the market-based yield of the underlying assets for these provisions.

Loss ratio

The loss ratio is used to measure profitability and is equal to incurred claims, net of reinsurance, expressed as a percentage of net premiums earned, excluding the market yield adjustment. Market yield adjustment is defined as the impact of changes in the discount rate on the provisions for claims and adjustment expenses based on the change in the market-based yield of the underlying assets for these provisions.

Return on equity

Return on equity is used to measure profitability. Expressed as a percentage, it is equal to surplus earnings before member dividends, excluding the non-controlling interests' share, divided by average equity before non-controlling interests.

Income

Operating income

The concept of operating income is used to analyze financial results. This concept allows for better structuring of financial data and makes it easier to compare operating activities from one period to the next by excluding investment income. The analysis therefore breaks down Desjardins Group's income into two parts, namely operating income and investment income, which make up total income. This measure is not directly comparable to similar measures used by other companies.

Operating income includes net interest income, net premiums and other operating income such as deposit and payment service charges, lending fees and credit card service revenues, income from brokerage and investment fund services, management and custodial service fees, foreign exchange income as well as other income. These items, taken individually, correspond to those presented in the Combined Financial Statements.

Investment income

Investment income includes net income on securities at fair value through profit or loss, net income on available-for-sale securities and net other investment income. These items, taken individually, correspond to those presented in the Combined Financial Statements. Investment income also includes income from the insurance subsidiaries' matching activities and from derivative financial instruments not designated as part of a hedging relationship.

The following table shows the correspondence of total income between the MD&A and the Combined Financial Statements:

(in millions of dollars)	2014	2013	2012
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 3,976**	$ 3,857	$ 3,881
Net premiums	**5,916**	5,558	5,126
Other income			
Deposit and payment service charges	**498**	498	499
Lending fees and credit card service revenues	**597**	549	517
Brokerage and investment fund services	**970**	855	731
Management and custodial service fees	**348**	300	283
Net income (loss) on securities at fair value through profit or loss	**2,005**	(667)	674
Net income on available-for-sale securities	**343**	221	268
Net other investment income	**233**	229	236
Foreign exchange income	**84**	61	63
Other income	**265**	273	200
Total income	**$ 15,235**	$ 11,734	$ 12,478
Presentation of income in Management's Discussion and Analysis			
Net interest income	**$ 3,976**	$ 3,857	$ 3,881
Net premiums	**5,916**	5,558	5,126
Other operating income			
Deposit and payment service charges	**498**	498	499
Lending fees and credit card service revenues	**597**	549	517
Brokerage and investment fund services	**970**	855	731
Management and custodial service fees	**348**	300	283
Foreign exchange income	**84**	61	63
Other income	**265**	273	200
Operating income	**12,654**	11,951	11,300
Investment income			
Net income (loss) on securities at fair value through profit or loss	**2,005**	(667)	674
Net income on available-for-sale securities	**343**	221	268
Net other investment income	**233**	229	236
	2,581	(217)	1,178
Total income	**$ 15,235**	$ 11,734	$ 12,478

Provisioning rate

The provisioning rate is used to measure loan portfolio quality, and is equal to the provision for credit losses divided by average gross loans.

Insurance sales

Insurance sales are used to measure growth in Wealth Management and Life and Health Insurance segment operations. They are equal to annualized gross new premiums under group and individual insurance policies.

Net sales of savings products

Net sales of savings products are used to measure growth in Wealth Management and Life and Health Insurance segment operations. They are equal to sales of group and individual savings products manufactured by segment entities, and are comprised of on- or off-balance sheet deposits, less withdrawals.

REGULATORY ENVIRONMENT

Regulatory environment

Desjardins Group's operations are governed in particular by the *Act respecting financial services cooperatives* and the *Act respecting the Mouvement Desjardins*. The AMF is the main government agency that oversees and monitors deposit-taking institutions (other than banks) that do business in Quebec, including the caisses and the Federation. Other regulations, including those developed by the Office of the Superintendent of Financial Institutions (OSFI), may also govern some operations of Desjardins Group entities, such as those related to insurance or securities brokerage.

Moreover, Desjardins Group complies with the minimum regulatory capital requirements issued by the AMF, which reflect the provisions of the Basel III Accord. As mentioned on page 16, although Desjardins Group is not a reporting issuer under AMF *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, it has chosen to apply the provisions in the regulation to demonstrate its willingness to comply with best practices in financial governance. Desjardins Group's financial and corporate governance are discussed on pages 87 and 88 of this MD&A and pages 181 to 198 of the 2014 Desjardins Group Annual Report.

It should also be mentioned that Desjardins Bank, National Association, a subsidiary of *Caisse centrale Desjardins* incorporated under U.S. federal laws, is supervised by the Office of the Comptroller of the Currency of the United States (OCC), and that *Caisse centrale Desjardins*'s operations in the United States, as a bank holding company, are subject to the supervisory and regulatory authority of the Board of Governors of the Federal Reserve System. *Caisse centrale Desjardins* U.S. Branch, the branch of *Caisse centrale Desjardins* operating in the State of Florida and incorporated under U.S. federal laws, is also supervised by the OCC.

Changes in the regulatory environment

Desjardins Group closely monitors changes in the regulatory environment as well as new developments in fraud, corruption, money laundering and terrorist financing in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard.

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI), which would subject Desjardins Group to additional obligations. As a D-SIFI, beginning on January 1, 2016, Desjardins Group will be subject to an additional capital requirement of 1% on its minimum capital ratios. Also, based on the recommendations issued by the Enhanced Disclosure Task Force of the Financial Stability Board contained in the document "Enhancing the Risk Disclosures of Banks", Desjardins Group is continuing, among other major obligations, to develop its external disclosures and working on integrating these recommendations into its risk management disclosure framework. Furthermore, Desjardins Group developed a living will, detailing the actions it will take to restore its financial position in the event of a crisis. Note that the OSFI has also determined that Canada's six major financial institutions meet the criteria for designation as D-SIFI.

On December 5, 2013, the Quebec Minister of Finance and the Economy submitted his "Report on the application of *An Act respecting financial service cooperative*s" to the National Assembly. This report contains proposals that will serve as criteria for amendments to the current legislative framework aimed at adapting it to the changing realities of financial services cooperatives as well as the requirements of the new international standards imposed on financial institutions. The law amending the legislative framework is expected to come into force at the end of 2015.

Since January 1, 2013, the Capital Adequacy Requirements (CAR) Guideline of the OSFI applicable to Canadian financial institutions has included requirements for Non-Viability Contingent Capital as part of regulatory capital. These requirements are not applicable to Desjardins Group since it is governed by the AMF's guideline on adequacy of capital base standards. The AMF has not adopted any similar requirements and has not publicly disclosed any intention to do so.

On March 28, 2014, the Government of Canada tabled *Economic Action Plan 2014 Act, No. 1*, which is part of the budget implementation bill. The Act includes amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and the *Income Tax Act*. These amendments should come into effect in 2015. Desjardins Group is preparing to implement these legislative amendments and is closely monitoring developments to know the day on which the order will come into force.

On August 1, 2014, the Government of Canada initiated a public consultation on a proposed taxpayer protection and bank recapitalization regime applicable to national systemically important Canadian banks. The consultation period ended in September 2014, but as of this writing, no implementation date has been announced. This regime is not applicable to Desjardins Group immediately because it is regulated by the AMF. Moreover, the Quebec government has not yet publicly reacted, nor has it announced its intentions with regard to this subject.

On December 16, 2014, the Government of Canada passed Bill C-43 - *Economic Action Plan 2014 Act, No. 2*. Among other things, this Act amends several federal laws, limiting access by provincial cooperative credit associations to federal intervention tools. More specifically, it formalizes that the Bank of Canada may grant a loan or an advance to a provincial cooperative credit association only if the province has agreed, in writing, to indemnify the Bank for any losses arising from the loan or advance that the Bank could incur. The Bank of Canada's policies on emergency lending assistance already required such indemnification commitments from the provinces since 2009. The Act also brings an end to liquidity financial support agreements entered into in particular by the Canada Deposit Insurance Corporation and the *Régie de l'assurance-dépôts du Québec* (replaced by the AMF). The Act's provisions on emergency lending assistance and the federal-provincial agreement on deposit insurance are not yet in force. Desjardins Group expects that satisfactory agreements will be negotiated between the two levels of government before the provisions come into force to avoid an impact on the stability of the Canadian financial system.

Following adoption in 2010 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (DFA), many rules came into force that affect the financial services industry. The situation is being actively monitored because some of these rules apply to Desjardins Group as a foreign financial institution with U.S. operations, including those designed to implement provisions on swap trading, proprietary trading and ownership interests in hedge funds (the Volcker rule), as well as those concerning the submission of a resolution plan. On December 10, 2013, the U.S. authorities issued the final rules implementing the Volcker rule. The deadline for compliance with this rule is July 21, 2015. It should be noted that these final rules exempt trading in government obligations, including foreign ones, from the application of the Volcker rule, whereas the initial rules only exempted trading in U.S. obligations. According to a preliminary analysis of the final rules, Desjardins Group entities would also be exempt from implementing a specific compliance plan and producing quantitative measures for risk activities, since the consolidated assets of *Caisse centrale Desjardins*'s U.S. subsidiary are below $10 billion.

The *Foreign Account Tax Compliance Act* (FATCA) is an American law designed to combat tax evasion in the United States by requiring financial institutions to identify and qualify account holders who are U.S. taxpayers and report this information to the competent authorities. On February 5, 2014, an agreement was signed by the Canadian and U.S. governments to facilitate the reporting of information by Canadian financial institutions, among others, through the Canada Revenue Agency. This agreement, and FATCA, came into force on July 1, 2014. Desjardins Group will fulfill all its legal obligations under FATCA based on the various regulatory deadlines.

At the end of September 2014, the Organisation for Economic Co-operation and Development presented the "Standard for Automatic Exchange of Financial Information in Tax Matters" to the G20 Finance Ministers, and Canada issued a press release confirming that it endorses the standard. The obligations stipulated in this international standard are based on those of FATCA, and exchanges of information between Canada and the other signatory countries are scheduled to begin no later than the end of 2018, subject to adoption of the necessary regulations. Desjardins Group will continue to closely monitor developments in these future requirements to ensure compliance when they take effect.

On February 18, 2014, the Board of Governors of the Federal Reserve System approved the final rules, to take effect in July 2016, strengthening the prudential standards applicable to U.S. bank holding companies and foreign banking organizations. An assessment is underway to determine the impact on Desjardins Group.

In addition, Desjardins Group continues to monitor changes in capital and liquidity requirements under global standards developed by the Basel Committee on Banking Supervision (Basel III) and is preparing for their implementation.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements. Such forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. These forward-looking statements include those appearing in sections 1.2 "Monitoring of financial objectives," 1.3 "Changes in the economy and the industry," 2.0 "Review of financial results", 3.0 "Balance sheet review" and 5.0 "Additional information". Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan", and "may"; words and expressions of similar import; and future and conditional verbs.

By their very nature, such statements involve assumptions, inherent risks and uncertainties, both general and specific. It is therefore possible that, due to many factors, these predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Desjardins Group cautions readers against placing undue reliance on these forward-looking statements since actual results, conditions, actions and future events could differ significantly from the targets, expectations, estimates or intents in the forward-looking statements, either explicitly or implicitly.

A number of factors−many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict−could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in section 4.0 "Risk management," such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include legal and regulatory environment risk, including legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies, reporting guidance and liquidity regulatory guidance, or interpretations thereof, and amendments to and new interpretations of capital guidelines; and environmental risk, which is the risk of financial, operational or reputational loss for Desjardins Group as a result of environmental impacts or issues, whether they are a result of Desjardins Group's credit or investment activities or its operations. Lastly, there is the risk related to pension plans, which is the risk of losses resulting from pension plan commitments made by Desjardins Group to the benefit of its employees arising primarily from interest rate, price, foreign exchange and longevity risks.

Additional factors that may affect the accuracy of the forward-looking statements included in this report also include factors related to the economic and business conditions in regions in which Desjardins Group operates; changes in the economic and financial environment in Quebec, Canada and globally, including short and long-term interest rates, inflation, debt market fluctuations, foreign exchange rates, the volatility of financial markets, tighter liquidity conditions in certain markets, the strength of the economy and the volume of business conducted by Desjardins Group in a given region; monetary policies; competition; changes in standards, laws and regulations; the accuracy and completeness of information concerning clients and counterparties; the accounting policies used by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; the ability to recruit and retain key management personnel, including senior management; the business infrastructure; geographic concentration; partnerships and acquisitions; and credit ratings.

Other factors that could influence the accuracy of the forward-looking statements in this MD&A include amendments to tax laws, unexpected changes in personal spending and savings habits, technological developments, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact on operations of international conflicts or natural disasters, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk environment.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group's results. Additional information about these and other factors is found in section 4.0, "Risk management. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events.

Any forward-looking statements contained in this report represent the views of management only as at the date hereof, and are presented for the purpose of assisting readers in understanding and interpreting Desjardins Group's balance sheet as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives. These statements may not be appropriate for other purposes. Desjardins Group does not undertake to update any verbal or written forward-looking statements that may be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

1.0 DESJARDINS GROUP

1.1 PROFILE AND STRUCTURE

WHO WE ARE

Desjardins Group is the largest cooperative financial institution in Canada, with assets of $229.4 billion. The organization brings together 360 caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* and its subsidiaries (including *Capital Desjardins inc.*), *Caisse centrale Desjardins*, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada. Desjardins Group's "Personal Services and Business and Institutional Services", "Wealth Management and Life and Health Insurance", and "Property and Casualty Insurance" business segments offer a full range of financial products and services to members and clients, individuals and businesses alike, providing a customized response to their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 45,000 employees and the commitment of close to 5,000 elected officers.

Caisse centrale Desjardins, also a cooperative financial institution that is an integral part of Desjardins Group, is the treasurer and official representative of Desjardins with the Bank of Canada and the Canadian banking system.

WHAT MAKES US DIFFERENT

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

Desjardins Group's resolve to be close to its members and clients guides us in all our actions. Thanks to our varied distribution channels, numerous intermediary networks and personnel who strive to deliver the highest quality of service, we are able to stay close to members and their communities. In order to best meet our members' increasingly diverse needs, we pay special attention to the number of caisses and our range of service delivery methods. We also seek, in this way, to ensure the vitality of cooperation at the caisse level, in terms of democracy, representation, education and training, intercooperation and support for community development.

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

STRUCTURE OF DESJARDINS GROUP

Desjardins Group's structure has been designed to take into account the needs of its members and clients, as well as the markets in which it operates. The caisse network in Quebec and Ontario has the support of three main business segments (Personal Services and Business and Institutional Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance), which reinforces its ability to build on its products and services.

	MEMBERS	
REGIONAL GENERAL MEETINGS	**CAISSES**	
REGIONAL COUNCILS AND COUNCIL OF GROUP CAISSES	**GENERAL MEETING**	
ASSEMBLY OF REPRESENTATIVES	**BOARD OF DIRECTORS**	**MONITORING**
	PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP	Desjardins Group Monitoring Office

DESJARDINS GROUP CORPORATE EXECUTIVE DIVISION	**BUSINESS SEGMENTS**			
	Personal Services and Business and Institutional Services		**Wealth Management and Life and Health Insurance**	**Property and Casualty Insurance**
SUPPORT FUNCTIONS	Regular, convenience and savings transactions	Card and payment services	Insurance for individuals and business people	Automobile insurance
Finance and Office of the CFO	Financing	Development capital and business ownership transfer	Group insurance plans	Motorcycle and recreational vehicle insurance
Performance, Risk Management, Compliance, Procurement and Real Estate	Integrated offer for businesses	Capital markets	Savings for individuals and business people	Home insurance
Technology and Shared Services	Integrated offer for the agricultural and agri-food industries	Telephone and Internet access services	Specialized savings	Business insurance
Treasury and Investor Relations	Specialized services	Payroll services	Group retirement savings	Pet insurance
Human Resources			Brokerage and private management	Distribution of financial products
Marketing, Client-Member Experience and Communications				

DESJARDINS GROUP HIGHLIGHTS

Combined surplus earnings before member dividends of $1,593 million, up from 2013.

A total of $299 million returned to members and the community, including member dividends, sponsorships and donations.

Productivity index of 73.4%, compared to 73.5% in 2013.

Growth of 5.9% in operating income, which totalled $12.7 billion.

Tier 1a capital ratio of 15.7% as at December 31, 2014, still among the highest in the banking industry.

Growth of 8.2% in total assets, which amounted to $229.4 billion as at December 31, 2014.

Residential mortgage loans outstanding up over the year by $6.1 billion, or 6.7%, to total $97.5 billion.

Quality loan portfolio, with a ratio of gross impaired loans to total gross loans of 0.34%.

Increase of 7.0% in savings recruitment, which amounted to $146.3 billion.

Year-over-year growth of $36.5 billion in assets under management and under administration to total $370.8 billion at the end of 2014.

Signing of an agreement for the acquisition of the Canadian property and casualty and life and health businesses of State Farm, as well as the shares of its Canadian mutual fund, loan and living benefits companies.

SEGMENT HIGHLIGHTS

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

The Personal Services and Business and Institutional Services segment's surplus earnings before member dividends totalled $888 million, up $79 million, or 9.8%, compared to 2013.

Increase of 10.3% in business loans outstanding, which amounted to $30.4 billion as at December 31, 2014.

Growth of 8.7% in business volume related to credit card services as at December 31, 2014.

Quebec's leader in residential mortgages and a leading player in consumer loans, including point-of-sale financing, with estimated market shares of 36.1% and 23.5%, respectively.

Number one credit and debit card issuer in Quebec. More than 5.6 million credit cards and 5.8 million debit cards issued by Card and Payment Services in Canada.

Increase in residential mortgages, helping Desjardins to grow its Quebec market share.

Growth of $2.8 billion in on-balance sheet savings in Quebec, helping Desjardins to maintain its leadership in the province with an estimated 43% market share.

The ratio of gross impaired loans to gross loans held steady, going from 0.33% to 0.34%, reflecting the excellent quality of Desjardins Group's loan portfolio.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

Increase of 5.7% in the segment's surplus earnings, from $389 million in 2013 to $411 million in 2014.

Growth of 54.0% in net sales of savings products, from $3,581 million as at December 31, 2013 to $5,516 million as at December 31, 2014.

Loan insurance now protects more than 1.2 million Canadians and is the largest credit insurance plan in Quebec and second largest in Canada.

Increase of 20.3% in insurance sales outside Quebec, with a total of $127.2 million as at December 31, 2014 compared to $105.7 million as at December 31, 2013.

Growth of 4.5% in net life and health insurance premiums, which totalled $3.5 billion as at December 31, 2014 compared to $3.3 billion as at December 31, 2013.

PROPERTY AND CASUALTY INSURANCE

The segment's adjusted net surplus earnings totalled $227 million, up 2.7%.

Growth of $143 million, or 6.7%, in net premiums, which totalled $2.3 billion.

Increase of 15.2% in other operating income as a result of organic growth and acquisitions realized by Western Financial Group Inc.

In-force policies up by almost 115,000 at Desjardins General Insurance Group Inc., bringing the total number to 2.3 million.

Improvement in the loss ratio to 65.7% in 2014, compared to 66.8% in 2013.

A positive underwriting experience for Desjardins General Insurance Group Inc. for a 22nd consecutive year, a remarkable performance in a cyclical industry.

TABLE 1 – FINANCIAL RESULTS AND INDICATORS
For the years ended December 31

(in millions of dollars and as a percentage)	2014	2013[1]	2012[1]
Results			
Net interest income	$ 3,976	$ 3,857	$ 3,881
Net premiums	5,916	5,558	5,126
Other operating income[2]	2,762	2,536	2,293
Operating income[2]	12,654	11,951	11,300
Investment income (loss)[2]	2,581	(217)	1,178
Total income	15,235	11,734	12,478
Provision for credit losses	351	277	241
Claims, benefits, annuities and changes in insurance contract liabilities	6,303	3,259	4,397
Non-interest expense	6,554	6,229	5,908
Income taxes on surplus earnings	434	439	428
Surplus earnings before member dividends	$ 1,593	$ 1,530	$ 1,504
Contribution to combined surplus earnings by business segment[3]			
Personal Services and Business and Institutional Services	$ 888	$ 809	$ 813
Wealth Management and Life and Health Insurance	411	389	231
Property and Casualty Insurance	180	212	200
Other	114	120	260
	$ 1,593	$ 1,530	$ 1,504
Amount returned to members and the community			
Member dividends	$ 217	$ 171	$ 279
Sponsorships and donations	82	81	85
	$ 299	$ 252	$ 364
Indicators			
Return on equity[2]	8.7%	9.4%	10.2%
Productivity index[2]	73.4	73.5	73.1

[1] Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.
[2] See "Basis of presentation of financial information".
[3] Information about each segment is presented in Note 34, "Segmented information", to the Combined Financial Statements.

TABLE 2 – BALANCE SHEET AND INDICATORS
As at December 31

(in millions of dollars, as a percentage and as a coefficient)	2014	2013	2012
Balance sheet			
Assets	$ 229,387	$ 212,005	$ 196,818
Net loans	150,454	140,533	132,576
Deposits	146,324	136,746	129,624
Equity	18,893	17,232	15,459
Indicators			
Assets under management and under administration[1]	$ 370,768	$ 334,245	$ 306,956
Tier 1a capital ratio[2]	15.7%	15.7%	s. o.
Tier 1 capital ratio[2]	15.8%	15.7%	16.8%
Total capital ratio[2]	17.9%	18.4%	19.3%
Gross impaired loans/gross loans	0.34%	0.33%	0.35%
Provisioning rate	0.24%	0.20%	0.19%
Gross loans/deposits	1.03	1.03	1.03

[1] Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.
[2] The 2014 and 2013 ratios were calculated pursuant to the AMF guideline on the adequacy of capital base standards applicable to financial services cooperatives under Basel III, while the ratio for 2012 was calculated in accordance with Basel II. See section 3.2, "Capital management".

1.2 MONITORING OF FINANCIAL OBJECTIVES

FINANCIAL OBJECTIVES FOR THE 2013-2016 HORIZON

Desjardins Group's strategic and financial ambitions for the 2013-2016 period were adopted by the Board of Directors in January 2013 and are intended to carry on Desjardins's development by focusing on service, growth and efficiency priorities.

The orientation and initiatives that support these ambitions led to the adoption of priority financial objectives on which Desjardins Group will continue to focus in the coming years with the goal of attaining them in the medium term.

The priority financial objectives are as follows:
- Growth in operating income between 5% and 10%
- Productivity index lower than 70%
- Growth in surplus earnings after taxes between 5% and 10%
- Return on equity greater than 8%
- Tier 1a capital ratio greater than 15%

REVIEW OF 2014 FINANCIAL RESULTS

At the end of the second year of the 2013-2016 Strategic Plan, Desjardins Group's operating income increased by 5.9%, which is within the range for the medium term. This increase is the result of efforts focused on the client experience as well as multiple initiatives in offering new products, in spite of fierce competition that compressed margins.

Desjardins Group reported surplus earnings before member dividends of $1,593 million, which was higher than expected, thanks in particular to the excellent performance of its three business segments. This 4.1% increase in 2014 combined surplus earnings, marked by business growth, the significant investments made as part of the acquisition of the Canadian businesses of State Farm, and the implementation of Desjardins-wide strategic projects, was slightly below the 5% to 10% medium-term range set in the 2013-2016 Strategic Plan.

In 2014, Desjardins Group's productivity index was 73.4% against a backdrop of sustained business growth and compressed margins, where Desjardins continued to make significant investments in order to improve its performance and productivity. The objective of reaching a productivity index lower than 70% in the 2013-2016 Strategic Plan remains the target for the end of 2016. An action plan is being deployed for this purpose, and management is confident that current efforts will bear fruit and that productivity will continue to improve.

Return on equity was 8.7%, slightly higher than the objective. It was affected by growth in surplus earnings before member dividends, the significant investments made as part of the acquisition of the Canadian businesses of State Farm, the implementation of Desjardins-wide strategic projects and the increase in average equity following the recent issuances of capital shares by the Federation.

As at December 31, 2014, Desjardins Group's Tier 1a capital ratio of 15.7% exceeded the 15% objective set in the 2013-2016 Strategic Plan.

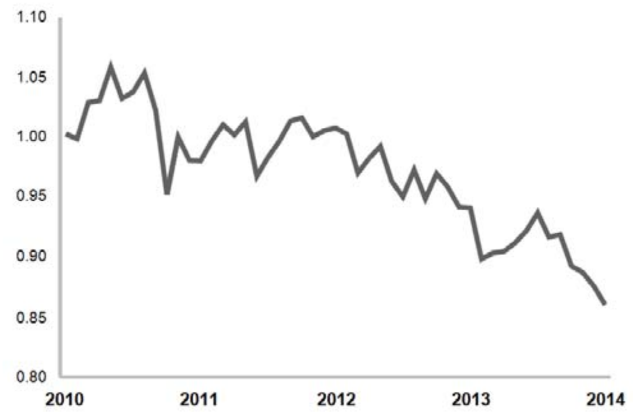
FINANCIAL OUTLOOK

Desjardins Group will begin 2015 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry and stable profitability in an environment where stiff competition on the financing and savings recruitment market puts sustained pressure on net interest income. In addition, enhanced productivity, cost control and strict capital management will remain important priorities for Desjardins Group as it continues to invest considerable amounts in its business and support systems and processes in order to keep its service offer competitive, for the benefit of its members and clients, while moving toward its growth, efficiency and profitability goals.

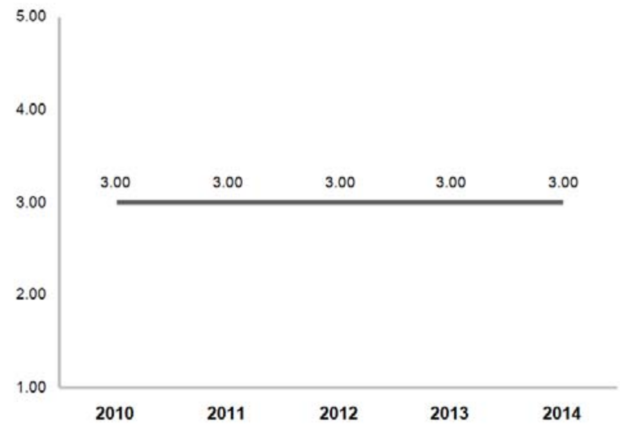
The Canadian businesses of State Farm will be gradually integrated into Desjardins's property and casualty and life and health insurance operations, realizing Desjardins Group's ambitions in terms of growth, service and profitability across Canada. In 2015, the acquisition will generate an increase of about $1.7 billion in annual gross written premiums for the P&C insurance subsidiary, and of approximately $140 million in annual gross written premiums for the life and health insurance subsidiary. As a result of this acquisition, the Tier 1a capital ratio may temporarily fall below the 15% target, but will still exceed the regulatory requirement.

1.3 CHANGES IN THE ECONOMY AND THE INDUSTRY

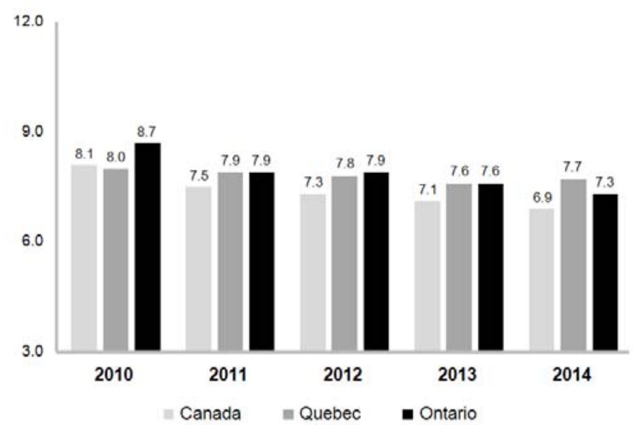
CHANGES IN THE CANADIAN DOLLAR VS. THE U.S. DOLLAR
(Canadian dollars/U.S. dollars)



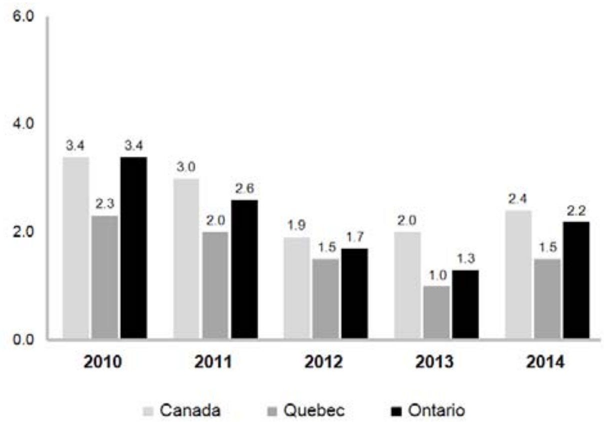
CHANGES IN THE PRIME RATE
(as a percentage)



CHANGES IN THE UNEMPLOYMENT RATE
(as a percentage)



CHANGES IN GDP
(as a percentage)



2014 ECONOMIC ENVIRONMENT

The global economy turned in a rather mixed performance in 2014. Greater stability in the first half of the year suggested that growth was gathering new momentum, particularly in the industrialized countries, but actual figures fell short of expectations. Once again, economic growth proved weak in the eurozone, releasing stronger disinflationary pressures. Problems stemming from the crisis in Ukraine and tumbling oil prices in the second half of the year only created more uncertainty. Euroland growth in 2014 has been estimated at a meek 0.8%. The United Kingdom performed better, producing successive quarters of good growth. Tax policy had a negative impact in Japan where, despite a good start to the year, the economy posted two consecutive quarters of negative growth. Japan's real GDP is expected to have grown only 0.2% in 2014. The economies of most of the emerging countries continued to slow in 2014. Real GDP in China rose only 7.4% on the year, down from 7.7% in 2013 and ever further from the 10.8% average recorded for 2003 to 2011. Russia and Brazil posted negative economic growth.

North American capital markets performed relatively well in 2014. The S&P 500 ended the year up over 11%, and Canadian stocks rose 7.4% despite difficult conditions in the energy sector in the second half of the year. Bond markets also performed well, with interest rates dropping sharply in response to international developments, such as the problems in the eurozone and collapsing oil prices. With the good economic outlook in the United States compared to elsewhere, the U.S. dollar rose spectacularly, while the Canadian dollar was weighed down by collapsing oil prices.

The United States began 2014 with a severely cold winter, and real GDP in the first quarter dropped by 2.1% on an annualized basis. Excluding this temporary setback, the U.S. economy performed well and 2014 marked a certain breakthrough. Real GDP jumped 4.6% in the spring and 5.0% in the summer, and businesses became more inclined to invest and hire. In May 2014 the number of jobs reached the highest level seen since 2008 and the labour market posted its best year of job creation since 1999. The lower gasoline prices since mid-2014 were good for the U.S. economy, as could be seen in improved household confidence levels. Automobile sales also grew. The lack of a budget crisis was also good for the economic climate. Activity in the housing sector was still trending upward, but the growth was slow and volatile. Confidence among homebuilders rose markedly through the year. Real GDP grew 2.4% in 2014 on an annualized basis.

In Canada, economic growth accelerated slightly in 2014, and real GDP is expected to have grown 2.4%. The combined benefits of improved demand in the U.S. and a lower Canadian dollar drove faster growth in exports. The manufacturing sector took the lead in these good times, which was particularly good for Ontario's economy. Following a difficult start to the year, non-residential investment began to improve in the spring due to rising business confidence and more extensive use of existing production capacity. Household consumption also sped up – mainly on durable goods –, stimulated by strong automobile and furniture sales. Interest rates remained very low all year, and the labour market performed well, with the unemployment rate falling from an average of 7.1% in December 2013 to 6.9% in December 2014. Overall, the real estate market continued to expand, but large regional disparities became apparent; there was a marked slowdown in Quebec and the Maritime Provinces, compared to growth in Ontario and the western provinces. The year nevertheless ended on a sour note due to the sharp drop in energy prices. While the adverse effects were only minor at the end of 2014, the effects of lower oil prices on the outlook for 2015 have been starker.

Developments in the Quebec economy in 2014 were disappointing in several ways. The job creation that was expected never materialized, and the unemployment rate inched up to an average of 7.7%. Household confidence remained weak, despite falling oil prices. Retail sales grew by a modest 2.7%, while inflation did not climb over 1.4%. Quebec's residential market was relatively stable throughout the year. Housing starts increased only marginally, sales of existing homes reached a plateau, and average prices were up 1.3%. With the drop in business investment and limited government spending, there was little to support domestic demand. A rally in exports nevertheless made a difference, allowing real GDP to rise 1.5% in 2014 compared to 1.0% in 2013.

INDUSTRY DESCRIPTION AND TRENDS

The Canadian financial industry did not experience any significant disruption in 2014. Canada has slightly fewer than 700 savings and loan cooperatives, almost half of which are part of Desjardins Group, as well as some 83 Canadian and foreign banks. Insurance companies are another major industry player. In 2014, slightly more than 300 were in operation across the country. Although some were present in both property and casualty insurance and life and health insurance, most of them, almost two-thirds, specialized in property and casualty insurance.

There were a few key players in life and health insurance, with the top five accounting for a market share of close to 77% of premiums collected in this industry in Canada. With the acquisition of the Canadian businesses of State Farm, especially in life and health insurance, Desjardins strengthened its position and remained the fifth largest insurer in this category in 2014. The property and casualty sector is somewhat less concentrated, with a slightly higher number of large institutions. The top five companies therefore accounted for roughly 42% of the industry. Desjardins Group ranked seventh in 2014, but with the acquisition of the Canadian property and casualty insurance operations of State Farm, it moved up to second place among property and casualty insurers in Canada in 2015.

A climate of uncertainty persisted in the global economy in 2014. However, the U.S. economy picked up, especially after spring. Canada took advantage of this improvement, especially in terms of exports. This fragile economic and financial environment did not, however, affect the quality of the Canadian financial system, which for a seventh consecutive year took top honours as the most stable in the world, according to the World Economic Forum. Furthermore, Desjardins Group was ranked second in the world and number one in North America on Bloomberg News' list of the World's Strongest Banks, published in June 2014.

ECONOMIC OUTLOOK FOR 2015

Lower oil prices should have a positive effect on global economic growth, but there will be winners and losers. The winners will include most of the industrialized countries, which are net importers of oil. China should also benefit. Among the losers, Russia and Brazil are sure to be at the top of the list. The impact will be more neutral on the emerging economies, where gasoline prices are often either controlled or subsidized. Major impacts can be expected on consumer price indexes. Global inflation should continue to trend downwards, and several economies could experience brief periods of deflation, which will be a concern for central banks. Some, like the European Central Bank, have already begun to respond more decisively, but the eurozone will remain mired in slow growth. Despite the positive impacts of lower oil prices on Chinese production, the Chinese economy can be expected to slow again in 2015, to 7.2% growth. Real GDP for the global economy should rise 3.5% in 2015.

The U.S. economy should continue to benefit from low gasoline prices. This will encourage greater confidence that will become increasingly apparent in the real economy, particularly in consumption patterns. Job growth should continue, with the U.S. expected to generate close to 2.5 million jobs in 2015. The unemployment rate may even venture into the long-term target range of the Federal Reserve (the Fed). Non-residential investment can be expected to continue growing, and the housing sector should profit from a new drop in mortgage rates. This situation gives slightly more cause for concern regarding inflation, which has been affected by the drop in gasoline prices. The annual change in the consumer price index should be negative for the first six months of the year, but core inflation, which excludes food and energy, should remain stable. This will be of some comfort to the Fed. Good economic growth, continued improvement in the labour market and the much hoped-for increase in salaries should encourage the Fed to begin raising its key interest rate before the end of the year.

In Canada, a 2.0% gain in real GDP is expected in 2015 compared to a 2.4% increase in 2014. Since Canada is a net energy exporter, this decline can be traced to the sharp drop in oil prices in the closing months of 2014 and early 2015. While economic growth can be expected to be limited during the first six months of the year, the gradual increase in oil prices expected in the second half of 2015 should bring faster growth in real GDP. Spending by the oil and gas sector represents close to 30% of total corporate investment in Canada, so non-residential investment should be particularly hard hit since many energy producers are expected to postpone or cancel some of their expansion projects. Overall income and wealth will also be affected, which may result in lower household consumption. Even so, the negative impacts will vary widely from one region to the next. The oil-producing provinces – Alberta, Saskatchewan and Newfoundland and Labrador – will be particularly hard hit. The other provinces will have more opportunity to take advantage of the benefits of a weaker Canadian dollar in their exports of non-energy products, and lower gasoline prices should be good for household spending and trim production costs in many businesses, particularly in the manufacturing sector. In this environment, Ontario should have the country's strongest economic growth in 2015, with real GDP rising 2.8% compared to 2.2% in 2014. Under these conditions, the Bank of Canada, after lowering its key rates at the start of 2015, should opt for the status quo at least until the end of the year, postponing any rate increases until 2016. This could continue to exert downward pressure on Canadian short-term bond rates. However, once the U.S. begins tightening monetary policy, North American mid-term bonds yields should begin to rise. Given international conditions, the increase in rates should nevertheless be very gradual and limited, so the low-interest-rate environment may well continue for some time to come.

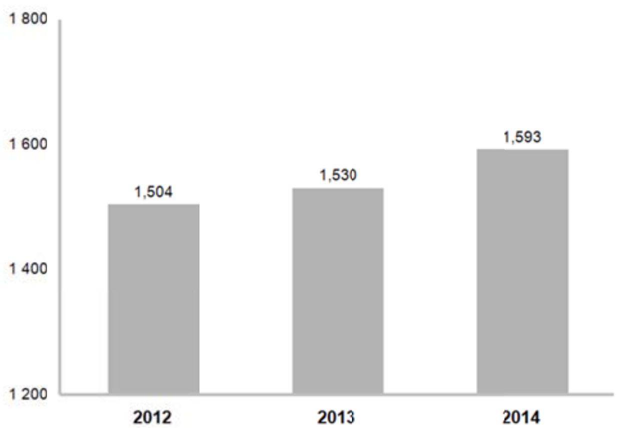
In Québec, the expected improvement in the labour market combined with low interest rates should maintain demand for new and existing homes in 2015. However, the surplus of condominiums, which grew in 2014, and the rise in the vacancy rate for rental housing should limit new construction projects. Overall, housing starts and home resales should be fairly stable in the province. The continuing state of equilibrium on the resale market should result in an average price increase of about 1% once again in 2015.

Finally, Desjardins Group estimates that the drop in gas prices will result in potential annual savings of over $2 billion for Québec households, businesses and public administrations. Despite this breathing room, consumer spending is not expected to rise in 2015, since tight budget conditions at all levels of government will still be encouraging caution. The situation will be more favourable for businesses. Exports will continue to rise due to the strength of the U.S. and Ontario economies. The lower Canadian dollar and energy prices will also be positive on the whole for the province's businesses. Increased investment is therefore expected in the coming quarters. With businesses making a larger contribution to economic growth, real GDP growth should accelerate to 1.7% in 2015.

2.0 REVIEW OF FINANCIAL RESULTS

2.1 ANALYSIS OF 2014 RESULTS

SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS
(in millions of dollars)



SEGMENT CONTRIBUTIONS TO SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS
(as a percentage)

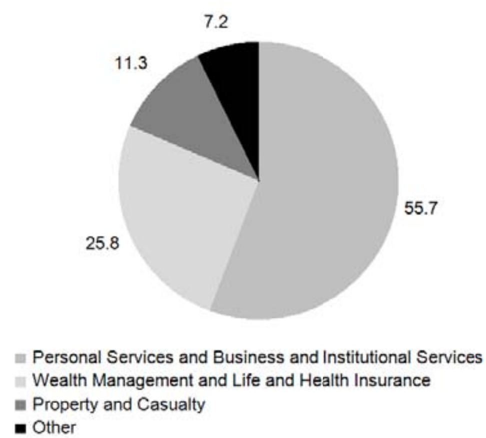


TABLE 3 – SUMMARY OF FINANCIAL RESULTS
For the years ended December 31

(in millions of dollars)	**2014**	2013[1]	2012[1]
Results			
Net interest income	**$ 3,976**	$ 3,857	$ 3,881
Net premiums	**5,916**	5,558	5,126
Other operating income[2]	**2,762**	2,536	2,293
Operating income[2]	**12,654**	11,951	11,300
Investment income (loss)[2]	**2,581**	(217)	1,178
Total income	**15,235**	11,734	12,478
Provision for credit losses	**351**	277	241
Claims, benefits, annuities and changes in insurance contract liabilities	**6,303**	3,259	4,397
Non-interest expense	**6,554**	6,229	5,908
Income taxes on surplus earnings	**434**	439	428
Surplus earnings before member dividends	**$ 1,593**	$ 1,530	$ 1,504
Contribution to combined surplus earnings by business segment[3]			
Personal Services and Business and Institutional Services	**$ 888**	$ 809	$ 813
Wealth Management and Life and Health Insurance	**411**	389	231
Property and Casualty Insurance	**180**	212	200
Other	**114**	120	260
	$ 1,593	$ 1,530	$ 1,504

[1] Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.
[2] See "Basis of presentation of financial information".
[3] The breakdown by line item is presented in Note 34, "Segmented information", to the Combined Financial Statements.

2014 SURPLUS EARNINGS

For 2014, Desjardins Group reported surplus earnings before member dividends of $1,593 million, compared to $1,530 million for 2013, an increase of $63 million, or 4.1%. The year was marked by business growth and significant investments made as part of the acquisition of the Canadian businesses of State Farm and the implementation of Desjardins-wide strategic projects. Fierce competition, which compressed margins, continued during the year and limited the rise in net interest income.

These results reflect the contribution of $888 million, or 55.7% of surplus earnings, made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $411 million and $180 million, respectively, representing 25.8% and 11.3% of surplus earnings. The operations grouped under the Other category made a contribution of $114 million, or 7.2% to surplus earnings.

Return on equity was 8.7%, compared to 9.4% for 2013. This decrease was due to the significant investments made as part of the acquisition of the Canadian businesses of State Farm, the implementation of Desjardins-wide strategic projects and the increase in average equity following the recent issuances of capital shares by the Federation. The growth in surplus earnings before member dividends helped to partially offset this decline.

By its very nature as a cooperative financial group, Desjardins Group has set itself the task of improving the economic and social well-being of people and communities, which it continued to strive to achieve in 2014. As such, the amount set aside for member dividends totalled $217 million for 2014, compared to $171 million in 2013. If we add this amount to the $82 million given to various organizations in the form of donations and sponsorships, the amount returned to the community totalled $299 million in 2014, compared to $252 million in 2013.

OPERATING INCOME

Operating income, which includes net interest income, net premiums and other operating income, as presented in Table 4, totalled $12,654 million, up $703 million, or 5.9%, compared to 2013.

TABLE 4 – OPERATING INCOME
For the years ended December 31

(in millions of dollars)	**2014**	2013[(1)]	2012[(1)]
Net interest income	**$ 3,976**	$ 3,857	$ 3,881
Net premiums	**5,916**	5,558	5,126
Other operating income (see Table 7)	**2,762**	2,536	2,293
Total operating income	**$ 12,654**	$ 11,951	$ 11,300

(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.

Net interest income

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

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

Expressed as a percentage of average assets, net interest margin was 2.38% in 2014, compared to 2.45% for 2013, a decrease of 7 basis points. The fierce competition in the market that compressed margins had a negative impact on net margin.

Net interest income was $3,976 million at the end of 2014, up $119 million, or 3.1%, from the previous year.

Interest income

Interest income amounted to $5,866 million in 2014, an increase of $144 million, or 2.5%, compared to the previous year. Overall, the $9.6 billion, or 6.4%, growth in the average volume of total interest-bearing assets boosted interest income by $378 million, while the 14 basis point decrease in the average return on these assets reduced it by $234 million.

Interest expense

Interest expense amounted to $1,890 million in 2014, an increase of $25 million, or 1.3%, compared to the previous year. The $8 billion, or 5.9%, growth in average funding from deposits, borrowings and subordinated notes pushed up interest expense by $92 million, while the 5 basis point decrease in the average cost of deposits reduced interest expense by $67 million.

TABLE 5 – NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES
For the years ended December 31

(in millions of dollars and as a percentage)	**2014**			2013[(1)]		
	Average balance	**Interest**	**Average rate**	Average balance	Interest	Average rate
Assets						
Interest-bearing assets						
Securities, cash and deposits with financial institutions	**$ 18,258**	**$ 335**	**1.83%**	$ 17,776	$ 313	1.76%
Loans	**142,342**	**5,531**	**3.89**	133,233	5,409	4.06
Total interest-bearing assets	**160,600**	**5,866**	**3.65**	151,009	5,722	3.79
Other assets	**6,345**	**-**	**-**	6,280	-	-
Total assets	**$ 166,945**	**$ 5,866**	**3.51%**	$ 157,289	$ 5,722	3.64%
Liabilities and equity						
Interest-bearing liabilities						
Deposits	**$ 140,912**	**$ 1,753**	**1.24%**	$ 132,636	$ 1,708	1.29%
Borrowings and subordinated bonds	**2,776**	**137**	**4.94**	3,075	157	5.11
Total interest-bearing liabilities	**143,688**	**1,890**	**1.32**	135,711	1,865	1.37
Other liabilities	**10,175**	**-**	**-**	9,249	-	-
Equity	**13,082**	**-**	**-**	12,329	-	-
Total liabilities and equity	**$ 166,945**	**$ 1,890**	**1.13%**	$ 157,289	$ 1,865	1.19%
Net interest income		**$ 3,976**			$ 3,857	
As a percentage of average assets			**2.38%**			2.45%

(1) Data for 2013 have been reclassified to reflect the current year's presentation.

TABLE 6 – IMPACT OF CHANGES IN VOLUMES AND RATES ON NET INTEREST INCOME
For the year ended December 31

(in millions of dollars and as a percentage)	**2014**			**Increase (decrease)**	
	Change in average volume	**Change in average rate**	**Interest**	**Average volume**	**Average rate**
Assets					
Securities, cash and deposits with financial institutions	**$ 482**	**0.07 %**	**$ 22**	**$ 8**	**$ 14**
Loans	**9,109**	**(0.17)**	**122**	**370**	**(248)**
Change in interest income			**144**	**378**	**(234)**
Liabilities					
Deposits	**8,276**	**(0.05)**	**45**	**107**	**(62)**
Borrowings and subordinated notes	**(299)**	**(0.17)**	**(20)**	**(15)**	**(5)**
Change in interest expense			**25**	**92**	**(67)**
Change in net interest income			**$ 119**	**$ 2**	**$ (167)**

Net premiums

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, rose $358 million, or 6.4%, to total $5,916 million as at December 31, 2014.

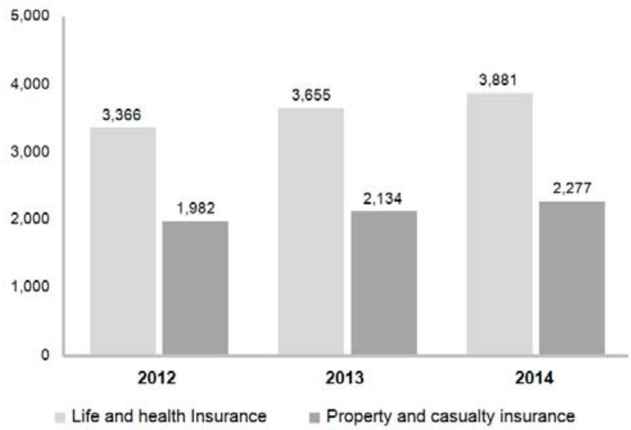
Wealth Management and Life and Health Insurance segment

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of $3,881 million as at December 31, 2014, compared to $3,655 million in 2013, for an increase of 6.2%, generated essentially by business development. Insurance premiums and annuity premiums were up $153 million and $73 million, respectively. The signing of major new contracts in 2014 mainly accounted for the growth in group annuity premiums. Net insurance premiums were up 4.6% to total $3,501 million, especially as a result of group insurance operations, which were up $128 million.

Property and Casualty Insurance segment

The overall operations of the Property and Casualty Insurance segment generated net premium income of $2,277 million in 2014, compared to $2,134 million in 2013, a 6.7% increase due to growth in net premiums, which stemmed from multiple growth initiatives across all market segments and regions.

NET PREMIUMS [1]
(in millions of dollars)



(1) The difference between total results and the sum of business segment results is due to intersegment transactions.

Other operating income

TABLE 7 – OTHER OPERATING INCOME
For the years ended December 31

(in millions of dollars)	**2014**	2013[1]	2012[1]
Deposit and payment service charges	**$ 498**	$ 498	$ 499
Lending fees and credit card service revenues	**597**	549	517
Brokerage and investment fund services	**970**	855	731
Management and custodial service fees	**348**	300	283
Foreign exchange income	**84**	61	63
Other	**265**	273	200
Total other operating income	**$ 2,762**	$ 2,536	$ 2,293

(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.

Other operating income stood at $2,762 million for 2014, an increase of $226 million, or 8.9%, compared to the previous year.

Lending fees and credit card service revenues, consisting mainly of income from the various payment solutions offered by Card and Payment Services, totalled $597 million in 2014, up by $48 million, or 8.7%, compared to the previous year as a result of growth in business volume. Income from brokerage and investment fund services amounted to $970 million, an increase of $115 million, or 13.5%, partly because of a larger volume of assets under management from the sale of various products, the recognition of brokerage income following the acquisition of an interest in Qtrade Canada Inc. in second quarter 2013 and an increase in capital market operations. Higher commission income, primarily due to organic growth and Western Financial Group Inc.'s acquisitions, also contributed to this increase, which was partially offset by a decrease in income from certain programs. Management and custodial service fees amounted to $348 million in 2014, an increase of $48 million, or 16.0%, stemming from growth in assets under management.

INVESTMENT INCOME

TABLE 8 – INVESTMENT INCOME
For the years ended December 31

(in millions of dollars)	**2014**	2013	2012
Net income (loss) on securities at fair value through profit or loss	**$ 2,005**	$ (667)	$ 674
Net income on available-for-sale securities	**343**	221	268
Net other investment income	**233**	229	236
Total investment income (loss)	**$ 2,581**	$ (217)	$ 1,178

Investment income totalled $2,581 million for 2014, an increase of $2,798 million compared to the previous year.

Net income on securities at fair value through profit or loss was up $2,672 million, mostly due to changes in the fair value of the bond portfolio and the derivative financial instrument portfolio, stemming largely from fluctuations in medium- and long-term interest rates, which moved in opposite directions during 2013 and 2014. Because of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations, this increase was partially offset by the change in actuarial liabilities that in turn led to an increase in expenses related to claims, benefits, annuities and changes in insurance contract liabilities. Net income on available-for-sale securities and net other investment income increased as realized gains on disposal of investments were higher in 2014.

TOTAL INCOME

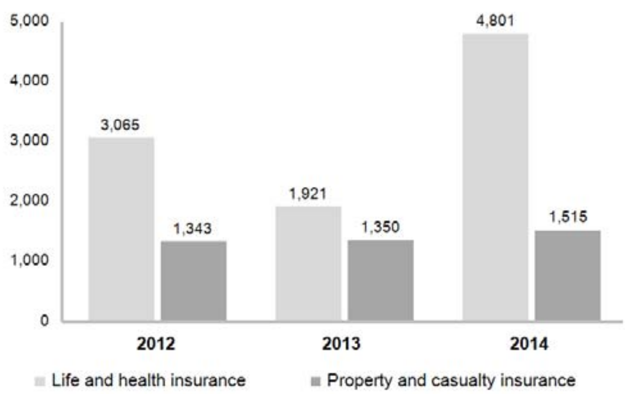
Total income, comprising net interest income, net premiums, other operating income and investment income, amounted to $15,235 million, an increase of $3,501 million, or 29.8%, compared to 2013.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $351 million in 2014, up $74 million, or 26.7%, compared to 2013. The provisioning rate rose from 0.20% in 2013 to 0.24% in 2014, primarily because of changes in the risk profile and the collective allowance taken on account of growth in the loan portfolio and off-balance sheet commitments. Despite this increase, Desjardins Group's loan portfolio continued to be of very high quality. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.34% as at December 31, 2014, up very slightly from 0.33% in 2013.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES

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



(1) The difference between total results and the sum of business segment results is due to intersegment transactions.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $6,303 million, up $3,044 million, or 93.4%, compared to 2013.

Wealth Management and Life and Health Insurance segment

The Wealth Management and Life and Health Insurance segment recorded expenses of $4,801 million, an increase of $2,880 million compared to 2013. This change mainly resulted from a $2,754 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes an increase of $2,571 million in the fair value of investments. The $86 million growth in group annuity premiums also contributed to the increase in actuarial liabilities. These costs were also affected by an increase in benefits resulting from business growth.

Property and Casualty Insurance segment

Costs for the Property and Casualty Insurance segment were $1,515 million in 2014, compared to $1,350 million in 2013, for an increase of $165 million, or 12.2%. The loss ratio of the segment's P&C insurers was 65.7% for 2014, compared to 66.8% in 2013. The decrease was primarily on account of a lower loss ratio in property insurance and business insurance because of favourable weather conditions, partially offset by an increase in the automobile insurance loss ratio, chiefly due to the positive trend in claims in previous years, which was lower than in 2013. These expenses were also affected by an increase in the cost of claims resulting from business growth.

NON-INTEREST EXPENSE

Non-interest expense totalled $6,554 million, compared to $6,229 million in 2013, an increase of $325 million, or 5.2%, chiefly due to the amounts incurred to acquire the Canadian businesses of State Farm and the implementation of Desjardins-wide strategic projects. The significant efforts made by the caisse network and other Desjardins components to enhance productivity contained this increase. Non-interest expense was also affected by annual salary indexing and business growth.

SALARIES AND FRINGE BENEFITS

Salary and fringe benefit expenses rose $75 million, or 2.4%, to $3,200 million in 2014, mainly attributable to business growth, which increased the number of employees, as well as annual salary indexing and fringe benefits. This increase was mitigated by a reduction in pension expense. This expense item represented 48.8% of total non-interest expense, down slightly compared to 2013. For 2014, salaries amounted to $2,637 million, up 3.8% compared to $2,541 million in 2013.

The ratio of fringe benefits to total base compensation was down from 23.0% in 2013 to 21.3% in 2014, primarily because of the decrease in pension expense.

OTHER EXPENSES

For 2014, expenses related to premises, equipment and furniture (including depreciation) totalled $598 million, compared to $570 million in 2013, an increase of $28 million, or 4.9%, mainly as a result of the purchase of computer hardware. Expenses related to service agreements and outsourcing amounted to $256 million in 2014, an increase of $24 million or 10.3% compared to 2013, due to business growth.

Other expense categories totalled $2,217 million, for an increase of $202 million, or 10.0%, compared to 2013, due in particular to the amounts incurred to acquire the Canadian businesses of State Farm and the implementation of Desjardins-wide strategic projects. They were also affected by higher commission fees and greater use of the BONUSDOLLARS Rewards Program by Card and Payment Services clients, as well as the integration of Qtrade Canada Inc. fees following the acquisition of an interest in the company in the second quarter of 2013.

PRODUCTIVITY INDEX

The productivity index, which is the ratio of non-interest expense to total income, net of claims, benefits, annuities and changes in insurance contract liabilities, stood at 73.4% for 2014, compared to 73.5% for 2013. The period was impacted by upward pressure on non-interest expense from the numerous projects underway. However, the significant efforts made by the caisse network to enhance productivity, and tight control of non-interest expense in a sustained business growth environment caused operating income to rise more quickly than non-interest expense.

TABLE 9 – NON-INTEREST EXPENSE
For the years ended December 31

(in millions of dollars and as a percentage)	**2014**	2013	2012
Salaries and fringe benefits			
Salaries	**$ 2,638**	$ 2,541	$ 2,396
Fringe benefits	**562**	584	634
	3,200	3,125	3,030
Premises, equipment and furniture, including depreciation	**598**	570	519
Service agreements and outsourcing	**256**	232	228
Communications	**283**	287	271
Other	**2,217**	2,015	1,860
Total non-interest expense	**$ 6,554**	$ 6,229	$ 5,908
Desjardins Group productivity index(1)	**73.4%**	73.5%	73.1%

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

INCOME TAXES AND INDIRECT TAXES

Desjardins Group is a cooperative financial group, and each of its entities that operate as a financial services cooperative—namely the caisses, *Caisse centrale Desjardins*, the *Fédération des caisses Desjardins du Québec* and the *Fédération des caisses populaires de l'Ontario Inc.*—is considered a private and independent company for tax purposes, unlike the vast majority of other financial institutions, which are large public corporations. Each caisse is therefore subject to the private company tax regime and benefits, when tax rules allow it, from certain preferential tax rates under the credit union tax regime. Legislators have adapted this regime to allow the caisses to accumulate a sufficient general reserve to serve as a capital base for the protection of members' deposits. When the general reserve reaches the legislated limit, the caisse is subject to the same tax rates as a large corporation. Further to legislative amendments made in 2013, the preferential tax rates set out in the federal credit union tax regime will be phased out between now and 2017.

Desjardins entities that are not financial services cooperatives are subject to the large corporation tax regime.

Income taxes on surplus earnings before member dividends presented in the Combined Statements of Income totalled $434 million in 2014, which is comparable to 2013. The effective tax rate was 21.4% for the year ended December 31, 2014, compared to 22.3% in 2013. Note 29, "Income taxes on surplus earnings", to the Combined Financial Statements presents, among other things, a reconciliation of the statutory tax rate and the effective tax rate, expressed in dollars.

Indirect taxes consist of property and business taxes, payroll and social security taxes, the goods and services tax, and sales taxes. Indirect taxes are included in non-interest expense.

For 2014, Desjardins entities paid $1,044 million in indirect taxes, compared to $960 million in 2013.

COMPARISON OF 2013 AND 2012

The following analysis presents a comparison between the results for the years ended December 31, 2013 and 2012. It should be noted that data for 2013 and 2012 have been reclassified to reflect the current year's presentation.

For 2013, Desjardins Group posted surplus earnings before member dividends of $1,530 million, compared to $1,504 million for 2012. Return on equity was 9.4%, compared to 10.2% in 2012. This decline was caused by the increase in equity as a result of the issuance of capital shares by the Federation.

Segment results

These results reflect the contribution of $809 million, or 52.9% of surplus earnings made by the Personal Services and Business and Institutional Services segment in 2013. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $389 million and $212 million, respectively, representing 25.4% and 13.9% of surplus earnings. The operations grouped under the Other category made a contribution of $120 million, or 7.8% of surplus earnings.

For 2013, the Personal Services and Business and Institutional Services segment reported surplus earnings before member dividends comparable to 2012.

Net surplus earnings generated by the Wealth Management and Life and Health Insurance segment were up $158 million, or 68.4%, over 2012, primarily on account of life and health insurance operations. The higher profitability of these operations was mainly attributable to business growth, favourable market conditions, experience gains throughout 2013, as well as to the change in certain actuarial assumptions.

Net surplus earnings from the Property and Casualty Insurance segment grew by $12 million, or 6.0%, compared to 2012, chiefly because of the increase in net premiums and the decrease in the loss ratio.

Combined results

In combined results, operating income, which includes net interest income, net premiums and other operating income, totalled $11,951 million in 2013, up $651 million, or 5.8%, compared to 2012. Net interest income was $3,857 million in 2013, down $24 million, or 0.6%, from the previous year. The fierce competition in the market that compressed margins and low interest rates had a negative impact on net margin.

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, rose $432 million, or 8.4%, to total $5,558 million as at December 31, 2013. Net premiums from life and health insurance posted an increase of 8.6% compared to 2012, to stand at $3,655 million. Property and casualty insurance operations generated net premium income of $2,134 million in 2013, compared to $1,982 million in 2012, a 1.2% increase.

Other operating income stood at $2,536 million for 2013, up $243 million, or 10.6%, over 2012. Lending fees and credit card service revenues, consisting mainly of income from the various payment solutions offered by Card and Payment Services, totalled $549 million in 2013, up by $32 million, or 6.2%, compared to the previous year as a result of growth in business volume. Income from brokerage and investment fund services amounted to $855 million, an increase of $124 million, or 17.0%, chiefly due to growth in brokerage operations, including those of Qtrade Canada Inc., a company in which Desjardins Group acquired an interest in the second quarter of 2013, as well as a larger volume of assets under management, an increase in commission income from insurance sales, and higher income related to various programs. Income under "Other" increased by $73 million, or 36.5%, compared to 2012, to total $273 million. The increase was partly due to income generated by higher income from shares in limited partnerships and by recent acquisitions as well as higher income related to securitized asset management. This income was however offset by the lower income from other financial instruments used as part of securitized asset management, which are presented in net interest income and under "Net income on securities at fair value through profit or loss".

Investment income was down $1,395 million compared to the previous year. Net income on securities at fair value through profit or loss was down $1,341 million, or 199.0%, to stand at a loss of $667 million for 2013. The decrease was chiefly due to the reduction in investment income related to life and health insurance operations resulting from the $1,207 million change in the fair value of assets backing liabilities, which was partly offset by changes in actuarial liabilities and the negative $111 million change in the fair value of the asset-backed term note (ABTN) portfolios net of hedging positions. Net income on available-for-sale securities and net other investment income had decreased as realized gains on disposal of investments were lower in 2013 than in 2012.

The provision for credit losses was $277 million, up $36 million, or 14.9%, compared to 2012, because of growth in the loan portfolio. In spite of this increase, Desjardins Group's loan portfolio continued to be of very high quality. Its outstanding gross impaired loans totalled $459 million as at December 31, 2013, down slightly by $7 million since December 31, 2012. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.33% as at December 31, 2013, comparable to 2012. Desjardins Group's ratio remains one of the best in the Canadian banking industry.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities had decreased by $1,138 million, or 25.9%, to $3,259 million as at December 31, 2013. The Wealth Management and Life and Health Insurance segment had expenses of $1,921 million, down $1,144 million, or 37.3%, compared to 2012, mainly as a result of a $1,334 million decrease in actuarial liabilities recognized under "Insurance contract liabilities", which included the $1,207 million drop in the fair value of investments. In addition, changes in valuation assumptions in the normal course of business reduced the expenses by $56 million, whereas they had pushed them up by $60 million in 2012. However, these expenses were affected by the increase in benefits related to higher business volumes. Expenses for the Property and Casualty Insurance segment totalled $1,350 million in 2013, which is comparable to 2012. This stability is due to the combined effect of business growth and an improved loss ratio, which decreased from 69.1% in 2012 to 65.5% in 2013. This improvement was mainly attributable to a reduction in the automobile loss experience in Ontario and an increase in the interest rates used to determine provisions, in spite of the deterioration in the property insurance loss experience in Ontario.

Non-interest expense totalled $6,229 million, compared to $5,908 million in 2012, an increase of $321 million, or 5.4%. The significant efforts made by the caisse network and other Desjardins components to enhance productivity contained this increase, caused by sustained business growth.

2.2 ANALYSIS OF BUSINESS SEGMENT RESULTS

Desjardins Group's financial reporting is organized by business segments, which are defined based on the needs of members and clients, the markets in which Desjardins operates, and on its internal management structure. Desjardins Group's financial results are therefore divided into the following three business segments: Personal Services and Business and Institutional Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. In addition to these three segments, there is also the Other category. This section presents an analysis of results for each of these segments.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed upon by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on capital markets.

2.2.1 PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

PROFILE

The Personal Services and Business and Institutional Services segment offers Desjardins Group's members and clients a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, through the Desjardins caisse network, Desjardins Business centres as well as specialized teams. The offering includes regular and convenience transactions, securities investments, credit and debit cards, financing, specialized services, access to capital markets, development capital, business ownership transfers and advisory services.

The Personal Services and Business and Institutional Services segment also makes its products and services available through complementary distribution networks and mortgage representatives, by phone, online, via applications for mobile devices, as well as at ATMs.

Additional information about the Personal Services and Business and Institutional Services segment's main risks is presented on page 63 of the "Risk management" section of this MD&A.

SERVICES

Regular, convenience and savings operations include transactions carried out at the caisse counter, requests for information and specialty services, such as drafts and safety deposit boxes. They also include variable savings, such as chequing accounts, regular savings accounts and term savings. In addition, this segment actively supports businesses of all sizes through every stage of their growth in the Quebec, Canadian and international markets.

Financing services include the following:
- **Residential mortgage loans**, for the purchase of land, new or existing homes and for renovations;
- **Consumer loans**, such as loans for the purchase of automobiles and durable goods, personal lines of credit and student loans;
- **Commercial credit**, which makes it possible to offer financing in the commercial and industrial, agricultural and agri-food, public and institutional sectors, as well as for commercial and multi-residential real estate.

The operations of **Card and Payment Services** include card payment services for individuals and businesses, merchant payment services, financing solutions (Accord D) and point-of-sale financing for automobiles and durable goods.

Access to **capital markets** operations meet the financing needs of Canadian corporations, institutions and cooperatives, and provide advisory services for mergers and acquisitions, as well as intermediation and execution services on the stock and fixed income securities markets. These services are carried out by seasoned sales and trading teams who are supported by a research team that is renowned in the industry for its excellence.

Activities related to development capital facilitate investment, both directly and through funds, in small and medium-sized enterprises (SMEs) and cooperatives in every region of Quebec, and provide these entities with support through every stage of their growth. Through Desjardins Venture Capital Inc., which manages the assets of *Capital régional et coopératif Desjardins*, the segment supports the growth of businesses all across Quebec, especially in business ownership transfers, and helps to develop and maintain the highest calibre of entrepreneurship.

Specialized services include international services, cash management services, custodial and trust services, as well as payroll and human resources solutions.

Access Services operations make products and services available at anytime, anywhere in the world, by phone, online and via applications for mobile devices.

2014 ACHIEVEMENTS

- Improved client and member satisfaction by simplifying and enhancing their experience:
  - Introduction of a contextual help tool, *Assistant AccèsD*, on the *AccèsD* site to make it easier to perform transactions on the site.
  - A new feature to help prevent debit card fraud: members can change their personal identification number at Desjardins ATMs after a preventive blocking of their card if they do not detect any fraudulent use of their account, and then go on using their card as usual.
  - Launch of a mobile payment application with Bell, Rogers and Virgin so that Visa Desjardins credit cardholders can make payments securely by simply positioning their phone over the payment reader available at many merchants.
  - Launch of new credit cards for individuals, making the offering more accessible, easier to use and more advantageous for members. The cash back feature on the new Visa Desjardins Cash Back card and more generous rewards with the new Prestige Platinum Visa Desjardins card give members the benefits they are looking for.
  - Desjardins members can take advantage of many benefits, including a start-up kit for new entrepreneurs.

- Retained existing members and clients and attracted new ones through distinctive offers and partnerships:
  - Launch of the Hop 'n S@ve instant savings application to transfer funds to a high-interest savings account in just a few minutes.
  - Opening of *360^d* near the *Université de Montréal* campus, a new concept financial services centre aimed at the 18-30 age group.
  - Launch of the Green Homes Program to reward green homebuyers and green renovations.
  - A new offering for the next generation of farm producers with tools and support adapted to this segment.
  - Introduction of a comprehensive offering for automobile dealerships.
  - Renewal of the partnership with the *Caisse de dépôt et placement du Québec* for the *Capital croissance PME* fund to support the growth and development of SMEs in Quebec.

INDUSTRY

In the Canadian banking services industry, the outstanding volume of financing to individuals and businesses was estimated at $2,427 billion at year-end 2014, while variable and fixed-rate on-balance sheet personal savings was approximately $1,212 billion.

In 2014, demand slowed in Quebec for residential mortgages. The market turned in an annual increase estimated at 4.7% as at December 31, 2014, compared to 5.5% at the end of 2013. The decrease in real estate transactions for resale of existing homes was mitigated by an upsurge in new home construction. Annual growth in consumer loans was estimated at 3.7% as at December 31, 2014, slightly off the growth rate observed at the end of 2013, which was 3.9%. Demand for commercial and industrial credit in Quebec decreased as well in 2014, with annual growth estimated at 7.2% as at December 31, 2014, compared to an increase of 9.4% at the end of 2013. A slowdown was also observed in agricultural loans in Quebec; outstanding financing was up 5.6% on an annual basis as at December 31, 2014, compared to an increase of 7.0% a year earlier.

On-balance sheet personal savings in Quebec grew slightly in 2014, with annual growth of 3.5% in the amount outstanding, compared to growth of 2.8% observed at the end of 2013. Low interest rates and the solid stock market performance continued to make on-balance sheet savings products less attractive to individuals.

Risks and concerns surrounding the international situation influence the Canadian economic and financial environment in which Desjardins Group's Personal Services and Business and Institutional Services segment operates. Because of the anticipated negative impacts of the plunge in oil prices on the Canadian economy, the Bank of Canada lowered its key rates by 25 basis points in January 2015. It should be noted that key rates have not budged since September 2010. The Canadian economy should, however, regain some strength in the second half of 2015 due to the boom in exports resulting from the U.S. economy's momentum and the depreciation of the Canadian dollar. Nevertheless, since inflation pressures will be minimal, the Bank of Canada will enjoy a certain amount of leeway and is unlikely to start raising its rates again until 2016. The low interest rate environment should therefore keep up the pressure on the industry's interest margins.

Competition is continuing to mount, and the various industry players are deploying strategies that go beyond offering incentives to attract new clients, such as gifts or cash back. The banks are adopting strategies aimed at intensifying business relations with their new clients and getting to know them better. A general easing in credit conditions for Canadian businesses has also been noted among commercial lenders.

As well as using marketing campaigns, the industry continues to focus on strategies for developing service outlets and other channels in order to expand offerings via virtual and complementary channels. To this end, it is investing considerable effort in technology. In addition, online tools are being introduced for businesses to improve the management of their own operations.

The financial services industry remains concerned with customer satisfaction. Customers have become more and more demanding, and expect close, high-quality relationships with their financial institutions, competitively priced products and services, and easier access to credit. The key success factors for thriving in this environment are service quality, offering support, and tailoring products to the specific needs of individual client segments. At the same time, non-bank players have not only raised consumer expectations but also the industry's. Initiatives launched by these players are growing (including those of technology giants like Google, Apple, Facebook and Amazon) and no longer fly under the radar (especially with regard to mobile portfolios and integrated payment tools).

In spite of this strong competition and changes in the industry, Desjardins Group remains a leader in services to individuals and businesses. Desjardins Group is Quebec's leader in residential mortgages and an important player in consumer loans, including point-of-sale financing, with estimated market shares of 36.1% and 23.5%, respectively. Card and Payment Services is also the number one credit and debit card issuer in Quebec, and fifth in Canada, with more than 5.6 million credit cards and 5.8 million debit cards issued in Canada. In on-balance sheet personal savings in Quebec, Desjardins Group once again tops the list, with an estimated market share of 43.0%. Finally, with estimated market shares of 23.3% and 41.4% in commercial and industrial credit and agricultural credit, respectively, Desjardins Group is a leader in Quebec's business market.

2015 STRATEGY AND PRIORITIES

The Personal Services and Business and Institutional Services segment intends to strengthen its lead in financing, savings and transactional services. Accordingly, high service standards and increasing satisfaction among members and clients will be important priorities in the coming year. Reaching ambitious objectives requires the commitment of every manager, employee and officer, as well as a high-calibre, comprehensive and integrated offer that is innovative and easy to access. The segment further intends to contribute to lasting prosperity in businesses and communities. Its strategy is based on establishing relationships of trust with its members, clients and partners, and on a sustainable development philosophy. The strategy is built on strong foundations and long-standing commitments in the regions and in various socio-economic communities.

The segment's priorities in 2015 are to deliver superior services to its members and clients, to achieve sustained growth, particularly in certain high-potential markets, and to continue enhancing efficiency. More specifically, this segment will aim to:
- Create value for caisse members and clients by focusing on satisfaction and building lasting and evolving relationships with them
- Strive for excellence in member and customer service by designing and implementing concrete improvements in the network and in Desjardins Group business sectors that reflect feedback from members
- Continue to promote distinctive levers: Desjardins Member Advantages and financial education
- Increase the number of members and clients, the number of products owned and business volumes by using an approach tailored to the needs of priority customer segments
- Maintain and strengthen the segment's leadership
- Innovate in order to simplify and enhance the virtual channel offering and functionalities to strengthen relationships with members and clients
- Pursue Canada-wide expansion of the payments sector
- Carry on with deployment of the online business centre to build an optimal relationship with small businesses
- Develop the international product and service offering for Canadian businesses

ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES SEGMENT

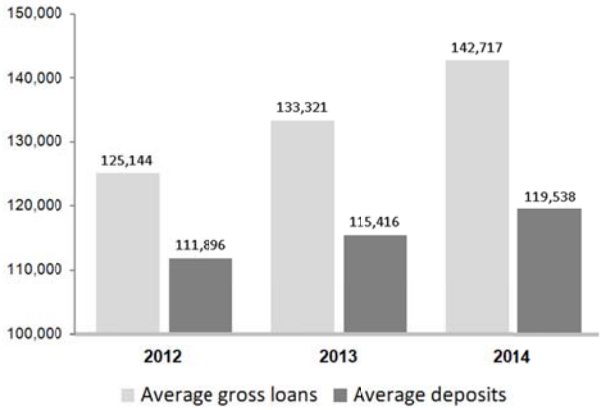
TABLE 10 – PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES – SEGMENT RESULTS

For the years ended December 31

(in millions of dollars and as a percentage)	**2014**	2013[1]	2012[1]
Net interest income	**$ 3,764**	$ 3,678	$ 3,690
Other operating income	**1,895**	1,771	1,696
Operating income	**5,659**	5,449	5,386
Investment income	**57**	51	58
Total income	**5,716**	5,500	5,444
Provision for credit losses	**351**	277	241
Non-interest expense	**4,197**	4,194	4,140
Income taxes on surplus earnings	**280**	220	250
Surplus earnings before member dividends	**888**	809	813
Member dividends, net of income tax recovery	**160**	126	206
Net surplus earnings for the year after member dividends	**$ 728**	$ 683	$ 607
Of which:			
Group's share	**$ 727**	$ 681	$ 606
Non-controlling interests' share	**1**	2	1
Indicators			
Average gross loans[2]	**$ 142,717**	$ 133,321	$ 125,144
Average deposits[2]	**119,538**	115,416	111,896
Provisioning rate[2]	**0.25%**	0.21%	0.19%
Gross impaired loans/gross loans[2]	**0.34**	0.33	0.36

[1] Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.
[2] See "Basis of presentation of financial information".

AVERAGE GROSS LOANS AND AVERAGE DEPOSITS
(in millions of dollars)



Comparison of 2014 and 2013

For 2014, the Personal Services and Business and Institutional Services segment's surplus earnings before member dividends totalled $888 million, up $79 million, or 9.8%, compared to the same period in 2013. Business growth, which pushed up income, as well as the Desjardins caisse network's efforts to enhance productivity mainly accounted for the higher surplus earnings.

Operating income totalled $5,659 million, up $210 million, or 3.9%. It was affected by an $86 million, or 2.3%, increase in net interest income, mainly as a result of growth in the overall loan portfolio, amounting to $10.1 billion, or 7.3%, during the year. However, fierce competition in the market compressed margins and limited the rise in net interest income.

Other operating income was up $124 million, or 7.0%, compared to the same period in 2013, to total $1,895 million, primarily because of an increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as Desjardins Funds, as well as growth in credit card and point-of-sale financing activities and increased capital market operations. However, it was partially offset by lower income from certain programs.

Investment income was $57 million, an increase of $6 million compared to December 31, 2013, largely due to gains on the disposal of securities related to surplus liquidity in the caisse network during the first six months of 2014. However, the increase was partially offset by the drop in trading income in Business and Institutional Services.

Total income was $5,716 million, an increase of $216 million, or 3.9%, compared to 2013.

The provision for credit losses was $351 million in 2014, up $74 million, or 26.7%, compared to 2013. During this period, the provisioning rate rose from 0.21% in 2013 to 0.25% in 2014, primarily because of changes in the risk profile and the collective allowance taken on account of growth in the loan portfolio and off-balance sheet commitments. Despite this increase, the Personal Services and Business and Institutional Services segment's loan portfolio continued to be of very high quality. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.34% as at December 31, 2014, up very slightly from 0.33% a year earlier.

Non-interest expense remained stable at $4,197 million, affected by the caisse network's efforts to enhance productivity, the decrease in the pension expense, and lower expenses related to certain programs. These reductions were offset by business growth, especially credit card and point-of-sale financing activities, as well as annual salary indexing.

2.2.2 WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

PROFILE

The Wealth Management and Life and Health Insurance segment offers Desjardins Group members and clients a complete range of products and services tailored to the changing wealth management and financial security needs of individuals, groups, businesses and cooperatives. Since January 2015, it has also included the former Canadian life and health insurance businesses of State Farm.

Wealth Management includes investment fund and guaranteed investment structuring and distribution activities, group retirement savings activities as well as full-service and direct (online) securities brokerage. It also includes private management services and trust services.

The insurance operations of Desjardins Financial Security Life Assurance Company generate premium and annuity income of over $3.8 billion from the life and health insurance products and retirement savings products offered to individuals and groups. Desjardins Financial Security Life Assurance Company offers its products and services to both Desjardins Group members and other client bases across Canada.

Wealth Management and Life and Health Insurance products and services are distributed by advisors and financial planners in the Desjardins caisse network and the Private Management sector, financial security advisors, life and health insurance and employee benefit agents and brokers, and securities brokers. Some product lines are also distributed directly online, via applications for mobile devices and through client care centres.

Additional information about the Wealth Management and Life and Health Insurance segment's main risks is presented on page 63 of the "Risk management" section of this MD&A.

SERVICES

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

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

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

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

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

Brokerage and private management operations include full-service and online brokerage services for members and clients, private management and management of investment companies of large business families with complex needs.

2014 ACHIEVEMENTS

- Enhanced the client-member experience by diversifying offerings:
  - **Personalized insurance strategies for affluent and wealthy clients** based on creation of intergenerational wealth and access to life insurance policy capital in case of loss of autonomy.
  - Two new **combined offerings for affluent and wealthy clients in Quebec** that include strategies and advice combining investment products and life and health insurance.
  - Optimizing of **Prestige Service** to deliver superior service, including preferential priority processing for insurance applications from affluent and wealthy members and clients as well as business owners.
  - **Claim 360°**, a mobile application available on iPhone, iPad and iPod Touch devices as well as Android tablets and phones. The app facilitates and accelerates healthcare claims and helps clients get easy access to information in their file.
  - **QUATTRA**™, annual travel insurance specially designed for travellers age 61 or over, who complete a single medical questionnaire good for a four-year period.
  - **Desjardins VRSP**, a simple, affordable and integrated voluntary retirement savings plan that complements other Desjardins offerings aimed at constantly improving its response to the needs of business leaders.
- Improved advantages for Desjardins members
  - **Estate Assistance,** an additional service as part of the new approach to wealth planning, protection and transfer that allows the caisses to take a proactive and integrated approach to estate planning, supporting estate settlement and management of bequests.
- Awards received
  - **J.D. Power** recognized **Desjardins Online Brokerage** (Disnat) for the quality of its customer service.
  - Two awards from **Structured Retail Products** for market-linked guaranteed investments (MLGI): for a third consecutive year, Best Sales, Canada, and Best Sales, Canada – GICs. Desjardins Group offers the most diversified range of MLGI in Canada.

INDUSTRY

The wealth management and life and health insurance industry stands out in handling the discretionary net worth of Canadian households, which totalled $3,416 billion at the end of 2013. These assets have grown annually at 5.7% on a compound basis over the past three years, and 9.6% in the past year, primarily as a result of the stock market's performance.

All major banking groups and life and health insurance and investment fund companies now have a wealth management division that designs and distributes diversified financial products and services to meet the investment and financial, tax and estate planning needs of the different segments of affluent and wealthy clients. These clients have specific needs, and their expectations are high, leading major players in the industry to outdo each other in terms of ingenuity in order to win them over and build their loyalty.

In such a demanding environment, financial advisors more than ever play a key role in providing relevant information, making sales and maintaining relationships. Advisors, whether "mobile" or working in an establishment, are important to clients in ensuring the lasting profitability of their portfolio. The industry is also proactively meeting certain clients' desire for autonomy and diversifying ways to access services by using virtual interfaces and social networks.

The Canadian life and health insurance industry is highly consolidated with five large insurance providers accounting for 77.0% of the market in 2013. In 2014, the industry once again had to deal with a low long-term interest rate environment and lackluster growth in the Canadian economy. It nonetheless succeeded in achieving 3.5% growth in the previous three years and in 2013 recorded premium income of $92.2 billion. Desjardins Financial Security Life Assurance Company ranks second in Quebec, and fifth in Canada in terms of written premiums. More than 21 million Canadians protect their family's financial security by taking out individual or group life insurance, representing a business volume totaling $4.1 trillion. In addition, the Canadian life and health insurance industry paid out $73.1 billion in benefits in 2013.

Life and health insurance products continue to be distributed through traditional channels, namely within an advisory relationship and meetings in person, in 86.1% of cases. Branches of credit establishments, call centres, agencies and the Internet were also used as distribution networks.

2015 STRATEGY AND PRIORITIES

The Wealth Management and Life and Health Insurance segment aims to position itself as a leader in wealth management for affluent individuals and entrepreneurs by offering them a distinctive combination of investments, insurance products and advisory services. The segment also intends to maintain its leadership position in life and health insurance in both the group and personal markets through accelerated development across Canada, focusing on both the profitable growth of its operations and maintaining its excellent financial stability.

One of this segment's strategic priorities is to stand out by providing an outstanding client experience designed to increase the satisfaction of caisse members and clients. Strategic growth will be based on enhancing its distribution strengths. The segment will therefore make the most of the possibilities provided by Desjardins Group, the marketing of new targeted offers as well as acquisition and partnership opportunities. By setting up streamlined and automated operational processes, this segment will reduce its unit costs and achieve efficiency gains that will bring benefits to members and clients.

The Wealth Management and Life and Health Insurance segment's priorities for 2015 are:
- Propose an integrated offer to members and clients, tailored in particular to their needs, for an exceptional client experience
- Continue to develop the savings and investment product offer so it is even more adapted to the specific needs of each client segment, while taking diversified distribution networks into consideration
- Accelerate growth across Canada by optimizing the potential of each distribution network and capitalizing on competitive service offers and solid business partnerships
- Develop all systems by combining the modernization plan for technology infrastructure with technology life cycles
- Improve operational efficiency by optimizing key processes to better meet the various expectations of members and clients
- Finalize the integration of the Canadian businesses acquired from State Farm

ANALYSIS OF FINANCIAL RESULTS FOR THE WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE SEGMENT

TABLE 11 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE – SEGMENT RESULTS
For the years ended December 31

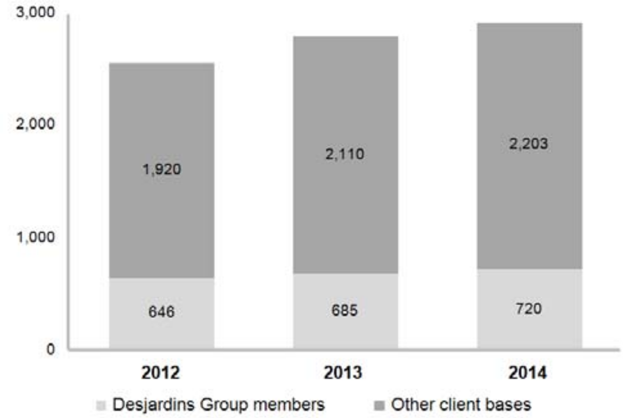
(in millions of dollars)	**2014**	2013	2012
Net interest income	**$ 2**	$ 3	$ 3
Net premiums	**3,881**	3,655	3,366
Other operating income	**1,162**	1,014	880
Operating income	**5,045**	4,672	4,249
Investment income (loss)	**2,193**	(452)	734
Total income	**7,238**	4,220	4,983
Claims, benefits, annuities and changes in insurance contract liabilities	**4,801**	1,921	3,065
Non-interest expense	**1,929**	1,777	1,628
Income taxes on surplus earnings	**97**	133	59
Net surplus earnings for the year	**$ 411**	$ 389	$ 231
Of which:			
Group's share	**$ 370**	$ 392	$ 183
Non-controlling interests' share	**41**	(3)	48
Indicators			
Net sales of savings products[(1)]	**$ 5,516**	$ 3,581	$ 2,734
Insurance sales[(1)]	**457**	463	464

[(1)] See "Basis of presentation of financial information".

TABLE 12 – EXPENSES ATTRIBUTABLE TO POLICYHOLDERS
For the years ended December 31

(in millions of dollars)	**2014**	2013	2012
Insurance and annuity benefits	**$ 2,754**	$ 2,602	$ 2,436
Change in actuarial liabilities	**1,928**	(826)	508
Interests of policyholders, refunds and other	**119**	145	121
Total	**$ 4,801**	$ 1,921	$ 3,065

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



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

Comparison of 2014 and 2013

As at December 31, 2014, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of $411 million, up $22 million, or 5.7%, compared to 2013. This increase was largely due to the change in the fair value of financial instruments related to the interest held in Qtrade Canada Inc., which had unfavourably affected 2013 results, partially offset by the lower experience gains recorded by the life and health operations in 2014.

Operating income stood at $5,045 million, up $373 million, or 8.0%, compared to the same period in 2013. Insurance premiums, up $153 million, and annuity premiums, up $73 million, totalled $3,881 million. The signing of major new contracts in 2014 mainly accounted for the growth in group annuity premiums. Net insurance premiums were up 4.6% to total $3,501 million. In Quebec, net insurance premiums increased by 4.4%, while in the rest of Canada, they were up by 4.9%, especially as a result of group insurance operations, which grew by $128 million. Premiums for group insurance purchased by Desjardins Group members increased by 5.1% while group insurance premiums from other client bases were up 4.4%.

Other operating income grew by $148 million, or 14.6%, to total $1,162 million for 2014, as a result of the growth in average assets under management due to the $1.9 billion, or 54.0%, increase in net sales of savings products, and the increase in brokerage income following, in particular, the acquisition of an interest in Qtrade Canada Inc. in the second quarter of 2013.

Investment income was up $2,645 million compared to the previous year primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This increase was offset by the change in actuarial liabilities, leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were mostly due to changes in the fair value of the bond portfolio and the derivative financial instrument portfolio stemming largely from fluctuations in medium- and long-term interest rates, which moved in opposite directions throughout 2013 and 2014. Also, gains realized on the sale of investments were higher in 2014, and 2013 was affected by a negative change in the fair value of financial instruments related to the interest held in Qtrade Canada Inc.

Total income was $7,238 million, up $3,018 million, or 71.5%, compared to 2013.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at $4,801 million, up $2,880 million, or 149.9%, compared to 2013. This change primarily resulted from a $2,754 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes an increase of $2,571 million in the fair value of investments. The $86 million growth in group annuity premiums also contributed to the increase in actuarial liabilities. These costs were also affected by an increase in benefits arising from business growth.

As at December 31, 2014, non-interest expense was $1,929 million, up $152 million, or 8.6%, compared to the same period in 2013, mainly due to an increase of $3.7 billion, or 22.5%, in average outstanding Desjardins Funds, which in turn pushed up management fees, in particular the remuneration paid to caisses, expenses related to growth in brokerage activities arising from the acquisition of an interest in Qtrade Canada Inc., as well as salaries and fringe benefits related to business growth.

2.2.3 PROPERTY AND CASUALTY INSURANCE SEGMENT

PROFILE

The Property and Casualty Insurance segment offers insurance products allowing Desjardins Group members and clients to protect themselves against disasters. It includes the operations of Desjardins General Insurance Group Inc. and Western Financial Group Inc. Since January 2015, it has also included the former Canadian P&C businesses of State Farm. Desjardins Group is therefore benefiting from an additional network of over 500 new agencies to distribute not only property and casualty insurance, but also several other financial products.

Desjardins General Insurance Group Inc. directly offers the general public and members of partner groups across Canada a line of home and automobile insurance products and also provides businesses in the Quebec market with insurance products.

Desjardins General Insurance Group Inc.'s products are distributed through property and casualty (P&C) insurance agents in the Desjardins caisse network, a number of client care centres (call centres) and Desjardins Business centres, through an exclusive agent network in the field, online and via applications for mobile devices.

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

Western Financial Group Inc. operates an extensive insurance product distribution network serving more than 790,000 clients in western Canada. Its P&C insurance products are distributed to individuals and businesses through a network of brokers covering about 160 points of sale, as well as to the general public online and through customer care centres, under the Western Direct Insurance brand. Western Financial Group Inc. also distributes its own life insurance and pet insurance products.

The Property and Casualty Insurance segment is also active on the white label market, notably with well-established Canadian financial institutions, as well as with Western Financial Group Inc., for the direct insurance offer launched in certain urban markets.

Additional information about the Property and Casualty Insurance segment's main risks is presented on page 63 of the "Risk management" section of this MD&A.

SERVICES

Automobile insurance operations, including motorcycle and recreational vehicle insurance, offer insurance coverage tailored to clients' specific needs and their vehicle features. Automobile insurance also includes the necessary coverage to obtain financial compensation for bodily injury in provinces where such coverage is not provided under a public plan.

Property insurance operations offer owners and tenants insurance coverage for primary and secondary residences to protect their physical property. In addition, with all-risk insurance coverage and optional coverage, they can obtain comprehensive protection tailored to their actual needs.

Business insurance operations meet the insurance requirements for commercial vehicles, commercial property and public liability for businesses in Quebec. Service is provided to the following sectors: service firms, retailers and wholesalers, garages, self-employed workers, general or specialized contractors, restaurants, commercial buildings, condominiums and apartment buildings.

Pet insurance operations provide insurance coverage for the healthcare needs of domestic dogs and cats. Western Financial Group Inc. has the necessary licences to write this type of insurance in all provinces and territories of Canada.

2014 ACHIEVEMENTS

- Significant improvement in member and client satisfaction as a result of simplifying and enhancing their experience:
  - High level of service quality maintained at client care centres during peak periods and during losses arising from exceptional situations;
  - Exceptional client retention performance;
  - Three first places in the J.D. Power study on customer satisfaction.
- Launch of Desjardins Member Advantages:
  - Free roadside assistance and $50 annual rebate per insured for members 25 and under;
  - $40 annual rebate per insured for a recreational vehicle.
- Prestigious recognition of the Ajusto program in the international Efma — Accenture Innovation Awards:
  - Third prize in the Customer Analytics and Big Data category, which awards financial institutions for innovation in the collection, analysis and management of customer information in order to provide a tailored offer and be closer to customers. More than 250 financial institutions from 69 countries submitted 600 projects or initiatives to this contest;
  - This award confirms the Property and Casualty Insurance segment's commitment to telematics and its leadership in the field in Canada.
- End of installation of a new integrated telephone system and addition of a client recognition tool as part of the project to modernize client care centres.
- Signing of an agreement for the acquisition of the Canadian property and casualty insurance operations of State Farm.

INDUSTRY

The Canadian P&C insurance industry offers insurance coverage for vehicles, personal and commercial property, and public liability. In 2013, direct written premiums totalled $46.1 billion, of which 61.9% was for individual insurance and 38.1% was for business insurance. For Canada as a whole, brokers have a market share of 65.3%, while direct writers have 24.4%, and exclusive agents hold 10.3%. In Quebec, direct writers continue to gain significant individual market share and now account for 62.7% of the market, compared to 37.0% for brokers, and 0.3% for exclusive agents.

The Canadian P&C insurance market is a mature market, with an average annual growth rate of 4.3% over the past five years. Its growth is influenced by the level of premiums, which varies in particular according to changes in the value of insured property and other factors relating to the different business lines. The industry's financial performance is dependent on the profitability of insurance operations, which in turn is based on the insurance premiums collected less the cost of claims and non-interest expense, as well as on the investment portfolio return.

In this context, underwriting and pricing risk, access to consumers and customer satisfaction still play an important role in not only attracting new clients but also in building the loyalty of the existing client base. Changes in consumer preferences and the growing importance of virtual channels as an addition to traditional channels affect customer behaviour so that most clients tend to use a variety of methods to interact with their insurer.

The Ontario market accounts for close to 50% of the gross written premiums in the Canadian industry, and automobile insurance is highly regulated in this province. The end of the strong market cycle and a sharp decline in the number of clients served contributed to the slowdown of the industry since mid-2012. High claim costs remain a political issue, especially in the Toronto area. In August 2013, the Ontario government unveiled a new reform plan to continue to curb fraud and reduce claim costs. This plan calls for insurers to reduce their rates and includes an automobile insurance premium reduction target of 15% by August 2015. Fraud is still a major concern in Ontario, and insurers, the government and regulators continue to work together to find long-term solutions.

Consolidation in the Canadian P&C insurance market continues to increase. In 2013, the top 10 P&C insurers held 63.5% of the market, up 4 basis points since 2009, while the top five insurers accounted for 42.1% of the market, compared to 36.0% in 2009. The trend toward consolidation in this market continues with large insurers' and distributors' transactions putting additional pressure on their smaller rivals.

The various industry players are competing on several fronts. Marketing efforts continue to be stepped up, with most insurers investing heavily in advertising to increase visibility and market share. Significant investments are also being made to develop new technology infrastructure and data management capabilities. In addition, a number of insurers are working to make their interaction with consumers easier through multi-channel logic so that insurers can be contacted in the way consumers prefer (in person, by phone or online). Finally, the industry also tends to review its insurance processes to address new developments in loss experience and to cover new insurable risks.

Desjardins General Insurance Group Inc. relies on its operational excellence and its key competencies in distribution, risk segmentation and claims management to enhance the value it offers to members and clients. Desjardins Group holds an enviable place in the Canadian P&C insurance market, ranking 7th in 2013, as a result of 6.7% annual organic growth in its gross written premiums. With the acquisition of the Canadian property and casualty insurance operations of State Farm, it will move up to second place among property and casualty insurers in Canada in 2015.

2015 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's objective is to stand out by offering Desjardins Group members and clients close and committed service. Initiatives to enhance the client experience are pursued to increase the proportion of clients who would recommend doing business with Desjardins Group. These initiatives position the client experience at the heart of Desjardins Group's reflections so that clients can be transformed into genuine Desjardins "promoters".

This segment will also continue to implement its profitable growth plan to remain a leading industry player in Quebec and to strengthen Desjardins Group's position in Ontario and western Canada.

In Quebec, the segment intends to pursue growth by fully leveraging its membership in Desjardins Group. In addition, it will continue to develop its Business and Institutional Services sector, in particular by expanding its product offer for medium-sized businesses. In Ontario, it will focus on increasing Desjardins brand name recognition and expanding brand presence. In western Canada, Western Financial Group Inc. will prioritize its organic growth plan in its market. The objective of integrating the Canadian businesses of State Farm is to achieve the size required to reduce unit costs and secure greater access to the market by increasing Canada-wide distribution capabilities.

The Property and Casualty Insurance segment's strategic priorities for 2015 to promote profitable growth are described below.

<u>For Desjardins General Insurance Group Inc.</u>:
- Capitalize on the organization's new size to reinforce its key competencies
- Use the *Caissassurance* model to simplify and enhance the client experience
- Continue to make the most of acquisitions, including the purchase of the Canadian businesses of State Farm
- Reinvent itself to offer members and clients an omnichannel insurance model based on behaviours and risk prevention
- Modernize and adapt the organization and its systems to increase agility, speed up response to the market and enhance performance

<u>For Western Financial Group Inc.</u>:
- Promote strong organic growth while remaining open to growth through acquisitions in order to remain the largest network of brokers in western Canada
- Pursue joint development initiatives with various Desjardins Group components to expand Desjardins Group's presence in western Canada

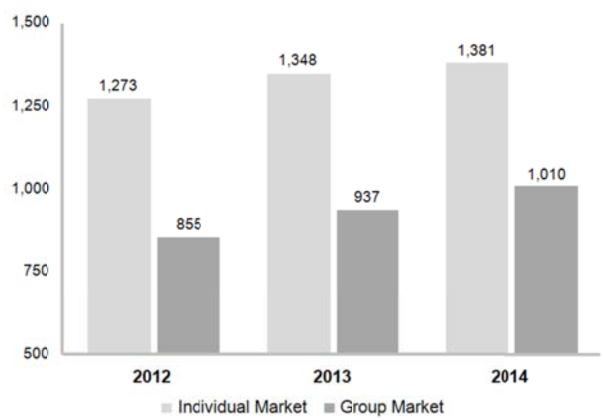
ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

TABLE 13 – PROPERTY AND CASUALTY INSURANCE – SEGMENT RESULTS
For the years ended December 31

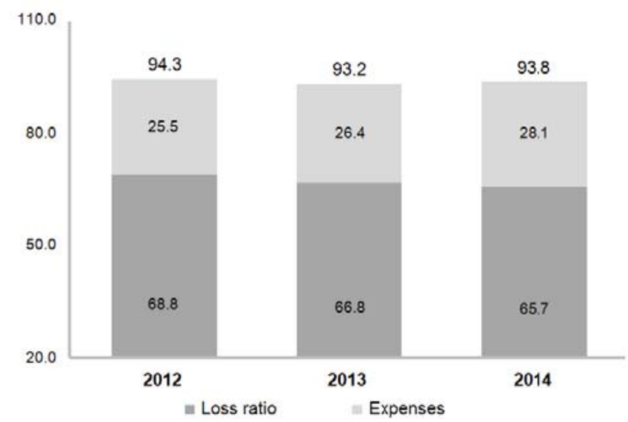
(in millions of dollars and as a percentage)	**2014**	2013	2012
Net interest income	**$ -**	$ 7	$ 11
Net premiums	**2,277**	2,134	1,982
Other operating income	**190**	165	133
Operating income	**2,467**	2,306	2,126
Investment income	**152**	88	142
Total income	**2,619**	2,394	2,268
Claims, benefits, annuities and changes in insurance contract liabilities	**1,515**	1,350	1,343
Non-interest expense	**855**	766	668
Income taxes on surplus earnings	**69**	66	57
Net surplus earnings for the year	**$ 180**	$ 212	$ 200
Expenses related to the acquisition of State Farm's Canadian businesses, net of income taxes[1]	**47**	9	-
Adjusted net surplus earnings for the year[1]	**$ 227**	$ 221	$ 200
Of which:			
Group's share	**$ 168**	$ 193	$ 179
Non-controlling interests' share	**12**	19	21
Indicators			
Gross written premiums[1][2]	**$ 2,391**	$ 2,285	$ 2,128
Loss ratio[1][3]	**65.7%**	66.8%	68.8%
Expense ratio[1]	**28.1**	26.4	25.5
Adjusted expense ratio[1]	**25.3**	25.8	25.5
Combined ratio[1][3]	**93.8**	93.2	94.3
Adjusted combined ratio[1][3]	**91.0**	92.6	94.3

(1) See "Basis of presentation of financial information".
(2) Includes Western Financial Group Inc.'s life insurance premiums.
(3) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.

GROSS WRITTEN PREMIUMS
(in millions of dollars)



COMBINED RATIO[1]
(as a percentage of net premiums earned)



(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.

Comparison of 2014 and 2013

For 2014, the Property and Casualty Insurance segment posted net surplus earnings of $180 million, down $32 million, or 15.1%, compared to 2013. Adjusted net surplus earnings totalled $227 million, up 2.7% compared to 2013, mainly due to business growth.

Operating income totalled $2,467 million, up $161 million, or 7.0%, due to growth in net premiums, which stemmed from multiple growth initiatives across all market segments and regions.

Other operating income increased by $25 million, or 15.2%, basically due to the higher commission income of Western Financial Group Inc. as a result of its organic growth and acquisitions.

Investment income was up $64 million, compared to the results recorded for the same period in 2013, basically due to the increase in the value of fixed income securities within a context of declining interest rates since the beginning of the year, compared to a decrease in their value recorded for the same period in 2013. This increase in value was essentially offset by a similar increase in the cost of claims due to matching strategies.

Total income was $2,619 million for 2014, an increase of $225 million, or 9.4%, compared to 2013.

The Property and Casualty Insurance segment's expenses related to claims totalled $1,515 million for the year, up $165 million, or 12.2%, compared to 2013. The loss ratio of the segment's P&C insurers was 65.7% for 2014, compared to 66.8% in 2013, mainly as a result of a lower loss ratio in property insurance and business insurance resulting from favourable weather conditions. The improvement was partly offset by a higher loss ratio in automobile insurance, primarily due to the positive trend in claims in previous years, which was less favourable than in 2013. These expenses were also affected by an increase in the cost of claims resulting from business growth.

Non-interest expense totalled $855 million for 2014, an increase of $89 million, or 11.6%, compared to 2013. Adjusted non-interest expense was $793 million, up $40 million, or 5.3%, compared to 2013. This increase was mainly due to business growth, which had an impact, in particular, on salaries and fees paid.

2.2.4 OTHER CATEGORY

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities related to *Caisse centrale Desjardins's* operations and financial intermediation between liquidity surpluses and needs of the caisses. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole, the operations of *Capital Desjardins inc.* and *Fonds de sécurité Desjardins*, as well as the activities related to asset-backed term notes (ABTN) held by Desjardins Group. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Combined Financial Statements, the intersegment balance eliminations are classified in this category.

Desjardins Group does not consider an item-by-item comparative analysis of the operations in this category to be relevant given the integration of various consolidation adjustments and intersegment balance eliminations. Consequently, Desjardins Group presents an analysis of these operations based on their contribution to surplus earnings before member dividends.

TABLE 14 – OTHER CATEGORY
For the year ended December 31

(in millions of dollars)	**2014**	2013[1]	2012[1]
Treasury activities	**$ 132**	$ 101	$ 104
Fonds de sécurité Desjardins operations	**75**	59	68
Activities related to asset-backed term notes	**50**	78	159
Activities related to derivatives associated with hedging activities	**24**	(45)	(13)
Other[2]	**(167)**	(73)	(58)
Net surplus earnings for the year	**$ 114**	$ 120	$ 260
Of which:			
Group's share	**$ 111**	$ 118	$ 256
Non-controlling interests' share	**3**	2	4

(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.
(2) Includes support function activities, various adjustments required to prepare the Combined Financial Statements, and intersegment balance eliminations.

CONTRIBUTION TO SURPLUS EARNINGS

Net surplus earnings for the year arising from operations grouped under the Other category totalled $114 million as at December 31, 2014, compared to $120 million in 2013.

Treasury activities contributed $132 million to surplus earnings, up $31 million, or 30.7%, compared to its contribution in 2013. This increase was due to higher investment income, growth in matching activities and gains on derivatives.

The operations of *Fonds de sécurité Desjardins* resulted in surplus earnings of $75 million in 2014, compared to $59 million in 2013, for an increase of $16 million, or 27.1%, resulting from gains on disposal of available-for-sale securities, which were higher in 2014 than in 2013.

Surplus earnings arising from activities related to asset-backed term notes amounted to $50 million for 2014, down $28 million, or 35.9%, compared to 2013, as a result of an increase in the fair value of the ABTN portfolio, net of hedging positions, which was lower in 2014 than in 2013.

Activities related to derivatives associated with hedging activities contributed surplus earnings of $24 million for 2014, compared to a negative contribution of $45 million in 2013. This was mainly due to an increase in the ineffective portion of the hedge for swaps, an adjustment in 2013 of the future tax rate on derivatives, and a decrease in the rate on swaps, which in turn pushed up their fair value in 2014.

Other activities, which include support function activities, various adjustments required to prepare the Combined Financial Statements, and intersegment balance eliminations, were affected in 2014 by expenses related to the implementation of Desjardins-wide strategic projects.

2.3 ANALYSIS OF FOURTH QUARTER RESULTS AND QUATERLY TRENDS

TABLE 15 – QUARTERLY RESULTS FOR THE PREVIOUS EIGHT QUARTERS

(unaudited, in millions of dollars and as a percentage)	2014				2013[1]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	$ 1,021	$ 1,013	$ 981	$ 961	$ 978	$ 981	$ 958	$ 940
Net premiums	1,480	1,496	1,499	1,441	1,515	1,380	1,340	1,323
Other operating income								
Deposit and payment service charges	127	128	123	120	131	129	122	116
Lending fees and credit card service revenues	157	147	146	147	144	136	135	134
Brokerage and investment fund services	239	252	250	229	220	220	222	193
Management and custodial service fees	95	88	84	81	78	75	75	72
Foreign exchange income	22	24	16	22	15	15	16	15
Other	84	52	58	71	78	58	71	66
Operating income	3,225	3,200	3,157	3,072	3,159	2,994	2,939	2,859
Investment income								
Net income (loss) on securities at fair value through profit or loss	686	288	474	557	11	(63)	(619)	4
Net income on available-for-sale securities	83	36	119	105	69	23	66	63
Net other investment income	36	71	72	54	51	49	64	65
Investment income (loss)	805	395	665	716	131	9	(489)	132
Total income	4,030	3,595	3,822	3,788	3,290	3,003	2,450	2,991
Provision for credit losses	68	109	80	94	73	76	68	60
Claims, benefits, annuities and changes in insurance contract liabilities	1,760	1,369	1,573	1,601	1,050	893	395	921
Non-interest expense	1,745	1,582	1,619	1,608	1,695	1,473	1,533	1,528
Income taxes on surplus earnings	103	126	104	101	121	147	67	104
Surplus earnings before member dividends	354	409	446	384	351	414	387	378
Member dividends, net of income tax recovery	5	49	51	55	42	37	20	27
Net Surplus earnings for the period after member dividends	$ 349	$ 360	$ 395	$ 329	$ 309	$ 377	$ 367	$ 351
Of which:								
Group's share	$ 326	$ 348	$ 381	$ 321	$ 322	$ 367	$ 352	$ 343
Non-controlling interests' share	23	12	14	8	(13)	10	15	8
Contribution to combined surplus earnings by business segment								
Personal Services and Business and Instutional Services	$ 251	$ 232	$ 211	$ 194	$ 201	$ 241	$ 198	$ 169
Wealth Management and Life and Health Insurance	94	80	134	103	77	94	92	126
Property and Casualty Insurance	31	67	61	21	90	51	47	24
Other	(22)	30	40	66	(17)	28	50	59
	$ 354	$ 409	$ 446	$ 384	$ 351	$ 414	$ 387	$ 378
Total assets	$ 229,387	$ 226,897	$ 221,501	$ 222,918	$ 212,005	$ 210,048	$ 204,751	$ 201,633
Indicators								
Return on equity	7.2%	8.8%	9.9%	9.0%	8.6%	9.7%	9.4%	9.8%
Tier 1a capital ratio	15.7	15.3	15.5	15.7	15.7	16.4	16.4	16.0
Total capital ratio	17.9	17.6	17.8	18.1	18.4	19.2	19.2	18.9

[1] Data for 2013 have been reclassified to reflect the current year's presentation.

FOURTH QUARTER COMBINED RESULTS

For the fourth quarter ended December 31, 2014, Desjardins Group posted surplus earnings before member dividends of $354 million, which is stable, compared to the corresponding quarter in 2013.

These results reflect the contribution of $251 million to surplus earnings made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $94 million and $31 million, respectively. The operations grouped under the Other category reported a deficit of $22 million.

Return on equity was 7.2%, compared to 8.6% for the corresponding quarter of 2013. This decline was due to the significant investments made as part of the acquisition of the Canadian businesses of State Farm, the implementation of Desjardins-wide strategic projects and the increase in average equity following the recent issuances of capital shares by the Federation.

Operating income

Operating income stood at $3,225 million, up $66 million, or 2.1%, compared to the fourth quarter of 2013.

Net interest income was $1,021 million, compared to $978 million for the same period in the previous year, an increase of $43 million, or 4.4%, as a result of growth in the entire loan portfolio, amounting to $9.9 billion, or 7.1%, during the year. However, fierce competition in the market compressed margins and limited the rise in net interest income.

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, were down $35 million, or 2.3%, to total $1,480 million.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted income from net insurance and annuity premiums of $957 million for the fourth quarter of 2014, compared to $1,028 million for the same period in 2013, down 6.9% primarily as a result of the $113 million decrease in annuity premiums, on account of the signing of major new contracts in the corresponding quarter of 2013. Net insurance premiums were up 4.9% to total $891 million. In Quebec, net insurance premiums grew by 4.3%, while in the rest of Canada, they were up by 6.4%, especially as a result of group insurance operations, which grew by $35 million. Premiums for group insurance purchased by Desjardins Group members increased by 4.0%, while group insurance premiums from other client bases were up 5.2%.

The Property and Casualty Insurance segment's operations generated net premium income of $584 million for the fourth quarter of 2014, compared to $545 million for the same period in 2013, a 7.2% increase attributable to the growing number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income totalled $724 million, up $58 million, or 8.7%, compared to the corresponding quarter in 2013, partly because of a higher volume of assets under management from the sale of various products, growth in credit card and point-of-sale financing activities and increased capital market operations. This increase was partially offset by a decrease in income from certain programs.

Investment income

Compared to the fourth quarter of 2013, investment income was up $674 million. This increase was mostly due to changes in the fair value of the bond portfolio and the derivative financial instrument portfolio stemming largely from fluctuations in medium- and long-term interest rates. Because of the change in the fair value of assets backing liabilities related to life and health insurance operations, this increase was partly offset by the change in actuarial liabilities that in turn led to an increase in the expenses related to claims, benefits, annuities and changes in insurance contract liabilities. In addition, net income on available-for-sale securities was up because gains on the disposal of investments were higher in 2014.

Total income

Total income was $4,030 million, up $740 million, or 22.5%, compared to the same period in 2013.

Provision for credit losses

The provision for credit losses totalled $68 million for the fourth quarter of 2014, comparable to the fourth quarter of 2013. Desjardins Group's loan portfolio therefore continued to be of very high quality. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.34% as at December 31, 2014, up slightly from 0.33% recorded for the corresponding quarter of 2013.

Claims, benefits, annuities and changes in insurance contract liabilities

The expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $1,760 million, up $710 million, or 67.6%, from the same quarter in 2013.

The Wealth Management and Life and Health Insurance segment recorded expenses of $1,380 million, an increase of $619 million compared to the fourth quarter of 2013. This change primarily resulted from a $569 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of the increase of $686 million in the fair value of investments. However, the $99 million decrease in group annuity premiums for the quarter contributed to a decrease in actuarial liabilities. These expenses were also affected by an increase in benefits resulting from business growth.

The expenses for the Property and Casualty Insurance segment totalled $384 million for the fourth quarter, up $92 million, or 31.5%, compared to the fourth quarter of 2013. The loss ratio for the P&C insurers was 63.9% for the fourth quarter of 2014, compared to 54.3% for the corresponding quarter in 2013. Developments in automobile insurance claims in previous years were not as favourable as those for the fourth quarter in 2013. In addition, severe weather conditions had a significant unfavourable impact on the automobile insurance loss ratio. These expenses were also affected by an increase in the cost of claims resulting from business growth.

Non-interest expense

Non-interest expense was $1,745 million, up $50 million, or 2.9%, compared to the fourth quarter of 2013, chiefly due to the amounts incurred under Desjardins-wide strategic projects. It was also affected by business growth, which led to an increase in the average number of resources and in fees, and by annual salary indexing.

The productivity index rose to 76.9% for the fourth quarter, compared to 75.7% for the same quarter a year earlier. This change was basically due to the numerous projects underway which caused non-interest income to rise, as mentioned above. In addition, the significant efforts made by the caisse network to enhance productivity and tight control of non-interest expense in a sustained business growth environment mitigated the impact of these investments on the productivity ratio.

SEGMENT RESULTS FOR THE FOURTH QUARTER

Personal Services and Business and Institutional Services

The Personal Services and Business and Institutional Services segment recorded surplus earnings of $251 million before member dividends for the fourth quarter of 2014, up $50 million, or 24.9%, compared to the same period in 2013. Business growth, which pushed up income, as well as the Desjardins caisse network's efforts to enhance productivity mainly accounted for the higher surplus earnings.

Operating income totalled $1,495 million, up $88 million, or 6.3%. It was affected by a $40 million, or 4.3%, increase in net interest income, as a result of growth in the overall loan portfolio, amounting to $10.1 billion, or 7.3%, during the year.

Other operating income was up $48 million, or 10.1%, compared to the same period in 2013, to total $521 million, primarily because of an increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as Desjardins Funds, as well as growth in credit card and point-of-sale financing activities and increased capital market operations. However, other operating income was partially offset by a decrease in income from certain programs.

Investment income was down $36 million, for a loss of $13 million as at December 31, 2014, compared to income of $23 million recorded as at December 31, 2013. This difference was mostly attributable to lower trading income from Business and Institutional Services.

Total income was $1,482 million, up $52 million, or 3.6%, compared to the fourth quarter of 2013.

The provision for credit losses totalled $68 million for the fourth quarter of 2014, comparable to the corresponding period in 2013. The Personal Services and Business and Institutional Services segment's loan portfolio therefore continued to be of very high quality. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.34% as at December 31, 2014, up slightly from 0.33% for the corresponding quarter of 2013.

Non-interest expense was $1,087 million, down $19 million, or 1.7%, compared to the same period in 2013, as a result of efforts made by the caisse network to enhance productivity and of a decrease in expenses related to certain programs. The decrease in non-interest expense was partially offset by business growth, especially of credit card and point-of-sale financing activities, as well as annual salary indexing.

Wealth Management and Life and Health Insurance

For the fourth quarter of 2014, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of $94 million, up $17 million, or 22.1%, compared to the corresponding period in 2013, largely due to the change in the fair value of financial instruments related to the interest held in Qtrade Canada Inc., which had adversely affected results for 2013.

Operating income stood at $1,253 million, down $50 million, or 3.8%, compared to the same period in 2013. Insurance premiums, up $42 million, and annuity premiums, down $113 million, totalled $957 million, on account of the signing of major new contracts in the corresponding quarter of 2013. Net insurance premiums grew by 4.9% to total $891 million. In Quebec, they were up 4.3%, while in the rest of Canada, they were up 6.4%, especially as a result of group insurance operations, which grew by $35 million. Premiums for group insurance purchased by Desjardins Group members increased by 4.0% and group insurance premiums from other client bases were up 5.2%.

Other operating income was up $22 million, or 8.0%, to total $296 million for the fourth quarter, mainly because of growth in assets under management from the sale of various products.

Investment income was up $710 million primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This increase was offset by the change in actuarial liabilities, leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were mostly due to changes in the fair value of the bond portfolio and the derivative financial instruments portfolio stemming largely from fluctuations in medium- and long-term interest rates. Furthermore, 2013 was affected by a negative change in the fair value of financial instruments related to the interest held in Qtrade Canada Inc.

Total income was $1,989 million, for a $660 million, or 49.7%, increase, compared to the corresponding quarter in 2013.

The expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $1,380 million, up $619 million, or 81.3%, compared to 2013. This change was mainly the result of a $569 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes an increase of $686 million in the fair value of investments. However, the decrease of $99 million in group annuity premiums during the quarter contributed to a drop in actuarial liabilities. These costs were also affected by an increase in benefits resulting from business growth.

Non-interest expense totalled $496 million for the fourth quarter of 2014, up $25 million, or 5.3%, compared to the same period in 2013. This rise was mainly due to higher remuneration paid to caisses as a result of growth of $3.8 billion, or 21.4%, in average outstanding Desjardins Funds in 2014, compared to the corresponding quarter in 2013, as well the higher expenses related to business growth in insurance and individual savings.

Property and Casualty Insurance

The Property and Casualty Insurance segment recorded net surplus earnings of $31 million for the fourth quarter of 2014, a decrease of $59 million, or 65.6%, compared to the corresponding quarter in 2013. Adjusted net surplus earnings totalled $46 million, down $51 million, or 52.6%, compared to the corresponding quarter in 2013. This decrease was mainly due to a less favourable loss ratio than for the corresponding period in 2013, as well as lower investment income.

Operating income totalled $636 million, up $41 million, or 6.9%, due to growth of $39 million, or 7.2%, in net premiums because of the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income was up $3 million to total $52 million, a comparable amount to that of the fourth quarter of 2013.

Investment income was down $6 million compared to the same period in 2013, mainly due to investment losses recognized in profit or loss as a result of the stock markets' dismal performance, while gains had been realized in the corresponding period in 2013.

Total income was $663 million for the fourth quarter of 2014, up $35 million, or 5.6%, compared to the same period in 2013.

The expenses related to claims for the Property and Casualty Insurance segment totalled $384 million for the fourth quarter, up $92 million, or 31.5%, compared to the fourth quarter of 2013. The loss ratio for P&C insurers was 63.9% for the fourth quarter of 2014, compared to 54.3% for the corresponding quarter in 2013. Developments in automobile insurance claims in previous years were not as favourable as those for the fourth quarter of 2013. In addition, severe weather conditions had a significant unfavourable impact on the automobile insurance loss ratio. These expenses were also affected by an increase in the cost of claims resulting from business growth.

Non-interest expense was $224 million for the fourth quarter of 2014, which was comparable to the same quarter of the previous year. Adjusted non-interest expense was $206 million and also remained stable compared to the corresponding quarter in 2013.

Other category

The net deficit for the fourth quarter of 2014, arising from operations grouped under the Other category, totalled $22 million as at December 31, 2014, compared to a deficit of $17 million in 2013.

Surplus earnings from treasury activities remained stable, with a contribution of $28 million to surplus earnings in 2014.

The operations of *Fonds de sécurité Desjardins* contributed $25 million to surplus earnings for the fourth quarter of 2014, up $10 million, or 66.7%, compared to $15 million for the corresponding quarter in 2013. This increase resulted from gains on disposal of available-for-sale securities that were higher in the fourth quarter of 2014 than in the corresponding quarter of 2013.

Surplus earnings arising from activities related to asset-backed term notes totalled $8 million for the fourth quarter of 2014, down $11 million, or 57.9%, compared to $19 million for the corresponding quarter in 2013. This decrease was mainly attributable to a lower increase in the fair value of the ABTN portfolio, net of hedging positions, in 2014 than in 2013.

Surplus earnings from derivatives associated with hedging activities amounted to $9 million for 2014, compared to a negative contribution of $29 million in 2013. This resulted mainly from an adjustment in 2013 of the future income tax rate on derivatives as well as an increase in amortization related to terminate hedges.

Other activities, which include support function activities, various adjustments required to prepare the Combined Financial Statements, and intersegment balance eliminations, were affected in the fourth quarter of 2014 by expenses related to the implementation of Desjardins-wide strategic projects.

QUARTERLY TRENDS

Quarterly income, expenses and surplus earnings before member dividends are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the capital markets. Results for the most recent eight quarters of Desjardins Group were therefore affected by developments in the global, U.S., Canadian and Quebec economies. With 2.4% growth in Canadian real GDP compared to 2.0% in 2013, and 1.5% versus 1.0 % in Quebec, the results for Desjardins Group's past eight quarters benefited from growth in the GDP, which accelerated during 2014. The past eight quarters were also affected by the low interest rate environment that prevailed in 2013 and 2014.

Combined surplus earnings

During the past eight quarters, the trend in surplus earnings before member dividends has been maintained. However, it was affected by a decrease in the third quarter of 2014, which was largely attributable to the significant investments made to acquire the Canadian businesses of State Farm and the implementation of Desjardins-wide strategic projects. The decrease in growth of surplus earnings before member dividends in the third quarter of 2014 can also be attributed to a decline in surplus earnings contributed by the Wealth Management and Life and Health Insurance segment, while the decline in the fourth quarter of 2014 was the result of a decrease in surplus earnings contributed by the Property and Casualty Insurance segment.

Surplus earnings from business segments

The Personal Services and Business and Institutional Services segment recorded an increase in surplus earnings before member dividends over the past eight quarters. This increase is mainly due to business growth, the caisse network's efforts to enhance productivity and tight control of non-interest expense. Net interest income continued to be affected by competition in the market, which compressed margins, but this was partially offset by growth in the loan portfolio.

The surplus earnings before member dividends from the Wealth Management and Life and Health Insurance segment's operations fluctuated during the past eight quarters. There was a downward trend during the four quarters of 2013, and then an increase in the first and second quarters of 2014. This trend was due to a number of factors, including fluctuations in the loss experience related to life and health insurance operations, changes in actuarial assumptions, and return on investments.

The surplus earnings before member dividends from the Property and Casualty Insurance segment's operations would have been maintained over the past eight quarters had it not been for the acquisition expenses of the Canadian businesses of State Farm.

Combined results

Operating income has trended upward over the past eight quarters. As a result of growth in operations, Desjardins Group's income has increased, in particular premium income, income from credit card and point-of-financing activities, and income related to assets under management. The acquisition of an interest in Qtrade Canada Inc. in the second quarter of 2013 and the acquisitions made by Western Financial Group Inc. pushed up brokerage income and commission income.

The volatility of investment income was due mainly to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. Owing to a matching strategy, these fluctuations were offset by a change in actuarial liabilities that in turn was reflected in the expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

The provision for credit losses has been trending up for the past eight quarters as a result of growth in the loan portfolio, including credit card loans, leading to higher individual and collective allowances. In spite of this increase, Desjardins Group's loan portfolio has always been of very high quality. In fact, the ratio of gross impaired loans, as a percentage of the total gross loan portfolio, remained stable over the period, even recording a slight improvement.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities experienced quarterly fluctuations and recorded an upward trend. They were mainly affected by the change in the fair value of investments related to life and health insurance operations, which had a significant impact in the second quarter of 2013, and by the change in P&C insurance loss ratios. Lastly, the increase in the cost of claims resulting from higher business volumes also added to these expenses.

Non-interest expense increased over the past eight quarters. Despite tight controls, upward pressure was exerted by business growth, expenses incurred to acquire the Canadian businesses of State Farm and the implementation of Desjardins-wide strategic projects.

3.0 BALANCE SHEET REVIEW

3.1 BALANCE SHEET MANAGEMENT

TABLE 16 – COMBINED BALANCE SHEETS
As at December 31

(in millions of dollars and as a percentage)	**2014**		2013		2012	
Assets						
Cash and deposits with financial institutions	**$ 1,781**	**0.8%**	$ 1,320	0.6%	$ 1,669	0.8%
Securities	**44,735**	**19.5**	42,577	20.1	40,312	20.5
Securities borrowed or purchased under reverse repurchase agreements	**9,959**	**4.3**	7,710	3.6	4,377	2.2
Net loans	**150,454**	**65.6**	140,533	66.4	132,576	67.4
Segregated fund net assets	**8,695**	**3.8**	7,252	3.4	6,066	3.1
Other assets	**13,763**	**6.0**	12,613	5.9	11,818	6.0
Total assets	**$ 229,387**	**100.0%**	$ 212,005	100.0%	$ 196,818	100.0%
Liabilities and equity						
Deposits	**$ 146,324**	**63.8%**	$ 136,746	64.6%	$ 129,624	65.8%
Other liabilities	**61,606**	**26.9**	54,964	25.9	48,654	24.7
Subordinated notes	**2,564**	**1.1**	3,063	1.4	3,081	1.6
Equity	**18,893**	**8.2**	17,232	8.1	15,459	7.9
Total liabilities and equity	**$ 229,387**	**100.0%**	$ 212,005	100.0%	$ 196,818	100.0%

TOTAL ASSETS

As at December 31, 2014, Desjardins Group's total assets stood at $229.4 billion, up by $17.4 billion, or 8.2%, over the year, compared to growth of $15.2 billion, or 7.7%, for 2013. This rise was mainly the result of an increase in net loans, which were up $9.9 million, or 7.1%, since the beginning of the year, and was supported by growth in deposits, which were up $9.6 million, or 7.0%, over the year.

CASH, DEPOSITS WITH FINANCIAL INSTITUTIONS AND SECURITIES

As at December 31, 2014, Desjardins Group's cash and deposits with financial institutions amounted to $1.8 billion, an increase of $461 million, or 34.9%, compared to a decrease of $349 million, or 20.9%, in 2013. Securities, including securities borrowed or purchased under reverse repurchase agreements, were up $4.4 billion, or 8.8%, to total $54.7 billion as at December 31, 2014, compared to an increase of $5.6 billion, or 12.5%, during 2013.

LOANS

As at December 31, 2014, Desjardins Group's outstanding loan portfolio, net of the allowance for credit losses, was $150.5 billion, an increase of $9.9 billion, or 7.1%, compared to growth of $8.0 billion, or 6.0%, during 2013. This increase was primarily due to residential mortgages, which accounted for 64.6% of the portfolio as at December 31, 2014.

TABLE 17 – LOANS BY BORROWER CATEGORY
As at December 31

(in millions of dollars and as a percentage)	**2014**		2013		2012	
Residential mortgages	**$ 97,512**	**64.6 %**	$ 91,389	64.8 %	$ 85,931	64.6 %
Consumer, credit card and other personal loans	**20,495**	**13.6**	19,549	13.9	18,520	13.9
Business	**31,271**	**20.7**	28,371	20.1	26,869	20.2
Government	**1,632**	**1.1**	1,642	1.2	1,675	1.3
	150,910	**100.0 %**	140,951	100.0 %	132,995	100.0 %
Allowance for credit losses	**(456)**		(418)		(419)	
Total loans by borrower category	**$ 150,454**		$ 140,533		$ 132,576	
Loans guaranteed and/or insured(1)	**$ 44,238**		$ 45,050		$ 45,954	
Loans guaranteed and/or insured(1) as a percentage of total gross loans	**29.3%**		32.0%		34.6%	
Residential mortgages and consumer, credit card and other personal loans as a percentage of total gross loans	**78.2**		78.7		78.5	

(1) Loans that include a complete or partial guarantee or insurance from a public or private insurer or a government.

Residential mortgages

Outstanding residential mortgages recorded growth of $6.1 billion, or 6.7%, to total $97.5 billion as at December 31, 2014, compared to an increase of $5.5 billion, or 6.4%, during 2013. This growth was due, among other things, to the improved housing market in Quebec, where housing starts were up slightly and resales of existing homes remained stable.

Desjardins Group is still the leading residential mortgage lender in Quebec, with a market share estimated at 36.1% as at December 31, 2014. The reputation it has forged over the years in residential mortgage financing, combined with the quality and diversity of its mortgage products and its extensive distribution network, have made it a leading industry player.

Consumer, credit card and other personal loans

As at December 31, 2014, Desjardins Group's outstanding consumer, credit card and other personal loans amounted to $20.5 billion, an increase of $946 million, or 4.8%, compared to growth of $1.0 billion, or 5.6%, as at December 31, 2013. The amount outstanding at Card and Payment Services experienced solid growth as a result of automobile and point-of-sale financing. Desjardins Group's share of this market in Quebec was estimated at 23.5% as at December 31, 2014.

Guaranteed and/or insured consumer, credit card and other personal loans, including student loans and loans under the Immigrant Investor Program, totalled $3,992 million as at December 31, 2014, compared to $3,939 million a year earlier.

Business loans

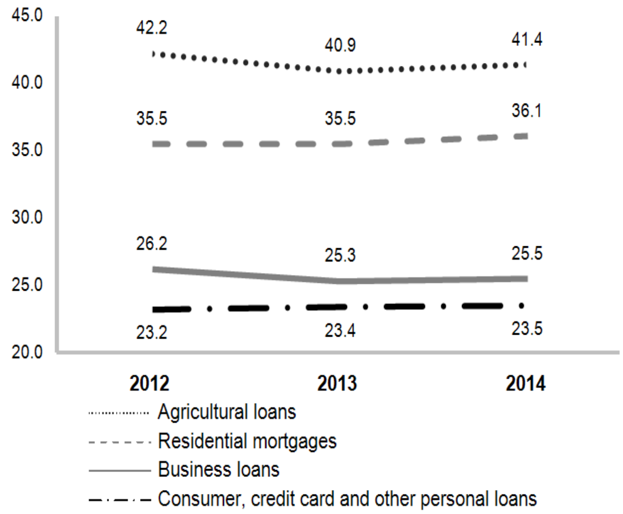
As at December 31, 2014, Desjardins Group's outstanding business loans, which mainly comprise commercial and industrial loans, totalled $31.3 billion, an increase of $2.9 billion, or 10.2%, compared to growth of $1.5 billion, or 5.6%, as at December 31, 2013. In spite of less favourable conditions, due in part to a reduction in non-residential investment in Quebec and Ontario, Desjardins Group was able to meet the development project requirements of a good number of businesses. Desjardins Group, with a share of the business loan market estimated at 25.5% as at December 31, 2014, is one of the leaders in this market in Quebec.

Agricultural loans, which are included in Desjardins Group's business loan portfolio, amounted to $6.2 billion as at December 31, 2014, a $446 million, or 7.8%, increase, compared to growth of $226 million, or 4.1%, during 2013. In this sector, Desjardins Group is the most prominent financial institution throughout Quebec, with a market share estimated at 41.4% as at December 31, 2014.

Government loans

As at December 31, 2014, Desjardins Group's outstanding government loans, mainly loans to municipalities, stood at $1.6 billion, down by $10 million, or 0.6%, compared to a decrease of $33 million, or 2.0%, as at December 31, 2013. It should be noted that a large proportion of this credit category is in the form of lines of credit that fluctuate significantly, based on government financing needs.

QUEBEC MARKET SHARE
FINANCING ACTIVITIES
(as a percentage)



CREDIT QUALITY

Desjardins Group's loan portfolio continued to be of very high quality. As at December 31, 2014, gross impaired loans outstanding stood at $511 million, up $52 million since December 31, 2013. The gross impaired loans ratio, as a percentage of the total gross loan portfolio, stood at 0.34%, which constitutes a slight increase compared to the ratio of 0.33% at year-end 2013. Desjardins Group continues to have one of the best ratios in the Canadian banking industry.

Desjardins Group's loans guaranteed and/or insured by governments and other public and parapublic institutions represented 29.3% of its total loan portfolio as at December 31, 2014.

Additional information about the quality of Desjardins Group's loan portfolio is presented in section 4.1, "Risk management", on pages 71 and 72 of this MD&A.

DEPOSITS

TABLE 18 – DEPOSITS
As at December 31

(in millions of dollars and as a percentage)	**2014**					2013		2012	
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**		Total		Total	
Individuals	**$ 34,285**	**$ 3,788**	**$ 50,390**	**$ 88,463**	**60.5 %**	$ 86,730	63.4 %	$ 84,415	65.1 %
Business and government	**17,800**	**332**	**38,384**	**56,516**	**38.6**	47,712	34.9	43,033	33.2
Deposit-taking institutions and other	**51**	**-**	**1,294**	**1,345**	**0.9**	2,304	1.7	2,176	1.7
Total deposits	**$ 52,136**	**$ 4,120**	**$ 90,068**	**$ 146,324**	**100.0 %**	$ 136,746	100.0 %	$ 129,624	100.0 %

As at December 31, 2014, Desjardins Group's outstanding deposits totalled $146.3 billion, up by $9.6 billion, or 7.0%, compared to an increase of $7.1 billion, or 5.5%, during 2013. Deposits from individuals, businesses and governments constitute Desjardins Group's main source of financing and represented 99.1% of its outstanding deposit portfolio as at December 31, 2014.

Savings from individuals

Savings from individuals are Desjardins Group's preferred source of financing for its expansion, as demonstrated by their relative proportion in deposit liabilities as at December 31, 2014. Savings from individuals totalled $88.5 billion, up $1.7 billion, or 2.0%, over the year, compared to an increase of $2.3 billion, or 2.7%, as at December 31, 2013. This slightly slower rate of growth was chiefly on account of low interest rates, which make on-balance sheet savings products less attractive, and, above all, the great popularity of off-balance sheet savings products, such as investment funds and other securities, an area in which Desjardins Group turned in an excellent performance in 2014.

Savings payable on a fixed date remained very popular with individual members and clients, representing 57.0% of Desjardins Group's personal savings portfolio as at December 31, 2014. However, the amount outstanding was down $1.6 billion, or 3.0%, to total $50.4 billion at year-end 2014, compared to a decrease of $1.8 billion, or 3.4%, as at December 31, 2013. Savings payable on demand and upon notice, which accounted for 43.0% of deposits made by individuals as at December 31, 2014, totalled $38.1 billion, up by $3.3 billion, or 9.4%, compared to an increase of $4.1 billion, or 13.4%, during 2013.

As at December 31, 2014, Desjardins Group's Quebec market share of on-balance sheet savings from individuals was estimated at 43.0%. Although this type of investment has been less popular with investors in recent years and in spite of increased competition, Desjardins Group remained an industry leader.

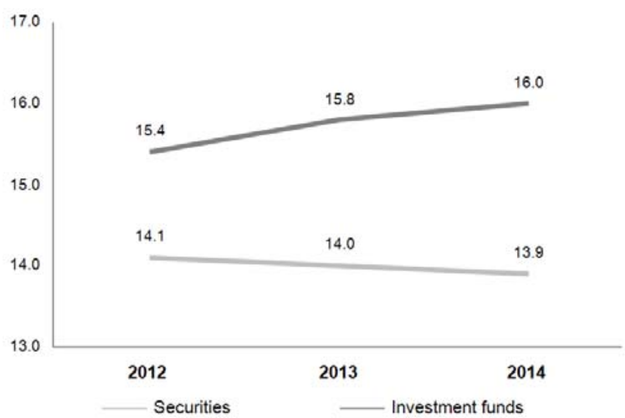
Savings from businesses and governments and from deposit-taking institutions and other sources

As at December 31, 2014, Desjardins Group's outstanding savings from businesses and governments totalled $56.5 billion, an increase of $8.8 billion, or 18.5%, compared to growth of $4.7 billion, or 10.9%, during 2013. The increase was largely a result of the various issuances made by *Caisse centrale Desjardins* on the U.S., Canadian and European markets in 2014. This category of savings accounted for 38.6% of deposit liabilities as at December 31, 2014.

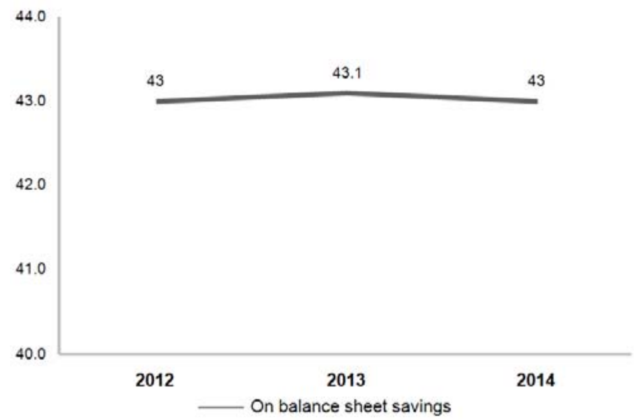
Savings from deposit-taking institutions and other sources, which represented 0.9% of Desjardins Group's deposit liabilities as at December 31, 2014, totalled $1.3 billion, down $959 million, or 41.6%, compared to an increase of $128 million, or 5.9%, during 2013.

Additional information about Desjardins Group's sources of refinancing can be found on pages 77 to 79, while its liquidity risk management policy is discussed on page 75 and 76.

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



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



OTHER LIABILITIES

Other liabilities amounted to $61.6 billion as at December 31, 2014, for an increase of $6.6 billion, or 12.1%. They were primarily comprised of $19.4 billion in insurance contract liabilities, $13.1 billion in commitments related to securities lent or sold under repurchase agreements, $8.7 billion in segregated fund liabilities, as well as $6.3 billion in commitments related to securities sold short.

EQUITY

As at December 31, 2014, equity totalled $18.9 billion, an increase of $1.7 billion, or 9.6% since December 2013. The main sources of this growth were net surplus earnings for the year after member dividends, which totalled $1.4 billion, and the $986 million in capital shares issued by the Federation, net of issuance costs. Note 23, "Capital stock", to the Combined Financial Statements provides additional information about Desjardins Group's capital stock.

3.2 CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of profitability targets, growth objectives, rating agencies' expectations and regulators' requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group.

Desjardins Group advocates prudent management of its capital. Its purpose is to maintain higher regulatory capital ratios than those of the Canadian banking industry and regulatory requirements. As at December 31, 2014, Desjardins Group's Tier 1a and Tier 1 capital ratios, as well as its total capital ratio, were 15.7%, 15.8% and 17.9%, respectively. Desjardins's prudent capital management is reflected in the quality of the credit ratings assigned by the various rating agencies.

The global financial crisis prompted the industry to place more emphasis on sound capitalization of its operations. Now more than ever, rating agencies and the market favour the best-capitalized institutions. These factors argue in favour of a general increase in the level and quality of capital issued by financial institutions. This is also reflected in the enhanced requirements under Basel III implemented on January 1, 2013. It was against this backdrop that Desjardins Group set its target for Tier 1a and Tier 1 capital at 15%.

Desjardins Group's Integrated Capital Management Framework

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

Desjardins Group has developed a stress-testing program aimed at establishing and measuring the effect of various integrated scenarios, i.e. to simulate various economic scenarios for all of its components and to assess their financial and regulatory repercussions. This procedure makes it possible to determine if the minimum capital target, as established in the capitalization plan, is adequate in view of the risks to which Desjardins Group is exposed.

Regulatory framework and internal policies

Desjardins Group's capital management is the responsibility of the Federation's Board of Directors. To support it with this task, it has mandated the Finance and Risk Management Committee to ensure that Desjardins Group has a sufficient and reliable capital base. The Finance Executive Division and Office of the CFO is responsible for preparing, on an annual basis and with the help of Desjardins Group's components, a capitalization plan to forecast capital trends, devise strategies and recommend action plans for achieving capital objectives and targets.

The current situation and the forecasts show that Desjardins Group has a solid capital base that maintains it among the best-capitalized financial institutions.

Desjardins Group's regulatory capital ratios are calculated according to the AMF's guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline). This guideline takes into account the revised framework for international convergence of capital measurement and capital standards (Basel III) issued by the Bank for International Settlements. Additionally, following the transition to the new Basel III requirements, Desjardins Group refined all the procedures and parameters it uses to calculate regulatory capital. In that regard, a more granular segmentation of risk-weighted assets (RWA) led to a reclassification of certain RWA as of the third quarter of 2014. This did not have a significant impact on capital ratios, and prior period data were not restated. The main reclassification was between credit risk related to mortgage exposures and other retail client exposures. Furthermore, reclassification of RWA has an impact on the amount of the transitional threshold adjustment.

Regulatory authorities require that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components, mainly the caisses, the Federation (non-consolidated), *Caisse centrale Desjardins*, *Fonds de sécurité Desjardins*, *Capital Desjardins inc.*, Bank Zag (formerly Bank West Inc.), Desjardins Securities Inc. and Desjardins Trust Inc.

This capital takes into consideration investments made in other Desjardins Group components. Some of these components are subject to separate requirements regarding regulatory capital, liquidity and financing, which are set by regulatory authorities governing banks and securities, in particular. Desjardins Group oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulation.

For the purpose of calculating capital, the insurance subsidiaries are deconsolidated and presented as deductions. The life and health insurance subsidiaries are subject to the capital adequacy guideline issued by the AMF as well as the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline issued by the Office of the Superintendent of Financial Institutions (OSFI) for life insurance companies. The property and casualty insurance subsidiaries must comply with the AMF's capital adequacy guideline as well as the Minimum Capital Test (MCT) Guideline for federally regulated property and casualty insurance companies issued by the OSFI.

Certain Desjardins Group subsidiaries are subject to regulatory requirements from the AMF or other regulators. Most of these subsidiaries must comply with minimum capital requirements that could limit Desjardins Group's ability to assign part of this capital or these funds to other purposes.

Basel III

The Basel III regulatory framework increases capital requirements. Even though the Basel III regulatory framework provides for a transitional period from 2013 to 2019 to mitigate the impact of the new capitalization rules, the AMF required Desjardins Group to meet the Tier 1a capital ratio requirements for 2019 in the first quarter of 2013. For the Tier 1 and total capital ratios, the AMF required Desjardins Group to meet the levels established for 2019 in the first quarter of 2014.

The minimum Tier 1a capital ratio that Desjardins Group must maintain to meet the regulatory requirements of the guideline is 7%. In addition, its Tier 1 capital ratio and its total capital ratio must be above 8.5% and 10.5%, respectively, including a 2.5% capital conservation buffer. The AMF may also set higher targets at its discretion when circumstances warrant.

To this end, the use of the Internal Ratings-Based Approach for credit risk related to retail loan portfolios – Personal is conditional on maintaining a total capital ratio of more than 11.5%, instead of 10.5%, as stated in the guideline.

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI). Effective January 1, 2016, Desjardins Group, as a D-SIFI, will be subject to an additional capital requirement of 1% of its minimum capital ratios. OSFI has also determined that the six largest Canadian financial institutions meet the criteria to be designated D-SIFIs.

In addition, the AMF decided to phase in, effective January 1, 2014, measures and requirements related to the regulatory credit valuation adjustment (CVA) charge, as other countries had already done. This phased-in charge will reach 100% by 2019 for each of the capital ratios presented. In 2014, only 57%, 65% and 77% of the total CVA charge was respectively applied to the Tier 1a and Tier 1 capital ratios as well as the total capital ratio, and will not have a significant impact on Desjardins's capitalization.

The AMF further required that Desjardins Group maintain an assets-to-regulatory capital ratio of under 20 to 1 as at December 31, 2014. This measure allowed Desjardins's overall capital adequacy to be determined against its total assets, including certain off-balance sheet items. With a ratio of 10.8 to 1, Desjardins Group was amply within the limit set by the AMF.

In December 2014, the AMF issued an update to its guideline, with amendments effective January 1, 2015. It specified that the asset/capital ratio was replaced by the new leverage ratio, defined as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet (OBS) items, 2) securities financing transaction (SFT) exposures, 3) derivative exposures, and 4) off-balance sheet items. According to the guideline, the minimum leverage ratio that Desjardins Group must meet is 3%. Desjardins Group has assessed the impact of this change and currently meets the new requirements.

Compliance with requirements

As at December 31, 2014, the Tier 1a, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 15.7%, 15.8% and 17.9%, respectively. Desjardins Group therefore has very good capitalization, with a Tier 1a capital ratio above the 15% target in its 2013-2016 Financial Plan.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at December 31, 2014.

Regulatory capital

The tables below present Desjardins Group's main capital components, capital balances, capital ratios, and movements in capital over the year.

TABLE 19 - MAIN CAPITAL COMPONENTS

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1a	Tier 1b	
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • Federation capital shares • Permanent shares and surplus shares subject to phase-out • Non-controlling interests[1]	• Non-controlling interests[1]	• Eligible collective allowance • Subordinated notes subject to phase-out • Eligible qualifying shares • Non-controlling interests[1]
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance		
Deductions	• Mainly significant investments in financial institutions[2]		• Investment in preferred shares of a component deconsolidated for regulatory capital purposes

(1) The amount of non-controlling interests allocated to the various capital tiers is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(2) Represents the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc.) that exceeds 10% of capital net of regulatory adjustments. When the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted regulatory capital, the surplus is also deducted from tier 1 capital. The non-deducted balance will be subject to risk-weighting at a rate of 250%.

Capital, risk-weighted assets and capital ratios are presented in the tables below.

TABLE 20 - CAPITAL AND CAPITAL RATIOS

(in millions of dollars and as a percentage)	**As at December 31, 2014**	As at December 31, 2013
Tier 1a capital		
Federation capital shares[1]	**$ 2,486**	$ 1,500
Permanent shares and surplus shares subject to phase-out	**1,681**	1,889
Reserves	**11,476**	11,056
Undistributed surplus earnings	**1,436**	1,311
Eligible accumulated other comprehensive income	**470**	326
Deferral attributable to the amendment of IAS 19	**-**	286
Non-controlling interests	**14**	14
Deductions	**(2,300)**	(2,360)
Total Tier 1a capital	**15,263**	14,022
Non-controlling interests	**24**	21
Total Tier 1b capital	**24**	21
Total Tier 1 capital	**15,287**	14,043
Tier 2 capital		
Subordinated notes subject to phase-out	**2,474**	2,783
Eligible collective allowance	**291**	275
Other eligible instruments	**25**	25
Non-controlling interests	**2**	6
Deductions	**(700)**	(700)
Total Tier 2 capital	**2,092**	2,389
Total regulatory capital (Tier 1 and 2)	**$ 17,379**	$ 16,432
Ratios		
Tier 1a capital ratio	**15.7%**	15.7%
Tier 1 capital ratio	**15.8**	15.7
Total capital ratio	**17.9**	18.4

(1) Including capital shares held in a segregated fund.

The amendments to IAS 19, "Employee Benefits", concerning accounting for defined benefit pension plans specify in particular that the use of the "corridor approach" is no longer allowed and that all actuarial gains and losses must now be recognized when they occur. Moreover, it is no longer permitted to amortize past service costs, which will accelerate their recognition. At the same time, the revised IAS 19 allows risk-sharing features to be taken into account. The total negative impact of these amendments on the Tier 1a capital ratio would have been 74 basis points as at January 1, 2013. However, the initial negative impact has been deferred and amortized on a straight-line basis over the period from January 1, 2013 to December 31, 2014 because Desjardins Group elected to use the transitional provision stipulated by the AMF for that purpose.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013. However, in accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began on January 1, 2013. These instruments include permanent shares and surplus shares issued before September 12, 2010, which total $2.1 billion.

In addition, the subordinated notes issued by *Capital Desjardins inc.* are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group does not plan to issue any financial instruments of this type until these requirements have been further clarified.

In 2014, the Federation issued capital shares totalling $986 million, net of issuance costs, compared to $475 million for the same period in 2013. In addition, on December 19, 2014, the Federation filed a new prospectus to issue additional shares totalling $1.0 billion. This new issuance started on January 14, 2015.

Moreover, on April 1, 2014, *Capital Desjardins inc.* called all Series E senior notes for early redemption, in the amount of $500 million.

In 2014, growth in surplus earnings and reserves, as well as the issuance of capital shares helped to raise the Tier 1a capital ratio. Conversely, the increase in RWA and the quarterly remeasurement of defined benefit plan liabilities resulted in a decline in this ratio.

TABLE 21 - CHANGE IN REGULATORY CAPITAL

(in millions of dollars)	As at December 31, 2014
Tier 1a capital	
Balance at beginning of year	$ 14,022
Increase in reserves and undistributed surplus earnings[(1)]	545
Amortization of the amendments to IAS 19	(286)
Eligible accumulated other comprehensive income	144
Federation capital shares	986
Permanent shares and surplus shares subject to phase-out	(208)
Deductions	60
Balance at end of year	15,263
Tier 1b capital	
Balance at beginning of year	21
Non-controlling interests	3
Balance at end of year	24
Total Tier 1 capital	15,287
Tier 2 capital	
Balance at beginning of year	2,389
Non-controlling interests	(4)
Senior notes subject to phase-out	(309)
Eligible collective allowance	16
Balance at end of year	2,092
Total capital	$ 17,379

(1) Amount including the change in defined benefit plan liabilities.

Risk-weighted assets

In compliance with Basel III requirements, Desjardins Group calculated the risk-weighted assets for credit risk, market risk and operational risk. Since March 2009, Desjardins has been using the Internal Ratings-Based Approach for credit risk related to retail loan portfolios − Individuals. Other exposures to credit and market risk are measured according to the Standardized Approach, while operational risk is calculated based on the Basic Indicator Approach. In addition, Desjardins Group is subject to a threshold defined under Basel I, where the threshold is determined by the difference between the minimum regulatory capital requirement in accordance with the rules of the last version of the AMF guideline based on Basel I and the minimum regulatory capital requirement calculated under Basel III.

As indicated in the table below, risk-weighted assets totalled $96.9 billion at December 31, 2014. Of this amount, $68.6 billion was for credit risk, $5.5 billion for market risk, $12.7 billion for operational risk, and lastly, $10.4 billion was for threshold adjustment. As at December 31, 2013, risk-weighted assets stood at $89.5 billion.

TABLE 22 - RISK-WEIGHTED ASSETS[1]

(in millions of dollars and as a percentage)	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2014			Total as at December 31, 2013
	Exposure[2]	Risk-weighted assets	Exposure[2]	Risk-weighted assets	Exposure[2]	Risk-weighted assets	Average risk weighting rate	Risk-weighted assets
Credit risk								
Sovereign borrowers	$ -	$ -	$ 15,369	$ 2	$ 15,369	$ 2	- %	$ -
Financial institutions	-	-	7,987	1,691	7,987	1,691	21	1,581
Businesses	-	-	44,431	34,789	44,431	34,789	78	34,429
SMEs similar to other retail client exposures exposures	-	-	5,518	3,367	5,518	3,367	61	2,346
Mortgages	85,598	6,738	161	61	85,759	6,799	8	4,756
Other retail client exposures (excluding SMEs)	7,394	2,423	133	100	7,527	2,523	34	4,418
Qualifying revolving retail client renewable exposures	32,563	7,971	-	-	32,563	7,971	24	7,452
Securitization	-	-	2,860	1,081	2,860	1,081	38	3,726
Equities	-	-	133	133	133	133	100	285
Trading portfolio	-	-	1,224	424	1,224	424	35	279
Other assets[3]	-	-	-	-	13,175	8,817	67	8,289
Scaling factor[4]	-	1,028	-	-	-	1,028	-	987
Total credit risk	125,555	18,160	77,816	41,648	216,546	68,625	32	68,548
Market risk								
Interest rate position risk	-	-	-	5,288	-	5,288	-	2,442
Currency risk	-	-	-	129	-	129	-	123
Additional requirements for other risks[5]	-	-	-	69	-	69	-	83
Total market risk	-	-	-	5,486	-	5,486	-	2,648
Operational risk[6]	-	-	-	-	-	12,702	-	12,282
Total risk-weighted assets before threshold	125,555	18,160	77,816	47,134	216,546	86,813	- %	83,478
Risk-weighted assets (RWA) after the transitional provisions for the credit valuation adjustment charge[7]								
RWA for Tier 1a capital	-	-	-	-	-	86,483		-
RWA for Tier 1 capital	-	-	-	-	-	86,545		-
RWA for total capital	-	-	-	-	-	86,637		-
Transitional threshold adjustment[8]	-	-	-	-	-	10,440		6,029
Total risk-weighted assets	$ 125,555	$ 18,160	$ 77,816	$ 47,134	$ 216,546	$ 96,923		$ 89,507

(1) Risk-weighted assets have been reclassified in exposures at default e as of the third quarter of 2014. Prior-period data were not restated.
(2) Net exposure, after credit risk mitigation (net of specific allowances under the Standardized Approach but not under the Internal Ratings-Based Approach in accordance with the AMF guideline).
(3) Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain level in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc.), the investments portion below a certain level in associates as well as the portion of other deferred tax assets below a certain level. These three items are weighted at 250% and the deducted portion (above a certain level) is weighted at 0%. This class includes the credit valuation adjustment (CVA) charge and additional requirements related to the banking and trading portfolio, which are disclosed in the counterparty credit risk section.
(4) The scaling factor is a 6.0% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.
(5) Other risks include equities risk, commodities risk and options risk.
(6) The Basic Indicator Approach was used to assess operational risk.
(7) The scaling factors used since January 1, 2014 to account for the requirements for the regulatory CVA charge and calculate the Tier 1a, Tier 1 and total capital ratios are 57%, 65% and 77%, respectively.
(8) As prescribed in Section 1.6 of the AMF guideline. In 2014, this threshold was presented to take into account risk-weighted assets after the transitional provisions for the CVA for Tier 1a capital.

Movements in risk-weighted assets

The table below shows the movements in RWA from December 31, 2013 to December 31, 2014 with regard to credit risk, market risk and operational risk. As mentioned earlier, following the transition to the new Basel III requirements, Desjardins Group carried out work to refine all its procedures, which has led to a more granular segmentation of RWA. The analysis of movements in RWA since the third quarter of 2014 is presented with greater accuracy.

For credit risk, movements in RWA are presented as two separate items, namely credit risk, and then counterparty and issuer risk. In credit risk, the main fluctuations were due to changes in the portfolio's size, resulting in a $4.4 billion increase, and the updating of models that include changes in credit risk parameters, which caused RWA to decrease by $2.7 billion.

In counterparty and issuer risk, changes in procedures and policies played an important role, resulting in a $2.7 million decrease in RWA.

In market risk, changes in the level of risk resulted in a $2.8 billion increase, and small changes were also noted for operational risk due to fluctuations in income generated.

The threshold adjustment as defined in the previous section increased by $4.4 billion during the year, primarily as a result of changes in the portfolio's size, resulting in a $2.1 billion decrease, as well as changes in models and in procedures and policies, which caused a total increase of $6.7 billion.

TABLE 23 – CHANGE IN RISK-WEIGHTED ASSETS
As at December 31

(in millions of dollars)	**2014**			2013		
	Credit risk other than counterparty and issuer risk	**Counterparty and issuer risk**	**Total**	Credit risk other than counterparty and issuer risk	Counterparty and issuer risk	Total
Credit risk						
Risk-weighted assets at beginning of the year	**$ 63,592**	**$ 4,956**	**$ 68,548**	$ 54,934	$ 2,308	$ 57,242
Size of portfolio[1]	**4,362**	**881**	**5,243**	10,253	2,644	12,897
Quality of portfolio[2]	**1,425**	**(162)**	**1,263**	(1,167)	2	(1,165)
Updating of models[3]	**(2,725)**	**-**	**(2,725)**	(429)	-	(429)
Procedures and policies[4]	**(1,129)**	**(2,654)**	**(3,783)**	-	-	-
Acquisitions and transfers	**-**	**-**	**-**	-	-	-
Change in exchange rates	**113**	**4**	**117**	-	-	-
Other	**(1)**	**(37)**	**(38)**	1	2	3
Total changes in risk-weighted assets	**2,045**	**(1,968)**	**77**	8,658	2,648	11,306
Risk-weighted assets at end of year	**$ 65,637**	**$ 2,988**	**$ 68,625**	$ 63,592	$ 4,956	$ 68,548

(in millions of dollars)	**2014**	2013
Market risk		
Risk-weighted assets at beginning of the year	**$ 2,648**	$ 1,644
Change in risk level[5]	**2,838**	1,004
Updating of models[3]	**-**	-
Procedures and policies[4]	**-**	-
Acquisitions and transfers	**-**	-
Change in exchange rates	**-**	-
Other	**-**	-
Total changes in risk-weighted assets	**2,838**	1,004
Risk-weighted assets at end of year	**$ 5,486**	$ 2,648
Operational risk		
Risk-weighted assets at beginning of the year	**$ 12,282**	$ 11,884
Revenue generated	**420**	398
Acquisitions and transfers	**-**	-
Total changes in risk-weighted assets	**420**	398
Risk-weighted assets at end of year	**$ 12,702**	$ 12,282
Transitional threshold adjustment		
Risk-weighted assets at beginning of the year	**$ 6,029**	$ 6,125
Size of portfolio[1]	**(2,123)**	(1,614)
Quality of portfolio[2]	**(92)**	1,191
Updating of models[3]	**3,412**	327
Procedures and policies[4]	**3,273**	-
Acquisitions and transfers	**-**	-
Change in exchange rates	**(59)**	-
Other	**-**	-
Total changes in risk-weighted assets	**4,411**	(96)
Risk-weighted assets at end of year	**$ 10,440**	$ 6,029

[1] Increase or decrease in underlying risk exposure.
[2] Change in risk mitigation factors and portfolio quality.
[3] Changes in risk parameters and models.
[4] Regulatory changes and developments in the regulatory capital calculation method.
[5] Change in risk levels and fluctuating exchange rates, which are not considered to be material.

3.3 OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization.

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

As at December 31, 2014, Desjardins Group had assets totalling $370.8 billion under administration and under management for its members and clients. This represented an increase of $36.5 billion, or 10.9%, compared to an increase of $27.3 billion, or 8.9%, recorded as at December 31, 2013. Financial assets placed with Desjardins Group as wealth manager amounted to $40.5 billion at the close of 2014, compared to $33.8 billion as at December 31, 2013, for an increase of $6.7 billion, or 19.9%, versus an increase of $5.1 billion, or 17.9%, in 2013.

Desjardins Group is in a favourable position as one of Canada's leading trustees and wealth managers. As at December 31, 2014, the outstanding assets entrusted to Desjardins Group by its members and clients in the form of off-balance sheet savings products, such as investment funds and other securities, totalled $68.9 billion, up $7.6 billion or 12.4%, compared to an increase of $7.9 billion, or 14.9%, as at December 31, 2013. In spite of the 3.4% decline in stock market activity in Canada during the last six months of 2014, a review of the year shows that at the close of trading on the Toronto Stock Exchange, the S&P/TSX index was up 7.4% at year-end, compared to 9.6% in 2013. Therefore, even though the climate was slightly less favourable, Desjardins Group remained very active in the area of off-balance sheet savings products in 2014.

Assets under Desjardins Group's management and under administration are comprised essentially of financial assets in the form of investment funds, securities held in custody and assets accumulated by pension funds. They do not belong to Desjardins Group, but to its members and clients and, as a result, they are not recognized on the Combined Balance Statements.

TABLE 24 – ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION
As at December 31

(in millions of dollars)	**2014**	2013(1)	2012(1)
Assets under management			
Institutions and individuals	**$ 10,223**	$ 7,708	$ 6,442
Investment funds(2)	**30,272**	26,060	22,190
Total assets under management	**$ 40,495**	$ 33,768	$ 28,632
Assets under administration			
Individual and institutional trust and custodial services	**$ 291,836**	$ 265,676	$ 261,260
Investment funds(2)	**78,932**	68,569	45,696
Total assets under administration	**$ 370,768**	$ 334,245	$ 306,956

(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.
(2) Including Desjardins Funds and Northwest & Ethical Investments.

CREDIT INSTRUMENTS

In order to meet its members' and clients' financing needs, Desjardins Group makes credit instruments available to them, such as credit commitments, documentary letters of credit, guarantees and standby letters of credit. The risks associated with credit instruments are managed according to the same strict rules as those applied to Combined Balance Sheet items. In management's opinion, no unusual risk results from these off-balance sheet items.

These instruments expose Desjardins Group to credit and liquidity risks. Management of these risks is described on pages 67 to 73 and pages 75 to 80, respectively, of this MD&A. Table 25 shows the contractual amounts of credit instruments by their term to maturity. Since several of these instruments will mature or will be terminated without resulting in any cash outflow, the contractual amounts of these commitments and guarantees do not necessarily represent future liquidity needs.

Note 30, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides more detailed information about these credit instruments.

TABLE 25 – CREDIT INSTRUMENTS BY MATURITIES
As at December 31

(in millions of dollars)	**2014**				2013(1)	2012(1)
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total	Total
Credit commitments	**$ 69,509**	**$ 7,331**	**$ 278**	**$ 77,118**	$ 65,429	$ 61,360
Documentary letters of credit	**73**	**1**	**-**	**74**	78	57
Guarantees and standby letters of credit	**744**	**124**	**70**	**938**	869	849
Total credit instruments	**$ 70,326**	**$ 7,456**	**$ 348**	**$ 78,130**	$ 66,376	$ 62,266

(1) Data for 2013 and 2012 have been reclassified to reflect the current year's presentation.

COMMITMENTS AND GUARANTEES OTHER THAN CREDIT INSTRUMENTS

Desjardins Group also enters into various guarantee and indemnification agreements with its members and clients in the normal course of operations. These agreements remain off-balance sheet arrangements and include indemnification commitments related to securities lending and credit default swaps. Note 30, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides information about these off-balance sheet arrangements.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of business, Desjardins Group holds and repledges financial assets as collateral as a result of transactions involving securities borrowed or purchased under reverse repurchase agreements. Note 30, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides additional information about assets held as collateral.

STRUCTURED ENTITIES

Desjardins Group enters into various financial transactions with structured entities in the normal course of operations to diversify its sources of financing and manage its capital. Structured entities are usually created for a unique and distinct purpose, and they usually have limited activities. They often have insufficient equity to finance their operations without subordinated financial support, or financing in the form of multiple contractually linked instruments with investors. These entities may be included in Desjardins Group's Combined Balance Sheets if it controls them. Detailed information concerning significant exposure to structured entities is provided below.

Master Asset Vehicle (MAV) trusts

Desjardins Group holds financial interests in MAV trusts, which are structured entities not included in its Combined Balance Sheets. These trusts carry out transactions involving synthetic assets, ineligible assets and traditional assets associated with the asset-backed term notes (ABTN) portfolio. Desjardins Group entered into several different types of transactions to reduce the risk associated with the ABTN portfolio, the margin funding facility (MFF) related to the ABTN portfolio and other restructured securities. The implementation of credit index hedges on a significant portion of the MAV 1 portfolio, the acquisition of protection for Desjardins Group's commitments under the MFF, and the disposal of various restructured portfolios very significantly reduced the risk related to these portfolios.

These trusts had assets of approximately $13,368 million as at December 31, 2014, compared to $13,818 million as at December 31, 2013, and they had no equity. As at December 31, 2014, Desjardins Group had an MFF of $1,193 million and held notes with a fair value of $1,641 million, compared to the respective amounts of $1,193 million and $1,630 million as at December 31, 2013. The aggregate of these amounts represents the maximum risk of loss with respect to the MAVs, excluding the effect of the economic hedging strategy. Note 8, "Securities", to Desjardins Group's Combined Financial Statements provides more information on this subject.

Securitization

Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program to manage its liquidities and capital. Transactions carried out under this Program require the use of a structured entity, the Canada Housing Trust (CHT), set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 10, "Derecognition of financial assets", to the Combined Financial Statements provides more information about the financial assets transferred by Desjardins Group through securitization transactions.

To carry out securitization transactions, Desjardins Group bundles CMHC-guaranteed residential mortgages into mortgage-backed securities (NHA MBSs) and transfers them to CHT in exchange for monetary consideration. The structured entity then finances these purchases by issuing CMB to investors. However, as part of these transactions, Desjardins Group retains substantially all the risks and rewards related to the securities transferred. Consequently, the loans continue to be recognized on the Combined Balance Sheets, and a liability, which is equal to the consideration received from CMHC for the sale of the NHA MBSs that do not meet derecognition criteria, is recognized. As at December 31, 2014, outstanding NHA MBSs issued by Desjardins Group and sold to CHT totalled $6.4 billion, compared to $5.4 billion as at December 31, 2013.

4.0 RISK MANAGEMENT

ENHANCED DISCLOSURE TASK FORCE

On October 29, 2012, the Enhanced Disclosure Task Force (EDTF), established by the Financial Stability Board, released its report, "Enhancing the Risk Disclosures of Banks", in which it issued 32 recommendations aimed at improving risk disclosure and transparency.

In addition, given Desjardins Group's designation as a domestic systemically important financial institution (D-SIFI), Desjardins will further promote disclosure developments so as to comply, in coming years, with the principles of effective risk data aggregation and risk reporting (RDARR), which will strengthen risk governance, risk data aggregation and risk reporting capabilities.

Desjardins Group has been working on implementing EDTF recommendations. Even though its 2013 Annual Report contained some information, Desjardins has enhanced disclosures in this MD&A as well as in the "Supplemental Financial Information" report. Desjardins Group is continuing to develop its external disclosures and is working on enhancing its risk management reporting on an ongoing basis.

Information regarding the EDTF recommendations is presented in the MD&A, the Combined Financial Statements and the "Supplemental Financial Information" report, which are available on Desjardins Group's website at **www.desjardins.com/en/about_us.** The "Supplemental Financial Information" report is not incorporated by reference in this MD&A.

Below is a summary of disclosures under the EDTF recommendations and the location of the disclosures:

SUMMARY OF EDTF RECOMMENDATIONS

		Pages	
Type of risk	**Disclosure**	**Annual Report**	**Supplemental Financial Information**
General	Summary of risk information	Current page	
	Risk terminology, risk measures and key parameters	63-84, 200-206	
	Top and emerging risks	54, 55, 63-67	
	New regulatory ratios	54, 55, 75, 76, 168-170	
Risk governance, risk management and business models	Organizational risk management structure	63-65	
	Risk management culture	63-65	
	Risks from business model and risk appetite	22, 63, 66, 67	
	Stress testing	65	
Capital adequacy and risk-weighted assets	Minimum regulatory capital requirements	54, 55	
	Reconciliation of the accounting balance sheet and the regulatory balance sheet	56, 168-170	7, 8, 10-12
	Movements in regulatory capital	57	9
	Capital management and planning	53, 55-57	
	Breakdown of capital requirements by type of risk and by calculation method	57-59, 68	13
	Credit risk		14, 15
	Movements in risk-weighted assets by type of risk	58, 59	
	Back testing and validation of credit models	68	
Liquidity	Management of liquidity needs and reserve	75-77	
Funding	Encumbered and unencumbered assets	76, 80	
	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	77, 78	
	Funding sources and strategies	52, 53, 76-78	
Market risk	Market risk factors	73-75, 154-158, 176	
	Assumptions, limitations and validation procedures for market risk models	74, 75	
	Extreme loss measures	74, 75	
Credit risk	Credit risk profile	51, 52, 65, 70, 72, 73, 86	
	Policy for identifying impaired loans	67, 70, 107-122	
	Reconciliation of impaired loans and allowance for credit losses	107-122	
	Counterparty risk related to derivatives	72, 73, 159-164	
	Credit risk mitigation techniques	70, 72, 73	
Other risks	Management of other risks	81-84	
	Publicly known risk events	173-175	

4.1 RISK MANAGEMENT

The shaded areas in this section contain information about credit, market and liquidity risks in accordance with IFRS 7, "Financial Instruments: Disclosures". They also contain an analysis of how Desjardins Group assesses its risks as well as a description of its risk management objectives, policies and methods. IFRS 7 provides that risk disclosures may be included in the MD&A. Consequently, the shaded areas are an integral part of the Combined Financial Statements, as explained in Note 32, "Financial instrument risk management", to the Combined Financial Statements.

In the normal course of business, Desjardins Group is exposed to the various risks shown below:

Main risks associated with Desjardins operations

Credit	Market	Liquidity	Operational	Insurance	Strategic	Reputation	Pension plan	Environmental	Legal and regulatory environment

In addition to strategic, operational, liquidity and reputation risks inherent in operations, the main risks of Desjardins Group's business segments are:

- Personal Services and Business and Institutional Services — Credit and market risk
- Wealth Management and Life and Health Insurance — Insurance, market and credit risk
- Property and Casualty Insurance — Insurance and market risk

Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding its financial soundness as well as its sustained and profitable growth, while complying with regulatory requirements. Desjardins Group considers risk an inextricable part of its development and consequently strives to promote a culture in which each of its business segments, employees and managers is responsible for risk management.

INTEGRATED RISK MANAGEMENT FRAMEWORK

Desjardins Group's objective in risk management is to optimize the risk-return trade-off, within set tolerance limits, by developing and applying integrated risk management and control strategies, policies and procedures to all its operations. To this end, Desjardins developed an Integrated Risk Management Framework to give its senior management and the Federation's Board of Directors an acceptable level of confidence and comfort regarding the understanding and management of the full spectrum of risks associated with the achievement of its objectives.

RISK APPETITE AND TOLERANCE

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

The risk appetite and tolerance framework establishes Desjardins Group's orientations with regard to risk-taking and risk management, including:

- Business practices that reflect its values
- Actions based on a long-term perspective and aligned with its cooperative nature
- Activities for which the risks are understood and properly managed
- Pursuit of a level of profitability in balance with the needs of members and clients and Desjardins Group's financial stability

The risk appetite and tolerance framework also provides a system of qualitative and quantitative risk indicators that are monitored on a regular basis to ensure that Desjardins Group's risk profile remains within the risk appetite and tolerance limits set by senior management and the Board of Directors. The Board of Directors is responsible for approving the risk appetite and tolerance framework, and ensuring that it reflects Desjardins Group's financial and strategic objectives.

RISK MANAGEMENT CULTURE

A risk management culture is one of the cornerstones of Desjardins Group's Integrated Risk Management Framework. It represents all the practices and behaviours of people and groups within the organization that condition the collective ability to identify, understand and openly discuss risks and handle present and future risks. First and foremost, the Board of Directors and senior management set the tone by promoting risk-taking behaviour in line with Desjardins Group's risk management frameworks and its risk appetite and tolerance. A risk management culture promotes open and transparent communication between Desjardins Group's risk management function and its other support functions, business segments and components.

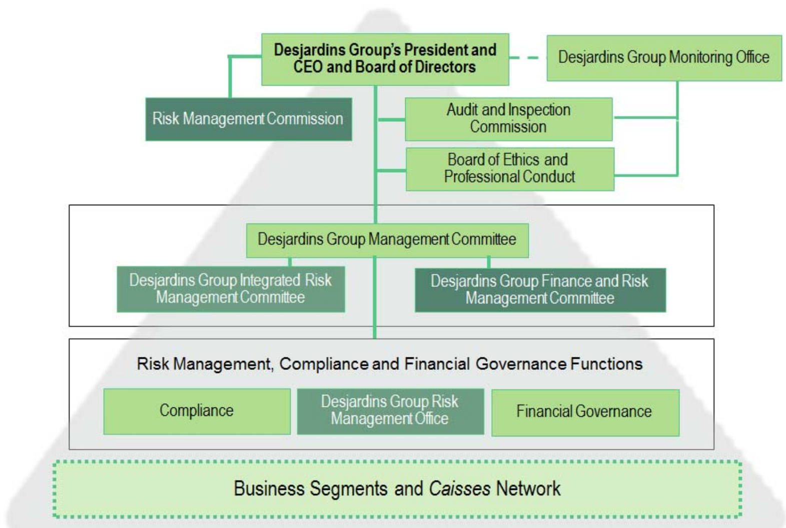
Ethical conduct and integrity are firmly entrenched in Desjardins Group's risk management culture, which relies on the *Desjardins Code of Professional Conduct.* The code sets out the values and principles that Desjardins Group has espoused to maintain a high level of integrity. It also includes rules that determine what is unacceptable, based on these values. Lastly, training and education sessions held on a regular basis for management, employees and officers are another method of developing a risk management culture. Through its communications, the organization seeks to continue updating knowledge by promoting a balanced approach through which business initiatives are combined with a constant concern for sound risk management.

The risk management culture and the Integrated Risk Management Framework are based on risk management guidelines that provide in particular for the following:

- The accountability of Desjardins Group's business segments and other functions with regard to the risks inherent to their operations
- The independence of the risk management function in relation to business segments
- Implementation at every level of the organization in order to obtain a comprehensive vision of risk exposure
- A procedure aimed at ensuring that risk matters are disclosed and flagged accurately and transparently to senior management in a timely manner
- The existence and presence of a complete and rigorous process to determine the appropriate capital level based on the risks assumed
- Consideration of risk management in the formulation of strategic plans and business strategies and in the resulting decisions
- Thorough risk assessment prior to launching new products or introducing projects with a strong financial impact

RISK MANAGEMENT GOVERNANCE

The Integrated Risk Management Framework is based on a solid risk governance structure and reflects Desjardins Group's organizational structure as shown below.



The **Federation's Board of Directors** is responsible for guiding, planning, coordinating and monitoring all of Desjardins Group's operations, and in such capacity, it participates actively in overseeing the major risks to which Desjardins Group is exposed. It is primarily responsible for adopting the overall directions and strategies proposed by senior management as well as risk management policies aimed at ensuring sound and prudent management of operations. The Board is supported in this regard by the Risk Management Commission, the Audit and Inspection Commission and the Board of Ethics and Professional Conduct. Further information about these bodies is found on pages 181 to 198 of the Corporate Governance section of the 2014 Desjardins Group Annual Report.

The **Desjardins Group Management Committee** must, in particular, make recommendations to the Board of Directors concerning risk management policies and strategies and ensure that they are implemented effectively and efficiently. Two committees support the Management Committee in discharging its risk management responsibilities: the Integrated Risk Management Committee and the Finance and Risk Management Committee, made up of the heads of Desjardins Group's strategic functions, business segments and Desjardins experts. These two committees are themselves supported by subcommittees that specialize in specific aspects of risk management. They see to the supervision and oversight of the processes through which risks are identified, measured, regulated, mitigated and monitored, as well as the production of reports.

The **Desjardins Group Risk Management Office** is a strategic function whose main purpose is to partner with the business segments and Desjardins as a whole in their development by identifying, measuring and managing risks while ensuring Desjardins's sustainability. In partnership with the business segments, the Desjardins Group risk management function is responsible for recommending and establishing risk management frameworks, and setting up the appropriate risk management infrastructure, processes and practices to target all major Desjardins-wide risks. Monitoring and oversight of the various risks is a shared responsibility at Desjardins Group that is assumed, in particular, by the teams responsible for regulatory compliance and financial governance. They complement the work of those responsible for risk management to ensure that services are delivered in line with growing regulatory requirements.

The **Desjardins Group Monitoring Office** is an independent and objective advisory and assurance body that assists Desjardins Group's management personnel in carrying out their governance responsibilities. It also oversees and advises management with respect to its duty to manage in a sound and prudent manner. In so doing, it contributes to improving Desjardins Group's overall performance and maintaining the confidence of its members, the public and the regulatory bodies. The Desjardins Group Monitoring Office includes the internal audit services of Desjardins Group components as well as external audit and inspection services for Desjardins caisses in Quebec.

Risk management governance and the Integrated Risk Management Framework are also based on an operations management approach using the Three Lines of Defence model. The Three Lines of Defence encompass complementary responsibilities that are coordinated to support sound risk-taking. In this regard, the roles and responsibilities relating to operations management and their risks must be clearly identified.

- **First Line of Defence**: The business segments and support functions, with ownership and accountability for the risks embedded in their processes.
- **Second Line of Defence**: Risk management, compliance and control functions in their monitoring, tooling and support activities as well as critical review of First Line risk management practices.
- **Third Line of Defence:** Desjardins Group Monitoring Office, which is responsible for conducting a periodic, independent and objective assessment of the First and Second Lines of Defence.

RISK IDENTIFICATION, MEASUREMENT AND DISCLOSURE

Risk identification

Desjardins Group considers it important to periodically assess the environment in which it operates and to identify key risks, as well as emerging risks. Desjardins Group has a procedure for identifying all existing and emerging risks within the organization. The risk register sets out the main categories and related subcategories of risks to which Desjardins Group is exposed. The objective is to ensure that all risks that may have an impact on Desjardins are listed and considered. This risk log is updated at least annually and is used as a basis to make a quantitative and qualitative assessment of risk materiality, to determine Desjardins Group's risk profile and to implement appropriate strategies to mitigate risk.

Emerging risks are newly growing or developing risks or risk factors that could have a material effect on Desjardins Group's financial health should they grow as expected. Desjardins Group has the procedures to determine the presence of risks, and take action, if necessary. For instance, a close watch is kept on the external environment to identify economic and regulatory risk factors and events that could affect operations. In addition, there are regular discussions held between the Chief Risk Officer and business segments to further identify the most pressing risk factors. Additional information about emerging risks or risk factors are provided, where applicable, in each of the relative sections by risk type.

Risk measurement

Desjardins Group uses both quantitative and qualitative techniques to determine its risk exposure. It ensures that an appropriate selection of measurement tools and mitigation techniques are designed and maintained in order to support its business development.

Models play a central role in assessing risk at Desjardins Group and support decision-making in many situations. They are applied to various aspects of risk management. Quantitative models are used for modelling credit risk parameters in the area of credit risk measurement. They are also used in market risk measurement, economic capital calculations, asset valuation and pricing. Risks are quantified based on both the current economic context as well as hypothetical situations simulating crises applied across the entire organization.

Desjardins-wide integrated stress testing

Desjardins-wide sensitivity tests and crisis scenarios are used as additional risk analysis tools to measure the potential impact of exceptional but plausible events on profitability and capital levels. Organization-wide crisis scenarios are developed based on the anticipated economic outlook under distress conditions. In accordance with the second pillar of the Basel Capital Accord, the results of these analyses are a key element of Desjardins Group's internal capital adequacy assessment program and can identify potential vulnerabilities in various operations in relation to risk factors. Desjardins-wide stress testing is conducted annually.

Desjardins Group economists develop a series of potential crisis scenarios annually based on current economic conditions, the main risk factors to which the organization is exposed and emerging risks. These scenarios are then submitted to senior management for approval of an enterprise-wide assessment. More than 20 macroeconomic variables, including GDP, the jobless rate, housing prices, stock indices and inflation, are projected for each of the scenarios and different interest rate curves.

This exercise requires input from various business units and business segments to ensure a global perspective for the analysis as well as consistency among the various estimated impacts. Credit portfolios belonging to the Desjardins caisse network, Card and Payment Services and *Caisse centrale Desjardins* are among the large portfolios analyzed. The analysis also covers the two insurance groups, namely Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc., as well as the Desjardins Group Pension Plan. A separate stress testing exercise is conducted for Desjardins Trust Inc. because it is subject to regulation by the Office of Superintendent of Financial Institutions and the results of the analysis are then integrated into Desjardins Group's results for the year.

The exercise is tied in with Desjardins Group's financial planning and capitalization planning, projected over a four-year horizon. The exercise's results are also used to establish capitalization targets and to update risk appetite and tolerance indicators.

During Desjardins-wide stress testing in 2014, the scenarios developed separately considered the possibility of an international financial crisis, a real estate correction on the Canadian market and a major shock on North American bond markets. The results obtained from the assessment of these scenarios show that Desjardins Group's current capitalization levels would be able to withstand the economic deterioration considered and that its capital ratios still exceed regulatory limits and its own risk appetite and tolerance limits.

The results of the exercise are presented annually to various committees comprised of Desjardins Group's management personnel, including the Risk Management Commission, the Integrated Risk Management Committee, the Desjardins Group Management Committee and the Federation's Board of Directors.

Governance and model validation

In order to oversee the use of Desjardins Group risk models, activities such as the development, performance monitoring and validation of models for credit risk, market risk, economic capital and stress testing are subject to guidelines that specify the roles and responsibilities of the various individuals involved in these activities.

The validation team, which is independent from the units responsible for model design and the end-user units, is in charge of running the appropriate validation program based on the model's importance. For the most important models, the program consists of a series of points to be validated for evaluating the model on data quality, design methodology, including assumptions, and reliability. The program also includes the automatic replication of results obtained by the modelling team and ensures the model is implemented properly. In addition, for models used to calculate regulatory capital, validation aims to assess compliance with applicable regulatory requirements. For models of lesser importance, the program has a smaller, but sufficient, number of validation points. The validation team is also responsible for determining the importance level of each of Desjardins Group's risk assessment models. A model's importance level often dictates how often the model will be validated during its lifetime. Even though the governance structure overseeing design and performance monitoring activities mitigates the risk that inadequate models are deployed and used, independent validation is the main measure mitigating this risk.

Risk disclosure

Information reports on all significant risks are periodically prepared for the Integrated Risk Management Committee, the Finance and Risk Management Committee, the Desjardins Group Operations Committee, the Desjardins Group Management Committee, the Risk Management Commission, the Audit and Inspection Commission, and the Federation's Board of Directors. These reports provide relevant information on changes in the main risk indicators as well as on the capital position, particularly capital adequacy in relation to Desjardins Group's risk profile. These reports are regularly updated to include the latest risk management developments so that Desjardins Group's decision-making bodies receive timely information on major risks that is both practical and forward-looking.

BASEL CAPITAL ACCORD

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

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

In compliance with the guideline on adequacy of capital base standards, which was adapted to reflect the provisions of Basel III, Desjardins Group uses the Internal Ratings-Based Approach, subject to conditions, for credit risk related to the retail loan portfolios − Personal. Other exposures to credit and market risk are currently measured according to the Standardized Approach, while operational risk is calculated based on the Basic Indicator Approach. This provision is used to calculate Desjardins Group's capital ratios, among other things.

In accordance with the AMF guideline on adequacy of capital base standards, Desjardins Group has also set up an internal capital adequacy assessment program (ICAAP). This program is a sound management practice recognized in the industry and is the key element of the second pillar of the Basel Accord. It allows a financial institution to provide for an appropriate level of capital to cover all major risks to which it is exposed, and to implement capital management strategies that follow the changes in its risk profile.

Desjardins Group's internal capital adequacy assessment program is under the joint responsibility of the Risk Management Office and the Finance Executive Division and Office of the CFO. Capital adequacy is assessed by verifying whether available capital is sufficient to cover the capital required. The units responsible oversee the overall adequacy of Desjardins Group's available capital based on both internal measures of required capital and the regulatory capital requirements under Pillar 1. The results of stress testing exercises are also considered in the capital adequacy assessment.

Economic capital is the internal measure that Desjardins Group uses to determine the capital it needs. Economic capital is the amount of capital that an institution must maintain, in addition to expected losses, to remain solvent over a certain horizon and at a high confidence level. For Desjardins Group, economic capital is assessed over a one-year horizon. A confidence level is selected to meet the objective of maintaining an attractive credit rating. In order to assess Desjardins Group's overall capital adequacy in relation to its risk profile, all significant risks identified through the risk logging process are assessed using internal methodologies to measure economic capital. It should be pointed out that all economic capital methodologies are validated independently to ensure that modelling input and assumptions used allow the assessed risk to be measured appropriately.

The breakdown of economic capital by risk type is presented in Table 26. For banking operations, in addition to the three risks under Pillar 1, segmentation includes "Other risks", which covers all other significant risks as well as the advantage of diversification among risk types. Other risks include in particular structural interest rate risk, pension plan risk and strategic risk. For insurance operations, the contribution is calculated using the capital amount equal to each insurance subsidiary's internal target ratio.

TABLE 26 – BREAKDOWN OF ECONOMIC CAPITAL BY RISK TYPE
As at December 31

(as a percentage)	2014	2013
Banking operations		
Credit risk	**37.9 %**	35.6 %
Market risk	**1.4**	1.6
Operational risk	**8.8**	7.0
Other risks(1)	**21.8**	27.6
Total	**69.9**	71.8
Insurance operations(2)	**30.1**	28.2
Total	**100.0 %**	100.0 %

(1) Includes in particular structural interest rate risk, pension plan risk and strategic risk.
(2) The contribution is calculated using the capital amount equal to each insurance subsidiary's internal target ratio.

Again this year, numerous efforts were made throughout Desjardins Group to reinforce the implementation of sound risk management practices and to align regulatory capital requirements more closely with risk exposure. Desjardins Group is continuing to invest in improving its tools and systems and aligning them with sound practices in the industry for the main types of risk. In recent years, the Bank for International Settlements has issued new requirements (Basel III) for the global regulation of capital standards. These new rules, in effect since January 1, 2013, have increased not only capital requirements but also risk management requirements. In addition to the changes made to the level and definition of eligible capital and measurement of risk-weighted assets, Basel III has, under Pillar 2, introduced new liquidity requirements and raised expectations for a number of management practices. Disclosure standards, which fall under Pillar 3, have also been enhanced. Desjardins Group will continue its development by integrating these new regulatory requirements into its risk management framework.

Additional information about capital management is presented in section 3.2, "Capital management", on pages 53 to 59.

CREDIT RISK

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

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans, which represented 65.6% of assets on the Combined Balance Sheets as at December 31, 2014, compared to 66.3% a year earlier. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments and securities.

CREDIT RISK MANAGEMENT

Desjardins Group upholds its goal of providing efficient service to all its members and clients. To this end, it has developed distribution channels specialized by product and customer base. The units and components that make up these channels are considered centres of expertise and are accountable for their performance in their respective markets, including credit risk management. In this regard, they have a certain amount of latitude in terms of frameworks, approvals, and the corresponding management and monitoring tools and structures.

To provide assistance in this area to the various units and components, Desjardins Group has set up centralized structures and procedures to ensure that its risk management framework allows for effective, sound and prudent management.

Desjardins Group has a Risk Management Office (RMO), which includes two divisions that are primarily responsible for credit risk management. These divisions share responsibilities based on the major activities: credit approval, support, quantification, monitoring and reporting.

Framework

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

The various units and components establish their own policies, rules and practices based on their products and clients in compliance with the general policies that govern all credit activities.

All these frameworks govern Desjardins's credit risk management and control activities.

Credit granting

The Desjardins Group Risk Management Office sets approval limits for the various units and components, including the caisse network. The units and components are primarily responsible for approving the files originating from them. However, the Desjardins Group Risk Management Office approves any loans exceeding the approval limits assigned to them.

The professionals assigned to the two divisions of the Desjardins Group Risk Management Office manage credit risk according to client type. Their qualifications, their approval responsibilities and the depth of the analyses required depend on product features as well as the complexity and extent of transaction risk.

Retail loans – Personal

Retail loan portfolios – Personal consist of residential mortgages, personal loans and lines of credit, point-of-sale financing and credit card loans. The Internal Ratings-Based Approach for credit risk is currently used for most of this clientele's portfolio. The Standardized Approach is still used for certain portfolios, including those held by *Caisse centrale Desjardins* and *Desjardins Securities inc.*

Under the Internal Ratings-Based Approach, credit risk is measured according to three parameters: Probability of default (PD), loss given default (LGD) and exposure at default (EAD).

According to the regulatory definition, Desjardins Group defines any past due payment of 90 days or more, as well as any situation where repayment of the debt in full is estimated to be improbable without specific action such as the realization of collateral or a guarantee, as defaults in payment. The philosophy of quantification of regulatory parameters revolves around a complete economic cycle approach and is concretely translated into calibrated parameters with an internal history of defaults starting in 2004. As a result, these data contain a recent economic slowdown, namely the period between 2008 and 2009.

PD is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. For retail loans – Personal, behavioural segmentation models, estimated using logistic regressions, produce risk levels monthly. The predictive features of these models include in particular borrower- and account-specific features such as account age, loan size and delinquency. These models allow proactive management of the portfolio credit risk. However, note that for regulatory purposes, the PD from segmentation models are:
- Calibrated by groups of products according to the following drivers: residential mortgages, loans and lines of credit, point-of-sale financing and credit card loans
- Adjusted slightly upward (prudential margins) to compensate for the historic volatility of PD

LGD measures the size of the possible economic loss in the event of the borrower's default. It is expressed as a percentage of EAD. LGD estimates reflect average economic losses by collateral or guarantee type input into an internal history. Economic losses include direct and indirect management costs as well as any recoveries adjusted for the delay between the time of default and the time of the transaction. LGD is adjusted upward to take into account the possible effects of an economic slowdown.

EAD is an estimate of the amount outstanding for a given exposure at the time of default. For on-balance sheet exposures, EAD is equal to the balance at the time of observation. For off-balance sheet exposures, EAD includes an estimate of the additional drawdowns that may occur between the time of observation and the default. Estimates of such possible additional drawdowns reflect the internal history of the average drawdown on revolving credit products between the observation date and the time of default. Finally, EAD of off-balance sheet exposures is adjusted upward to take into account the possible effects of an economic slowdown.

In general, decisions concerning retail loans – Personal are based on risk ratings generated using predictive credit scoring models. Credit adjudication and portfolio management methodologies are designed to ensure consistent granting of credit and early identification of problem loans. Desjardins Group's automated risk rating system evaluates the creditworthiness of each member and client on a monthly basis. This process ensures the quick, valid identification and management of problem loans.

Monitoring performance of credit risk assessment models using the Internal Ratings-Based Approach

For portfolios assessed using the Internal Ratings-Based Approach, the RMO is responsible for the design, development and performance monitoring of models, in accordance with various guidelines on the subject.

Credit risk models are developed and tested by specialized teams supported by the business units and related credit risk management units concerned by the model.

The performance of credit risk parameters is analyzed on an ongoing basis through back testing. This testing is performed on out-of-time and out-of-sample inputs and aims to assess parameter robustness and adequacy. If necessary, i.e. where a statistically significant overage is observed, prudential upward adjustments are made to reflect an unexpected trend in a segment in particular. These adjustments, allowing a more adequate risk assessment related to the transactions and borrowers, are validated and approved by the units responsible.

For PD more specifically, such back testing takes the form of various statistical tests applied in sequential mode to assess the following criteria:
- Model's discriminating power
- Derogations
- Calibration of the model
- Stability of model results

Independent validations are also performed on credit risk assessment models. The most critical aspects to be validated are factors allowing appropriate risk classification by level, the adequate quantification of exposures and the use of assessment techniques taking external factors into consideration, such as economic conditions and the credit situation, and lastly, alignment with internal policies and regulatory provisions.

The model approval procedure and accountability are addressed by two management committees, namely the Integrated Risk Management Committee and the Management Committee of the Personal and Business Credit Risk Division, depending on the elements concerned. However, some important matters such as the approval of new models and significant changes to existing models are handled by the Integrated Risk Management Committee, which also must be informed of annual model performance monitoring results and then authorize any resulting recommendations.

Business loans

The business loan category includes the small business loan portfolio (retail loans – Business), the medium-sized business loan portfolio – Business, and the large business loan portfolio. The Standardized Approach is currently used for these portfolios but work has been initiated to switch to the Internal Ratings-Based Approach.

For the main portfolios, the scoring system used has 19 ratings, broken down into 12 levels, each representing a probability of default.

Table 27 provides a comparison of internal ratings and ratings assigned by external agencies.

TABLE 27 – RATINGS BY RISK LEVEL

Ratings	Moody's	S&P	Description
1 to 2	Aaa to Aa3	AAA to AA-	High quality
2.5	A1 to A3	A+ to A-	
3 to 4	Baa1 to Baa3	BBB+ to BBB-	
4.5 to 5.5	Ba1 to Ba3	BB+ to BB-	Lower quality
6 to 7	B1 to B3	B+ to B-	
7.5 to 9	Caa2 to C	CCC to C-	Under supervision
10 to 12	D	D	Impaired loans or loans in default

The following table presents the credit quality of the business and government loan portfolio appearing in Desjardins Group's Combined Balance Sheets. The amounts presented are before the impact of the allowance for credit losses.

TABLE 28 – CREDIT RISK EXPOSURE OF THE BUSINESS AND GOVERNMENT LOAN PORTFOLIO
As at December 31

(in millions of dollars and as a percentage)	**2014**		2013	
Business and government loans				
High quality	**$ 12,119**	**36.8 %**	$ 11,005	36.7 %
Lower quality	**19,092**	**58.0**	17,540	58.4
Under supervision	**1,202**	**3.7**	1,032	3.4
Impaired loans or loans in default	**490**	**1.5**	436	1.5
Total	**$ 32,903**	**100.0 %**	$ 30,013	100.0 %

The drop in oil prices, which is taking its toll on the Canadian economy, has not had much adverse effect on Desjardins Group's loan.

Retail clients – Business

To assess the risk of credit activities involving small businesses, credit scoring systems based on proven statistics are used.

These systems were designed using the behavioural history of borrowers with a profile or characteristics similar to those of the applicant and based on the products used, to determine the transaction risk.

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

The performance of these systems is continually assessed and adjustments are made regularly with a view to determining transaction and borrower risk as adequately as possible. The units responsible for the development process ensure that adequate controls are in place to guarantee the stability and performance of rating systems and internal models.

Businesses and large corporations

The granting of credit to businesses and large corporations is based on a detailed analysis of the file. Each borrower's financial, market and management characteristics are analyzed using a credit risk assessment model. A quantitative analysis based on financial data is supplemented by a professional judgment of the other file characteristics by the account managers. Once this analysis is finished, each borrower is assigned a risk rating.

The model used for the analysis varies depending on the economic sector, the size of the commitments of the business and of its entities exposed to common risks. The models designed from internal and external historical data take into account the size of the business, the special characteristics of the main industry in which it operates, and the performance of comparable businesses.

The use of internal ratings and estimates has been expanded to other risk management and governance activities such as establishing analysis requirements and file authorization levels, determining the different types of follow-up activities, as well as assessing and disclosing portfolio risk quality.

Credit risk mitigation

In its lending operations, Desjardins Group obtains collateral if deemed necessary for a member's or client's borrowing facility following an assessment of their creditworthiness. Collateral normally takes the form of assets such as capital assets, receivables, inventory, investments, government securities or equities. For some portfolios, programs offered by organizations such as Canada Mortgage and Housing Corporation and *La Financière agricole du Québec* are used in addition to customary collateral. As at December 31, 2014, guaranteed and/or insured loans represented 29.3% of Desjardins Group's total gross loans, compared to 32.0% at the end of 2013. Policies and procedures, adapted to each product, contain the requirements for appraising collateral, its legal validation and follow-up.

Where required, Desjardins Group uses mechanisms for sharing risk with other financial institutions, such as loan syndication.

Lending in Quebec accounts for 93.2% of Desjardins Group's total loans, with 6.7% in the rest of Canada and 0.1% in the United States.

The large number of borrowers—for the most part individuals, but also small- and medium-sized businesses from most sectors of the economy—helps ensure the sound diversification of Desjardins Group's financing portfolio.

File monitoring and management of higher risk files

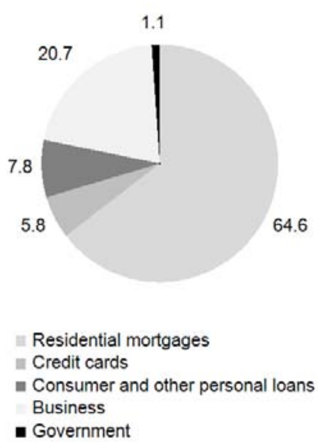
A series of frameworks regulate the monitoring of loan portfolios. Performing loan files are reassessed on a regular basis. In addition, business files are reviewed more thoroughly at least once a year. Requirements regarding review frequency and depth increase with a higher PD or the size of potential losses on receivables. Loan managers monitor high risk loans using various intervention methods.

The unit in charge of the loan is primarily responsible for monitoring files and for managing the higher risks. However, certain tasks or files may be outsourced to the Federation's units specializing in turnarounds or recovery. Supervision reports produced and submitted periodically to the appropriate bodies make it possible to monitor the position of high-risk debtors as well as changes in the corrective measures formulated. In addition, a report accounting for credit activities, covering changes in credit quality, financial issues and the application of internal controls, is submitted quarterly to the management of the component.

Lastly, the Risk Management Office oversees the management of all risks to which the organization is exposed, including credit risks. The operating methods require ongoing monitoring of the credit risks to which Desjardins Group is exposed, as well as periodic reporting on portfolio quality to the appropriate bodies.

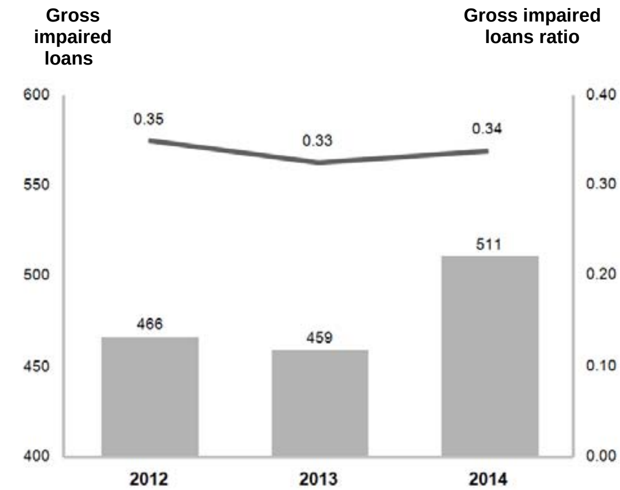
The following chart presents the distribution of loans by borrower category. Over half of the portfolio consists of residential mortgages, for which, statistically, the loss experience is lower. Additional information about credit risk is presented in Note 30, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

LOAN DISTRIBUTION BY BORROWER CATEGORY
As at December 31, 2014
(as a percentage)



QUALITY OF LOAN PORTFOLIO

GROSS IMPAIRED LOANS
(in millions of dollars and as a percentage)



Desjardins Group's loan portfolio continues to be of very high quality. As at December 31, 2014, gross impaired loans outstanding stood at $511 million, up $52 million since December 31, 2013. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.34% as at December 31, 2014, a slight improvement over the ratio of 0.33% as at December 31, 2013.

Individual allowances for credit losses, which totalled $124 million as at December 31, 2014, made it possible to obtain a total coverage ratio of 24.3% of the gross impaired loans portfolio as at December 31, 2014, compared to a ratio of 29.0% at the end of 2013.

The collective allowance stood at $332 million as at December 31, 2014, an increase over the $285 million recorded for 2013. In addition, an allowance for risk related to off-balance sheet arrangements of $91 million was recognized under "Other liabilities – Other" on the Combined Balance Sheets as at December 31, 2014, down $10 million compared to the amount as at December 31, 2013. The collective allowance reflects the best estimate of the allowance for credit losses that have not yet been designated as gross impaired loans individually.

The methods for measuring the collective allowance and individual allowances, as well as the method for determining an impaired loan, are described in section 5.4, "Critical accounting policies and estimates – Impairment of financial assets", on pages 90 and 91 of this MD&A.

Tables 29 and 30 present gross impaired loans by category of Desjardins Group borrowers as well as the specific coverage ratio for these loans.

TABLE 29 – GROSS IMPAIRED LOANS BY BORROWER CATEGORY
As at December 31

(in millions of dollars and as a percentage)	**2014**					2013	2012
	Gross loans	**Gross impaired loans**		**Individual allowances**	**Net impaired loans**	Net impaired loans	Net impaired loans
Residential mortgages	**$ 97,512**	**$ 148**	**0.15 %**	**$ 14**	**$ 134**	$ 122	$ 116
Consumer, credit card and other personal loans	**20,495**	**87**	**0.42**	**21**	**66**	50	53
Business and government	**32,903**	**276**	**0.84**	**89**	**187**	154	159
Total	**$ 150,910**	**$ 511**		**$ 124**	**$ 387**	$ 326	$ 328
As a percentage of gross loans			**0.34 %**		**0.26%**	0.23%	0.25%

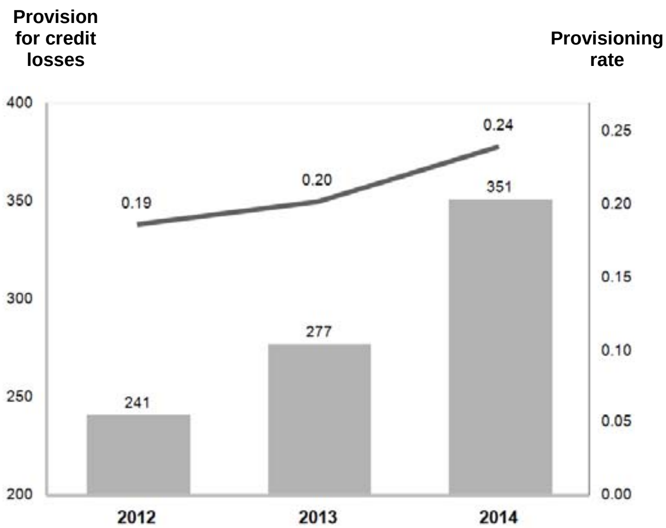
TABLE 30 – SPECIFIC COVERAGE RATIO
As at December 31

(as a percentage)	**2014**	2013	2012
Residential mortgages	**9.5 %**	10.3 %	10.1 %
Consumer, credit card and other personal loans	**24.1**	33.3	36.9
Business and government	**32.2**	37.9	37.2
Gross impaired loan portfolio coverage ratio	**24.3**	29.0	29.6

Provision for credit losses

Desjardins Group's provision for credit losses totalled $351 million for 2014, up $74 million compared to a year earlier. This provision consisted of the allowance for credit losses of $361 million for 2014, less the provision for off-balance sheet commitments totalling $10 million, compared to an allowance for credit losses of $277 million in 2013. The provision for credit losses represented 0.24% of average gross loans, up compared to 0.20% in 2013.

PROVISION FOR CREDIT LOSSES
(in millions of dollars and as a percentage)



Counterparty and issuer risk

Counterparty and issuer risk is a credit risk relative to different types of securities, derivative financial instrument and securities lending transactions.

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

To properly manage its risk exposure, Desjardins Group assigns a credit rating to each counterparty and issuer, based on the ratings of four external credit assessment institutions (DBRS, Moody's, S&P and Fitch. Desjardins uses this rating to establish exposure limits and to calculate capital requirements using the Standardized Approach. The four external credit assessment institutions meet the eligibility criteria of the Basel Accord and are authorized by the AMF and OSFI.

A large proportion of Desjardins Group's exposure is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. In addition, Desjardins Group is not directly exposed to the sovereign debt of Argentina, Russia, Greece, Portugal, Italy, Ireland and Spain, and its exposure to U.S. and European financial institutions is low.

In its derivative financial instrument and securities lending transactions, which include repurchase and reverse repurchase agreements and securities borrowing and lending, Desjardins Group is exposed to counterparty credit risk.

Desjardins Group uses derivative financial instruments primarily for asset and liability management purposes. Derivative financial instruments are contracts whose value is based on an underlying asset, such as interest rates, exchange rates or financial indexes. The vast majority of Desjardins Group's derivative financial instruments are negotiated by mutual agreement with a counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, and currency, interest rate and stock index options. Other instruments are exchange-traded contracts, consisting mainly of futures and swaps traded through a clearing house. They are standard contracts executed on established stock exchanges or well-capitalized clearing houses for which the counterparty risk is very low.

The credit risk associated with derivative financial instruments traded over the counter refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins. This risk normally represents a small fraction of the notional amount. It is quantified using the replacement cost and the credit risk equivalent. Replacement cost refers to the current replacement cost of all contracts with a positive fair value. Credit risk equivalent is equal to the sum of this replacement cost and the future credit exposure. Desjardins Group also limits credit risk with certain counterparties by entering into master agreements called International Swaps and Derivatives Association (ISDA) agreements, which define the terms and conditions for the transactions. These agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreement in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold, which has been set at zero for its main counterparties. The value of these different measures and the impact of the master netting agreements is presented in Note 21, "Derivative financial instruments and hedging activities", to the Combined Financial Statements.

Desjardins Group limits its risk by doing business with counterparties that have a high credit rating. Note 21, "Derivative financial instruments and hedging activities", to the Combined Financial Statements presents derivative financial instruments by credit risk rating and type of counterparty. Based on replacement cost, this note indicates that substantially all counterparties have credit ratings ranging from AAA to A-. Furthermore, by purchasing hedges through credit derivatives, such as credit default swaps and total return swaps, Desjardins Group can transfer credit risk to a counterparty or hedge itself against various types of risk.

Securities lending transactions are regulated by the Investment Industry Regulatory Organization of Canada participation agreements. Desjardins Group also uses netting agreements with its counterparties to mitigate its credit risk exposure and requires a percentage of collateralization (a pledge) on these transactions.

Desjardins Group accepts from its counterparties only financial collateral that complies with the eligibility criteria set out in its policies. These criteria allow for the timely realization of collateral, if necessary, in the event of default. The types of collateral received and pledged by Desjardins Group are mainly cash and government securities.

Additional information about credit risk is presented in Note 7, "Offsetting financial assets and liabilities", Note 21, "Derivative financial instruments and hedging activities", and Note 30, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

MARKET RISK

Market risk refers to the risk of changes in the fair value of financial instruments resulting from fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates, credit spreads and their volatility.

Desjardins Group is exposed to market risk primarily through positions taken in the course of its traditional financing and savings recruitment activities. It is also exposed to market risk through its trading activities. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

INTEREST RATE RISK MANAGEMENT

Desjardins Group is exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on net interest income and the economic value of equity. This risk is the main component of market risk for Desjardins Group's traditional banking activities other than trading, such as accepting deposits and granting loans, as well as for its securities portfolios used for long-term investment purposes and as liquidity reserves.

Interest rate sensitivity is based on the earlier of the repricing or the maturity date of the assets, liabilities and derivative financial instruments used to manage interest rate risk. The situation presented reflects the position only on the date indicated and can change significantly in subsequent years depending on the preferences of Desjardins Group members and clients, and the application of policies on interest rate risk management.

Some Combined Balance Sheet items are considered non-interest-rate-sensitive instruments, including investments in equities, non-performing loans, non-interest-bearing deposits, non-maturity deposits with an interest rate not referenced to a specific rate (such as the prime rate), and equity. As dictated in its policies, Desjardins Group's management practices are based on prudent assumptions with respect to the maturity profile used in its models to determine the interest rate sensitivity of such instruments.

All the financial instruments presented in Note 33, "Interest rate sensitivity and maturity matching", generate a market risk for trading activities and structural interest rate risk management and insurance activities. Value at Risk is calculated for the trading activity financial instruments in Table 32, "VaR by risk category" and the measure of interest rate sensitivity is presented in Table 31, "Interest rate sensitivity" for the structural interest rate risk management and insurance activities.

In addition to the total sensitivity gap, the main interest rate risk factors are:

- the trend in interest rate level and volatility
- the changes in the shape of the interest rate curve
- member and client behaviour in their choice of products
- the financial intermediation margin
- the optionality of the various financial products offered

Sound and prudent management is applied to optimize net interest income while minimizing the negative incidence of interest rate movements. The established policies describe the principles, limits and procedures that apply to interest rate risk management. Simulations are used to measure the effect of different variables on changes in net interest income and the economic value of equity. These policies specify the interest rate risk factors, the risk measures retained, the risk tolerance levels and the management limits as well as the procedures in the event that limits are exceeded. Interest rate risk is assessed at the required frequency according to portfolio volatility (daily, monthly and quarterly).

The assumptions used in the simulations are based on an analysis of historical data and on the effects of various interest rate environments on changes in such data. These assumptions concern changes in the structure of assets and liabilities, including modelling for non-maturity deposits and equity, in member behaviour, such as loan prepayments and redemption before maturity of deposits, and in pricing. Desjardins Group's asset and liability management committee (the Asset/Liability Committee) is responsible for analyzing and approving the global matching strategy on a monthly basis while respecting the parameters defined in interest rate risk management policies.

Table 31 presents the potential impact before income taxes, with regard to structured interest rate risk management, of a sudden and sustained 100 basis point increase or decrease in interest rates on net interest income and the economic value of equity for Desjardins Group. The impact of insurance activities is presented in Note 1 − Table 31.

TABLE 31 – INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)(1)
As at December 31

(in millions of dollars)	2014		2013(2)	
	Net interest income(3)	**Economic value of equity(4)**	Net interest income(3)	Economic value of equity(4)
Impact of a 100-basis-point increase in interest rates	**$ (68)**	**$ (130)**	$ (44)	$ (175)
Impact of a 100-basis-point decrease in interest rates	**59**	**168**	31	224

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these insurance activities, a 100-basis-point increase in interest rates would result in a $227 million decrease in the economic value of equity before taxes as at December 31, 2014, and a $218 million decrease as at December 31, 2013. A 100-basis-point decrease in interest rates would result in an increase of $226 million in the economic value of equity before taxes as at December 31, 2014, and of $212 million as at December 31, 2013. Following the revision of assumptions as at December 31, 2014, the interest rate sensitivity amounts of insurance activities were adjusted for the prior year.
(2) The amounts were revised in relation to those previously presented in order to exclude insurance activities.
(3) Represents the sensitivity of net interest income for the next 12 months.
(4) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.

FOREIGN EXCHANGE RISK

Foreign exchange risk arises when the actual or expected value of assets denominated in a foreign currency is higher or lower than that of liabilities denominated in the same currency.

In certain specific situations, Desjardins Group and its components may become exposed to foreign exchange risk, particularly with respect to the U.S. dollar and the euro. This exposure mainly arises from their intermediation activities with members and clients, and their financing and investment activities. A Desjardins Group policy on market risk has set foreign exchange risk exposure limits, which are monitored by the Risk Management Office. To ensure that this risk is properly controlled and their exposure is limited, Desjardins Group and its components also use, among other things, derivative financial instruments such as forward exchange contracts and currency swaps. Overall, Desjardins Group's exposure to this risk is low because the majority of its transactions are conducted in Canadian dollars.

MANAGEMENT OF MARKET RISK RELATED TO TRADING ACTIVITIES – VALUE AT RISK

The market risk of trading portfolios is managed on a daily basis under a specific policy. This policy specifies the risk factors that must be measured and the limit for each of these factors as well as the total. Tolerance limits are also provided for various stress testing. Compliance with these limits is monitored daily and a market risk dashboard is produced on a daily basis and sent to senior management. Any limit exceeded is immediately analyzed and the appropriate action is taken.

The main tool used to measure this risk is "Value at Risk" (VaR). VaR is an estimate of the potential loss over a certain period of time at a given confidence level. A Monte Carlo VaR is calculated daily on the trading portfolios, using a 99% confidence level and a holding horizon of one day. It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

In addition to aggregate VaR, Desjardins Group also calculates an aggregate VaR under stress conditions. It is calculated in the same way as aggregate VaR, except for the use of historical data. Therefore, instead of using the interval of the past year, VaR under stress conditions takes into account the historical data for a crisis period of one year from September 15, 2008 to September 15, 2009.

Table 32 presents the aggregate VaR and the aggregate VaR under stress conditions of Desjardins Group's trading activities by risk category as well as the diversification effect. Equity price risk, interest rate risk, specific interest rate risk and foreign exchange risk are the four risk categories to which Desjardins Group is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

TABLE 32 – VaR BY RISK CATEGORY (TRADING PORTFOLIO)

(in millions of dollars)	**As at December 31, 2014**	**For the year ended December 31, 2014**			As at December 31, 2013	For the year ended December 31, 2013		
		Average	**High**	**Low**		Average	High	Low
Equities	**$ 0.4**	**$ 0.2**	**$ 1.3**	**$ -**	$ 0.1	$ 0.1	$ 0.6	$ 0.1
Foreign exchange	**0.1**	**0.5**	**1.3**	**-**	0.1	0.1	1.0	-
Interest rate	**3.7**	**3.8**	**6.3**	**2.4**	3.3	2.9	5.2	1.5
Interest rate specific risk(1)	**5.2**	**8.3**	**12.9**	**2.5**	N/A(2)	N/A(2)	N/A(2)	N/A(2)
Diversification effect(3)	**(5.7)**	**(8.9)**	**N/A(4)**	**N/A(4)**	(0.2)	(0.2)	N/A(4)	N/A(4)
Aggregate VaR	**$ 3.7**	**$ 3.9**	**$ 6.3**	**$ 2.4**	$ 3.3	$ 2.9	$ 5.1	$ 1.5
Aggregate VaR under stress conditions	**$ 10.7**	**$ 12.4**	**$ 19.1**	**$ 6.0**	$ N/A(2)	$ N/A(2)	$ N/A(2)	$ N/A(2)

(1) Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish the specific risk from the general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of the issuer, such as provinces, municipalities and companies, and a sub-portfolio that contains the positions considered to be without issuer risk, such as governments in the local currency.
(2) These two measures have been in effect since January 1, 2014.
(3) Represents the risk reduction related to diversification, namely the difference between the sum of the VaR of the various market risks and the aggregate VaR.
(4) Not applicable: The highs and lows of the various market risk categories can refer to different dates.

The average of the trading portfolio's aggregate VaR was $3.9 million for 2014, up $1.0 million compared to 2013, mainly as a result of an increase in interest rate VaR. As for the average of the aggregate VaR under stress conditions, it was $12.4 million. It should be noted that there was no change in the model or assumption over the past two annual periods.

Aggregate VaR and aggregate VaR under stress conditions are appropriate measures for a trading portfolio but they must be interpreted by taking into account certain limits, in particular the following ones:

- These measures do not allow future losses to be predicted if the actual market fluctuations differ markedly from those used to do the calculations.
- These measures are used to determine the potential losses for a one-day holding period, and not the losses on positions that cannot be liquidated or hedged during this one-day period.
- These measures do not provide information on potential losses beyond the selected confidence level of 99%.

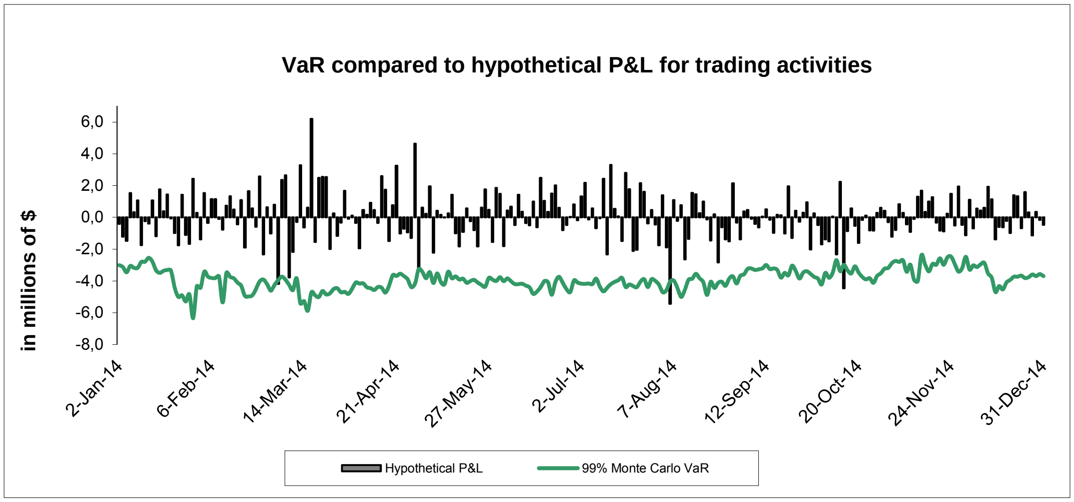
Given these limits, the process of monitoring trading activities using VaR is supplemented by stress testing and by establishing limits in this regard.

Back testing

Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that hypothetical results correspond to those of the VaR model. In addition, an independent modelling validation unit works on the model every year.

Desjardins Group performs back testing daily, applying a hypothetical P&L to its trading portfolios. The hypothetical P&L is calculated by determining the difference in value resulting from changes in market conditions between two consecutive days. The portfolio mix between these two days remains static.

The following chart presents changes in VaR for trading activities as well as profits and losses related to these activities for 2014. Hypothetical P&L was exceeded four times in 2014 as a result of significant fluctuations in market data.



Stress testing

Certain events that are considered highly unlikely and that may have a significant impact on trading portfolios may occur from time to time. These events are at the tail-end of the distribution and are the result of extreme situations.

The approach used to measure the risk related to highly unlikely but plausible events requires the use of a stress-testing program (sensitivity tests, historical scenarios and hypothetical scenarios) at regular intervals. Stress-testing results are analyzed together with VaR calculations in order to detect Desjardins Group's vulnerability to such events. The stress-testing program is reviewed periodically to ensure that it is kept current.

LIQUIDITY RISK

Liquidity risk refers to Desjardins Group's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the Combined Balance Sheets.

Desjardins Group manages liquidity risk in order to ensure that it has timely and cost-effective access to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations. Managing this risk involves maintaining a sufficient level of liquid securities, ensuring stable and diversified sources of funding, monitoring indicators and having a contingency plan in the event of a liquidity crisis.

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group and its components have established policies describing the principles, limits, risk appetite and tolerance thresholds as well as the procedures that apply to liquidity risk management. These policies are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated to reflect regulatory requirements and sound liquidity risk management practices.

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). In July 2014, the AMF issued guidance for application, effective January 2015, of the LCR as well as the use of Net Cumulative Cash Flow as a monitoring tool. The rules for applying NSFR requirements were finalized in October 2014 and should come into effect on January 1, 2018. Under its liquidity risk management policy, Desjardins Group already produces these two ratios, and they are reported on a regular basis to the AMF. Desjardins Group intends to comply with the new standards once they become effective.

Desjardins Group's Treasury ensures stable and diversified sources of institutional funding by type, source and maturity. It uses a wide range of financial products and borrowing programs on various markets for its funding needs.

Furthermore, Desjardins Group issues covered bonds and securitizes CHMC-insured loans in the course of its normal operations. Desjardins Group is also eligible for the Bank of Canada's various intervention programs and loan facilities for Emergency Lending Assistance advances. Note that the Government of Canada passed a bill to amend several federal laws, limiting access by provincial cooperative credit associations to federal intervention tools. These amendments are not yet in force. For further information, refer to the "Changes in the regulatory environment" section on page 19 of the MD&A.

Liquidity risk measurement and monitoring

Desjardins Group determines its liquidity needs by reviewing its current operations and evaluating its future forecasts for balance sheet growth and institutional funding conditions. Various analyses are used to determine the actual liquidity levels of assets and the stability of liabilities based on observed behaviours or contractual maturities. Maintaining liquidity reserves of high-quality assets is required to offset potential cash outflows following a disruption in capital markets, or events that would restrict its access to funding or result in a serious run on deposits.

The minimum liquid asset levels to be maintained by Desjardins Group, the caisse network and *Caisse centrale Desjardins* are specifically prescribed by policies. Daily management of these securities and the reserve level to be maintained is centralized at Desjardins Group Treasury and is subject to monitoring by the Risk Management Division under the supervision of the Finance and Risk Management Committee. Securities eligible for liquidity reserves must meet high security and negotiability criteria and provide assurance of their adequacy in the event of a severe liquidity crisis. The securities held are largely Canadian government securities.

In addition to complying with regulatory ratios, a Desjardins-wide stress testing program has been set up. This program incorporates the concepts put forward by the Basel Committee on Banking Supervision in "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring". The scenarios, based on a downgrade of Desjardins Group combined with a shock on capital markets, make it possible to:

- Measure the extent, over a one-year period, of potential cash outflows in a crisis situation
- Implement liquidity ratios and levels to be maintained across Desjardins Group
- Assess the potential marginal cost of such events, depending on the type, severity and level of the crisis

The calculations are performed daily to ensure compliance with the liquidity levels to be maintained based on the scenarios.

Liquid assets

Table 33 presents a summary of Desjardins Group's liquid assets, which do not include assets held by the insurance subsidiaries because these assets are committed to cover insurance liabilities and not the liquidity needs of Desjardins Group's other components. Liquid assets constitute Desjardins Group's primary liquidity reserve for all its operations. Certain restrictions may apply to the use of all or part of the assets in certain funds, such as the assets of the caisses' liquidity fund, which cannot be used under normal conditions by Caisse centrale Desjardins. Encumbered liquid assets mainly include liquid assets that are pledged as collateral or cannot be used as a result of internal policies or regulatory requirements.

TABLE 33 – LIQUID ASSETS[(1)]
As at December 31, 2014

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral-Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	**$ 538**	**$ -**	**$ 538**	**$ -**	**$ 538**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**23,079**	**9,532**	**32,611**	**20,197**	**12,414**
Other securities in Canada	**1,064**	**45**	**1,109**	**335**	**774**
Issued or guaranteed by foreign issuers	**28**	**-**	**28**	**-**	**28**
Loans					
Insured residential mortgage-backed securities	**1,774**	**-**	**1,774**	**-**	**1,774**
Total	**$ 26,483**	**$ 9,577**	**$ 36,060**	**$ 20,532**	**$ 15,528**

As at December 31, 2013

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral-Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	$ 237	$ -	$ 237	$ -	$ 237
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	22,335	7,102	29,437	16,889	12,548
Other securities in Canada	2,825	29	2,854	438	2,416
Issued or guaranteed by foreign issuers	52	271	323	952	(629)
Loans					
Insured residential mortgage-backed securities	138	-	138	-	138
Total	$ 25,587	$ 7,402	$ 32,989	$ 18,279	$ 14,710

(1) Excluding assets held by the insurance subsidiaries.

TABLE 34 – UNENCUMBERED LIQUID ASSETS BY ENTITY[(1)]

(in millions of dollars)	**As at December 31, 2014**	As at December 31, 2013
Caisse centrale Desjardins	**$ 6,553**	$ 6,673
Caisse network	**6,166**	5,157
Other entities	**2,809**	2,880
Total	$ **15,528**	$ 14,710

(1) Excluding assets held by the insurance subsidiaries.

Liquidity risk indicators

The purpose of monitoring liquidity indicators daily is to quickly identify a lack of liquidity, whether potential or real, within Desjardins Group and on capital markets. Warning levels subject to an escalation process are established for each of these indicators. If one or more indicators trigger a warning level, the Desjardins Group Finance and Risk Management Committee is immediately alerted. This committee would also act as a crisis committee should the contingency plan be put into action.

This plan lists the sources of liquidity available in exceptional situations. In addition, it lays down the decision-making and information process based on the severity level of a potential crisis. The aim of the plan is to allow quick and effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in capital markets or economic conditions. Furthermore, in the event of a crisis extensive enough to question Desjardins Group's solvency, a living will has been prepared to enable the crisis committee to draw on a broader range of liquidity sources to deal with the situation.

SOURCES OF REFINANCING

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of the programs used as well as the staggering of contractual maturities, allow Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits presented on the Combined Balance Sheets amounted to $146.3 billion as at December 31, 2014, up $9.6 billion since December 31, 2013. Additional information on deposits is found in section 3.1 "Balance sheet management", on pages 52 and 53 of this MD&A.

The following table presents the remaining term to maturity of wholesale funding.

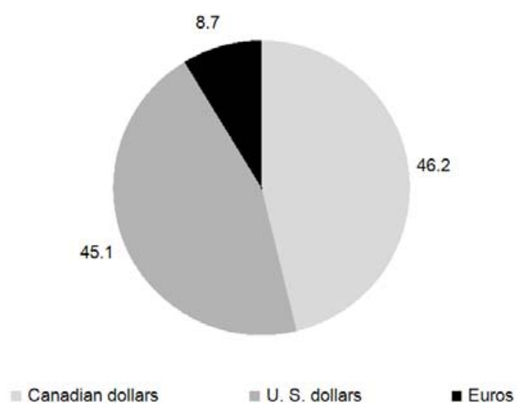
TABLE 35 – REMAINING CONTRACTUAL TERM TO MATURITY OF WHOLESALE FUNDING
As at December 31

(in millions of dollars)	2014								2013
	Less than one month	**1 month to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 12 months**	**Total less than one year**	**1 to 2 years**	**Over 2 years**	**Total**	Total
Bearer discount notes	**$ 1,154**	**$ 328**	**$ 12**	**$ -**	**$ 1,494**	**$ -**	**$ -**	**$ 1,494**	$ 2,673
Commercial paper	**4,756**	**2,538**	**410**	**609**	**8,313**	**-**	**-**	**8,313**	5,447
Medium-term notes	**-**	**-**	**496**	**1,542**	**2,038**	**772**	**4,287**	**7,097**	6,713
Mortgage securitization	**-**	**-**	**-**	**731**	**731**	**1,494**	**4,760**	**6,985**	5,353
Covered bonds	**-**	**-**	**-**	**-**	**-**	**1,159**	**4,535**	**5,694**	2,653
Subordinated notes	**-**	**-**	**-**	**-**	**-**	**-**	**2,564**	**2,564**	3,063
Total	**$ 5,910**	**$ 2,866**	**$ 918**	**$ 2,882**	**$ 12,576**	**$ 3,425**	**$ 16,146**	**$ 32,147**	$ 25,902
Including:									
Secured	**$ -**	**$ -**	**$ -**	**$ 731**	**$ 731**	**$ 2,653**	**$ 9,295**	**$ 12,679**	$ 8,006
Unsecured	**5,910**	**2,866**	**918**	**2,151**	**11,845**	**772**	**6,851**	**19,468**	17,896

Desjardins Group's total wholesale funding presented in the table above was carried out by *Caisse centrale Desjardins* except for the subordinated notes, which were issued by *Capital Desjardins inc.* Total wholesale funding was up $6.2 billion compared to December 31, 2013, mainly because of growth in covered bonds and commercial paper.

In addition, Desjardins Group diversifies its refinancing sources in order to limit its dependence on a single currency. The chart "Wholesale funding by currency" presents a breakdown of borrowings on the markets and subordinated notes by currency. These funds are obtained primarily through short- and medium-term notes, mortgage securitization, covered bonds and subordinated notes.

WHOLESALE FUNDING BY CURRENCY
Borrowings on the markets and subordinated notes
As at December 31, 2014
(as a percentage)



Refinancing programs and strategies

As Desjardins Group's treasurer, *Caisse centrale Desjardins* meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, which are regulated by policies. In 2014, *Caisse centrale Desjardins* managed to maintain a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional refinancing and the contribution of the caisse network.

In order to secure long-term refinancing at the lowest cost on the market, *Caisse centrale Desjardins* maintains an active presence in the federally-guaranteed mortgage loan securitization market under the *National Housing Act* (NHA) Mortgage-Backed Securities Program. In addition, to ensure stable refinancing, *Caisse centrale Desjardins* diversifies its sources from institutional markets. It therefore regularly resorts to the capital markets when conditions are favourable, and makes public and private issues of term notes on Canadian, U.S. and European markets as required.

The main programs currently used by Caisse centrale Desjardins are:

TABLE 36 – MAIN REFINANCING PROGRAMS
As at December 31, 2014

Refinancing program	Maximum authorized amount
Medium-term notes (Canadian)	$7 billion
Covered bonds (multi-currency)	€5 billion(1)
Short-term notes (European)	€3 billion
Short-term notes (U.S.)	US$10 billion
Medium-term notes (multi-currency)	€7 billion

(1) This maximum authorized amount covers *Caisse centrale Desjardins*'s Structured Covered Bond Program (2011) and its Legislative Covered Bond Program (2014).

In 2014, *Caisse centrale Desjardins* also participated in new issues under the NHA Mortgage-Backed Securities Program. The aggregate amount of assets securitized through this program was $1.6 billion in 2014. During the same period, *Caisse centrale Desjardins* also made two issuances of covered bonds on the European market for a total amount of €2.0 billion, an issuance of US$275 million in medium-term notes on the U.S. market, an issuance of $700 million in medium-term notes on the Canadian market, and a US$1.3 billion issuance through its multi-currency medium-term note program.

Issuances outstanding under *Caisse centrale Desjardins*'s medium-term refinancing programs totalled $19.8 billion as at December 31, 2014, compared to $14.8 billion a year earlier. *Capital Desjardins inc.'s* senior notes outstanding totalled $2.6 billion as at December 31, 2014, compared to $3.1 billion a year earlier. On April 1, 2014, *Capital Desjardins inc.* called in all its Series E senior notes for early redemption, in the amount of $500 million. Furthermore, to round out its refinancing and increase its capital base, Desjardins Group, through the Federation, issued capital shares totalling $986 million, net of issuance expenses, during 2014.

Overall, these transactions made it possible to adequately meet the liquidity needs of Desjardins Group, to better diversify its sources of financing and to further extend their average term.

CREDIT RATINGS OF SECURITIES ISSUED

For Desjardins Group, maintaining competitive credit ratings is instrumental to accessing sources of wholesale funding, obtaining low funding costs and boosting its credibility and recognition among institutional investors and counterparties.

The rating agencies analyze Desjardins Group primarily on a combined basis because the credit ratings of *Caisse centrale Desjardins*, a reporting issuer, and of *Capital Desjardins inc.*, a venture issuer, are backed by its financial strength. The agencies recognize its capitalization, the stability of its operating surplus earnings, its significant market shares in Quebec and the quality of its assets.

During 2014, the four rating agencies confirmed the credit ratings of the securities issued by Desjardins Group.

During the second quarter of 2014, Moody's downgraded its outlook for the ratings of the Canadian banking system from "stable" to "negative" on account of a possible reduction in government support for the banking sector, which nonetheless remains one of the most highly rated in the world. In its press release, Moody's confirmed the ratings of the seven leading banks in Canada, including *Caisse centrale Desjardins*. Moody's considers that the implementation of a "bail-in" regime for banks could reduce government support. *Capital Desjardins inc.*'s rating outlook was not affected by this announcement and remained unchanged at "stable".

In the third quarter of 2014, the rating agency Standard & Poor's downgraded its outlook for the six major Canadian banks from "stable" to "negative" on account of the possible reduction in federal government support for banks experiencing a financial crisis. Standard & Poor's stated that its decision was based on the idea that the proposed federal "bail-in" regime for banks could prompt it to lower the ratings of banking institutions in the next two years. The rating outlooks for *Caisse centrale Desjardins* and *Capital Desjardins inc.* were not affected by this announcement and remained "stable".

On January 23, 2015, Fitch confirmed the ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*, together with a stable outlook, which reflects the capitalization, asset quality and stable income of Desjardins Group. Fitch issued this confirmation as part of its periodic review of Canadian banking institutions.

Caisse centrale Desjardins and *Capital Desjardins inc.* thus continue to have credit ratings that are among the best of the major Canadian and international banking institutions.

TABLE 37 – CREDIT RATINGS OF SECURITIES ISSUED

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
Caisse centrale Desjardins				
Short-term	R-1 (high)	A-1	P-1	F1+
Medium- and long-term, senior	AA	A+	Aa2	AA-
Capital Desjardins inc.				
Medium- and long-term, senior	AA (low)	A	A2	A+

Desjardins Group regularly monitors the additional level of obligations our counterparties would require in the event of a credit rating downgrade for *Caisse centrale Desjardins* and *Capital Desjardins inc.* This monitoring enables Desjardins Group to assess the impact of such a downgrade on its funding capacity, perform transactions in the normal course of its operations as well as ensure that it has the additional liquid assets and collateral necessary to meet its obligations. In the event that *Caisse centrale Desjardins's* credit rating were lowered three notches by one or several rating agencies, *Caisse centrale Desjardins* would be obliged to provide collateral amounting to $1.2 billion in order to meet its commitments related to the program for asset-backed term notes (ABTN) restructured under the Montreal Accord. In such a situation, the pledging of assets would reduce the liquidity reserves of *Caisse centrale Desjardins* by an amount equivalent to the value of the collateral deposited, which would then be considered encumbered and therefore unusable. Note 30, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements presents this potential collateral call in Desjardins Group's credit commitments. This amount will remain in effect until the Montreal Accord expires in January 2017.

CONTRACTUAL OBLIGATIONS

Contractual obligations are commitments with respect to minimum future payments and impact Desjardins Group's liquidity needs. Such contractual obligations are recognized in the Combined Balance Sheets or are off-balance sheet.

Table 38 presents financial liabilities as well as off-balance sheet items by remaining contractual term to maturity, except for insurance contract liabilities, for which liquidity risk management is described in Note 17, "Insurance contract liabilities". The amounts presented include principal and interest, if any.

TABLE 38 – CONTRACTUAL MATURITY

(in millions of dollars)

As at December 31, 2014	Payable on demand	Less than 1 year	1 year to 5 years	Over 5 years	Total
Financial liabilities					
Deposits	**$ 55,925**	**$ 45,268**	**$ 48,811**	**$ 269**	**$ 150,273**
Acceptances	**-**	**858**	**-**	**-**	**858**
Commitments related to securities sold short	**5,231**	**349**	**708**	**17**	**6,305**
Commitments related to securities lent or sold under repurchase agreements	**12,364**	**708**	**-**	**-**	**13,072**
Subordinated notes	**-**	**139**	**464**	**2,780**	**3,383**
Amounts payable to clients, brokers and financial institutions	**2,255**	**1,458**	**-**	**-**	**3,713**
Other financial liabilities	**143**	**1,812**	**159**	**21**	**2,135**
Derivative financial instruments with net settlement	**-**	**144**	**151**	**38**	**333**
Derivative financial instruments with gross settlement(1)					
Cash flows to be paid on liabilities	**-**	**13,708**	**3,429**	**-**	**17,137**
Cash flows to be paid on assets	**-**	**15,539**	**4,470**	**-**	**20,009**
Off-balance sheet items					
Credit commitments	**33,348**	**36,161**	**7,331**	**278**	**77,118**
Indemnification commitments related to securities lending	**2,172**	**-**	**-**	**-**	**2,172**
Commitments under lease contracts	**-**	**179**	**455**	**142**	**776**
Documentary letters of credit	**72**	**1**	**1**	**-**	**74**
Guarantees and standby letters of credit	**443**	**301**	**124**	**70**	**938**
Credit default swaps	**-**	**-**	**563**	**-**	**563**

As at December 31, 2013	Payable on demand	Less than 1 year	1 year to 5 years	Over 5 years	Total
Financial liabilities					
Deposits	$ 51,000	$ 40,933	$ 48,611	$ 206	$ 140,750
Acceptances	-	985	-	-	985
Commitments related to securities sold short	7,283	250	209	34	7,776
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	-
Subordinated notes	-	9,579	-	-	9,579
Amounts payable to clients, brokers and financial institutions	2,768	1,018	-	-	3,786
Other financial liabilities	110	1,535	177	49	1,871
Derivative financial instruments with net settlement	-	42	428	61	531
Derivative financial instruments with gross settlement(1)					
Cash flows to be paid on liabilities	-	5,399	297	36	5,732
Cash flows to be paid on assets	-	7,735	3,903	36	11,674
Off-balance sheet items					
Credit commitments	24,221	34,338	6,818	52	65,429
Indemnification commitments related to securities lending	2,299	-	-	-	2,299
Commitments under lease contracts	-	85	242	142	469
Documentary letters of credit	76	1	1	-	78
Guarantees and standby letters of credit	467	230	170	2	869
Credit default swaps	-	-	545	-	545

(1) The "Derivative financial instruments with gross settlement" category includes cash flows to be paid on both derivative financial instruments recorded as liabilities and derivative financial instruments recorded as assets. Contractual cash outflows for derivative financial instruments with gross settlement are accompanied by related cash inflows that are not included in this table.

OPERATIONAL RISK

Operational risk is the risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in particular in losses, failure to achieve objectives or a negative impact on reputation.

Operational risk is inherent to all business activities as well as internal and outsourced activities. It may lead to losses mainly resulting from theft, fraud, and damage to tangible assets, non-compliance with legislation or regulations, systems failures, unauthorized access to computer systems (cybercrime) or problems or errors in process management. Although this risk cannot be eliminated entirely, measures are in place at Desjardins Group to maintain it at an acceptable level.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

The purpose of the operational risk management framework is to identify, measure, mitigate and monitor this risk as well as make interventions and disclosures in accordance with risk appetite and tolerance and the frameworks adopted by the Board of Directors. It is supported by guidelines setting out risk management foundations.

The operational risk management framework is reviewed annually to ensure its adequacy and its relevance based on Desjardins Group's risk profile and developments in industry practices.

In keeping with the global trend, Desjardins Group considers technology risk to be a major operational risk. To better respond to it, a specific management framework has been put in place that coordinates with the operational risk management framework and is supported by a specific control framework.

GOVERNANCE

At Desjardins Group, operational risk is governed by a set of policies, directives and rules. These frameworks are reviewed periodically to ensure consistency with the Integrated Risk Management Framework established by the Board of Directors.

The operational risk management governance structure is aligned with the Three Lines of Defence model, which organizes risk disclosure and controls between the different players at Desjardins Group. It is described in more detail in the "Risk management governance" section on page 64 and 65.

A number of committees supervise operational risk management at Desjardins Group. The Board of Directors, supported by the Risk Management Commission and the Integrated Risk Management Committee, provides oversight. The Risk Management Office assists Desjardins Group and its components with the framework function. More specifically, it ensures that the operational risk management framework is applied in compliance with the orientations and objectives established in Desjardins Group's policy on operational risk management. It also develops, implements and updates strategies and methodologies to manage this risk.

Reporting is done on a regular basis to these various committees so that their members can assess Desjardins Group's operational risk exposure.

APPROACHES TO IDENTIFYING, MEASURING AND MONITORING OPERATIONAL RISK

<u>Risk identification and measurement</u>

The practice of risk and control self-assessment and risk analysis practices are used at Desjardins Group. They determine the most significant operational risks and evaluate the effectiveness of the mitigating measures in place to reduce them. This risk and control assessment, carried out on a periodic basis, can be related to projects, products, systems, processes and activities, as well as to strategic initiatives and important new products. When the results indicate risk exposures that exceed Desjardins Group's level of tolerance, action plans are prepared to reduce exposure to an acceptable level.

<u>Collection of data on operational losses</u>

The collection of internal data on operational losses is carried out to list and quantify losses according to predetermined thresholds. Operational losses are indexed in a database. Through analysis, trends are determined, and corrective measures are taken when necessary. In addition, external operational risk events in the industry are monitored to detect potential or emerging risks and enhance risk management at Desjardins Group, if need be. The main trends identified through analysis of operational losses are reported to the various committees on a regular basis.

<u>Operational risk indicators</u>

Operational risk indicators established by Desjardins Group components enable them to track developments in material risks and act accordingly when the tolerance level is reached.

<u>Risk-sharing programs</u>

Desjardins Group has developed risk-sharing and umbrella insurance coverage programs to give itself additional protection against material operational losses. These programs offer protection based on the business segment's needs and risk tolerance.

Business continuity management

Desjardins Group has a business continuity program whose purpose is to ensure that services related to essential operations will continue to be provided to members and clients in the event of a business interruption. Service recovery strategies cover all Desjardins Group and are integrated into the management activities of the business segments, including the caisses, and support functions. Coordination of incidents allows handling at the local level, supported by Desjardins-wide coordination in a crisis situation.

Technology risk management

Technologies are fundamental to the services provided by financial institutions and Desjardins Group, and this is also the case at CCD. In addition, Desjardins Group continually strives to meet the expectations of its members and clients. To this end, it is obliged to step up technological development and improve the user experience while maintaining reliable, secure and powerful technologies. Technological risk represents one of the most significant risks to Desjardins Group. Over the last few years, criminal organizations, hackers and other external actors have become more active and better equipped to attack even the most reliable networks. Desjardins Group and its third-party service suppliers may be subject to intrusions, attacks and other wrongdoings, including being the target of malicious software (malware), phishing and data theft. Such attacks may lead to financial losses, lost clients or business opportunities, disruptions in operations, the illicit or unauthorized appropriation of confidential or personal information, the costs of corrective, investigative or recovery measures, and legal proceedings. Desjardins Group implements appropriate technological risk mitigation measures by managing the risks with recognized monitoring and assessment practices. It also continues to develop its practices to enhance protections against this risk and ensure that its services continue to be available to members and clients.

Outsourcing risk management

Desjardins Group relies on third parties for some of its activities in order to benefit, in particular, from cutting-edge expertise and economies of scale. Failure by a third party to meet its obligations to Desjardins Group in terms of management of confidential information, fraud by third parties and service interruptions following, in particular, intrusions, attacks and other wrongdoings could, in particular, lead to disrupt operations, lost clients or business opportunities, the illicit or unauthorized appropriation of confidential or personal information, the costs of corrective, investigative or recovery measures, and legal proceedings. The outsourced activities are managed with an eye to ensuring that the related risks are appropriately managed and monitored.

Risk management related to financial crime

Desjardins Group is not immune to incidents related to financial crime that may occur in the course of its operations and cause material financial losses or undermine the confidence of clients and the markets. As a result, a risk management program related to financial crime provides a framework for ensuring effective governance, identifying vulnerabilities and implementing controls for preventing and detecting activities associated with financial crime.

INSURANCE RISK

Insurance risk refers to the risk that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that profitability of these products may be affected.

Desjardins Group is exposed to insurance risk in the course of its life and health and property and casualty insurance operations.

Insurance risk for the life and health insurance subsidiaries is composed of the following elements:
- Mortality risk: Potential loss resulting from an increase in the mortality rate of insureds
- Longevity risk: Potential loss resulting from an increase in the life expectancy of insureds
- Morbidity/disability risk: Potential loss resulting from a decline in the state of health of insureds
- Forfeiture risk: Potential loss resulting from unfavourable policyholder behaviour in keeping their policy in force
- Expense risk: Potential loss resulting from an increase in the level of expenses

Insurance risk for the property and casualty insurance subsidiaries is composed of the following elements:
- Underwriting risk: Potential loss resulting from an increase in the frequency or severity of losses (e.g., fire, theft, water damage, vandalism) affecting property, bodily injury as well as liability (civil, legal, etc.)
- Catastrophe risk: Potential loss resulting from an increase in the frequency or severity of catastrophes covered by insurance policies
- Reserve risk: Potential loss resulting from inadequate provisions or actuarial reserves

Identifying, assessing and mitigating the risks associated with new insurance products and changes made to existing ones are part of a thorough product approval process. All risks at the insurance subsidiaries, including insurance risk, are managed in accordance with their Integrated Risk Management Policy, in line with Desjardins Group's Integrated Risk Management Framework. The process of logging risks under this policy makes it possible to identify all risks likely to affect the subsidiary concerned that should be the subject of governance and a framework, as well as to maintain a register of all such risks and assess them using the appropriate method.

The subsidiaries are accountable for the risk they generate, including insurance risk. Each one has its own specific governance structure. Insurance risk is governed by several policies that clearly set out the roles and responsibilities of the different parties concerned so that they can comply with the various regulatory guidelines. The subsidiaries also have a robust infrastructure that includes the appropriate tools for ensuring the availability, integrity, completeness and aggregation of all the data necessary for sound insurance risk management.

Insurance risk arises from potential errors in projections concerning the many factors used to set premiums, including future returns on investments, underwriting experience in terms of claims experience, mortality and morbidity, and administrative expenses. These projections are essentially based on actuarial hypotheses that must be consistent with the standards of practice in effect in Canada. The insurance subsidiaries also adopt strict pricing standards and policies and perform spot checks to compare their projections with actual results. Insurance product design and pricing are reviewed on a regular basis. Some product pricing may be adjusted depending on the accuracy of projections.

In addition, the subsidiaries limit their losses through reinsurance treaties that vary based on the nature of the activities, and also through additional reinsurance protection with respect to large-scale catastrophic events.

To reduce reinsurance risk, the insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. Such reinsurance treaties do not release the subsidiaries from their obligations toward their policyholders but do mitigate the risks to which they are exposed.

The insurance subsidiaries comply with the standards for sound management practices established by the regulatory bodies that govern them and tests their financial soundness using unfavourable scenarios and measure the effect of such scenarios on their capitalization ratio. These tests include stress testing, including the standardized crisis scenarios required from time to time by regulators, as well as dynamic capital adequacy testing. Test results showed that capital was adequate in each case.

Each insurance subsidiary provides independent reports and assessments of its exposure to different risks to its Board of Directors as well as to the appropriate levels at Desjardins Group. They report in particular on changes in material risks and the effectiveness of the procedures in place to mitigate them, the results of risk analyses and the main assumptions, and findings from the stress testing.

On January 1, 2015, Desjardins Group acquired all the Canadian property and casualty and life and health insurance businesses of State Farm. The acquisition will allow Desjardins Group to increase the annual gross written premiums of its property and casualty insurance subsidiary, Desjardins General Insurance Group Inc., by approximately $1.7 billion and to increase the gross written insurance premiums of its life and health insurance subsidiary, Desjardins Financial Security Life Assurance Company, by approximately $140 million. The necessary adjustments to organizational structures were made to align the subsidiaries with this new context. Operations will gradually be integrated at the subsidiaries, which will allow for mitigation of the related risks.

The activities specific to the insurance subsidiaries expose them, in addition to insurance risk, to other types of risk, notably the risks identified in Note 17, "Insurance contract liabilities" to the Combined Financial Statements.

STRATEGIC RISK

Strategic risk refers to a possible loss attributable to an inability to adapt to a changing environment because of failure to act, an inappropriate strategic choice or the inability to effectively implement strategies.

It is first up to senior management and the Board of Directors to address, define and monitor developments in the strategic orientations of Desjardins Group according to its risk appetite and the consultation processes specific to Desjardins. Events that could compromise the achievement of Desjardins Group's strategic objectives and initiatives are systematically and periodically monitored by Desjardins Group's management personnel and senior management. Business segments and support functions identify and periodically assess events and risks that could prevent the achievement of strategic objectives, and report thereon to the appropriate bodies.

Plans for joint arrangements and acquisitions are examined through a due diligence process aimed at ensuring that such initiatives are in line with the organization's strategic plan. Furthermore, this plan is updated annually to take market developments into account, in particular major trends in the industry and action taken by competitors.

REPUTATION RISK

Reputation risk is the risk that a negative perception by the stakeholders, whether or not justified, of Desjardins Group's practices, actions or lack of action could have an unfavourable impact on its income and equity, or the trust that it inspires.

A reputation is of critical importance, and reputation risk cannot be managed separately from other risks. Therefore, managing reputation risk in all its spheres of activity is a constant concern for Desjardins Group. In this regard, Desjardins Group seeks to ensure that all employees are constantly aware of the potential repercussions of their actions on Desjardins's reputation and image. Desjardins Group considers it essential to foster a risk management culture in which integrity and ethical conduct are fundamental values.

Desjardins Group has defined guidelines, a management framework, and roles and responsibilities with regard to reputation risk. This framework is in addition to various processes already in place to identify, measure and govern this risk, such as the previously mentioned operational risk management initiatives, the regulatory compliance program, ethical requirements, and reputation risk assessment as part of new initiatives and the introduction of new products. All these aspects aim to promote sound reputation risk management. All management personnel and employees are required to perform their duties in accordance with these principles and Desjardins Group's values.

PENSION PLAN RISK

Pension plan risk is the risk of loss resulting from pension plan commitments made by Desjardins Group for the benefit of its employees. This risk basically arises from rate, price, foreign exchange and longevity risks.

The organization's main pension plan is the Desjardins Group Pension Plan (DGPP). The Federation, through its Board of Directors, is the sponsor of the DGPP and, as such, acts as the representative for all Desjardins Group employers. The Desjardins Group Retirement Committee, which is composed of members of the Board of Directors of the Federation and representatives of active participants and retirees, is the administrator of the DGPP. It is responsible for managing pension fund assets and administering the benefits promised by the plan. It sees to it that the rules specified in the plan are applied and ensures legal compliance as well as sound governance of the plan. In this regard, it has developed policies and an internal by-law as required under the *Supplemental Pension Plans Act*.

To properly manage DGPP risks, the Desjardins Group Retirement Committee has set up a Risk Management Advisory Committee. This committee, under the responsibility of the Desjardins Group Retirement Committee, is tasked with analyzing the main risks associated with management of DGPP operations. In this regard, it examines the integrated risk profile and the asset allocation strategy every year. It also issues opinions on new investments which are submitted to the Investment Committee. In addition, a risk management dashboard for the DGPP, made up of risk indicators identified in the profile, is updated quarterly.

ENVIRONMENTAL RISK

Environmental risk is the risk of financial, operational or reputational loss for Desjardins Group as a result of the impact of environmental issues, whether they occur through Desjardins Group's credit or investment activities or its operations.

In addition to the potential financial losses that could be incurred through poor management of environmental risk, there is increased credit risk through the impairment of assets pledged as security and greater reputational risk should assets taken as collateral become the subject of discussions in the media of social and environmental issues.

Environmental risk is an integral part of Desjardins Group's Integrated Risk Management Framework. Risks associated with climate change were subjected to a comprehensive assessment in 2013 and 2014 in order to identify any risks, for which measures had not been taken, that should be integrated into current risk management.

Moreover, Desjardins Group has been a pioneer in responsible investing for more than a decade, offering its members and clients investment products that take into account the environmental risks and opportunities of investees, in an effort to contribute to sustainable development.

LEGAL AND REGULATORY ENVIRONMENT RISK

Legal and regulatory environment risk refers to the risk arising from Desjardins Group's non-compliance with the laws, regulations, standards and practices governing its operations, as well as its various internal codes of conduct and its contractual commitments, which could have adverse effects in the form, in particular, of financial loss, the imposing of penalties, damage to its reputation or litigation.

Legal and regulatory environment risk entails, *inter alia*, effectively preventing and handling possible disputes and claims that may lead in particular to judgments or decisions by a court of law or regulatory body that could result in financial penalties or sanctions. Present and future judicial decisions and legislative activity could increase Desjardins Group's exposure to new types of litigation. In addition, some lawsuits against Desjardins Group may be very complex and be based on legal theories that are new or have never been verified. The outcome of such lawsuits may be difficult to predict or estimate until the proceedings have reached an advanced stage, which may take several years. Class action lawsuits or multi-party litigation may feature an additional risk of judgments with substantial monetary, non-monetary or punitive damages. Plaintiffs who bring a class action or other lawsuit sometimes claim very large amounts and it is impossible to determine Desjardins Group's liability, if any, for some time. Legal liability or an important regulatory measure could have an adverse effect on the current activities of Desjardins Group, its results of operations and its financial position, in addition to damaging its reputation. Even if Desjardins Group won its court case or was no longer the subject of measures imposed by regulatory bodies, these situations could harm its reputation and have an adverse impact on its financial position, due in particular to the costs associated with such proceedings, and its brand image.

The financial services industry is one of the most strictly regulated and monitored sectors. In recent years, the regulations governing the industry have expanded significantly in response to numerous socio-economic phenomena such as the development of new, increasingly complex financial products, the continuing volatility in the securities industry, financial fraud, and the fight against money laundering and terrorist financing, to mention but a few. In addition to federal (Canada and the U.S.) and provincial government requirements, the regulatory environment also includes organizations such as the AMF, Canadian securities authorities, the Office of the Superintendent of Financial Institutions, the Financial Transactions and Reports Analysis Centre of Canada, the Mutual Fund Dealers Association of Canada, and the Investment Industry Regulatory Organization of Canada. Complying with important legislative and regulatory provisions, such as those of the *Foreign Account Tax Compliance Act*, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the Basel accords, requires considerable technical, human and financial resources and also affects the way Desjardins Group manages its current operations.

The Office of the Chief Compliance Officer of Desjardins Group fosters a proactive compliance culture by fully integrating compliance into the organization's current operations. It is responsible for developing, updating and maintaining the compliance management framework, which is based on the identification and monitoring of regulatory obligations and the functional units subject to them. Regulatory developments and their impact on operations are therefore monitored on an ongoing basis by the compliance function in cooperation with the Office of the Chief Legal Officer. The compliance function provides support to managers in charge of business segments and support functions so that they can effectively manage their risks, by developing an appropriate framework and documentation, acting in an advisory capacity, setting up training programs and conducting periodic inspections of operations. The Desjardins Group Monitoring Office provides an independent assessment of the effectiveness of the compliance management framework. Lastly, Desjardins Group has set up a formal reporting process related to compliance for its senior management and various decision-making bodies. In addition, to maintain its reputation for integrity as well as the confidence of its members and clients, Desjardins Group has developed a code of ethics and professional conduct applicable to all its officers and employees and to all its components. This overall management of compliance provides reasonable assurance that Desjardins Group's operations are carried out in compliance with applicable regulations.

4.2 OTHER RISK FACTORS THAT COULD IMPACT FUTURE RESULTS

As indicated in the caution concerning forward-looking statements, general or specific risks and uncertainties may cause the actual results of Desjardins Group to differ from those in the forward-looking statements. Some of these risk factors are presented below.

General economic and business conditions in regions in which Desjardins Group operates

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

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 Desjardins Group by restricting its product or service offer or by enhancing the ability of competitors to compete with its products or services. In addition, Desjardins Group's failure to comply with applicable laws, regulations and other guiding principles, even though it strives to avoid such a possibility, could result in penalties and fines that may have an unfavourable impact on its reputation and financial results. Such changes could also affect the capital and liquidity levels that Desjardins Group elects to maintain.

Foreign exchange rates

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

Monetary policies

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 Desjardins Group's income. The general level of interest rates may impact Desjardins Group's profitability because interest rate fluctuations affect the spread between interest paid on deposits and interest earned on loans, thereby affecting Desjardins Group's net interest income. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.

Competition

The level of competition in markets in which Desjardins Group operates affects its performance. Client retention depends on many factors, such as product and service pricing, changes to the products and services offered, and customer service delivery.

Accuracy and completeness of information concerning clients and counterparties

Desjardins Group relies on the accuracy and completeness of the information it has on its clients and counterparties. When deciding to authorize a loan or other transactions with clients or counterparties, Desjardins Group may use information provided by them, including financial statements and other financial information. It may also rely on representations made by clients and counterparties regarding the completeness and accuracy of such information, and on auditors' reports regarding the financial statements. The financial position and income of Desjardins Group could be adversely affected if it relied on financial statements that do not comply with accounting standards, are misleading or do not present fairly, in all material respects, the financial position and the results of the operations of its clients and counterparties. Desjardins Group trains its employees and implements procedures to mitigate the risks related to the use of inaccurate, incomplete or fraudulent information from its members, clients or counterparties.

Accounting policies

The accounting policies that Desjardins Group uses determine how it reports its financial position and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Any change to these estimates and assumptions may have a significant impact on Desjardins Group's results of operations and financial position.

New products and services to maintain or increase market share

The ability of Desjardins Group to maintain or increase its market share depends partly on its skill in adapting its products and services to changing standards in the financial services industry. Financial services companies are subject to increasing pressure regarding the pricing of their products and services. This factor may reduce Desjardins Group's net interest income or revenues from fee-based products and services. Moreover, the adoption of new technologies could require Desjardins Group to modify or adapt its products and services, resulting in major expenses.

Ability to recruit and retain key management personnel, including senior management

Desjardins Group's future performance depends partly on its ability to recruit and retain key management personnel, including senior management, as there is fierce competition in this area in the financial services industry. Desjardins Group cannot be sure that it will be able to continue to recruit and retain key management personnel, including its senior management, even though this is one of the objectives of its human resources management policies and practices.

Business infrastructure

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

Geographic concentration

Desjardins Group's operations are heavily concentrated in Quebec. As at December 31, 2014, Desjardins Group's loans to Quebec members and clients therefore accounted for 93.2% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results largely depend on economic conditions in Quebec. Any deterioration in these conditions could adversely impact:
- Past due loans
- Problem assets and foreclosed property
- Claims and lawsuits
- The demand for products and services, and
- The value of the collateral available for loans, especially mortgages, and by extension clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.

Acquisitions and joint arrangements

Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in approval of transactions by regulators, the inability to apply the strategic plan in its original form, difficulties in integrating or retaining key employees or clients or even changes in the economic and competitive environment. As a result, synergies, higher income, cost savings, increased market share and other expected benefits may not materialize, thereby impacting Desjardins Group's future surplus earnings.

Integration of the Canadian businesses of State Farm

Achieving the anticipated benefits of the acquisition depends in part on Desjardins Group's ability to capitalize on the opportunities for growth, the increase in gross written premiums, the broader client base, the distribution of the various financial products through the exclusive agent network, the increase in competitiveness and the synergies expected as a result of combining the businesses and operations acquired with its own. It also depends on the consolidation of functions related in particular to operations, administration, finance, and management of the efficient integration of activities, methods, exclusive independent agents and the staff assigned to the Canadian businesses of State Farm with those of Desjardins Group as well as the use of the State Farm banners and trademark for a certain period of time after the closing. This requires sustained attention from Desjardins Group management, which is devoting considerable time, effort and resources to the integration. Achieving the anticipated benefits of the acquisition also depends on the agreement for the delivery of certain transitional services by State Farm to Desjardins Group for an agreed period of time after the closing, which requires Desjardins Group to establish additional controls and repatriation plans. The possibility that Desjardins Group may experience problems during the integration and transition process could have an unfavourable impact on its activities, its financial position, the results of its operations and its cash flow. Even though the necessary adjustments to organizational structures were made to align the components with this new context and the insurance operations will gradually be integrated at the components, there is no guarantee that Desjardins Group will succeed in integrating the Canadian businesses of State Farm into its operations or that the anticipated benefits will materialize.

Furthermore, although Desjardins Group conducted what it considers to be a prudent and thorough investigation before the closing, it may nevertheless find that it has acquired greater obligations or liabilities than expected or than previously disclosed to it or that it may be unable to retain the clients, exclusive independent agents or current employees of State Farm's Canadian businesses. Even though the purchase agreement contains certain clauses to deal with such situations, the occurrence of some of these events might not entitle Desjardins Group to compensation from State Farm and could have an unfavourable impact on Desjardins Group's activities, its financial position, the results of its operations and its cash flow.

Social media

Risks related to social media could have an adverse effect on Desjardins Group's reputation on account of the wide scope of such media and real-time interactions. Social media also represent a risk of information leaks and non-compliance with regulatory requirements.

Credit ratings

The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. There is no guarantee that the credit ratings and outlooks assigned by these agencies to Desjardins Group's various securities will be maintained. Furthermore, a downgrade to any ratings could raise Desjardins Group's cost of funding and reduce its access to capital markets.

Other factors

Other factors that may have an impact on Desjardins Group's future results include changes in tax laws, unexpected changes in consumer spending and saving habits, technological changes, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact on Desjardins Group's business of international conflicts or natural disasters, and Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment.

Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

4.3 ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

The tables below provide more details about more complex financial instruments that have a higher risk.

TABLE 39 – ASSET-BACKED SECURITIES
As at December 31

(in millions of dollars)	**2014**		2013	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Commercial mortgage-backed securities(1)	**$ 125**	**$ 128**	$ 193	$ 201
Financial asset-backed securities(2)	**39**	**40**	54	54

(1) These securities are presented in the Combined Balance Sheets under "Securities at fair value through profit or loss".
(2) None of the securities held is directly backed by subprime residential mortgage loans. These securities are presented in the Combined Balance Sheets under "Securities at fair value through profit or loss" and under "Available-for-sale securities".

TABLE 40 – DERIVATIVE FINANCIAL INSTRUMENTS
As at December 31

(in millions of dollars)	**2014**			2013		
	Notional amounts	**Positive value**	**Negative value**	Notional amounts	Positive value	Negative value
Credit default swaps(1)	**$ 563**	**$ 9**	**$ -**	$ 545	$ 10	$ -
Total return swaps(2)	**32**	**1**	**-**	10	1	-

(1) Credit default swaps are presented in the Combined Balance Sheets as derivative financial instruments.
(2) These amounts do not include any amounts realized as part of securitization activities. Total return swaps are presented in the Combined Balance Sheets as derivative financial instruments.

TABLE 41 – LEVERAGED FINANCE LOANS AND SUBPRIME LOANS
As at December 31

(in millions of dollars)	**2014**	2013
Leveraged finance loans(1)	**$ 227**	$ 141
Alt-A mortgage loans(2)	**29**	32
Subprime residential mortgage loans(3)	**2**	1

(1) Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
(2) Alt-A mortgages are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.
(3) These loans are defined as loans to borrowers with a high credit risk profile. None of these loans is currently in default. Subprime residential mortgages are recorded in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

5.0 ADDITIONAL INFORMATION

5.1 CONTROLS AND PROCEDURES

Desjardins Group is not a reporting issuer, on a combined basis, under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities Administrators (CSA). However, it has chosen to apply the provisions of this National Instrument to demonstrate its willingness to comply with best practices in financial governance.

During fiscal 2014, Desjardins Group carried out work so that it could provide certification as at December 31, 2014 of the design and effectiveness of its disclosure controls and procedures, as well as of its internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the CSA guidance in National Instrument 52-109, the Chair of the Board, President and CEO as well as the Senior Vice-President, Finance and Chief Financial Officer (CFO) designed, or caused to be designed, disclosure controls and procedures, which are supported in particular by a process for periodic certification of financial disclosures in annual and interim filings. All information collected as part of the financial governance process is reviewed on a quarterly and annual basis by the members of the Desjardins Group Disclosure Committee and of the Audit and Inspection Commission, who play a lead role in overseeing and assessing the adequacy of disclosure controls and procedures.

As at December 31, 2014, Desjardins Group management assessed the design and effectiveness of its disclosure controls and procedures. Based on the results of this assessment, the Chair of the Board, President and CEO, and the CFO concluded that disclosure controls and procedures were adequately designed and effective, thereby ensuring that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that Desjardins Group provides investors with complete and reliable information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Desjardins Group management caused an adequate internal control over financial reporting process to be designed and has maintained it. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of combined financial statements for external purposes in accordance with IFRS.

The design and effectiveness of internal control over financial reporting were assessed in accordance with COSO's Internal Control − Integrated Framework (2013) for financial controls and in accordance with the Control Objectives for Information and Related Technologies (COBIT) framework for IT general controls.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements on a timely basis. Management's assessment of the controls provides only reasonable, not absolute, assurance that all the problems related to control which could give rise to material misstatements have been detected.

The assessment of the design and effectiveness of internal control over financial reporting was performed by Desjardins Group management under the supervision of the Chair of the Board, President and CEO, and of the CFO. Based on the results of this assessment, these senior officers concluded that as at December 31, 2014, internal control over financing reporting was adequately designed and effective, and did not contain any material weakness.

Moreover, as at December 31, 2014, there were three Desjardins Group components that complied with NI 52-109 requirements, namely *Caisse centrale Desjardins, Capital Desjardins inc.* and the Federation.

Under the supervision of the certifying officers, the respective management of *Caisse centrale Desjardins, Capital Desjardins inc.* and the Federation therefore assessed the design and effectiveness of disclosure controls and procedures and of internal control over financial reporting. These controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2014, Desjardins Group did not make any changes to its internal control over financial reporting that had materially affected, or may materially affect, its operations.

Various other aspects of corporate governance are examined in more detail on pages 181 to 198 of the 2014 Desjardins Group Annual Report.

5.2 RELATED PARTY DISCLOSURES

In the normal course of business, Desjardins Group offers financial services to related parties, including its associates and other related companies, and enters into agreements for operating services with them. It also pays its key management personnel compensation under normal market conditions.

Furthermore, Desjardins Group provides its financial products and services, under normal market conditions, to its directors, its key management personnel and the persons related to them.

Desjardins Group has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's-length transactions and in compliance with the legislative framework for its various components.

Related party transactions are explained in Note 35, "Related party disclosures", to Desjardins Group's Combined Financial Statements, on page 179 of the 2014 Desjardins Group Annual Report.

5.3 MATERIAL EVENT

ACQUISITION

On January 1, 2015, Desjardins Group completed the purchase of all the Canadian property and casualty (P&C) and life and health insurance businesses of State Farm Mutual Automobile Insurance Company (State Farm), as well as the shares of its Canadian mutual fund, loan and living benefits companies.

As a result of this acquisition, Desjardins has become the second largest P&C insurance provider in Canada, with a projected increase of approximately $1.7 billion in annual gross written premiums in 2015. This acquisition will further allow Desjardins Group to increase its life and health insurance subsidiary's annual gross written premiums by roughly $140 million in 2015. The transaction also improved Desjardins's geographic diversification of earnings and risk while providing a competitive advantage of scale and strengthening its position on the Canadian market. More than 1,900 employees in Canada and a network of close to 500 agents joined Desjardins Group on January 1, 2015, and continue to serve over 1.2 million customers in Ontario, Alberta and New Brunswick.

State Farm and Desjardins Group entered into a transitional service agreement regarding the newly acquired State Farm Canadian operations for an agreed period and essentially on the same terms and conditions that these services had been offered in Canada from the United States before the closing of the transaction.

State Farm invested $450 million in non-voting preferred shares of Desjardins Group's P&C insurance subsidiaries, which include the newly acquired State Farm Canadian operations. In addition, *Groupe des Assurances du Crédit Mutuel S.A.* invested $200 million in these subsidiaries' common shares, non-voting preferred shares and subordinated notes. Lastly, Desjardins Group allocated approximately $700 million in capital to support growth in its P&C insurance segment.

5.4 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Group is essential to understanding the Combined Financial Statements as at December 31, 2014. The significant accounting policies are described in Note 2, "Significant accounting policies", to the Combined Financial Statements. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

STRUCTURED ENTITIES

A structured entity is consolidated when it is controlled by a Desjardins Group entity. Management must make significant judgments when it assesses the various elements and all related facts and circumstances as a whole to determine whether control exists, especially in the case of structured entities.

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: restricted activities, a narrow and well-defined objective, insufficient equity to permit it to finance its activities without subordinated financial support, or financing in the form of multiple contractually linked instruments issued to investors.

Additional information about structured entities is presented in Note 15, "Interests in other entities", to the Combined Financial Statements.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of financial instruments is determined using a three-level hierarchy, reflecting the importance of the inputs used for the measurements. Level 1 denotes measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities, while level 2 designates valuation techniques based primarily on observable market data. Level 3 concerns valuation techniques not based primarily on observable market data.

There is little subjectivity in the determination of the fair value of financial instruments, especially securities and commitments related to securities sold short, obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques rely on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is used in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

<u>Loans</u>

The fair value of loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and takes estimated prepayments into account. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of impaired loans is assumed to be equal to their carrying amount.

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. The fair value of derivative financial instruments is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements", "Clients' liability under acceptances", "Premiums receivable", "Amounts receivable from clients, brokers and financial institutions", some items included in "Other assets – Other", "Acceptances", "Commitments related to securities lent or sold under repurchase agreements", "Amounts payable to clients, brokers and financial institutions" and some items included in "Other liabilities – Other".

Additional information on the fair value of financial instruments is presented in Note 6, "Fair value of financial instruments", to the Combined Financial Statements.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized from the Combined Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but Desjardins Group has the obligation to pay them to a third party under certain conditions, or when Desjardins Group transfers the contractual rights to receive the cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by Desjardins Group, such asset is not derecognized from the Combined Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, Desjardins Group derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Balance Sheets to the extent of its continuing involvement in said asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates Desjardins Group's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

Additional information about the derecognition of financial assets is presented in Note 10, "Derecognition of financial assets", to the Combined Financial Statements.

IMPAIRMENT OF FINANCIAL ASSETS

At the reporting date, Desjardins Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Allowance for credit losses

Objective evidence of impairment results from a loss event that occurred after a loan was granted but before the reporting date, and that has an impact on the estimated future cash flows of the loan.

The impairment of a loan or a group of loans is determined by estimating the recoverable amount of these financial assets. The allowance is equal to the difference between this amount and the carrying amount. To determine the estimated recoverable amount of a loan, Desjardins Group discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the collateral underlying the loan, net of expected costs of realization, or the observable market price for the loan. The collateral may vary depending on the type of loan.

The allowance for credit losses represents management's best estimate for loan impairment at the reporting date. As part of its evaluation, management must make judgments to determine the data, assumptions and estimates to be used, including determining when a loan is considered impaired and the amount that could be recovered. Changing these estimates and assumptions would have an impact on the allowance for credit losses and the provision for credit losses for the year.

The allowance for credit losses related to impaired loans is measured either individually or collectively for loans that are not individually material, while the allowance for credit losses is measured collectively for unimpaired loans.

For individual allowances, Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

For certain impaired loan portfolios comprised of a large number of homogeneous balances that are not individually material, Desjardins Group establishes a collective allowance for these impaired loans based on the portfolio's historical net loss rate.

For loan portfolios without any objective evidence of impairment, the method used by Desjardins Group to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as the probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and risk rating of each loan. The measurement of the collective allowance relies heavily on management's judgment and depends on management's assessment of current credit quality trends with respect to business segments, the impact of changes in its credit policies and economic conditions.

Additional information about loans and the allowance for credit losses is presented in Note 9, "Loans and allowance for credit losses", to the Combined Financial Statements.

<u>Available-for-sale securities</u>

Securities classified in the "Available-for-sale" category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the decline in value, Desjardins Group takes into account many factors specific to each investment and all the factors that could indicate that there has been impairment. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring and the disappearance of an active market for the financial asset in question. Management also uses judgment to determine when to recognize an impairment loss.

Desjardins Group individually assesses debt securities classified as "Available-for-sale" to determine whether there is any objective evidence of impairment. For equity securities classified in the "Available-for-sale" category, the objective evidence would also include a "significant" or "prolonged" decline in fair value below cost.

Additional information about the recognition of available-for-sale securities and fair value measurement is presented in Note 5, "Carrying amount of financial instruments", Note 6, "Fair value of financial instruments", and Note 8, "Securities", to the Combined Financial Statements.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset, less costs to sell, in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires that management make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

<u>Goodwill and intangible assets with indefinite useful lives</u>

Goodwill and intangible assets with indefinite useful lives are tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill and intangible assets with indefinite useful lives is performed based on the recoverable amount of the asset or each cash-generating unit (CGU) (or each group of CGUs) to which goodwill or the intangible asset with an indefinite useful life applies. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each intangible asset with an indefinite useful life or each CGU.

When the recoverable amount of the asset or the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statements of Income for the year and is first recorded as a reduction of the intangible asset with an indefinite useful life or, in the case of a CGU, as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of an impairment loss to the assets of a CGU (or group of CGUs) must however not result in their carrying amount being lower than the highest of the following amounts: fair value of the assets less costs to sell, their value in use, and zero. Goodwill impairment losses cannot be reversed.

Note 13, "Goodwill and intangible assets", to the Combined Financial Statements provides further information about the impairment of non-financial assets.

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

The calculation of actuarial liabilities requires that assumptions be made with respect to the timing of many factors such as death, disability, investment income, inflation, policy cancellations, expenses, income taxes, premiums, commissions and participating policyholders' dividends as well as the amounts they represent. The life and health insurance subsidiaries use assumptions that are established using the best estimates for future underwriting experience, but some of these assumptions refer to events that are likely to occur in the distant future and therefore may eventually need to be adjusted based on information received at a later date.

Property and casualty insurance contract liabilities

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Combined Statements of Income for the year in which the revision occurs. The provision for claims and adjustment expenses is reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Note 17, "Insurance contract liabilities", to the Combined Financial Statements provides information about accounting for the various insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS

Provisions are liabilities of uncertain timing or amount. A provision is recognized when Desjardins Group has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts required to settle the obligation on the reporting date, taking into account the relevant risks and uncertainties. As these estimates are forward-looking in nature, management must use its judgment to forecast the timing and amount of future cash flows. Actual results may differ significantly from these forecasts.

CONTINGENT LIABILITIES

In the normal course of its operations, Desjardins Group is involved in various litigation matters and lawsuits relating to its products, services, investments and other activities.

It is not currently possible to determine the outcome of some of these litigation matters and lawsuits, the timing of such outcome or the potential impact on Desjardins Group's financial position. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and lawsuits, to the extent that it can be measured, could have an impact on Desjardins Group's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

Additional information about contingent liabilities is presented in Note 30, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond to the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Note 29, "Income taxes on surplus earnings", to the Combined Financial Statements provides additional information on income taxes on surplus earnings.

MEMBER DIVIDENDS

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends are estimated based on, among other things, the surplus earnings recorded for the year by the caisses, taking into consideration the financial framework for the appropriation of surplus earnings in relation to the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid, in cash or in shares for surplus shares, following general meetings held by the caisses, and the estimated amount of the provision is charged to combined profit or loss for the year in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. For surplus shares, the surplus earnings distribution plan takes into account a program under which members may elect to receive their dividends in the form of shares, in which case their value is greater than the equivalent dividends paid in cash. The caisses can pay out member dividends when legal and regulatory requirements have been met. The provision for member dividends is mainly allocated to the Personal Services and Business and Institutional Services segment.

EMPLOYEE BENEFITS

Desjardins Group offers the majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

Group pension plans are plans whose risks are shared by entities under common control. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a pro rata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the Consumer Price Index, up to a maximum of 3% for years of service accumulated before 2013, and 1% for a period of 10 years starting at age 65 for years of service accumulated after 2013.

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are in general actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to differ materially from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the participants' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit decrease the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

Note 18, "Net defined benefit plan liabilities", to the Combined Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.5 FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2014 are presented below. Regulatory authorities have stated that early adoption of these standards will not be permitted, unless they indicate otherwise.

IFRS 11, "Joint Arrangements" – Acquisition of an Interest in a Joint Operation

In May 2014, the IASB issued amendments to IFRS 11, "Joint Arrangements". These amendments specify that the principles for accounting for business combinations apply to the acquisition of an interest in a joint operation that constitutes a business as defined in IFRS 3, "Business Combinations".

The amendments to this standard are effective for annual periods beginning on or after January 1, 2016 and must be applied prospectively.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which introduces a single, comprehensive revenue recognition model for all contracts with customers other than those within the scope of other standards, such as insurance contracts and financial instruments. IFRS 15 therefore supersedes the two main revenue recognition standards, IAS 18, "Revenue" and IAS 11, "Construction Contracts", as well as related interpretations. The core principle of this new standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services. The new standard also provides more guidance on certain types of transactions and will result in an increase in disclosures related to revenue.

Desjardins Group is currently assessing the impact of adopting IFRS 15, which is effective for annual periods beginning on or after January 1, 2017.

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the complete and final version of IFRS 9, "Financial Instruments", which will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 includes the requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

IFRS 9 establishes a new classification and measurement model for financial assets to determine whether a financial asset should be classified as measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held. For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements under IAS 39.

The standard also introduces a single financial asset impairment model requiring the recognition of expected credit losses instead of incurred losses, as the current impairment model requires. The model provides for a multi-stage approach based on changes in credit quality since initial recognition.

Lastly, IFRS 9 sets out a new hedge accounting model in order to align hedge accounting more closely with risk management activities.

IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. Desjardins Group is currently assessing the impact of adopting this standard.

5.6 FIVE-YEAR STATISTICAL REVIEW

TABLE 42 – COMBINED BALANCE SHEETS
For the years ended December 31

(in millions of dollars)	**2014**	2013(1)	2012(1)	2011(1)	2010(1)
ASSETS					
Cash and deposits with financial institutions	**$ 1,781**	$ 1,320	$ 1,669	$ 1,356	$ 1,621
Securities					
Securities at fair value through profit or loss	**24,845**	23,536	21,986	22,479	21,490
Available-for-sale securities	**19,890**	19,041	18,326	18,726	15,930
	44,735	42,577	40,312	41,205	37,420
Securities borrowed or purchased under reverse repurchase agreements	**9,959**	7,710	4,377	4,959	7,034
Loans					
Residential mortgages	**97,512**	91,389	85,931	79,686	74,466
Consumer, credit card and other personal loans	**20,495**	19,549	18,520	17,985	17,504
Business and government	**32,903**	30,013	28,544	27,948	26,777
	150,910	140,951	132,995	125,619	118,747
Allowance for credit losses	**(456)**	(418)	(419)	(465)	(489)
	150,454	140,533	132,576	125,154	118,258
Segregated fund net assets	**8,695**	7,252	6,066	5,362	4,774
Other assets					
Clients' liability under acceptances	**858**	985	841	676	672
Premiums receivable	**1,127**	1,123	1,040	914	820
Derivative financial instruments	**3,133**	2,322	2,238	3,059	2,006
Amounts receivable from clients, brokers and financial institutions	**1,742**	1,891	1,195	1,525	1,073
Reinsurance assets	**785**	648	778	797	600
Investment property	**571**	475	512	597	616
Property, plant and equipment	**1,374**	1,322	1,312	1,218	1,187
Goodwill	**472**	456	353	348	109
Intangible assets	**569**	507	360	335	150
Deferred tax assets	**1,043**	810	936	966	941
Other	**2,089**	2,074	2,253	1,711	1,720
	13,763	12,613	11,818	12,146	9,894
TOTAL ASSETS	**$ 229,387**	$ 212,005	$ 196,818	$ 190,182	$ 179,001

Footnote to this table is presented on the next page.

TABLE 42 – COMBINED BALANCE SHEETS (continued)
For the years ended December 31

(in millions of dollars)	**2014**	2013(1)	2012(1)	2011(1)	2010(1)
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 88,463**	$ 86,730	$ 84,415	$ 82,486	$ 78,747
Business and government	**56,516**	47,712	43,033	39,104	33,686
Deposit-taking institutions	**1,345**	2,304	2,176	1,813	2,230
	146,324	136,746	129,624	123,403	114,663
Other liabilities					
Acceptances	**858**	985	841	676	672
Commitments related to securities sold short	**6,304**	7,754	4,977	5,341	7,544
Commitments related to securities lent or sold under repurchase agreements	**13,072**	9,579	7,983	8,500	10,608
Derivative financial instruments	**1,675**	1,719	1,222	1,593	1,774
Amounts payable to clients, brokers and financial institutions	**3,713**	3,752	2,504	3,762	2,612
Insurance contract liabilities	**19,435**	17,070	17,777	17,008	14,942
Segregated fund net liabilities	**8,706**	7,260	6,075	5,362	4,774
Defined benefit plan liabilities	**2,700**	1,825	2,524	2,578	2,438
Deferred tax liabilities	**329**	303	324	420	250
Other	**4,814**	4,717	4,427	4,517	3,998
	61,606	54,964	48,654	49,757	49,612
Subordinated notes	**2,564**	3,063	3,081	3,350	2,805
TOTAL LIABILITIES	**210,494**	194,773	181,359	176,510	167,080
EQUITY					
Capital stock	**4,777**	3,881	3,322	2,210	2,129
Share capital	**85**	82	80	78	70
Undistributed surplus earnings	**1,468**	1,400	1,319	1,272	996
Accumulated other comprehensive income	**615**	420	694	1,044	617
Reserves	**11,476**	11,005	9,642	8,672	7,784
Equity – Group's share	**18,421**	16,788	15,057	13,276	11,596
Non-controlling interests	**472**	444	402	396	325
Total equity	**18,893**	17,232	15,459	13,672	11,921
TOTAL LIABILITIES AND EQUITY	**$ 229,387**	$ 212,005	$ 196,818	$ 190,182	$ 179,001

(1) Prior-period data have been reclassified to reflect the current year's presentation.

TABLE 43 – COMBINED STATEMENTS OF INCOME
For the years ended December 31

(in millions of dollars)	2014	2013[(1)]	2012[(1)]	2011[(1)]	2010[(1)]
Interest income					
Loans	**$ 5,531**	$ 5,409	$ 5,507	$ 5,475	$ 5,250
Securities	**335**	313	391	428	439
	5,866	5,722	5,898	5,903	5,689
Interest expense					
Deposits	**1,753**	1,708	1,851	1,818	1,692
Subordinated notes and other	**137**	157	166	151	105
	1,890	1,865	2,017	1,969	1,797
Net interest income	**3,976**	3,857	3,881	3,934	3,892
Net premiums	**5,916**	5,558	5,126	4,851	4,360
Other income					
Deposit and payment service charges	**498**	498	499	512	535
Lending fees and credit card service revenues	**597**	549	517	483	451
Brokerage and investment fund services	**970**	855	731	658	563
Management and custodial service fees	**348**	300	283	298	257
Net income (loss) on securities at fair value through profit or loss	**2,005**	(667)	674	1,706	984
Net income on available-for-sale securities	**343**	221	268	299	174
Net other investment income	**233**	229	236	264	251
Foreign exchange income	**84**	61	63	72	79
Other	**265**	273	200	128	(3)
	5,343	2,319	3,471	4,420	3,291
Total income	**15,235**	11,734	12,478	13,205	11,543
Provision for credit losses	**351**	277	241	237	203
Claims, benefits, annuities and changes in insurance contract liabilities	**6,303**	3,259	4,397	5,292	4,136
Non-interest expense					
Salaries and fringe benefits	**3,200**	3,125	3,030	2,908	2,695
Premises, equipment and furniture, including depreciation	**598**	570	519	526	425
Service agreements and outsourcing	**256**	232	228	270	363
Communications	**283**	287	271	247	258
Other	**2,217**	2,015	1,860	1,798	1,733
	6,554	6,229	5,908	5,749	5,474
Operating surplus earnings	**2,027**	1,969	1,932	1,927	1,730
Income taxes on surplus earnings	**434**	439	428	415	393
Surplus earnings before member dividends	**1,593**	1,530	1,504	1,512	1,337
Member dividends	**217**	171	279	320	299
Tax recovery on member dividends	**(57)**	(45)	(73)	(90)	(81)
Net surplus earnings for the year after member dividends	**$ 1,433**	$ 1,404	$ 1,298	$ 1,282	$ 1,119
Of which:					
Group's share	**$ 1,376**	$ 1,384	$ 1,224	$ 1,245	$ 1,104
Non-controlling interests' share	**57**	20	74	37	15

(1) Prior-period data have been reclassified to reflect the current year's presentation

TABLE 44 – SELECTED FINANCIAL MEASURES
For the years ended December 31

(in millions of dollars and as a percentage)	**2014**	2013	2012	2011	2010
Tier 1a capital ratio [1]	**15.7 %**	15.7 %	N/A	N/A	N/A
Tier 1 capital ratio [1]	**15.8**	15.7	16.8 %	17.3 %	17.7 %
Total capital ratio [1]	**17.9**	18.4	19.3	19.3	18.7
Return on equity	**8.7**	9.4	10.2	12.0	11.8
Productivity index	**73.4**	73.5	73.1	72.7	73.9
Gross impaired loans / gross loans ratio	**0.34**	0.33	0.35	0.41	0.43
Gross loans/deposits ratio	**1.03**	1.03	1.03	1.02	1.04
Average assets	**$ 222,542**	$ 205,051	$ 195,456	$ 186,338	$ 174,146
Average net loans	**145,688**	136,539	128,683	121,279	114,323
Average deposits	**141,833**	133,518	127,409	119,424	111,020

[1] The 2014 and 2013 ratios were calculated pursuant to the AMF guideline on the adequacy of capital base standards applicable to financial services cooperatives under Basel III, while the ratios for previous years were calculated in accordance with Basel II. See section 3.2, "Capital management".

COMBINED FINANCIAL STATEMENTS OF DESJARDINS GROUP

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Annual report by the Audit and Inspection Commission

The role of the Audit and Inspection Commission (AIC) is to support the Board of Directors of the *Fédération des caisses Desjardins du Québec* (the Federation) in its oversight responsibilities for Desjardins Group. Its mandate consists primarily of analyzing the financial statements, their presentation and the quality of the accounting principles adopted, risk management relating to financial reporting, internal control systems, internal audit and independent audit processes, the procedures applied to these audits, and the management of regulatory compliance.

The AIC reviews Desjardins Group's interim and annual financial statements, related press releases, as well as interim and annual Management's Discussion and Analysis (MD&A). The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, asset protection, fraud detection, and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the caisse network and Desjardins Group. The AIC analyzes the information resulting from this financial governance process every quarter.

The AIC also examines various files relating to developments in the caisse network, including information on the financial position of the caisses and any particular situations detected, follow-up measures, credit losses, and the application of certain accounting policies and practices, such as the method of managing the collective allowance. The AIC oversees the completion of the action plan for the audits and inspections of the caisse network conducted by the Desjardins Group Monitoring Office. It also reviews comment letters, inspection reports, including corrective actions, and follow-up measures. At the end of the fiscal year, the AIC reviews the Monitoring Office's annual report, which presents the results of the year's oversight activities for the caisse network and the highlights of the fiscal year.

The independent auditor is under the authority of the AIC. To fulfil its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence by authorizing all of its non-audit services, by recommending its appointment or the continuance of its engagement, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the AIC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual strategy, its reports, its letter to management, and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates can be awarded, and (c) responsibilities of the key players involved. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Desjardins Group entities.

The AIC ensures the independence of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC analyzes the annual internal audit strategy as well as the internal audit team's responsibilities, performance, objectivity and staffing. The AIC also reviews the internal audit team's summary reports and, if necessary, takes appropriate follow-up action. As part of this review, the AIC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management.

With respect to Desjardins Group's relations with the Autorité des marchés financiers in Quebec (AMF), the AIC reviews and follows up on the inspection reports issued by the AMF and reviews the financial reports that are submitted each quarter to the AMF.

The AIC meets privately with the independent auditor, the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation, the Senior Vice-President of Finance and Chief Financial Officer of Desjardins Group, the Chief Monitoring Officer of Desjardins Group, and AMF representatives. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, once a year the AIC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

The AIC is made up of five independent directors and four observers. These observers are: the chairs of the audit committees of Desjardins Financial Security Life Assurance Company, Desjardins General Insurance Group Inc. and Desjardins Securities Inc., and a caisse general manager who sits on the Federation's Board of Directors. Except for the general manager, none of the AIC members receives direct or indirect compensation from Desjardins Group for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entity, including committees and commissions.

All members of the AIC possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AIC's charter. In light of the significant changes made to accounting and financial reporting requirements, the members of the AIC attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards as well as the impact of changes to the normative and regulatory frameworks to which capital management and corporate governance are subject.

The AIC held eight meetings and its members attended one training session in fiscal 2014. During the year, Annie P. Bélanger left the AIC and Luc Forand became a member. As at December 31, 2014, the five independent directors who are members of the AIC are: Donat Boulerice; Luc Forand; André Gagné, CPA, CGA; Pierre Levasseur; and Benoît Turcotte. The four observers are: Serge Hamelin; Roger Desrosiers, FCPA, FCA; Robert St-Aubin, FCPA, FCA; and Alain Raîche.

André Gagné, CPA, CGA
Chair

Montreal, Quebec
February 24, 2015

Management's responsibility for financial reporting

The Combined Financial Statements of Desjardins Group and all information included in its annual Management's Discussion and Analysis are the responsibility of the management of the *Fédération des caisses Desjardins du Québec* (the Federation), which is responsible for ensuring reporting integrity and accuracy.

These Combined Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and the accounting requirements of *the Autorité des marchés financiers* in Quebec (AMF), which do not differ from IFRS. These Combined Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include valuations of insurance contract liabilities performed by the actuaries of the insurance segments. All financial information in the annual Management's Discussion and Analysis is consistent with the audited Combined Financial Statements.

Federation management is responsible for the accuracy of Desjardins Group's Combined Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. Such controls include an organizational structure that ensures effective segregation of duties, a code of ethics, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices to ensure the effectiveness of the disclosure controls and procedures over the financial information presented in the annual and interim filings of Desjardins Group.

The AMF examines the affairs of certain components of Desjardins Group under its authority on a regular basis.

For the purposes of approving the financial information contained in the Desjardins Group Annual Report, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The Audit and Inspection Commission is mandated by the Board of Directors to review Desjardins Group's Combined Financial Statements and its Management's Discussion and Analysis. In addition, the Audit and Inspection Commission, comprising independent directors and four observers who are neither management nor employees of Desjardins Group, exercises an oversight role to ensure that management has developed and implemented adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The Combined Financial Statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the Board of Directors, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any issues related thereto, including the integrity of the financial information provided and the quality of internal control systems.

Monique F. Leroux, C.M., O.Q., FCPA, FCA
Chair of the Board, President and Chief Executive Officer
Desjardins Group

Daniel Dupuis, CPA, CA
Senior Vice-President, Finance
and Chief Financial Officer
Desjardins Group

Lévis, Quebec
February 24, 2015

Independent auditor's report

TO THE MEMBERS OF THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

We have audited the accompanying combined financial statements of Desjardins Group, which comprise the combined balance sheets as at December 31, 2014 and 2013, and the combined statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013, and the accompanying notes, including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[(1)]
[(1)] FCPA auditor, FCA, public accountancy permit No. A108517

Montreal, Quebec
February 24, 2015

COMBINED BALANCE SHEETS

(in millions of Canadian dollars)	Notes	As at December 31, 2014	As at December 31, 2013
ASSETS			
Cash and deposits with financial institutions		**$ 1,781**	$ 1,320
Securities	8 and 10		
Securities at fair value through profit or loss		**24,845**	23,536
Available-for-sale securities		**19,890**	19,041
		44,735	42,577
Securities borrowed or purchased under reverse repurchase agreements		**9,959**	7,710
Loans	9 and 10		
Residential mortgages		**97,512**	91,389
Consumer, credit card and other personal loans		**20,495**	19,549
Business and government		**32,903**	30,013
		150,910	140,951
Allowance for credit losses	9	**(456)**	(418)
		150,454	140,533
Segregated fund net assets	11	**8,695**	7,252
Other assets			
Clients' liability under acceptances		**858**	985
Premiums receivable		**1,127**	1,123
Derivative financial instruments	21	**3,133**	2,322
Amounts receivable from clients, brokers and financial institutions		**1,742**	1,891
Reinsurance assets	17	**785**	648
Investment property	12	**571**	475
Property, plant and equipment	12	**1,374**	1,322
Goodwill	13	**472**	456
Intangible assets	13	**569**	507
Deferred tax assets	29	**1,043**	810
Other	14	**2,089**	2,074
		13,763	12,613
TOTAL ASSETS		**$ 229,387**	**$ 212,005**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	16		
Individuals		**$ 88,463**	$ 86,730
Business and government		**56,516**	47,712
Deposit-taking institutions		**1,345**	2,304
		146,324	136,746
Other liabilities			
Acceptances		**858**	985
Commitments related to securities sold short		**6,304**	7,754
Commitments related to securities lent or sold under repurchase agreements		**13,072**	9,579
Derivative financial instruments	21	**1,675**	1,719
Amounts payable to clients, brokers and financial institutions		**3,713**	3,752
Insurance contract liabilities	17	**19,435**	17,070
Segregated fund net liabilities	11	**8,706**	7,260
Net defined benefit plan liabilities	18	**2,700**	1,825
Deferred tax liabilities	29	**329**	303
Other	19	**4,814**	4,717
		61,606	54,964
Subordinated notes	20	**2,564**	3,063
TOTAL LIABILITIES		**210,494**	194,773
EQUITY			
Capital stock	23	**4,777**	3,881
Share capital	24	**85**	82
Undistributed surplus earnings		**1,468**	1,400
Accumulated other comprehensive income	25	**615**	420
Reserves		**11,476**	11,005
Equity - Group's share		**18,421**	16,788
Non-controlling interests	15 and 17	**472**	444
TOTAL EQUITY		**18,893**	17,232
TOTAL LIABILITIES AND EQUITY		**$ 229,387**	**$ 212,005**

The accompanying notes are an integral part of the Combined Financial Statements.

On behalf of the Board of Directors of the *Fédération des caisses Desjardins du Québec*,

Monique F. Leroux, C.M., O.Q., FCPA, FCA
Chair of the Board

Denis Paré, LL.L., D.D.N.
Vice-Chair of the Board

COMBINED STATEMENTS OF INCOME

For the years ended December 31

(in millions of Canadian dollars)	Notes	2014	2013
INTEREST INCOME			
Loans		**$ 5,531**	$ 5,409
Securities		**335**	313
		5,866	5,722
INTEREST EXPENSE			
Deposits		**1,753**	1,708
Subordinated notes and other		**137**	157
		1,890	1,865
NET INTEREST INCOME		**3,976**	3,857
NET PREMIUMS	17	**5,916**	5,558
OTHER INCOME			
Deposit and payment service charges		**498**	498
Lending fees and credit card service revenues		**597**	549
Brokerage and investment fund services		**970**	855
Management and custodial service fees		**348**	300
Net income (loss) on securities at fair value through profit or loss	27	**2,005**	(667)
Net income on available-for-sale securities		**343**	221
Net other investment income		**233**	229
Foreign exchange income		**84**	61
Other		**265**	273
		5,343	2,319
TOTAL INCOME		**15,235**	11,734
PROVISION FOR CREDIT LOSSES	9	**351**	277
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	17	**6,303**	3,259
NON-INTEREST EXPENSE			
Salaries and fringe benefits		**3,200**	3,125
Premises, equipment and furniture, including depreciation		**598**	570
Service agreements and outsourcing		**256**	232
Communications		**283**	287
Other	28	**2,217**	2,015
		6,554	6,229
OPERATING SURPLUS EARNINGS		**2,027**	1,969
Income taxes on surplus earnings	29	**434**	439
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS(1)		**1,593**	1,530
Member dividends		**217**	171
Tax recovery on member dividends	29	**(57)**	(45)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		**$ 1,433**	**$ 1,404**
of which:			
Group's share		**$ 1,376**	$ 1,384
Non-controlling interests' share	15	**57**	20

(1) The Group's share of "Surplus earnings before member dividends" is presented in Note 34, "Segmented information".

The accompanying notes are an integral part of the Combined Financial Statements.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31

(in millions of Canadian dollars)	2014	2013
Net surplus earnings for the year after member dividends	**$ 1,433**	$ 1,404
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**(700)**	288
Share of associates and joint ventures accounted for using the equity method	**(5)**	-
	(705)	288
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**312**	27
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(154)**	(55)
	158	(28)
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**117**	(174)
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(70)**	(69)
	47	(243)
Net unrealized exchange gains on the translation of the financial statements of a self-sustaining foreign operation, net of hedging transactions	**1**	-
	206	(271)
Total other comprehensive income	**(499)**	17
COMPREHENSIVE INCOME FOR THE YEAR	**$ 934**	**$ 1,421**
of which:		
Group's share	**$ 879**	$ 1,393
Non-controlling interests' share	**55**	28

The accompanying notes are an integral part of the Combined Financial Statements.

INCOME TAXES ON OTHER COMPREHENSIVE INCOME

The tax expense (recovery) related to each component of other comprehensive income is presented in the following table.

For the years ended December 31

(in millions of Canadian dollars)	2014	2013
Item that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ (254)**	$ 97
	(254)	97
Items that will be reclassified to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	**94**	(17)
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(37)**	(19)
	57	(36)
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**45**	(28)
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(28)**	(37)
	17	(65)
	74	(101)
Total income tax recovery	**$ (180)**	**$ (4)**

COMBINED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31		Capital				Reserves						
(in millions of Canadian dollars)		Capital stock (Note 23)	Share capital (Note 24)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 25)	Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves	Equity - Group's share	Non-controlling interests (Notes 15 and 17)	Total equity
BALANCE AS AT DECEMBER 31, 2012		**$ 3,322**	**$ 80**	**$ 1,319**	**$ 694**	**$ 811**	**$ 481**	**$ 8,350**	**$ 9,642**	**$ 15,057**	**$ 402**	**$ 15,459**
Net surplus earnings for the year after member dividends		-	-	1,384	-	-	-	-	-	1,384	20	1,404
Other comprehensive income for the year		-	-	283	(274)	-	-	-	-	9	8	17
Comprehensive income for the year		-	-	1,667	(274)	-	-	-	-	1,393	28	1,421
Issuance of F capital shares		476	-	-	-	-	-	-	-	476	-	476
F capital share issuance costs		(1)	-	-	-	-	-	-	-	(1)	-	(1)
Other net change in capital stock		84	-	-	-	-	-	-	-	84	-	84
Issuance of share capital		-	2	-	-	-	-	-	-	2	-	2
Redemption of share capital		-	-	-	-	-	-	-	-	-	(27)	(27)
Remuneration on capital stock		-	-	(119)	-	-	-	-	-	(119)	-	(119)
Dividends		-	-	(3)	-	-	-	-	-	(3)	(5)	(8)
Transfer from undistributed surplus earnings (to reserves)		-	-	(1,465)	-	102	(5)	1,368	1,465	-	-	-
Impact of acquisitions	Note 22	-	-	-	-	-	-	-	-	-	49	49
Transactions related to put options	Note 22	-	-	-	-	-	-	(102)	(102)	(102)	-	(102)
Other		-	-	1	-	-	-	-	-	1	(3)	(2)
BALANCE AS AT DECEMBER 31, 2013		**$ 3,881**	**$ 82**	**$ 1,400**	**$ 420**	**$ 913**	**$ 476**	**$ 9,616**	**$ 11,005**	**$ 16,788**	**$ 444**	**$ 17,232**
Net surplus earnings for the year after member dividends		**-**	**-**	**1,376**	**-**	**-**	**-**	**-**	**-**	**1,376**	**57**	**1,433**
Other comprehensive income for the year		**-**	**-**	**(692)**	**195**	**-**	**-**	**-**	**-**	**(497)**	**(2)**	**(499)**
Comprehensive income for the year		**-**	**-**	**684**	**195**	**-**	**-**	**-**	**-**	**879**	**55**	**934**
Issuance of F capital shares		**987**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**987**	**-**	**987**
F capital share issuance costs		**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Other net change in capital stock		**(90)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(90)**	**-**	**(90)**
Issuance of share capital		**-**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**8**	**11**
Redemption of share capital		**-**	**-**	**-**	**-**	**-**	**-**	**(19)**	**(19)**	**(19)**	**(11)**	**(30)**
Remuneration on capital stock		**-**	**-**	**(157)**	**-**	**-**	**-**	**-**	**-**	**(157)**	**-**	**(157)**
Dividends		**-**	**-**	**(4)**	**-**	**-**	**-**	**-**	**-**	**(4)**	**(12)**	**(16)**
Transfer from undistributed surplus earnings (to reserves)		**-**	**-**	**(453)**	**-**	**68**	**3**	**382**	**453**	**-**	**-**	**-**
Transactions related to put options		**-**	**-**	**-**	**-**	**-**	**-**	**37**	**37**	**37**	**(7)**	**30**
Other		**-**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**	**(5)**	**(7)**
BALANCE AS AT DECEMBER 31, 2014		**$ 4,777**	**$ 85**	**$ 1,468**	**$ 615**	**$ 981**	**$ 479**	**$ 10,016**	**$ 11,476**	**$ 18,421**	**$ 472**	**$ 18,893**

The accompanying notes are an integral part of the Combined Financial Statements.

COMBINED STATEMENTS OF CASH FLOWS

For the years ended December 31

(in millions of Canadian dollars)	2014	2013
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 2,027**	$ 1,969
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property	**180**	178
Net change in insurance contract liabilities	**2,365**	(707)
Provision for credit losses	**351**	277
Net realized gains on available-for-sale securities	**(236)**	(89)
Other	**158**	175
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(1,374)**	(1,501)
Securities borrowed or purchased under reverse repurchase agreements	**(2,249)**	(3,333)
Loans	**(10,272)**	(8,234)
Derivative financial instruments, net amount	**(800)**	116
Net amounts receivable from and payable to clients, brokers and financial institutions	**110**	552
Deposits	**9,578**	7,122
Commitments related to securities sold short	**(1,450)**	2,777
Commitments related to securities lent or sold under repurchase agreements	**3,493**	1,596
Other	**(328)**	(159)
Income taxes paid on surplus earnings	**(330)**	(126)
Payment of member dividends	**(249)**	(253)
	974	360
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Redemption of subordinated notes	**(500)**	-
Purchase of debt securities and subordinated notes from third parties on the market	**(1)**	(20)
Issuance of F capital shares	**987**	476
F capital share issuance costs	**(1)**	(1)
Other net change in capital stock	**(90)**	84
Remuneration on capital stock	**(157)**	(119)
Issuance of share capital	**11**	2
Redemption of share capital	**-**	(26)
Dividends paid	**(16)**	(8)
Exercise of put options written on non-controlling interests	**(17)**	-
	216	388
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	**(53,925)**	(48,545)
Proceeds from disposals of available-for-sale securities	**35,165**	40,780
Proceeds from maturities of available-for-sale securities	**18,327**	6,980
Business acquisitions, net of cash and cash equivalents acquired	**-**	(169)
Acquisitions of property, plant and equipment and investment property	**(376)**	(228)
Proceeds from disposals of property, plant and equipment and investment property	**80**	85
	(729)	(1,097)
Net increase (decrease) in cash and cash equivalents	**461**	(349)
Cash and cash equivalents at beginning of year	**1,320**	1,669
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,781**	**$ 1,320**
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 1,914**	$ 1,855
Interest and dividends received	**5,952**	5,805

The accompanying notes are an integral part of the Combined Financial Statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

NOTE 1 – INFORMATION ON DESJARDINS GROUP

NATURE OF OPERATIONS

Desjardins Group is made up of the Desjardins caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, the *Fédération des caisses populaires de l'Ontario* and the *Fonds de sécurité Desjardins*. A number of the subsidiaries are active across Canada. The various business segments in which Desjardins Group operates are described in Note 34, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

BASIS OF PRESENTATION OF THE COMBINED FINANCIAL STATEMENTS

As an integrated financial services group, Desjardins Group is a complete economic entity. These Combined Financial Statements have been prepared to present the financial position, the financial performance and the cash flows of this economic entity. The Desjardins caisses exercise a collective power over the Federation, which is the cooperative entity responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. The role of the Federation is also to protect the interests of Desjardins Group members.

As Desjardins caisses and the Federation are financial services cooperatives, these Combined Financial Statements differ from the consolidated financial statements of a group with a traditional organizational structure. Consequently, the Combined Financial Statements of Desjardins Group are a combination of the accounts of the Desjardins caisses, the caisses populaires of Ontario, the Federation, the *Fédération des caisses populaires de l'Ontario* and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The capital stock of Desjardins Group represents the aggregate of the capital stock issued by the caisses, the Federation and the *Fédération des caisses populaires de l'Ontario*.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

a) General information

STATEMENT OF COMPLIANCE

Pursuant to the *Act Respecting Financial Services Cooperatives* (the Act), these Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Combined Financial Statements for the current year. These reclassifications had no impact on Desjardins Group's profit or loss or total assets and liabilities.

The Combined Financial Statements for the year ended December 31, 2014 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 24, 2015.

The significant measurement and presentation rules applied to prepare these Combined Financial Statements are described below.

SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of combined financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, determination of the fair value of financial instruments, derecognition of financial assets, allowance for credit losses, impairment of available-for-sale securities, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, member dividends, employee benefits as well as goodwill and intangible assets. Consequently, actual results could differ from those estimates and assumptions.

SCOPE OF THE GROUP

The Combined Financial Statements of Desjardins Group include the assets, liabilities, operating results and cash flows of the Desjardins caisses in Quebec and Ontario, the Federation, the *Fédération des caisses populaires de l'Ontario* and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The financial statements of all Group entities have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give Desjardins Group control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries

An entity is considered as a subsidiary when it is controlled by a Group entity. A Group entity controls an investee if and only if it has all the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of its returns.

Structured entities

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: restricted activities, a narrow and well-defined objective, insufficient equity to permit it to finance its activities without subordinated financial support, or financing in the form of multiple contractually linked instruments to investors.

Non-controlling interests

Non-controlling interests represent the share in profit or loss as well as net assets not held by Desjardins Group. They are presented separately in the Combined Statements of Income, the Combined Statements of Comprehensive Income and in equity, in the Combined Balance Sheets.

Associates

An associate is an entity over which Desjardins Group exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. Desjardins Group's investments in associates are presented under "Other assets – Other" in the Combined Balance Sheets and are accounted for using the equity method. Under this method, investments are initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in Desjardins Group's share in the relevant entities' equity.

Joint arrangements

A joint arrangement is an arrangement of which Desjardins Group has joint control, which is the contractually agreed sharing of control of such arrangement with one or more other parties. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:

- A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party must recognize its assets, liabilities, revenue and expenses, including its share of the assets held jointly and of the liabilities incurred jointly as well as its share of the revenue generated and expenses incurred in connection with the joint operation.

- A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This type of joint arrangement is accounted for using the equity method.

Desjardins Group's investments in joint arrangements are joint ventures. These investments are presented under "Other assets – Other" in the Combined Balance Sheets.

PRESENTATION AND FUNCTIONAL CURRENCY

These Combined Financial Statements are expressed in Canadian dollars, which is also the functional currency of Desjardins Group. Dollar amounts presented in the tables of the Notes to the Combined Financial Statements are in millions of dollars, unless otherwise stated.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Financial assets and liabilities

Financial assets and liabilities are recognized on the date Desjardins Group becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

CLASSIFICATION AND MEASUREMENT

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. Their classification in the categories defined in the financial instrument standards is presented in Note 5, "Carrying amount of financial instruments".

The classification of financial assets can be summarized as follows:

Categories		**Classes**	**Recognition**	
			Initial	**Subsequent**
Financial assets	At fair value through profit or loss (i)	Held for trading (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Loans and receivables (iv)		Fair value	Amortized cost
	Available for sale (v)		Fair value	Fair value
	Held to maturity (vi)		Fair value	Amortized cost

(i) Financial assets classified in the "At fair value through profit or loss" category include financial assets "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities classified in this category are recorded in the Combined Statements of Income under "Net income (loss) on securities at fair value through profit or loss".

- Interest and dividend income from securities classified in the "At fair value through profit or loss" category of the Personal Services and Business and Institutional Services segment and the Other category is recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net income (loss) on securities at fair value through profit or loss" using the effective interest method. Interest income from derivative financial instruments is recognized under "Net income (loss) on securities at fair value through profit or loss".

(ii) Financial assets classified as "Held for trading" include the following:

- Securities acquired for resale purposes in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking; and

- Derivative financial instruments.

Derivative financial instruments designated as fair value or cash flow hedging items cannot be classified in the "At fair value through profit or loss" category. Section n), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial assets classified as "Designated as at fair value through profit or loss" are essentially securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.

- The assets are part of a group of financial assets or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.

- The assets are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group's financial assets classified in this category comprise certain investments made in connection with derivative instruments that are not designated as part of a hedging relationship, thereby significantly reducing a recognition inconsistency. In addition, Desjardins Group has designated the asset-backed term notes (ABTN) as part of this category. ABTNs are composed of certain hybrid financial instruments containing embedded derivatives, while some others are considered to be part of a group of assets that are managed and whose performance is evaluated on a fair value basis. Lastly, certain securities in this category that back the life and health insurance actuarial liabilities and the property and casualty provisions for claims have been classified as "Designated as at fair value through profit or loss" to eliminate or significantly reduce a recognition inconsistency.

(iv) Securities classified in the "Loans and receivables" category are non-derivative financial assets with fixed or determinable income that are not quoted in an active market and that are not held for sale upon their acquisition or their granting.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Outstanding securities classified in this category are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities classified in the “Loans and receivables” category is presented under “Interest income – Loans” in the Combined Statements of Income when it is recognized by the Personal Services and Business and Institutional Services segment and the Other category. Income for the other segments is recognized under “Other income – Other” in the Combined Statements of Income.

(v) Securities classified in the “Available for sale” category are non-derivative financial assets that are initially designated as available for sale or that are not classified in the “At fair value through profit or loss”, “Held to maturity” or “Loans and receivables” categories. Available-for-sale securities can be sold further to or in view of fluctuations in interest rates, exchange rates or prices of equity instruments or changes in financing sources or terms, or to meet the liquidity needs of Desjardins Group.

Gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Combined Statements of Comprehensive Income under “Net unrealized gains on available-for-sale securities” until the financial asset is derecognized. Premiums and discounts on the purchase of available-for-sale securities are amortized over the life of the securities using the effective interest method and recognized under “Interest income – Securities” for the Personal Services and Business and Institutional Services segment and the Other category and, for the other segments, are mainly recognized under “Net income on available-for-sale securities”.

(vi) Securities classified in the “Held to maturity” category are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intention and ability to hold to maturity. These securities are recognized at amortized cost using the effective interest method. Desjardins Group held no instruments in this category at the reporting dates.

The classification of financial liabilities can be summarized as follows:

Categories		**Classes**	**Recognition**	
			Initial	**Subsequent**
Financial liabilities	At fair value through profit or loss (i)	Held for trading (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	At amortized cost (iv)		Fair value	Amortized cost

(i) Financial liabilities classified in the “At fair value through profit or loss” category include financial liabilities “Held for trading” and “Designated as at fair value through profit or loss”. Therefore:

- Changes in fair value of securities classified in this category are recorded in the Combined Statements of Income under “Net income (loss) on securities at fair value through profit or loss”.
- Interest expense related to financial liabilities classified in the "At fair value through profit or loss" category is recognized under “Net income (loss) on securities at fair value through profit or loss”.

(ii) Financial liabilities classified as “Held for trading” are debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments are also classified as “Held for trading”. Derivative financial instruments designated as fair value or cash flow hedging instruments cannot be classified in this category. Section n), “Derivative financial instruments and hedging activities”, specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial liabilities classified as “Designated as at fair value through profit or loss” have been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.
- The liabilities are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group held no instruments in this category at the reporting dates.

(iv) Financial liabilities that are not classified in the “At fair value through profit or loss” category are classified in the “At amortized cost” category.

Financial liabilities classified in this category are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities classified in the “At amortized cost” category is recognized under “Interest expense” in the Combined Statements of Income for the Personal Services and Business and Institutional Services segment and the Other category. Income for the other segments is mainly recognized under “Net income (loss) on securities at fair value through profit or loss” in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There is little subjectivity in the determination of the fair value of financial instruments, especially securities and commitments related to securities sold short, obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other valuation techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques rely on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is made in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

Loans

The fair value of loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and takes estimated prepayments into account. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of impaired loans is assumed to be equal to their carrying amount.

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. The fair value of derivative financial instruments is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 21, "Derivative financial instruments and hedging activities", specifies the nature of derivative financial instruments held by Desjardins Group.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements", "Clients' liability under acceptances", "Premiums receivable", "Amounts receivable from clients, brokers and financial institutions", some items included in "Other assets – Other", "Acceptances", "Commitments related to securities lent or sold under repurchase agreements", "Amounts payable to clients, brokers and financial institutions" and some items included in "Other liabilities – Other".

TRANSACTION COSTS

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method, except if such instruments are classified or designated as part of the "At fair value through profit or loss" category, in which case they are expensed as incurred.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and Desjardins Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognized from the Combined Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but Desjardins Group has the obligation to pay them to a third party under certain conditions, or when Desjardins Group transfers the contractual rights to receive the cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by Desjardins Group, such asset is not derecognized from the Combined Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, Desjardins Group derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Balance Sheets to the extent of its continuing involvement in that asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates Desjardins Group's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Combined Statements of Income.

c) Cash and deposits with financial institutions

"Cash and deposits with financial institutions" includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions—including net amounts receivable related to cheques and other items in the clearing process—as well as the net amount of cheques and other items in transit. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

d) Securities

Securities are instruments classified based on their characteristics and management's intention in the various categories presented in section b), "Financial assets and liabilities", above.

SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND SECURITIES BORROWED

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Combined Balance Sheets.
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As part of securities borrowings, Desjardins Group pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Combined Balance Sheets. When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of these securities are retained.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS AND SECURITIES LENT

Securities sold under repurchase agreements and securities lent are not derecognized from the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets.

As part of securities loans, Desjardins Group receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets. When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SECURITIES SOLD SHORT

Securities sold short as part of trading activities, which represent Desjardins Group's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized in the Combined Statements of Income under "Net income (loss) on securities at fair value through profit or loss".

e) Loans

Loans, including advances to policyholders, are recorded at amortized cost, net of the allowance for credit losses, using the effective interest method.

The fees collected and the direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loan. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as cash, government securities, shares, receivables, inventory or capital assets.

f) Impairment of financial assets

IMPAIRED LOANS

At the reporting date, Desjardins Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A loan is considered impaired when there is such evidence, and more specifically when one of the following conditions is met:

- There is reason to believe that a portion of the principal or interest cannot be collected; or
- The interest or principal repayment is contractually 90 days past due, unless the loan is fully secured and in the process of collection; or
- The interest or principal is more than 180 days past due.

A loan is not classified as impaired when it is fully guaranteed or insured by a Canadian government (federal or provincial) or an agency of a Canadian government.

A loan is considered past due when the borrower has failed to make a payment by the contractual due date.

When a loan becomes impaired, the interest previously accrued but not collected is capitalized to the loan. Payments received subsequently are recorded as a deduction of the principal. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no doubt as to its collection or when it is restructured and is treated as a new loan and there is no doubt as to the collection of principal and interest.

Assets foreclosed to settle impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount and the fair value recorded for the acquired assets is recognized under "Provision for credit losses".

A loan classified as "Loans and receivables" is written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Combined Statements of Income. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days.

Changes in the individual allowance for credit losses due to the passage of time are recognized under "Interest income − Loans", while those that are due to a revision of expected receipts are recognized under "Provision for credit losses" in the Combined Statements of Income.

ALLOWANCE FOR CREDIT LOSSES

Objective evidence of impairment results from a loss event that occurred after the loan was granted but before the reporting date and that has an impact on the estimated future cash flows of loans.

The impairment of a loan or a group of loans is determined by estimating the recoverable amount of these financial assets. The allowance is equal to the difference between this amount and the carrying amount. This allowance is presented in deduction of assets under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, Desjardins Group discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the collateral underlying the loan, net of expected costs of realization, or the observable market price for the loan. The collateral may vary depending on the type of loan.

The allowance for credit losses represents management's best estimate for loan impairment at the reporting date. As part of its evaluation, management must make judgments to determine the data, assumptions and estimates to be used, including determining when a loan is considered impaired and the amount that could be recovered. Changing these estimates and assumptions would have an impact on the allowance for credit losses and the provision for credit losses for the year.

The allowance for credit losses related to impaired loans is measured either individually or collectively for loans that are not individually material, while the allowance for credit losses is measured collectively for unimpaired loans.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Individual allowances

Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

Collective allowance on impaired loans

Certain consumer, credit card and other personal loan portfolios comprise a large number of homogeneous balances that are not individually material and for which a collective allowance is established based on the portfolio's historical net loss rate.

Collective allowance

Loan portfolios for which there is no objective evidence of impairment are included in groups of assets having similar credit characteristics and are subject to a collective allowance.

The method used by Desjardins Group to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as the probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and risk rating of each loan. The measurement of the collective allowance relies heavily on management's judgements and depends on management's assessment of current credit quality trends with respect to business sectors, the impact of changes in its credit policies, and economic conditions.

The collective allowance for the loans of the life and health insurance subsidiaries is included in actuarial liabilities, under "Insurance contract liabilities".

The allowance related to off-balance sheet exposures, such as letters of guarantee and certain unrecognized credit commitments, is recorded under "Other liabilities – Other" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

AVAILABLE-FOR-SALE SECURITIES

Securities classified in the "Available-for-sale" category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring a decline in value, Desjardins Group takes into account many facts specific to each investment and all the factors that could indicate that there has been impairment. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring, and the disappearance of an active market for the financial asset in question. Management also uses its judgment to determine when to recognize an impairment loss.

Desjardins Group individually assesses debt securities classified in the "Available-for-sale" category to determine whether there is any objective evidence of impairment. The impairment loss represents the cumulative loss, which is the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income is calculated on the reduced carrying amount using the interest rate used to discount future cash flows in order to measure the impairment loss. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss had been recognized in the Combined Statements of Income, the impairment loss is reversed through the Combined Statements of Income.

For equity securities classified in the "Available-for-sale" category, the objective evidence would also include a "significant" or "prolonged" decline in the fair value below cost. When evidence of impairment exists, the cumulative loss (the difference between acquisition cost and current fair value, less any impairment loss previously recognized) is transferred out of other comprehensive income, in the Combined Statements of Comprehensive Income, and recognized in the Combined Statements of Income. Impairment losses on equity securities are not reversed through the Combined Statements of Income, and increases in fair value occurring subsequent to impairment are recorded directly in other comprehensive income, in the Combined Statements of Comprehensive Income. Any impairment loss on securities previously impaired is directly recognized in the Combined Statements of Income.

g) Property, plant and equipment and investment property

Property, plant and equipment

Property, plant and equipment consists of land, buildings, computer hardware, furniture, fixtures and other items as well as leasehold improvements. These assets are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under "Non-interest expense – Premises, equipment and furniture, including depreciation" in the Combined Statements of Income.

Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the "Investment property" category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the "Investment property" category to the "Buildings" category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by Desjardins Group becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

The depreciation expense for investment properties is recognized under "Net other investment income" in the Combined Statements of Income.

Depreciation

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	2 to 10 years
Furniture, fixtures and other	3 to 10 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

Derecognition

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains and losses on the disposal or sale of buildings are recognized in the Combined Statement of Income for the year in which they are realized under "Premises, equipment and furniture, including depreciation" for property, plant and equipment and under "Net other investment income" for investment property.

h) Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method.

At the acquisition date, each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

Intangible assets

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

Desjardins Group assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and client relationships and are amortized using the straight-line method over their estimated useful lives, which do not exceed 40 years. Intangible assets with indefinite useful lives include mainly trademarks and licenses.

Gains or losses resulting from the derecognition of an intangible asset correspond to the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under "Non-interest expense – Other" in the Combined Statements of Income upon derecognition of the asset.

i) Impairment of non-financial assets

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset, less costs of disposal, in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Combined Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Combined Statements of Income in the year in which they occur.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

Goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill and intangible assets with indefinite useful lives is performed based on the recoverable amount of the asset or each CGU (or each group of CGUs) to which goodwill or the intangible asset with an indefinite useful life is allocated. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each intangible asset with an indefinite useful life or each CGU.

When the recoverable amount of the asset or the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statement of Income for the year and is first recorded as a reduction of the intangible asset with an indefinite useful life or, in the case of a CGU, as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of the impairment loss to the assets of the CGU or group of CGUs must however not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

j) Acceptances and clients' liability under acceptances

The potential liability of Desjardins Group under acceptances is recorded as a liability in the Combined Balance Sheets. Recourse against the client, in the event of a call on any of these commitments, is recorded as an equivalent offsetting asset.

k) Insurance contract liabilities

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by the insurance subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries, and they are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each life and health insurance subsidiary is required to determine the actuarial liabilities needed to meet its future commitments. The actuarial liabilities of these subsidiaries are determined using the Canadian Asset Liability Method (CALM), in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

Under CALM, actuarial liabilities of the life and health insurance subsidiaries are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Combined Statement of Income for the year in which the revision occurs. The provisions for claims and adjustment expenses are reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the contract holder to participate in the profitability related to their contracts. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health subsidiaries elected not to recognize the participating portion of these contracts separately. The cumulative amount of surplus earnings attributable to these contracts is presented under “Non-controlling interests” in the Combined Balance Sheets.

Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated to contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Combined Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under “Reinsurance assets” in the Combined Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These reinsurance assets comprise the reinsurers’ share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers’ share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

l) Segregated funds

Certain insurance contracts allow policyholders to invest in segregated funds held by one of the life and health insurance subsidiaries for their benefit. All risks and rewards of ownership of these investments accrue to the policyholders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Combined Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section b), “Financial assets and liabilities”. In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to policyholders’ rights to the segregated fund net assets is also recognized separately.

m) Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognized when Desjardins Group has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management’s best estimate of the amounts required to settle the obligation on the reporting date, taking into account the relevant uncertainties and risks. As these estimates are forward-looking in nature, management must use its judgment to forecast the timing and amount of future cash flows. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in profit or loss under the items corresponding to the nature of the expenditures covered.

n) Derivative financial instruments and hedging activities

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of Desjardins Group’s derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and mainly consist of futures. The types of contracts used are defined in Note 21, “Derivative financial instruments and hedging activities”.

Derivative financial instruments, including embedded derivatives which are required to be recognized separately, are recognized at fair value on the Combined Balance Sheets.

Embedded derivative financial instruments are separated from their host contract and accounted for as derivatives if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative has the same terms as a separate instrument; (c) the hybrid instrument or contract is not measured at fair value with changes in fair value recognized in combined profit or loss. Embedded derivatives that are required to be recognized separately are measured at fair value, and changes in their fair value are recognized under “Net income (loss) on securities at fair value through profit or loss” in the Combined Statements of Income.
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Desjardins Group uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of members and clients, and to allow Desjardins Group to generate income on its own trading activities. These derivative financial instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under “Net income (loss) on securities at fair value through profit or loss” in the Combined Statements of Income.

Derivative financial instruments held for asset/liability management purposes are used to manage current and expected risks related to market risk. These instruments enable Desjardins Group to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Combined Balance Sheets, as well as firm commitments and forecasted transactions.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

HEDGING ACTIVITIES

Desjardins Group mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, Desjardins Group must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows of the hedged item attributable to the risk being hedged.

Desjardins Group may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting. In such circumstances, derivative financial instruments are classified as “Held for trading”, and realized and unrealized gains and losses are recognized in the Combined Statements of Income under “Net income (loss) on securities at fair value through profit or loss”.

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or Desjardins Group terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. Desjardins Group uses fair value hedge strategies for its securities, loan and deposit portfolios.

In a fair value hedge transaction, changes in the fair value of the hedging derivative financial instrument are recognized under “Net income (loss) on securities at fair value through profit or loss” in the Combined Statements of Income, as are changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized under “Net income (loss) on securities at fair value through profit or loss” in the Combined Statements of Income.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Combined Statements of Income, following the underlying instrument, over the remaining life of the hedged item, unless the hedged item ceased to exist, in which case the adjustments for the impact of the designated risk are immediately recognized under “Net income (loss) on securities at fair value through profit or loss” in the Combined Statements of Income.

Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. Desjardins Group uses cash flow hedge strategies for its loan, deposit and securities portfolios.

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized in other comprehensive income under “Net gains (losses) on derivative financial instruments designated as cash flow hedges” until the hedged item is recognized in the Combined Statements of Income, at which time such changes are recognized in net interest income in the Combined Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized in the Combined Statements of Income under “Net income (loss) on securities at fair value through profit or loss”.

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues such accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Combined Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under “Net income (loss) on securities at fair value through profit or loss”.

o) Financial guarantees

A financial guarantee is a contract or an indemnification agreement that could contingently require Desjardins Group to make payments to the guaranteed party following a loss resulting from the default by a specified third party to make a payment upon maturity in accordance with the original or modified provisions of the borrowing instrument.

Financial guarantees are initially recognized as liabilities in the Combined Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, the guarantee is measured at the higher of the following amounts:

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) The amount initially recorded less, when appropriate, cumulative amortization of costs recognized in the Combined Statements of Income; or

ii) The best estimate of cash outflows required to settle any financial obligation resulting from the guarantee.

If a financial guarantee meets the definition of a derivative, it is measured at fair value at each reporting date and presented as a derivative financial instrument. Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument.

The carrying value of guarantees does not reflect the maximum potential amount of future payments under guarantees. Desjardins Group considers the difference between these two amounts as off-balance sheet credit instruments.

p) Reserves

Reserves included in equity are mainly from the caisses. They are based on the balance of the reserves as at December 31 of the prior year and the surplus earnings distribution plans for such year, which must be approved by the general meeting of each caisse within the first four months following year-end.

The stabilization reserve of a caisse and the Federation’s stabilization reserve consist of amounts appropriated from the surplus earnings for the year by the caisse or the Federation, as appropriate. Amounts appropriated to the stabilization reserve of a caisse are essentially used for the payment of interest on permanent shares it issued when the annual surplus earnings of such caisse are not sufficient. Amounts appropriated to the Federation’s stabilization reserve are essentially used for the payment of interest on permanent shares issued by a caisse when the amounts appropriated to such caisse’s stabilization reserve are not sufficient, and for the payment of interest on F capital shares issued by the Federation when the annual surplus earnings of the Federation are not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the caisses. This reserve allows them to manage over time the impact of changes in annual surplus earnings on the payment of member dividends.

The general reserve is essentially made up of amounts appropriated by the caisses, the Federation, the *Fonds de sécurité Desjardins* and *Caisse centrale Desjardins*. This reserve can only be used to eliminate a deficit and cannot be divided amongst members nor used to pay a member dividend. Other reserves are mainly made up of amounts appropriated by the caisses that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized by the caisses.

q) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Desjardins Group and that it can be measured reliably. In addition to the items mentioned in section b), “Financial assets and liabilities”, the specific recognition criteria that follow must also be met before revenue can be recognized.

Net interest income

Interest income and expense are mainly earned or incurred by the Personal Services and Business and Institutional Services segment and the Other category. They are recognized using the effective interest method for all financial instruments measured at amortized cost, for interest-bearing financial assets classified in the “Available-for-sale” category and for financial instruments classified in the “At fair value through profit or loss” category.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period, to obtain the net carrying amount of the financial instrument.

When calculating the effective interest rate, Desjardins Group estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders’ fees, are assimilated to supplemental interest.

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as these premiums are recognized, an actuarial provision is established and recognized in liabilities under “Insurance contract liabilities”. Premiums are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the Combined Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. Premiums are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the Combined Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under “Insurance contract liabilities” in the Combined Balance Sheets.

Service charges, commissions, brokerage fees and other

Desjardins Group earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its members and clients.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under “Deposit and payment service charges” and “Brokerage and investment fund services” in the Combined Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by Desjardins Group is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under “Lending fees and credit card service revenues” in the Combined Statements of Income.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party—such as the arrangement of share or other securities acquisitions or business purchases or sales—are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under “Brokerage and investment fund services” in the Combined Statements of Income. Income from lending fees and credit card service revenue is recorded under “Lending fees and credit card service revenues” in the Combined Statements of Income.

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under “Management and custodial service fees” in the Combined Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under “Management and custodial service fees” in the Combined Statements of Income.

Dividend income is recognized when Desjardins Group’s right to receive payment of the dividend is established.

r) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Combined Balance Sheets of Desjardins Group. Income from these management services is recognized under “Management and custodial service fees” in the Combined Statements of Income when the service is provided.

s) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized in the Combined Statements of Income under “Foreign exchange income”. However, unrealized gains and losses on non-monetary financial instruments classified as “Available for sale”, and gains and losses on derivatives designated as cash flow hedging instruments are presented in other comprehensive income in the Combined Statements of Comprehensive Income.

t) Leases

Under a finance lease, the lessor transfers to the lessee substantially all the risks and rewards inherent to the asset. This type of lease is analyzed as financing granted to the lessee to purchase the asset. In contrast, under an operating lease, the lessor retains substantially all the risks and rewards inherent to the leased asset. Desjardins Group mainly enters into operating leases. The recognition of operating leases depends on Desjardins Group’s position as a lessor or as a lessee:

Lessor

When Desjardins Group is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under “Net other investment income” and the leased asset remains recognized in the Combined Balance Sheets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent is recognized in profit or loss in the year during which it is earned.

Lessee

When Desjardins Group is the lessee, the asset is not recognized as an asset. Lease payments made under operating leases are recognized as an expense on a straight-line basis until the end of the lease under “Premises, equipment and furniture, including depreciation”, in the Combined Statements of Income.

u) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish the assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

CURRENT INCOME TAXES

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that Desjardins Group expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting date.

DEFERRED INCOME TAXES

Deferred taxes are recognized, using the balance sheet liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Combined Balance Sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss); and

ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the temporary difference reverses can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these deductible temporary differences, tax loss carryforwards and unused tax credits can be utilized, except in the following cases:

i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss); and

ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that a taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of a deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

v) Member dividends

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends are estimated based on, among other things, the surplus earnings recorded for the year by the caisses, taking into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid, in cash or in shares for surplus shares, following the general meetings held by the caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. For surplus shares, the surplus earnings distribution plan takes into account a program under which members may elect to receive their dividends in the form of shares, in which case the value is greater than the equivalent dividends paid in cash. Whether paid in shares or cash, member dividends are recognized under "Member dividends" in the Combined Statements of Income. The caisses can pay out member dividends when legal and regulatory requirements have been met.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

w) Employee benefits

SHORT-TERM BENEFITS

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

POST-EMPLOYMENT BENEFITS

Pension and post-retirement benefit plans

Desjardins Group offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Combined Statements of Income and includes current service cost, past service cost and net interest on net defined benefit plan liabilities. Past service cost resulting from a plan amendment or curtailment is immediately recognized in the Combined Statements of Income.

Remeasurements of net defined benefit plan liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and are immediately reclassified to undistributed surplus earnings. Remeasurements of net defined benefit plan liabilities include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Combined Statements of Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets or liabilities are equal to the present value of the plans' obligation, calculated using the projected unit credit method, less the fair value of plan assets. The value of any defined benefit plan asset is, when appropriate, limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

Net pension plan and other post-retirement benefit plan liabilities are recognized under "Net defined benefit plan liabilities" in the Combined Balance Sheets.

NOTE 3 – CHANGES IN ACCOUNTING POLICIES

Offsetting financial assets and liabilities

On January 1, 2014, Desjardins Group adopted the amendments to IAS 32, "Financial Instruments: Presentation". The amendments clarify the criteria for offsetting financial assets and financial liabilities, including the legally enforceable and unconditional right to set off and the simultaneous realization of the asset and settlement of the liability. The adoption of the amendments to IAS 32 had no impact of Desjardins Group's profit or loss and financial position.

NOTE 4 – FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2014 are presented below. Regulatory authorities have stated that early adoption of these standards will not be permitted, unless they indicate otherwise.

IFRS 11, "Joint Arrangements" – ***Acquisition of an interest in a joint operation***

In May 2014, the IASB issued amendments to IFRS 11, "Joint Arrangements". These amendments specify that the principles for accounting for business combinations apply to the acquisition of an interest in a joint operation that constitute a business as defined in IFRS 3, "Business Combinations".

The amendments are effective for annual periods beginning on or after January 1, 2016 and must be applied prospectively.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which introduces a single, comprehensive revenue recognition model for all contracts with customers other than those that are within the scope of other standards, such as insurance contracts and financial instruments. IFRS 15 therefore supersedes the two main revenue recognition standards, IAS 18, "Revenue", and IAS 11, "Construction Contracts", as well as related interpretations. The core principle of this new standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services. The new standard also provides more guidance on certain types of transactions and will result in an increase in disclosures related to revenue.

Desjardins Group is currently assessing the impact of adopting IFRS 15, which is effective for annual periods beginning on or after January 1, 2017.

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the complete and final version of IFRS 9, "Financial Instruments", which will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 includes the requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

IFRS 9 sets out a new classification and measurement model for financial assets to determine whether a financial asset should be classified as measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held. For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements of IAS 39.

The standard also introduces a single financial asset impairment model requiring the recognition of expected credit losses instead of incurred losses, as the current impairment model requires. The model sets out a multiple-stage approach based on changes in credit quality since initial recognition.

Finally, IFRS 9 sets out a new hedge accounting model to align hedge accounting more closely with risk management activities.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Desjardins Group is currently assessing the impact of adopting this standard.

NOTE 5 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

The following tables present the carrying amount of all financial assets and liabilities according to their classification in the categories defined in the financial instrument standards as well as the carrying amount of financial instruments designated as hedging instruments.

	At fair value through profit or loss					
As at December 31, 2014	**Held for trading**	**Designated as at fair value through profit or loss**	**Available for sale**	**Loans and receivables, and financial liabilities at amortized cost**	**Derivatives designated as hedging instruments[(2)]**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ 13	$ 174	$ 262	$ 1,332	$ -	$ 1,781
Securities						
Securities at fair value through profit or loss	11,168	13,677	-	-	-	24,845
Available-for-sale securities	-	-	19,890	-	-	19,890
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	9,959	-	9,959
Loans[(1)]	-	-	-	150,454	-	150,454
Other financial assets						
Clients' liability under acceptances	-	-	-	858	-	858
Premiums receivable	-	-	-	1,127	-	1,127
Derivative financial instruments	1,896	-	-	-	1,237	3,133
Amounts receivable from clients, brokers and financial institutions	-	-	-	1,742	-	1,742
Other	-	-	-	955	-	955
Total financial assets	$ 13,077	$ 13,851	$ 20,152	$ 166,427	$ 1,237	$ 214,744
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 146,324	$ -	$ 146,324
Other financial liabilities						
Acceptances	-	-	-	858	-	858
Commitments related to securities sold short	6,304	-	-	-	-	6,304
Commitments related to securities lent or sold under repurchase agreements	-	-	-	13,072	-	13,072
Derivative financial instruments	1,495	-	-	-	180	1,675
Amounts payable to clients, brokers and financial institutions	-	-	-	3,713	-	3,713
Other	91	-	-	2,798	-	2,889
Subordinated notes	-	-	-	2,564	-	2,564
Total financial liabilities	$ 7,890	$ -	$ -	$ 169,329	$ 180	$ 177,399

(1) For more information, see Note 9, "Loans and allowance for credit losses".
(2) For details on derivatives designated as hedging instruments, see Note 21, "Derivative financial instruments and hedging activities".

NOTE 5 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

As at December 31, 2013	At fair value through profit or loss – Held for trading	At fair value through profit or loss – Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ -	$ 25	$ 129	$ 1,166	$ -	$ 1,320
Securities						
Securities at fair value through profit or loss	11,211	12,325	-	-	-	23,536
Available-for-sale securities	-	-	19,041	-	-	19,041
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,710	-	7,710
Loans[1]	-	-	-	140,533	-	140,533
Other financial assets						
Clients' liability under acceptances	-	-	-	985	-	985
Premiums receivable	-	-	-	1,123	-	1,123
Derivative financial instruments	1,555	-	-	-	767	2,322
Amounts receivable from clients, brokers and financial institutions	-	-	-	1,891	-	1,891
Other	-	-	-	1,013	-	1,013
Total financial assets	**$ 12,766**	**$ 12,350**	**$ 19,170**	**$ 154,421**	**$ 767**	**$ 199,474**
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 136,746	$ -	$ 136,746
Other financial liabilities						
Acceptances	-	-	-	985	-	985
Commitments related to securities sold short	7,754	-	-	-	-	7,754
Commitments related to securities lent or sold under repurchase agreements	-	-	-	9,579	-	9,579
Derivative financial instruments	1,447	-	-	-	272	1,719
Amounts payable to clients, brokers and financial institutions	-	-	-	3,752	-	3,752
Other	133	-	-	2,793	-	2,926
Subordinated notes	-	-	-	3,063	-	3,063
Total financial liabilities	**$ 9,334**	**$ -**	**$ -**	**$ 156,918**	**$ 272**	**$ 166,524**

[1] For more information, see Note 9, "Loans and allowance for credit losses".
[2] For details on derivatives designated as hedging instruments, see Note 21, "Derivative financial instruments and hedging activities".

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

The fair value measurement of instruments is determined using the following three-level fair value hierarchy:

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

Transfers between levels

Transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following tables present the hierarchy for financial instruments measured at fair value in the Combined Balance Sheets.

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 4	$ 183	$ -	$ 187
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,530	478	-	7,008
Provincial governmental entities and municipal corporations in Canada	10,806	368	-	11,174
School or public corporations in Canada	31	132	-	163
Foreign public administrations	797	-	-	797
Other securities				
Financial institutions	25	558	72	655
Other issuers	2	1,635	2,527	4,164
Equity securities	752	111	21	884
	18,947	3,465	2,620	25,032
Derivative financial instruments				
Interest rate contracts	-	1,000	-	1,000
Foreign exchange contracts	-	917	-	917
Other contracts	-	1,216	-	1,216
	-	3,133	-	3,133
Total financial assets at fair value through profit or loss	18,947	6,598	2,620	28,165
Available-for-sale financial assets				
Cash and deposits with financial institutions	-	262	-	262
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,769	1,326	-	8,095
Provincial governmental entities and municipal corporations in Canada	8,385	198	-	8,583
School or public corporations in Canada	8	-	-	8
Foreign public administrations	-	31	-	31
Other securities				
Financial institutions	192	626	-	818
Other issuers	-	278	107	385
Equity securities	1,533	392	43	1,968
Total available-for-sale financial assets[(1)]	16,887	3,113	150	20,150
Financial instruments of segregated funds	5,044	3,682	-	8,726
Total financial assets	$ 40,878	$ 13,393	$ 2,770	$ 57,041
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 6,118	$ 186	$ -	$ 6,304
Other	-	-	91	91
	6,118	186	91	6,395
Derivative financial instruments				
Interest rate contracts	-	248	-	248
Foreign exchange contracts	-	230	-	230
Other contracts	-	1,180	17	1,197
	-	1,658	17	1,675
Total financial liabilities	$ 6,118	$ 1,844	$ 108	$ 8,070

(1) As at December 31, 2014, certain available-for-sale securities having a carrying amount of $2 million were recognized at cost since their fair value cannot reliably be measured.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE *(continued)*

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 1	$ 24	$ -	$ 25
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,791	542	-	6,333
Provincial governmental entities and municipal corporations in Canada	9,763	459	-	10,222
School or public corporations in Canada	27	128	-	155
Foreign public administrations	525	-	-	525
Other securities				
Financial institutions	22	1,117	61	1,200
Other issuers	1	1,673	2,505	4,179
Equity securities	804	109	9	922
	16,934	4,052	2,575	23,561
Derivative financial instruments				
Interest rate contracts	-	785	-	785
Foreign exchange contracts	-	405	-	405
Other contracts	-	1,131	1	1,132
	-	2,321	1	2,322
Total financial assets at fair value through profit or loss	16,934	6,373	2,576	25,883
Available-for-sale financial assets				
Cash and deposits with financial institutions	-	129	-	129
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,392	-	-	6,392
Provincial governmental entities and municipal corporations in Canada	7,870	295	-	8,165
School or public corporations in Canada	5	-	-	5
Foreign public administrations	-	35	-	35
Other securities				
Financial institutions	197	2,109	-	2,306
Other issuers	5	242	104	351
Equity securities	1,457	299	29	1,785
Total available-for-sale financial assets[(1)]	15,926	3,109	133	19,168
Financial instruments of segregated funds	4,479	2,806	-	7,285
Total financial assets	**$ 37,339**	**$ 12,288**	**$ 2,709**	**$ 52,336**
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 7,651	$ 103	$ -	$ 7,754
Other	-	-	133	133
	7,651	103	133	7,887
Derivative financial instruments				
Interest rate contracts	-	511	-	511
Foreign exchange contracts	-	85	-	85
Other contracts	-	1,113	10	1,123
	-	1,709	10	1,719
Total financial liabilities	**$ 7,651**	**$ 1,812**	**$ 143**	**$ 9,606**

(1) As at December 31, 2013, certain available-for-sale securities having a carrying amount of $2 million were recognized at cost since their fair value cannot reliably be measured.

During the years ended December 31, 2014 and 2013, no transfers attributable to changes in the observability of market data were made between hierarchy levels for financial instruments measured at fair value.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE

The following tables present, by hierarchy level, financial instruments whose carrying amount does not equal fair value.

As at December 31, 2014	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Loans	**$ 150,454**	**$ 151,014**	**$ -**	**$ 5,353**	**$ 145,661**
Financial liabilities					
Deposits	**146,324**	**146,736**	**886**	**145,850**	**-**
Subordinated notes	**2,564**	**2,784**	**-**	**2,784**	**-**

As at December 31, 2013	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans	$ 140,533	$ 141,087	$ -	$ 4,978	$ 136,109
Financial liabilities					
Deposits	136,746	137,452	897	136,555	-
Subordinated notes	3,063	3,267	-	3,267	-

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriate and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

The most significant financial instruments categorized within Level 3 that are held by Desjardins Group are ABTNs, mortgage bonds, equity securities and the financial liability related to put options written on certain non-controlling interests.

Desjardins Group uses an internal model to measure ABTNs. Data obtained from third parties are used to validate this measurement afterwards, and any significant difference is analyzed. In addition, the results from this model are frequently compared with certain credit indexes and other relevant indicators. To that effect, a scorecard that presents, in particular, an overview of the credit markets and indicators that can be used to follow up on the values and the main risks arising from ABTNs, is regularly sent to the members of a committee that supports the Management Committee of Desjardins Group. Every quarter, this committee approves the fair value of ABTNs as well as their measurement methodology.

For mortgage bonds, Desjardins Group developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

Desjardins Group measures the majority of equity securities based on brokers' valuations obtained from independent third parties. Data obtained are reviewed and approved by Desjardins Group.

In connection with the acquisition of Qtrade Canada Inc., which was completed in 2013, Desjardins Group wrote in favour of certain holders of non-controlling interests put options that give them the right to sell their interests at predetermined dates at a price representing fair value as at such date (hereinafter referred to as “Financial liability related to put options”). The main inputs used in the measurement of this financial liability are derived from internal forecasts prepared by the management of the acquiree and estimates made by Desjardins Group. The internal forecasts and assumptions on which this valuation technique is based have been prepared by an independent third party and have been reviewed and approved afterwards by Desjardins Group.

Sensitivity of financial instruments categorized within Level 3

Desjardins Group performs sensitivity analyses to measure the fair value of financial instruments categorized within Level 3. Changing unobservable inputs to one or more reasonably possible alternative assumptions does not significantly change the fair value of financial instruments categorized within Level 3.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Changes in fair value of financial instruments categorized within Level 3

The following tables present the changes in fair value for financial instruments categorized within Level 3 of the hierarchy, namely financial instruments whose fair value is determined using valuation techniques not based mainly on observable market data.

2014	**Balance at beginning of year**	**Realized gains / losses recognized in profit or loss[(1)]**	**Unrealized gains / losses recognized in profit or loss[(2)]**	**Unrealized gains / losses recognized in other comprehensive income[(3)]**	**Transfers of instruments into (out of) Level 3**	**Purchases / Issuances**	**Sales / Settlements**	**Balance at end of year**
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 61	$ -	$ -	$ -	$ -	$ 11	$ -	$ 72
Other issuers								
Hedge funds	18	-	(2)	-	-	-	(6)	10
Asset-backed term notes	1,630	-	69	-	-	-	(58)	1,641
Mortgage bonds	817	-	34	-	-	70	(71)	850
Financial asset-backed securities	40	-	2	-	-	-	(16)	26
Equity securities	9	-	-	-	-	12	-	21
Derivative financial instruments								
Other contracts								
Total return swap	1	-	-	-	(1)	-	-	-
Total financial assets at fair value through profit or loss	2,576	-	103	-	(1)	93	(151)	2,620
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	104	-	-	5	-	-	(2)	107
Equity securities	29	(1)	-	9	-	9	(3)	43
Total available-for-sale financial assets	133	(1)	-	14	-	9	(5)	150
Financial instruments of segregated funds	-	-	-	-	(2)	2	-	-
Total financial assets	$ 2,709	$ (1)	$ 103	$ 14	$ (3)	$ 104	$ (156)	$ 2,770
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 133	$ -	$ 5	$ -	$ -	$ -	$ (47)	$ 91
Derivative financial instruments								
Other contracts	10	(1)	9	-	-	2	(3)	17
Total financial liabilities	$ 143	$ (1)	$ 14	$ -	$ -	$ 2	$ (50)	$ 108

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income (loss) on securities at fair value through profit or loss”. Realized gains or losses on available-for-sale financial assets are recognized under “Net income on available-for-sale securities”.
(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income (loss) on securities at fair value through profit or loss”.
(3) Unrealized gains or losses on available-for-sale financial assets are recognized under “Net unrealized gains on available-for-sale securities” in the Combined Statements of Comprehensive Income.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Changes in fair value of financial instruments categorized within Level 3 *(continued)*

2013	Balance at beginning of year	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 63	$ -	$ (2)	$ -	$ -	$ -	$ -	$ 61
Other issuers								
Hedge funds	17	-	1	-	-	-	-	18
Asset-backed term notes	1,704	2	140	-	-	-	(216)	1,630
Mortgage bonds	667	-	(20)	-	-	183	(13)	817
Financial asset-backed securities	43	-	3	-	-	-	(6)	40
Equity securities	1	-	-	-	(1)	9	-	9
Derivative financial instruments								
Other contracts								
Total return swap	26	-	(25)	-	-	-	-	1
Total financial assets at fair value through profit or loss	2,521	2	97	-	(1)	192	(235)	2,576
Available-for-sale financial assets								
Available-for-sale securities								
Debt securities issued or guaranteed by								
Provincial governmental entities and municipal corporations in Canada	4	-	-	-	(4)	-	-	-
Other securities								
Other issuers								
Mortgage bonds	68	-	-	20	-	16	-	104
Equity securities	2	-	-	(8)	17	21	(3)	29
Total available-for-sale financial assets	74	-	-	12	13	37	(3)	133
Financial instruments of segregated funds	-	-	-	-	(2)	2	-	-
Total financial assets	**$ 2,595**	**$ 2**	**$ 97**	**$ 12**	**$ 10**	**$ 231**	**$ (238)**	**$ 2,709**
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ -	$ -	$ 31	$ -	$ -	$ 102	$ -	$ 133
Derivative financial instruments								
Other contracts	19	-	(8)	-	-	1	(2)	10
Total financial liabilities	**$ 19**	**$ -**	**$ 23**	**$ -**	**$ -**	**$ 103**	**$ (2)**	**$ 143**

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income (loss) on securities at fair value through profit or loss". Realized gains or losses on available-for-sale financial assets are recognized under "Net income on available-for-sale securities".

(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income (loss) on securities at fair value through profit or loss".

(3) Unrealized gains or losses on available-for-sale financial assets are recognized under "Net unrealized gains on available-for-sale securities" in the Combined Statements of Comprehensive Income.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Valuation techniques and inputs used to measure the fair value of financial instruments categorized within Level 3

The following tables present the main techniques and inputs used to measure the fair value of the significant financial instruments categorized within Level 3.

As at December 31, 2014	**Fair value**	**Main valuation techniques**	**Unobservable inputs**	**Input value ranges**			
Financial assets							
Securities							
Asset-backed term notes	**$ 1,641**	Internal model[(1)]	Illiquidity premium[(B)]		**4.0%**		
			Credit spread[(B,C)]	**0 bp**	**to**	**300 bp**	
Mortgage bonds	**1,029**	Discounted cash flows	Comparable inputs[(B,C)]	**0 bp**	**to**	**520 bp**	
			Proportion of credit spread[(B,C)]		**75 %**		
	17	Option valuation model	Increase in exercise price[(B,C)]		**5 %**		
Equity securities	**47**	Brokers' valuations	Brokers' inputs	**-**		**-**	(2)
Other financial assets[(3)]	**36**						
Total financial assets	**$ 2,770**						
Financial liabilities							
Other liabilities - Other							
			Enterprise value[(A,C)]	**-**		**-**	(4)
			Discount rate[(B,C)]		**7.5%**		
Financial liability related to put options	**$ 91**	Discounted cash flows	Put option exercise date[(B,C)]	**6 months**	**to**	**5 years**	
Other financial liabilities[(5)]	**17**						
Total financial liabilities	**$ 108**						

As at December 31, 2013	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
			Illiquidity premium[(B,C)]		5.7 %		
			Recovery rate[(A,D)]	13%	to	55%	
Asset-backed term notes	$ 1,630	Internal model[(1)]	Probability of default[(B,D)]	1%	to	87%	
			Credit spread[(B,C)]	0 bp	to	300 bp	
Mortgage bonds	982	Discounted cash flows	Comparable inputs[(B,C)]	0 bp	to	520 bp	
			Proportion of credit spread[(B,C)]		75%		
	9	Option valuation model	Increase in exercise price[(B,C)]		5%		
Equity securities	29	Brokers' valuations	Brokers' inputs	-		-	(2)
Other financial assets[(3)]	59						
Total financial assets	**$ 2,709**						
Financial liabilities							
Other liabilities - Other							
			Enterprise value[(A,C)]	-		-	(4)
			Discount rate[(B,C)]		7.5 %		
Financial liability related to put options	$ 133	Discounted cash flows	Put option exercise date[(B,C)]	6 months	to	6 years	
Other financial liabilities[(5)]	10						
Total financial liabilities	**$ 143**						

(1) For a description of the internal model, see the "Securities – Asset-backed term notes" section of Note 8, "Securities".
(2) Due to the nature of this type of investment, no input value range is presented.
(3) Include financial assets, such as hedge funds and financial asset-backed securities.
(4) Due to wide-ranging operations of the underlying business lines associated with the enterprise value, no input value range is presented.
(5) Include financial liabilities such as other derivative financial instrument contracts.

Fair value sensitivity to changes in unobservable inputs

(A) An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.
(B) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
(C) There is no predictable relationship between this input and other material unobservable inputs.
(D) An increase (decrease) in the probability of default is generally accompanied by a decrease (increase) in the recovery rate.

NOTE 7 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Combined Balance Sheets when, and only when, Desjardins Group has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Desjardins Group has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements that do not meet the criteria for offsetting in the Combined Balance Sheets as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Combined Balance Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Combined Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, Desjardins Group pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Combined Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Combined Balance Sheets.

The following tables present information about financial assets and liabilities that are set off and not set off in the Combined Balance Sheets and are subject to a master netting agreement or a similar agreement.

				Associated amounts not set off in the Combined Balance Sheets(1)		
As at December 31, 2014	**Gross recognized amounts**	**Set off amounts**	**Net amounts presented in the Combined Balance Sheets(2)**	**Financial instruments(3)**	**Financial collateral held / pledged**	**Residual amounts not set off**
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	**$ 10,162**	**$ 214**	**$ 9,948**	**$ 6,235**	**$ 3,711**	**$ 2**
Derivative financial instruments	**3,113**	**-**	**3,113**	**412**	**2,500**	**201**
Amounts receivable from clients, brokers and financial institutions and other	**20**	**5**	**15**	**13**	**-**	**2**
Total financial assets	**$ 13,295**	**$ 219**	**$ 13,076**	**$ 6,660**	**$ 6,211**	**$ 205**
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	**$ 13,286**	**$ 214**	**$ 13,072**	**$ 6,235**	**$ 6,834**	**$ 3**
Derivative financial instruments	**515**	**-**	**515**	**412**	**12**	**91**
Amounts payable to clients, brokers and financial institutions and other	**63**	**5**	**58**	**13**	**17**	**28**
Total financial liabilities	**$ 13,864**	**$ 219**	**$ 13,645**	**$ 6,660**	**$ 6,863**	**$ 122**

(1) Any over-collateralization is excluded from the table.

(2) The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 7 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

As at December 31, 2013	Gross recognized amounts	Set off amounts	Net amounts presented in the Combined Balance Sheets(2)	Associated amounts not set off in the Combined Balance Sheets(1) – Financial instruments(3)	Associated amounts not set off in the Combined Balance Sheets(1) – Financial collateral held / pledged	Residual amounts not set off
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 8,041	$ 331	$ 7,710	$ 3,822	$ 3,886	$ 2
Derivative financial instruments	2,307	-	2,307	442	1,800	65
Amounts receivable from clients, brokers and financial institutions and other	11	7	4	1	-	3
Total financial assets	**$ 10,359**	**$ 338**	**$ 10,021**	**$ 4,265**	**$ 5,686**	**$ 70**
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 9,632	$ 331	$ 9,301	$ 3,822	$ 5,472	$ 7
Derivative financial instruments	625	-	625	442	135	48
Amounts payable to clients, brokers and financial institutions and other	32	7	25	1	-	24
Total financial liabilities	**$ 10,289**	**$ 338**	**$ 9,951**	**$ 4,265**	**$ 5,607**	**$ 79**

(1) Any over-collateralization is excluded from the table.
(2) The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.
(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 8 – SECURITIES

MATURITIES OF SECURITIES

The following table presents an analysis of the maturities of Desjardins Group's securities.

	Terms to maturity							
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	As at December 31, 2014	As at December 31, 2013
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Debt securities issued or guaranteed by								
Canadian governmental entities	$ 1,872	$ 1,465	$ 652	$ 1,262	$ 1,756	$ -	$ 7,007	$ 6,333
Provincial governmental entities and municipal corporations in Canada	760	1,412	1,658	1,246	6,099	-	11,175	10,222
School or public corporations in Canada	2	3	-	-	158	-	163	155
Foreign public administrations	-	-	535	221	41	-	797	525
Other securities								
Financial institutions	61	166	77	207	144	-	655	1,200
Other issuers[(1)]	169	253	201	615	2,914	12	4,164	4,179
Equities	-	-	-	-	-	884	884	922
Total financial assets at fair value through profit or loss	2,864	3,299	3,123	3,551	11,112	896	24,845	23,536
Available-for-sale financial assets								
Available-for-sale securities								
Debt securities issued or guaranteed by								
Canadian governmental entities	392	4,960	2,383	357	3	-	8,095	6,392
Provincial governmental entities and municipal corporations in Canada	606	3,455	2,595	1,187	740	-	8,583	8,165
School or public corporations in Canada	-	-	8	-	-	-	8	5
Foreign public administrations	-	-	1	7	23	-	31	35
Other securities								
Financial institutions	355	314	60	86	-	3	818	2,306
Other issuers	8	32	64	269	12	1	386	351
Equities	-	-	-	-	7	1,962	1,969	1,787
Total available-for-sale financial assets	1,361	8,761	5,111	1,906	785	1,966	19,890	19,041
Total securities	$ 4,225	$ 12,060	$ 8,234	$ 5,457	$ 11,897	$ 2,862	$ 44,735	$ 42,577

(1) Includes ABTNs with a fair value of $1,641 million as at December 31, 2014.

NOTE 8 – SECURITIES *(continued)*

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

The following tables present unrealized gains and losses on available-for-sale securities.

As at December 31, 2014	**Amortized cost**	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying amount**
Debt securities issued or guaranteed by				
Canadian governmental entities	**$ 8,026**	**$ 69**	**$ -**	**$ 8,095**
Provincial governmental entities and municipal corporations in Canada	**8,336**	**247**	**-**	**8,583**
School or public corporations in Canada	**8**	**-**	**-**	**8**
Foreign public administrations	**30**	**1**	**-**	**31**
Other securities				
Financial institutions	**811**	**7**	**-**	**818**
Other issuers	**370**	**16**	**-**	**386**
Equity securities	**1,667**	**312**	**10**	**1,969**
	$ 19,248	**$ 652**	**$ 10**	**$ 19,890**

As at December 31, 2013	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 6,378	$ 33	$ 19	$ 6,392
Provincial governmental entities and municipal corporations in Canada	8,059	124	18	8,165
School or public corporations in Canada	5	-	-	5
Foreign public administrations	35	-	-	35
Other securities				
Financial institutions	2,280	27	1	2,306
Other issuers	348	6	3	351
Equity securities	1,507	291	11	1,787
	$ 18,612	**$ 481**	**$ 52**	**$ 19,041**

Impairment losses recognized

During the year ended December 31, 2014, Desjardins Group concluded that there was objective evidence of impairment. An impairment loss of $47 million ($24 million for the year ended December 31, 2013) on available-for-sale securities was recognized under “Net income on available-for-sale securities” in the Combined Statements of Income.

NOTE 8 – SECURITIES *(continued)*

SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

Desjardins Group holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of $1,641 million and $1,722 million, respectively ($1,630 million and $1,782 million as at December 31, 2013) and allocated among MAV 1 and MAV 3, with substantially all of the value attributable to MAV 1.

The derivative financial instruments serving as an economic hedge for ABTNs, which include a total return swap and credit default swaps, had a negative fair value of $3 million as at December 31, 2014 (negative fair value of $4 million as at December 31, 2013).

Desjardins Group participates, for an amount of $1,193 million, in the margin funding facility (MFF) intended to cover any potential collateral calls from the counterparties to the credit default swaps of MAV 1. This credit commitment matures in July 2017 or earlier if all such swap transactions have been settled. As at December 31, 2014, no amount had been drawn on the MFF. In addition, Desjardins Group purchased a $400 million protection for its commitments under the MFF. This protection will automatically end upon the maturity of MAV 1's MFF.

Desjardins Group entered into several transactions to reduce the risk associated with the ABTN portfolio, the MFF related to the ABTN portfolio and other restructured securities. These hedges have maturities that are similar to those of the ABTN portfolio, and management intends to keep them in place until they mature.

MAVs are structured entities that have been created for the specific purpose of aggregating the restructured notes arising from asset-backed commercial paper held by Canadian institutional investors. MAVs had assets of approximately $13,368 million as at December 31, 2014 ($13,818 million as at December 31, 2013), have no equity, and are composed mainly of synthetic asset transactions under which investors are committed to contributing to the MFF. Desjardins Group does not consolidate MAVs as it does not control them. As at December 31, 2014, excluding the effect of the economic hedging strategy, the maximum loss risk for Desjardins Group with respect to MAVs amounted to $2,834 million ($2,823 million as at December 31, 2013), which is the aggregate of the MFF and the fair value of ABTNs.

ABTN valuation methodology

Since there is no active market for these securities, Desjardins Group's management estimated the fair value of its holdings and the resulting changes in value by using a valuation technique. In addition, the trading of MAV 1 notes is subject to considerable restrictions, which make these notes illiquid.

The fair value of MAV 1's ABTNs is based on a financial model that reflects uncertainties regarding return, credit spreads, the nature and credit risk of underlying assets, the amount and timing of cash inflows, as well as the maturity dates and the liquidity restrictions of the new notes.

The model uses a methodology based on the market price of comparable securities, which is adjusted to take into account the mix of underlying assets and transactions as well as the lack of liquidity of the notes held by Desjardins Group. Assumptions used are based as much as possible on observable market data such as comparable securities and benchmark indexes for similar assets. They also reflect, if necessary, any specific features of MAV 1 and the illiquidity premium, which is an unobservable input.

Impact on profit or loss

A gain of $69 million related to the fair value of ABTNs was recognized in Desjardins Group's Combined Statement of Income for the year ended December 31, 2014 (gain of $142 million for the year ended December 31, 2013). In addition, a gain of $1 million related to the derivative financial instruments hedging ABTNs was recognized for the year ended December 31, 2014 (loss of $36 million for the year ended December 31, 2013).

NOTE 9 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following tables present the credit quality of loans.

As at December 31, 2014	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance[1]	Net loans
Residential mortgages	**$ 97,061**	**$ 303**	**$ 148**	**$ 14**	**$ 50**	**$ 97,448**
Consumer, credit card and other personal loans	**18,095**	**2,313**	**87**	**21**	**119**	**20,355**
Business and government	**32,026**	**601**	**276**	**89**	**163**	**32,651**
	$ 147,182	**$ 3,217**	**$ 511**	**$ 124**	**$ 332**	**$ 150,454**

[1] Includes the collective allowance on impaired loans of $13 million.

As at December 31, 2013	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance[1]	Net loans
Residential mortgages	$ 90,983	$ 270	$ 136	$ 14	$ 42	$ 91,333
Consumer, credit card and other personal loans	17,230	2,244	75	25	100	19,424
Business and government	29,239	526	248	94	143	29,776
	$ 137,452	**$ 3,040**	**$ 459**	**$ 133**	**$ 285**	**$ 140,533**

[1] Includes the collective allowance on impaired loans of $13 million.

GROSS LOANS PAST DUE BUT NOT IMPAIRED

The following tables present the aging of gross loans that are past due but not impaired.

As at December 31, 2014	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	**$ 242**	**$ 35**	**$ 15**	**$ 11**	**$ 303**
Consumer, credit card and other personal loans	**1,717**	**307**	**129**	**160**	**2,313**
Business and government	**393**	**70**	**28**	**110**	**601**
	$ 2,352	**$ 412**	**$ 172**	**$ 281**	**$ 3,217**

As at December 31, 2013	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 207	$ 33	$ 13	$ 17	$ 270
Consumer, credit card and other personal loans	1,723	270	105	146	2,244
Business and government	331	52	30	113	526
	$ 2,261	**$ 355**	**$ 148**	**$ 276**	**$ 3,040**

ALLOWANCES FOR CREDIT LOSSES

The following table presents the changes in the allowances for credit losses for the years ended December 31.

	Residential mortgages		Consumer, credit card and other personal loans		Business and government		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Balance at beginning of year	**$ 58**	$ 51	**$ 167**	$ 165	**$ 294**	$ 304	**$ 519**	$ 520
Provision for credit losses	**23**	19	**270**	229	**58**	29	**351**	277
Write-offs and recoveries	**(16)**	(12)	**(261)**	(227)	**(46)**	(39)	**(323)**	(278)
Balance at end of year	**$ 65**	**$ 58**	**$ 176**	**$ 167**	**$ 306**	**$ 294**	**$ 547**	**$ 519**
Composed of:								
Allowance for credit losses	**$ 64**	$ 56	**$ 140**	$ 125	**$ 252**	$ 237	**$ 456**	$ 418
Allowance for off-balance sheet credit commitments[1]	**1**	2	**36**	42	**54**	57	**91**	101

[1] The allowance for off-balance sheet credit commitments is presented under “Other liabilities – Other”.

NOTE 10 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Financial assets transferred through securitization transactions

As part of its liquidity and capital management strategy, Desjardins Group participates in the National Housing Act Mortgage-Backed Securities Program. Under this program, Desjardins Group bundles residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (NHA MBSs) and transfers them to the Canada Housing Trust (CHT). However, as part of these transactions, Desjardins Group retains substantially all the risks, including prepayment, interest rate and credit risks, and the rewards related to these securities, namely the cash flows associated with the assets. Consequently, these loans continue to be recognized in the Combined Balance Sheets. Furthermore, Desjardins Group treats the transfers to the CHT as collateralized financing transactions and recognizes a liability in that respect. This liability, which is equal to the consideration received from the CHT for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under “Deposits – Business and government” in the Combined Balance Sheets. The CHT funds these purchases by issuing Canada Mortgage Bonds (CMBs) to investors. The legal guarantee of third parties holding CMBs is limited to the transferred assets.

The terms and conditions of the program require that interest rate swaps be entered into by the CHT and Desjardins Group in order to receive all cash flows related to the mortgage loans underlying the NHA MBSs every month. Desjardins Group pays the CHT an amount corresponding to the interest payable to the holders of CMBs, the difference between these amounts being considered as excess interest margin. As part of these swaps, Desjardins Group must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

No loss is expected on the mortgage loans as they are guaranteed by CMHC. Income related to securitization transactions is recognized under “Other income – Other”, “Interest income – Securities” and “Interest income – Loans”.

Securities lent or sold under repurchase agreements

As part of transactions involving securities lent or sold under repurchase agreements, Desjardins Group transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Combined Balance Sheets as Desjardins Group retains substantially all the risks and rewards related to these assets.

The following table presents the carrying amount and the fair value of financial assets transferred by Desjardins Group but not derecognized as well as the related liabilities recognized in the Combined Balance Sheets.

	As at December 31, 2014		As at December 31, 2013	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 6,503**	**$ 6,633**	$ 5,441	$ 5,593
Securities sold under repurchase agreements	**12,626**	**12,626**	9,073	9,073
Securities lent	**4**	**4**	5	5
	$ 19,133	**$ 19,263**	**$ 14,519**	**$ 14,671**
Related liabilities	**$ 19,203**	**$ 19,213**	**$ 14,504**	**$ 14,475**

NOTE 11 – SEGREGATED FUNDS

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	As at December 31, 2014	As at December 31, 2013
Investments		
Bonds	$ 536	$ 335
Mortgages	3	4
Shares and mutual fund units	8,136	6,864
Money market securities	51	81
Derivative financial instruments	-	1
Securities borrowed or purchased under reverse repurchase agreements	41	37
Other assets	51	30
Commitments related to securities lent or sold under repurchase agreements	(52)	(46)
Liabilities	(44)	(30)
Net assets held for segregated fund contract holders	**$ 8,722**	**$ 7,276**
Assets held for the insurer	(27)	(24)
Total segregated fund net assets[1]	**$ 8,695**	**$ 7,252**

[1] The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Group scope of Desjardins Group. These eliminations amounted to $11 million as at December 31, 2014 ($8 million as at December 31, 2013).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. Desjardins Group classifies financial instruments recognized at fair value using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 6, "Fair value of financial instruments".

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Securities borrowed or purchased under reverse repurchase agreements", "Other assets", "Commitments related to securities lent or sold under repurchase agreements" and "Liabilities".

The following tables present the financial instruments included in segregated fund net assets and recognized at fair value.

As at December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Bonds	$ 309	$ 227	$ -	$ 536
Mortgages	-	3	-	3
Shares and mutual fund units	4,694	3,442	-	8,136
Money market securities	41	10	-	51
Total financial instruments recognized at fair value	**$ 5,044**	**$ 3,682**	**$ -**	**$ 8,726**

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 181	$ 154	$ -	$ 335
Mortgages	-	4	-	4
Shares and mutual fund units	4,233	2,631	-	6,864
Money market securities	64	17	-	81
Derivative financial instruments	1	-	-	1
Total financial instruments recognized at fair value	**$ 4,479**	**$ 2,806**	**$ -**	**$ 7,285**

No transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value during the years ended December 31, 2014 and 2013.

NOTE 11 – SEGREGATED FUNDS *(continued)*

Derecognition of financial assets

As part of transactions involving securities lent or sold under repurchase agreements, the segregated funds transfer financial assets under terms and conditions providing for their future repurchase. These assets remain recognized in the Combined Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2014, the carrying amount of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets was $54 million and $54 million, respectively ($46 million and $46 million as at December 31, 2013), and their fair value was $54 million and $54 million, respectively ($46 million and $46 million as at December 31, 2013).

Financial assets pledged and held as collateral

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities in the normal course of the segregated funds' operations amounted to $54 million as at December 31, 2014 ($46 million as at December 31, 2013). The fair value of the financial assets held as collateral that the segregated funds are permitted to sell or repledge in the absence of default totalled $17 million ($12 million as at December 31, 2013). No financial assets held as collateral had been sold or repledged as at December 31, 2014 and 2013. These financial assets were received as collateral as part of transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

Desjardins Group is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	As at December 31, 2014	As at December 31, 2013
Balance at beginning of year – Net liabilities to segregated fund contract holders	**$ 7,284**	$ 6,095
Additions		
Amounts received from contract holders	**1,888**	1,060
Net investment income	**811**	951
	2,699	**2,011**
Deductions		
Withdrawals and redemptions	**1,124**	709
Management fees	**126**	113
	1,250	**822**
Balance at end of year – Net liabilities to segregated fund contract holders	**$ 8,733**	**$ 7,284**
Liabilities to the insurer	**(27)**	(24)
Total segregated fund net liabilities[1]	**$ 8,706**	**$ 7,260**

[1] The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Group scope of Desjardins Group. These eliminations amounted to $11 million as at December 31, 2014 ($8 million as at December 31, 2013).

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The following tables present the changes in property, plant and equipment and investment property.

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	**Buildings**	**Computer equipment**	**Furniture, fixtures and other**	**Leasehold improvements**	**Total**	**Land**	**Buildings**	**Total**
Cost									
As at December 31, 2012	$ 112	$ 1,257	$ 442	$ 659	$ 392	$ 2,862	$ 84	$ 609	$ 693
Additions	-	77	47	49	42	215	-	13	13
Disposals	-	(38)	(33)	(53)	(8)	(132)	(5)	(31)	(36)
Other	(1)	(25)	(18)	(1)	(3)	(48)	(1)	(5)	(6)
As at December 31, 2013	$ 111	$ 1,271	$ 438	$ 654	$ 423	$ 2,897	$ 78	$ 586	$ 664
Additions	**3**	**73**	**45**	**46**	**60**	**227**	**24**	**125**	**149**
Disposals	**(2)**	**(37)**	**(22)**	**(61)**	**(15)**	**(137)**	**(9)**	**(33)**	**(42)**
Other	**(3)**	**(12)**	**(6)**	**5**	**(6)**	**(22)**	**-**	**1**	**1**
As at December 31, 2014	**$ 109**	**$ 1,295**	**$ 455**	**$ 644**	**$ 462**	**$ 2,965**	**$ 93**	**$ 679**	**$ 772**

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	**Buildings**	**Computer equipment**	**Furniture, fixtures and other**	**Leasehold improvements**	**Total**	**Land**	**Buildings**	**Total**
Accumulated depreciation									
As at December 31, 2012	$ -	$ 522	$ 347	$ 473	$ 208	$ 1,550	$ 5	$ 176	$ 181
Depreciation	-	40	42	42	32	156	-	22	22
Disposals	-	(27)	(32)	(38)	(8)	(105)	-	(4)	(4)
Other	-	1	(12)	(11)	(4)	(26)	-	(10)	(10)
As at December 31, 2013	$ -	$ 536	$ 345	$ 466	$ 228	$ 1,575	$ 5	$ 184	$ 189
Depreciation	**-**	**42**	**43**	**38**	**33**	**156**	**-**	**24**	**24**
Disposals	**-**	**(36)**	**(21)**	**(47)**	**(22)**	**(126)**	**(1)**	**(7)**	**(8)**
Other	**-**	**-**	**(5)**	**(3)**	**(6)**	**(14)**	**-**	**(4)**	**(4)**
As at December 31, 2014	**$ -**	**$ 542**	**$ 362**	**$ 454**	**$ 233**	**$ 1,591**	**$ 4**	**$ 197**	**$ 201**

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	**Buildings**	**Computer equipment**	**Furniture, fixtures and other**	**Leasehold improvements**	**Total**	**Land**	**Buildings**	**Total**
Net carrying amount									
As at December 31, 2014	**$ 109**	**$ 753**	**$ 93**	**$ 190**	**$ 229**	**$ 1,374**	**$ 89**	**$ 482**	**$ 571**
As at December 31, 2013	$ 111	$ 735	$ 93	$ 188	$ 195	$ 1,322	$ 73	$ 402	$ 475

As at December 31, 2014, an amount of $23 million ($24 million as at December 31, 2013) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $27 million ($31 million as at December 31, 2013) related to the acquisition of these buildings.

As at December 31, 2014, the fair value of investment property was $1,095 million ($1,004 million as at December 31, 2013). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 6, "Fair value of financial instruments", as it is measured using techniques that are not primarily based on observable market inputs. The fair value of investment property is determined annually by independent real estate appraisers with recognized and relevant professional qualifications. These appraisers use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on observable and unobservable inputs, involve estimating capitalization rates and adjusted net operating income, in the case of the normalized net income direct discounting method, and estimating discount and capitalization rates and applicable and future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2014, rental income from investment property amounted to $116 million ($107 million in 2013). Amounts recognized in profit or loss for operating expenses related to investment property that generated rental income during the year totalled $85 million ($78 million in 2013), while no amount has been recognized for those that did not generate rental income. These amounts are presented under "Net other investment income" in the Combined Statements of Income.

NOTE 13 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table presents goodwill allocated to CGUs and groups of CGUs.

	Property and Casualty Insurance segment	Wealth Management and Life and Health Insurance segment	Total
Cost			
As at December 31, 2012	$ 329	$ 24	$ 353
Acquisitions[1]	71	32	103
As at December 31, 2013	$ 400	$ 56	$ 456
Acquisitions	**14**	**-**	**14**
Other	**2**	**-**	**2**
As at December 31, 2014	**$ 416**	**$ 56**	**$ 472**

[1] For more information, see Note 22, "Significant acquisitions".

The Property and Casualty Insurance segment includes Desjardins General Insurance Group Inc. and Western Financial Group Inc. The Wealth Management and Life and Health Insurance segment includes notably Desjardins Financial Security Life Assurance Company, Desjardins Securities Inc., *Desjardins Société de placement inc.*, Desjardins Financial Corporation Inc. and Qtrade Canada Inc.

Test results show that the recoverable amount of CGUs and groups of CGUs represented by each of these segments exceeds its carrying amount and, consequently, no goodwill impairment losses have been recognized for the year ended December 31, 2014 and prior periods.

The recoverable amount of CGUs and groups of CGUs has been determined based on a calculation of value in use, using cash flow projections based on the budget and financial plan approved by the Board of Directors and covering a four-year period. The key assumptions used in the budget and financial plan are based on past performance and management's expectations of the evolution of the market. The growth rate used to extrapolate cash flow projections beyond the five-year period was 2.5% (2.5% in 2013) for the Property and Casualty Insurance segment and 2.0% (2.0% in 2013) for the Wealth Management and Life and Health Insurance segment. In addition, the discount rate used to discount the projected cash flows was 10.8% (10.7% in 2013) for the Property and Casualty Insurance segment and 8.4% (7.9% in 2013) for the Wealth Management and Life and Health Insurance segment. These rates represented the weighted average cost of capital of Desjardins Financial Corporation Inc. as at September 30 for the Property and Casualty Insurance segment and the Wealth Management and Life and Health Insurance segment, respectively.

Desjardins Group believes that no reasonably possible change in any of the above-mentioned key assumptions would cause the carrying amount of these CGUs and groups of CGUs to exceed their recoverable amount. The carrying amount of each of these CGUs and groups of CGUs would be lower than their recoverable amount even with a decrease of 10% (10% as at December 31, 2013) in budgeted margins or a decrease of 3% (3% as at December 31, 2013) in the growth rate.

NOTE 13 – GOODWILL AND INTANGIBLE ASSETS *(continued)*

Intangible assets

The following tables show changes in intangible assets.

	Software	Client relationships	Other[1]	Total
Cost				
As at December 31, 2012	$ 511	$ 131	$ 94	$ 736
Acquisitions / additions	119	3	10	132
Business combinations	14	79	27	120
Disposals / retirements	(20)	-	-	(20)
As at December 31, 2013	$ 624	$ 213	$ 131	$ 968
Acquisitions / Additions	**123**	**25**	**6**	**154**
Disposals / retirements	**(60)**	**(10)**	**-**	**(70)**
Other	**-**	**-**	**(1)**	**(1)**
As at December 31, 2014	**$ 687**	**$ 228**	**$ 136**	**$ 1,051**

	Software	Client relationships	Other [1]	Total
Accumulated amortization				
As at December 31, 2012	$ 311	$ 13	$ 52	$ 376
Amortization	64	14	4	82
Disposals / retirements	(11)	-	-	(11)
Other	14	-	-	14
As at December 31, 2013	$ 378	$ 27	$ 56	$ 461
Amortization	**67**	**13**	**5**	**85**
Disposals / retirements	**(58)**	**(8)**	**-**	**(66)**
Other	**2**	**-**	**-**	**2**
As at December 31, 2014	**$ 389**	**$ 32**	**$ 61**	**$ 482**

	Software	Client relationships	Other [1]	Total
Net carrying amount				
As at December 31, 2014	**$ 298**	**$ 196**	**$ 75**	**$ 569**
As at December 31, 2013	$ 246	$ 186	$ 75	$ 507

[1] The “Other” category mainly includes trademarks and licenses. The carrying amount of intangible assets with indefinite useful lives included in this category was $52 million ($52 million as at December 31, 2013).

NOTE 14 – OTHER ASSETS – OTHER

The following table presents the breakdown of "Other assets – Other".

	As at December 31, 2014	As at December 31, 2013
Accounts receivable	**$ 452**	$ 493
Interest receivable	**452**	447
Investments in companies accounted for using the equity method (Note 15)	**435**	385
Prepaid expenses	**313**	360
Taxes receivable	**102**	75
Other	**335**	314
	$ 2,089	**$ 2,074**

NOTE 15 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries included in the Group scope of Desjardins Group have been incorporated in Canada, and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held in each of them.

	Nature of operations	**As at December 31, 2014** (1)	As at December 31, 2013 (1)
Caisse centrale Desjardins	Desjardins Group's treasurer and financial agent on the Canadian and international markets	**97.9 %**	97.3 %
Capital Desjardins inc.	Issuance of securities on the markets and financing of the Desjardins caisses	**100 %**	100 %
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group's technology	**100 %**	100 %
Desjardins Financial Corporation Inc.	Holding company	**100 %**	100 %
Zag Bank(2)	Financial institution	**100 %**	100 %
Desjardins Global Asset Management Inc.(3)	Asset management	**100 %**	100 %
Desjardins General Insurance Group Inc.	Property and casualty insurance	**100 %**	100 %
Property and casualty insurance subsidiaries(4)	Property and casualty insurance	**90 %**	90 %
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	**100 %**	100 %
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	**100 %**	100 %
Desjardins Trust Inc.(5)	Asset custody and trust services	**100 %**	100 %
Qtrade Canada Inc.(6)	Online brokerage and wealth management services	**61.1 %**	40 %
Desjardins Securities Inc.	Securities brokerage	**100 %**	100 %
Western Financial Group Inc.	Insurance brokerage, life and health insurance and financial services	**100 %**	100 %

(1) Represents also the proportion of voting rights held by Desjardins Group in these subsidiaries, except for Qtrade Canada Inc. and Caisse centrale Desjardins, in which Desjardins Group holds 100% of the voting rights.
(2) As at December 31, 2013, the name of this subsidiary was Bank West.
(3) As at December 31, 2013, the name of this subsidiary was Desjardins Asset Management Inc.
(4) Represents a group of six property and casualty insurance subsidiaries.
(5) As at December 31, 2013, this subsidiary was held directly by the Federation.
(6) As at December 31, 2013, although Desjardins Group only held 40% of the outstanding shares of this entity, it had the ability to direct the relevant activities that have a significant and specific impact on Qtrade's returns and it was exposed to Qtrade's variable returns in proportion to its financial interests.
As a result, management determined that Desjardins Group controlled Qtrade.

NOTE 15 – INTERESTS IN OTHER ENTITIES *(continued)*

Subsidiaries that have material non-controlling interests

The following tables present summarized financial information about the subsidiaries that have material non-controlling interests. This financial information is presented before eliminating intragroup accounts and transactions and has been adjusted to reflect the fair value adjustments made at the time of acquisition.

	As at December 31, 2014		As at December 31, 2013	
	Caisse centrale Desjardins	**Property and casualty insurance subsidiaries**	*Caisse centrale Desjardins*	Property and casualty insurance subsidiaries
Assets[(1)]	**$ 44,323**	**$ 6,829**	$ 34,784	$ 5,336
Liabilities	**41,507**	**5,634**	32,575	4,186
Equity[(1)]	**$ 2,816**	**$ 1,195**	$ 2,209	$ 1,150
Non-controlling interests	**$ 61**	**$ 106**	**$ 60**	**$ 102**

[(1)] Include goodwill of $100 million related to the property and casualty insurance subsidiaries ($100 million as at December,31 2013).

	For the years ended December 31			
	2014		2013	
	Caisse Centrale Desjardins	**Property and casualty insurance subsidiaries**	*Caisse Centrale Desjardins*	Property and casualty insurance subsidiaries
Total income	**$ 389**	**$ 2,345**	$ 326	$ 2,188
Net surplus earnings for the year after member dividends	**190**	**117**	169	189
Comprehensive income for the year	**$ 185**	**$ 85**	$ 154	$ 220
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	**$ 4**	**$ 12**	**$ 5**	**$ 19**
Dividends/distributions paid to holders of non-controlling interests	**$ 5**	**$ 12**	$ 5	$ 15

CONSOLIDATED STRUCTURED ENTITIES

Covered bonds

In 2014, Desjardins Group completed two new issues of covered bonds, which are debt securities guaranteed by a pool of mortgage loans, totalling €2 billion. Structured entities are in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of each of these entities are included in the Combined Financial Statements of Desjardins Group as they are controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to one or another of these entities and granted them financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bond issued. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by one or another of these structured entities. The assets, totalling $6,798 million as at December 31, 2014 ($3,219 million as at December 31, 2013), are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to $5,694 million as at December 31, 2014 ($2,653 million as at December 31, 2013), are presented under "Deposits – Business and government".

NOTE 15 – INTERESTS IN OTHER ENTITIES *(continued)*

JOINT VENTURE

Information about the material joint venture

RPADS, an entity that acquires and develops real estate portfolios, is the only material joint venture in which Desjardins Group holds an interest. RPADS has been incorporated in Canada and its principal place of business is in this country.

The following tables present summarized financial information about this joint venture, namely the amounts included in its IFRS financial statements adjusted to reflect adjustments made by Desjardins Group when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	As at December 31, 2014	As at December 31, 2013
Proportion of ownership interest held	**80%**	80%
Assets	**$ 288**	$ 289
Liabilities[1]	**49**	76
Equity	**$ 239**	$ 213
Interest in the joint venture[2]	**$ 191**	**$ 170**

[1] Consisting primarily of financial liabilities other than accounts payable and provisions.
[2] Represents the carrying amount of the interest in the joint venture recognized in the Combined Balance Sheets.

	For the years ended December 31	
	2014	2013
Total income	**$ 59**	$ 55
Net income and comprehensive income for the year	**$ 13**	**$ 10**

ASSOCIATES

Information about material associates

Desjardins Group holds interests in two material associates: Fiera Holdings Inc. and Northwest & Ethical Investments L.P. (Northwest & Ethical). These two entities operate in the investment management industry. They have been incorporated in Canada and their principal place of business is in this country. Although Desjardins Group holds a 50% ownership interest in Northwest & Ethical and 50% of the voting rights, it does not have the ability to direct the relevant operations that significantly affect the returns of this entity and there are no agreements giving Desjardins Group joint control of this entity.

The following tables present summarized financial information about these associates, namely the amounts included in their IFRS financial statements adjusted to reflect adjustments made by Desjardins Group when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	As at December 31, 2014		As at December 31, 2013	
	Fiera Holdings Inc.	**Northwest & Ethical**	Fiera Holdings Inc.	Northwest & Ethical
Proportion of ownership interest held[1]	**36.18%**	**50%**	35.04%	50%
Assets[2,3]	**$ 771**	**$ 201**	$ 682	$ 191
Liabilities[3]	**343**	**52**	379	48
Equity[2,3]	**$ 428**	**$ 149**	$ 303	$ 143
Interests in associates[4]	**$ 76**	**$ 85**	**$ 78**	**$ 81**

[1] Represents also the proportion of voting rights held by Desjardins Group in the associates.
[2] Include goodwill of $3 million and $19 million, respectively, related to Fiera Holdings Inc. and Northwest & Ethical ($3 million and $19 million as at December 31, 2013).
[3] The assets, liabilities and equity of Fiera Holdings Inc. for 2014 and 2013 are as at September 30.
[4] Represents the carrying amount of the interests in associates recognized in the Combined Balance Sheets.

	For the years ended December 31			
	2014		2013	
	Fiera Holdings Inc.	**Northwest & Ethical**	Fiera Holdings Inc.	Northwest & Ethical
Total income[1]	**$ 146**	**$ 25**	$ 97	$ 26
Net income and comprehensive income for the year[1]	**14**	**9**	**7**	**4**

[1] Total income, net income and comprehensive income of Fiera Holdings for 2014 and 2013 are for the nine-month period ended September 30.

NOTE 15 – INTERESTS IN OTHER ENTITIES *(continued)*

UNCONSOLIDATED STRUCTURED ENTITIES

Mutual funds

Desjardins Group holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns as a result of the units held in these funds, these units do not give Desjardins Group power over the relevant operations of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

Investments are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. Desjardins Group's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

MAV 1

MAV 1 is considered as an unconsolidated structured entity. For more information about this entity, see the "Securities – Asset-backed term notes" section of Note 8, "Securities".

NOTE 16 – DEPOSITS

Deposits consist of demand deposits (payable on demand), notice deposits (payable upon notice) and term deposits (payable on a fixed date). Demand deposits are interest-bearing or non-interest-bearing deposits, primarily accounts with chequing privileges, for which Desjardins Group does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which Desjardins Group has the legal right to require notice prior to withdrawal. Term deposits are interest-bearing deposits, primarily fixed-term deposit accounts, guaranteed investment certificates or other similar instruments, with a term that generally varies from one day to 10 years and mature on a predetermined date.

The following tables present the breakdown of deposits.

	As at December 31, 2014				As at December 31, 2013			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	**$ 34,285**	**$ 3,788**	**$ 50,390**	**$ 88,463**	$ 30,839	$ 3,949	$ 51,942	$ 86,730
Business and government	**17,800**	**332**	**38,384**	**56,516**	16,168	337	31,207	47,712
Deposit-taking institutions	**51**	**-**	**1,294**	**1,345**	41	-	2,263	2,304
	$ 52,136	**$ 4,120**	**$ 90,068**	**$ 146,324**	**$ 47,048**	**$ 4,286**	**$ 85,412**	**$ 136,746**

NOTE 17 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2014			2013		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Gross premiums	**$ 3,971**	**$ 2,183**	**$ 6,154**	$ 3,729	$ 2,060	$ 5,789
Premiums ceded under reinsurance treaties	**(199)**	**(39)**	**(238)**	(193)	(38)	(231)
Net premiums	**$ 3,772**	**$ 2,144**	**$ 5,916**	**$ 3,536**	**$ 2,022**	**$ 5,558**

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2014	As at December 31, 2013
Insurance contract liabilities		
Actuarial liabilities – Life and health insurance	**$ 15,253**	$ 13,147
Provisions for claims and adjustment expenses – Property and casualty insurance	**2,121**	1,987
Unearned premiums	**1,108**	1,044
Policyholder deposits	**521**	476
Provisions for benefits, policyholder dividends and experience refunds	**388**	370
Other	**44**	46
	$ 19,435	**$ 17,070**

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts.

	As at December 31, 2014	As at December 31, 2013
Gross actuarial liabilities		
Non-participating policies	**$ 12,625**	$ 10,860
Participating policies	**2,628**	2,287
	15,253	13,147
Amounts ceded to reinsurers	**(762)**	(613)
Net actuarial liabilities	**$ 14,491**	**$ 12,534**

	As at December 31, 2014	As at December 31, 2013
Composition of assets backing net actuarial liabilities		
Bonds	**$ 9,063**	**$** 7,819
Mortgage and business loans	**2,482**	2,519
Investment property	**1,154**	1,006
Equities	**788**	792
Other	**1,004**	398
	$ 14,491	**$ 12,534**

The fair value of assets backing net actuarial liabilities was $14,960 million as at December 31, 2014 ($12,905 million as at December 31, 2013).

Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by Canadian accepted actuarial practices. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Combined Statements of Income.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in the Combined Statements of Income.

Mortality

The life and health insurance subsidiaries determine their mortality assumptions based on the annual studies of their recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, they also take into account industry studies. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance the Canadian accepted actuarial practices.

Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the life and health insurance subsidiaries use industry-developed morbidity tables modified based on current data provided by their studies of their underwriting experience and those of the industry.

Contract cancellation rates

The life and health insurance subsidiaries carry out an annual study of their underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their policy before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on the life and health insurance subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiaries are not sufficiently credible.

Investment return

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The life and health insurance subsidiaries manage the investments backing their actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in their matching policy. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, the life and health insurance subsidiaries mitigate their sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, cash flows from these assets are matched with cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the provisions for non-performing investments recognized through a write-down of the carrying amount of the assets, a provision amounting to $280 million as at December 31, 2014 ($260 million as at December 31, 2013) has been included in actuarial liabilities as a protection against the risk of insufficient return on assets.

Operating expenses and taxes

The operating expense assumptions reflect the projected costs for managing and processing contracts in force, including indirect overhead expenses. The life and health insurance subsidiaries carry out an annual study of operating expenses by major product line, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on "Net surplus earnings for the year after member dividends" of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2014	2013
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (31)**	$ (30)
Products for which a rate decrease increases actuarial liabilities	**(18)**	(16)
5% increase in future morbidity rates	**(57)**	(56)
10% negative change in future contract cancellation rates	**(101)**	(121)
5% increase in future operating expenses	**(30)**	(31)

Changes in actuarial liabilities

The change in net actuarial liabilities during the years ended December 31 was due to business activities and to changes in actuarial estimates, as follows:

	2014			2013		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 13,147**	**$ (613)**	**$ 12,534**	$ 14,105	$ (737)	$ 13,368
Change due to						
Passage of time	**1,733**	**(129)**	**1,604**	(1,163)	79	(1,084)
New business	**373**	**(11)**	**362**	327	(13)	314
Changes in actuarial assumptions	**(32)**	**11**	**(21)**	(118)	52	(66)
	2,074	**(129)**	**1,945**	(954)	118	(836)
Other changes	**32**	**(20)**	**12**	(4)	6	2
Balance at end of year	**$ 15,253**	**$ (762)**	**$ 14,491**	**$ 13,147**	**$ (613)**	**$ 12,534**

Changes in actuarial assumptions

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact of changes made to assumptions on "Net surplus earnings for the year after member dividends" for the years ended December 31.

	2014	2013
Changed assumptions		
Mortality	**$ 21**	$ 42
Morbidity	**(1)**	36
Contract cancellation rates	**(61)**	(41)
Investment return	**51**	10
Operating expenses	**9**	(3)
Methods and other	**3**	(14)
	$ 22	**$ 30**

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE

Methodology and assumptions

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the interest rate for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

Change in provisions for claims and adjustment expenses

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2014			2013		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 1,987**	**$ (30)**	**$ 1,957**	$ 1,862	$ (36)	$ 1,826
Claims incurred during the year	**1,553**	**-**	**1,553**	1,503	(1)	1,502
Development of claims incurred in prior years	**(111)**	**(1)**	**(112)**	(132)	(4)	(136)
Changes in discount rates	**34**	**-**	**34**	(24)	-	(24)
Claims paid during the year	**(1,342)**	**14**	**(1,328)**	(1,222)	11	(1,211)
Balance at end of year	**$ 2,121**	**$ (17)**	**$ 2,104**	**$ 1,987**	**$ (30)**	**$ 1,957**

Changes in assumptions had no material impact on the Combined Financial Statements as at December 31, 2014 and 2013.

Assumption sensitivity analysis

The following table shows the impact on the Combined Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the "Interest rate risk management" section of this note.

	Changes in actuarial assumptions	**Impact on "Net surplus earnings for the year after member dividends"**	
		2014	2013
Average claims settlement cost	+5%	**$ (99)**	$ (92)

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2007 and before	2008	2009	2010	2011	2012	2013	**2014**	**Total**
Estimated ultimate claims amount									
At the end of the accident year		$ 1,156	$ 1,092	$ 1,118	$ 1,291	$ 1,396	$ 1,495	**$ 1,564**	
1 year later		1,110	1,079	1,120	1,291	1,343	1,468		
2 years later		1,111	1,093	1,108	1,257	1,348			
3 years later		1,111	1,088	1,088	1,238				
4 years later		1,097	1,078	1,070					
5 years later		1,088	1,064						
6 years later		1,091							
Cumulative payments to date		1,020	967	921	979	1,016	1,077	**899**	
Net provisions for claims and adjustment expenses	$ 140	$ 71	$ 97	$ 149	$ 259	$ 332	$ 391	**$ 665**	**$ 2,104**
Reinsurers' share in provisions for claims and adjustment expenses	15	-	-	-	-	2	-	**-**	**17**
Gross provisions for claims and adjustment expenses	**$ 155**	**$ 71**	**$ 97**	**$ 149**	**$ 259**	**$ 334**	**$ 391**	**$ 665**	**$ 2,121**

Insurance risk management

Insurance risk refers to the risk that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that profitability of these products may be affected.

The life and health insurance subsidiaries are exposed to insurance risk through the products they sell. Depending on the insurance product, these subsidiaries may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose the life and health insurance subsidiaries to expenditure risk.

The property and casualty insurance subsidiaries underwrite automobile, home and commercial property insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: underwriting risk, catastrophe risk and reserve risk.

To manage insurance risk, the insurance subsidiaries apply stringent policies and criteria with respect to product and service development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed.

In addition, for the life and health insurance subsidiaries, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

Use of reinsurance

In order to limit their losses the life and health and property and casualty insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

In order to reduce reinsurance risk, the life and health and property and casualty insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release the life and health and property and casualty insurance subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

For the years ended December 31, the impact of reinsurance reduced the Combined Statements of Income items presented in the table below by the following amounts:

	2014			2013		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 199**	**$ 39**	**$ 238**	$ 193	$ 38	$ 231
Claims, benefits, annuities and changes in insurance contract liabilities	**273**	**2**	**275**	21	5	26

Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimal guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimal guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of unfavourable stock market movements on the future cost of guarantees as well as a hedging program aimed at offsetting the impact of unfavourable changes in interest rates on these future costs. These programs cover all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

Interest rate management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Combined Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limits of the gap between the duration of liabilities and the duration of the related assets. The life and health insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Combined Statements of Income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Combined Statements of Income of the life and health insurance subsidiaries. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Combined Statements of Income. However, the life and health insurance subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Combined Statements of Income.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after member dividends" arising from the impact of a change in interest rates on the life and health insurance subsidiaries' actuarial liabilities and the assets backing these actuarial liabilities.

	2014	2013
1% increase in interest rates	**$ 9**	$ 1
1% decrease in interest rates	**(11)**	(5)

The interest rate risk management policy of the property and casualty insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the gap compared to the target duration of the consolidated fixed-income portfolio and as well as the limit of the gap between the duration of assets and liabilities to be backed. The property and casualty insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after member dividends" arising from the impact of a change in interest rates on the property and casualty insurance subsidiaries' provisions for claims and adjustment expenses and the assets backing these provisions.

	2014	2013
1% increase in interest rates	**$ 4**	$ 3
1% decrease in interest rates	**(4)**	(4)

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

Liquidity risk management

The life and health insurance subsidiaries manage liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet their financial obligations as they become due, in both routine and crisis situations.

For the life and health insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

For the property and casualty insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities and spreading the collection of insurance premiums throughout the year, which generally supports a large portion of the cash outflows associated with claims and other expenses.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Combined Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2014	As at December 31, 2013
Less than 1 year	**$ 1,757**	$ 1,714
1 to 5 years	**3,933**	3,761
Over 5 years	**25,876**	24,806
Total	**$ 31,566**	**$ 30,281**

NON-CONTROLLING INTERESTS RELATED TO DISCRETIONARY PARTICIPATION FEATURES

The equity of holders of insurance contracts with discretionary participation features amounted to $266 million as at December 31, 2014 ($226 million as at December 31, 2013) and is recognized under “Non-controlling interests” in the Combined Balance Sheets. The share in “Net surplus earnings for the year after member dividends” attributable to these contract holders, which was net income of $39 million for the year ended December 31, 2014 (net loss of $3 million in 2013), is recognized under “Non-controlling interests’ share” in the Combined Statements of Income.

NOTE 18 – NET DEFINED BENEFIT PLAN LIABILITIES

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS

Group pension plans

Group pension plans are plans whose risks are shared by entities under common control. Desjardins Group offers a majority of its employees group pension plans and group supplemental pension plans, which provide pension benefits in excess of statutory limits. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a prorata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee’s five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the consumer price index, up to a maximum of 3% for years of service accumulated before 2013 and 1% for a period of 10 years starting at age 65 for years of service accumulated after 2013.

NOTE 18 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

The DGPP is governed by the *Supplemental Pension Plans Act* (SPPA). The SPPA requires that a retirement committee that assumes the role of administrator and trustee for the plan be formed. The Federation, through its Board of Directors, assumes the responsibilities of the DGPP's sponsor and ensures that the plan is well administered in accordance with the laws and regulations in effect. In addition, the Federation guarantees the obligations resulting from the participation in the plan of all the Desjardins Group employers. The Federation's Board of Directors, acting as the representative for all Desjardins Group employers, is the only governing body with the authority to amend or terminate the plan.

Group post-retirement benefit plan

Desjardins Group also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents through unfunded defined benefit group plan.

Other plans

The other defined benefit plans offered are pension plans as well as another retirement benefit plan that provides medical, dental and life insurance plans whose risks are not shared by entities under common control.

Pension and post-retirement benefit plan risks

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are generally actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to materially differ from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the members' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit decrease the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

Risk management

The Retirement Committee has set up a Risk Management Advisory Committee whose mandate is to analyze the main risks associated with managing the DGPP's operations. To that effect, it recommends every year the integrated risk profile and the asset allocation strategy to the Retirement Committee. The mandate of the Advisory Committee also includes issuing opinions on new investments to the DGPP's Investment Committee. The asset allocation strategy is based on the liability-driven investment principle. This approach provides for better management of the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in the volatility of contributions. The liability-driven investment principle takes into account changes in the solvency liability and generating sufficient returns to ensure the plan's long-term funding.

In addition, the Retirement Committee adopts every year an investment policy that may be amended based on the long-term risk/return relationship on the markets, the DGPP's commitments and financial position, risk tolerance and the legislative environment. In addition, the policy provides for market risk mitigation mechanisms. The policy establishes limits for each type of investments and limits for the allocation of assets between the various classes, as well as risk parameters for asset allocation. The actual mix of asset portfolios is regularly reviewed, and the rebalancing policy is applied when the actual allocation is outside the allowed limits. Foreign exchange risk is controlled through the adoption of a hedging policy approved by the Investment Committee. Lastly, the Retirement Committee has delegated to the Investment Committee the responsibility for ensuring that the investment policy is applied, complied with and followed.

Funding requirements

The DGPP is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employers' contributions must be equal to the amount that, added to the employees' contributions, is sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan as well as special contributions required to amortize any deficit. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan. The plan's annual cost comprises contributions for current service, administrative management fees and required special contributions, if any.

Pursuant to the SPPA, deficits must be funded over a maximum period of 15 years for a funding deficit and 10 years for a solvency deficit.

NOTE 18 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

RECOGNIZED AMOUNTS

Change in defined benefit plan liabilities

Defined benefit plan liabilities are as follows:

	Group pension plans			Group post-retirement benefit plan	Other plans			
	Obligation	**Fair value of assets**	**Total**	**Obligation**	**Obligation**	**Fair value of assets**	**Total**	**Total**
As at December 31, 2012	$ 8,695	$ 6,970	$ 1,725	$ 655	$ 185	$ 41	$ 144	$ 2,524
Amounts recognized in the Combined Statements of Income								
Current service cost	214	-	214	15	8	-	8	237
Net interest expense/income	396	315	81	30	9	2	7	118
	610	315	295	45	17	2	15	355
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	-	472	(472)	-	-	5	(5)	(477)
Actuarial losses (gains) arising from changes in demographic assumptions	688	-	688	(8)	13	-	13	693
Actuarial gains arising from changes in financial assumptions	(683)	-	(683)	(98)	(17)	-	(17)	(798)
Experience losses	187	-	187	6	5	-	5	198
	192	472	(280)	(100)	1	5	(4)	(384)
Other changes								
Participants' contributions	190	190	-	-	-	-	-	-
Employers' contributions[(1)]	-	641	(641)	-	-	8	(8)	(649)
Benefits paid	(335)	(333)	(2)	(14)	(7)	(1)	(6)	(22)
Other changes	1	3	(2)	2	1	-	1	1
	(144)	501	(645)	(12)	(6)	7	(13)	(670)
As at December 31, 2013	$ 9,353	$ 8,258	$ 1,095	$ 588	$ 197	$ 55	$ 142	$ 1,825
Amounts recognized in the Combined Statements of Income								
Current service cost	**210**	**-**	**210**	**10**	**9**	**-**	**9**	**229**
Net interest expense/income	**476**	**415**	**61**	**30**	**10**	**3**	**7**	**98**
Past service cost	**(1)**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
	685	**415**	**270**	**40**	**19**	**3**	**16**	**326**
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	**-**	**679**	**(679)**	**-**	**-**	**3**	**(3)**	**(682)**
Actuarial losses (gains) arising from changes in demographic assumptions	**(42)**	**-**	**(42)**	**6**	**-**	**-**	**-**	**(36)**
Actuarial losses arising from changes in financial assumptions	**1,423**	**-**	**1,423**	**108**	**33**	**-**	**33**	**1,564**
Experience losses (gains)	**106**	**-**	**106**	**(1)**	**2**	**-**	**2**	**107**
	1,487	**679**	**808**	**113**	**35**	**3**	**32**	**953**
Other changes								
Participants' contributions	**191**	**191**	**-**	**-**	**-**	**-**	**-**	**-**
Employers' contributions[(1)]	**-**	**376**	**(376)**	**-**	**-**	**5**	**(5)**	**(381)**
Benefits paid	**(373)**	**(371)**	**(2)**	**(15)**	**(7)**	**(1)**	**(6)**	**(23)**
Other changes	**1**	**1**	**-**	**-**	**-**	**-**	**-**	**-**
	(181)	**197**	**(378)**	**(15)**	**(7)**	**4**	**(11)**	**(404)**
As at December 31, 2014	**$ 11,344**	**$ 9,549**	**$ 1,795**	**$ 726**	**$ 244**	**$ 65**	**$ 179**	**$ 2,700**

(1) In 2014, the employer paid supplemental contributions of $34 million to the main group pension plan ($318 million in 2013).

NOTE 18 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Funding status

	As at December 31, 2014				As at December 31, 2013			
	Group pension plans	Group post-retirement benefit plan	Other plans	Total	Group pension plans	Group post-retirement benefit plan	Other plans	Total
Funded plans								
Defined benefit plan obligation	$ 11,235	$ -	$ 99	$ 11,334	$ 9,276	$ -	$ 71	$ 9,347
Fair value of plan assets	9,549	-	65	9,614	8,258	-	55	8,313
	$ (1,686)	$ -	$ (34)	$ (1,720)	$ (1,018)	$ -	$ (16)	$ (1,034)
Unfunded plans								
Defined benefit plan obligation	$ 109	$ 726	$ 145	$ 980	$ 77	$ 588	$ 126	$ 791
	$ (109)	$ (726)	$ (145)	$ (980)	$ (77)	$ (588)	$ (126)	$ (791)

Allocation of the main group pension plan assets

The fair value of the main group pension plan assets is detailed as follows:

	As at December 31, 2014		As at December 31, 2013	
	Non-quoted on an active market	Quoted on an active market	Non-quoted on an active market	Quoted on an active market
Bonds				
Government of Canada	$ -	$ 62	$ -	$ 125
Provinces, municipal corporations and other public administrations	116	2,658	80	1,885
Other issuers	1,258	22	1,042	37
Shares	346	2,508	223	2,454
Real estate investments	913	132	925	101
Infrastructure investments	927	38	772	34
Cash and money market securities	244	109	272	178
Other	444	167	341	440
Total	$ 4,248	$ 5,696	$ 3,655	$ 5,254

As at December 31, 2014, the DGPP held eligible investments in money market securities and segregated funds issued by Desjardins Group entities having a total fair value of $91 million ($122 million as at December 31, 2013).

IMPACT ON CASH FLOWS

Principal actuarial assumptions

The principal actuarial assumptions used to measure the defined benefit plan obligation and cost are as follows:

	As at December 31, 2014		As at December 31, 2013	
	Group pension plans	Group post-retirement benefit plan	Group pension plans	Group post-retirement benefit plan
Discount rate for the obligation	4.05 %	4.05 %	5.00 %	5.00 %
Expected rate of salary increases	3.00	3.00	3.00	3.00
Rate used in interest expense calculation	5.00	5.00	4.45	4.45
Estimated annual growth rate for covered healthcare cost	-	4.30	-	4.28

NOTE 18 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Sensitivity of key assumptions

Because of the long-term nature of employee benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used. The following table shows the impact of a one percentage point change in key assumptions on the defined benefit plan obligation and cost, with all other assumptions remaining constant. In reality, there may be correlations between these assumptions. However, to show the impact of changes in assumptions, they have been modified on an individual basis.

	As at December 31, 2014		As at December 31, 2013	
	Change in obligation	**Change in cost recognized**	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	**$ (1,943)**	**$ (85)**	$ (1,454)	$ (76)
1% decrease	**2,615**	**102**	1,890	102
Expected rate of salary increases				
1% increase	**593**	**32**	403	36
1% decrease	**(505)**	**(27)**	(351)	(27)
Group post-retirement benefit plan				
Discount rate				
1% increase	**(115)**	**(3)**	(88)	(3)
1% decrease	**153**	**4**	114	4
Expected rate of salary increases				
1% increase	**10**	**1**	6	1
1% decrease	**(9)**	**(1)**	(6)	(1)
Healthcare costs				
1% increase	**88**	**7**	67	7
1% decrease	**(68)**	**(5)**	(53)	(5)

Expected contributions for 2015

Desjardins Group expects to contribute $433 million to its defined benefit pension plans in the next year. If needed, the employers will make supplemental contributions to the main group pension plan.

Pension plan obligation maturity profile

For 2014, the weighted average financial duration was approximately 19 years (17 years in 2013) for the main group pension plan and approximately 18 years (17 years in 2013) for the group post-retirement benefit plan.

NOTE 19 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of "Other liabilities – Other".

	As at December 31, 2014	As at December 31, 2013
Accounts payable	**$ 1,328**	$ 1,309
Interest payable	**1,071**	1,094
Provisions for risks and expenses	**266**	243
Deferred income related to loyalty programs	**249**	221
Taxes payable	**247**	138
Borrowings from financial institutions	**60**	23
Cooperative shares and preferred shares	**19**	21
Other	**1,574**	1,668
	$ 4,814	**$ 4,717**

NOTE 20 – SUBORDINATED NOTES

The subordinated notes presented in Desjardins Group's Combined Balance Sheets are senior notes issued by *Capital Desjardins inc*. whose gross proceeds are invested in notes issued by the Desjardins caisses in Quebec that are subordinated to the claims of depositors and certain other creditors. These senior notes rank prior, in right of payment, to the subordinated debt securities of *Capital Desjardins inc.* and are secured by a hypothec on the subordinated notes issued by the Desjardins caisses in Quebec.

Repayments and cancellations of these notes are subject to the consent and approval of the various regulatory authorities. These notes comprise the following items:

	As at December 31, 2014	As at December 31, 2013
Senior Series E notes (par value of $500 million), issued on March 30, 2009, maturing in April 2019, bearing interest at an annual rate of 5.756% for the first 5 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 4.97%, redeemable at the option of the issuer.[1]	**$ -**	$ 479
Senior Series F notes (par value of $500 million), issued on June 1, 2009, maturing in June 2021, bearing interest at an annual rate of 5.541 % for the first 7 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 3.88%, redeemable at the option of the issuer.	**482**	497
Senior Series G notes (par value of $900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer starting in 2015.	**896**	896
Senior Series H notes (par value of $700 million), issued on November 23, 2010, maturing in November 2020, bearing interest at an annual rate of 3.797% for the first 5 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1.32%, redeemable at the option of the issuer starting in 2015.	**693**	696
Senior Series J notes (par value of $500 million), issued on December 15, 2011, maturing in December 2026, bearing interest at an annual rate of 4.954% for the first 10 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 2.67%, redeemable at the option of the issuer starting in 2021.	**493**	495
	$ 2,564	**$ 3,063**

[1]The right to call the Senior Series E notes was exercised on April 1, 2014.

Issuance and redemption

In 2014, all of the outstanding Series E subordinated notes, amounting to $500 million, have been called.

In 2013, no senior notes have been issued or redeemed.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Desjardins Group's derivative financial instruments include the following types of contracts:

Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. Desjardins Group uses interest rate contracts primarily for asset and liability management purposes.

Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. Desjardins Group uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

Other financial derivative contracts

Other derivative financial contracts used by Desjardins Group include total return swaps and stock index options which are related to financial index transactions as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

DERIVATIVE FINANCIAL INSTRUMENTS MATURITIES

The following table presents the maturities of the notional amounts of derivative financial instruments.

	Terms to maturity				As at December 31, 2014	As at December 31, 2013
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	Notional amount
Interest rate contracts						
Over-the-counter contracts						
Interest rate swaps	**$ 19,505**	**$ 35,423**	**$ 26,582**	**$ 5,107**	**$ 86,617**	$ 83,058
Forward rate agreements	**3,705**	**425**	**-**	**-**	**4,130**	5,699
Exchange-traded contracts						
Futures	**13,692**	**2,575**	**-**	**-**	**16,267**	19,173
Options purchased	**8,550**	**-**	**-**	**-**	**8,550**	12,125
Options written	**12,254**	**-**	**-**	**-**	**12,254**	9,328
	57,706	**38,423**	**26,582**	**5,107**	**127,818**	129,383
Foreign exchange contracts						
Over-the-counter contracts						
Forward contracts	**15,962**	**489**	**5**	**-**	**16,456**	10,199
Currency swaps	**3,155**	**4,669**	**2,808**	**-**	**10,632**	6,071
Options purchased	**468**	**17**	**-**	**-**	**485**	192
Options written	**486**	**21**	**-**	**-**	**507**	208
Exchange-traded contracts						
Forward contracts	**6**	**-**	**-**	**-**	**6**	25
	20,077	**5,196**	**2,813**	**-**	**28,086**	16,695
Other contracts[(1)]						
Over-the-counter contracts						
Swaps	**4**	**1,500**	**43**	**-**	**1,547**	1,540
Options purchased	**1,982**	**4,783**	**4,433**	**75**	**11,273**	9,491
Options written	**1,978**	**4,655**	**4,240**	**-**	**10,873**	9,288
Contracts traded through a clearing house						
Swaps	**-**	**-**	**563**	**-**	**563**	545
Exchange-traded contracts						
Futures	**689**	**-**	**-**	**-**	**689**	597
Options purchased	**-**	**1**	**-**	**-**	**1**	1
	4,653	**10,939**	**9,279**	**75**	**24,946**	21,462
Total derivative financial instruments	**$ 82,436**	**$ 54,558**	**$ 38,674**	**$ 5,182**	**$ 180,850**	**$ 167,540**

[(1)] Includes contracts related to indexed term savings products.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

	As at December 31, 2014			As at December 31, 2013		
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges						
Interest rate contracts						
Swaps	**$ 21,763**	**$ 298**	**$ 51**	$ 25,232	$ 307	$ 140
	21,763	**298**	**51**	25,232	307	140
Foreign exchange contracts						
Forward contracts	**-**	**-**	**-**	93	-	-
Currency swaps	**9,681**	**714**	**110**	4,254	280	-
	9,681	**714**	**110**	4,347	280	-
Total – Fair value hedges	**31,444**	**1,012**	**161**	29,579	587	140
Cash flow hedges						
Interest rate contracts						
Swaps	**21,971**	**225**	**19**	21,718	180	78
	21,971	**225**	**19**	21,718	180	78
Foreign exchange contracts						
Currency swaps	**-**	**-**	**-**	733	-	54
	-	**-**	**-**	733	-	54
Total – Cash flow hedges	**21,971**	**225**	**19**	22,451	180	132
Total – Designated as hedging instruments	**53,415**	**1,237**	**180**	52,030	767	272
Trading purposes						
Interest rate contracts						
Swaps	**42,883**	**471**	**167**	36,108	286	283
Forward rate agreements	**4,130**	**4**	**11**	5,699	7	8
Futures	**16,267**	**-**	**-**	19,173	-	-
Options purchased	**8,550**	**2**	**-**	12,125	5	-
Options written	**12,254**	**-**	**-**	9,328	-	2
	84,084	**477**	**178**	82,433	298	293
Foreign exchange contracts						
Forward contracts	**16,462**	**162**	**110**	10,131	106	27
Currency swaps	**951**	**33**	**-**	1,084	16	-
Options purchased	**485**	**8**	**-**	192	3	-
Options written	**507**	**-**	**10**	208	-	3
	18,405	**203**	**120**	11,615	125	30
Other contracts						
Swaps traded through a clearing house	**563**	**9**	**-**	545	10	-
Swaps - Other	**1,547**	**2**	**4**	1,540	2	11
Futures	**689**	**-**	**-**	598	-	-
Options purchased	**11,274**	**1,205**	**-**	9,491	1,120	-
Options written	**10,873**	**-**	**1,193**	9,288	-	1,113
	24,946	**1,216**	**1,197**	21,462	1,132	1,124
Total – Trading purposes	**127,435**	**1,896**	**1,495**	115,510	1,555	1,447
Total derivative financial instruments before impact of master netting agreements	**$ 180,850**	**$ 3,133**	**$ 1,675**	$ 167,540	$ 2,322	$ 1,719
Less:						
Impact of master netting agreements[(1)]	**-**	**412**	**412**	-	442	442
Total derivative financial instruments after impact of master netting agreements	**$ 180,850**	**$ 2,721**	**$ 1,263**	**$ 167,540**	**$ 1,880**	**$ 1,277**

(1) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The following table presents the gross amounts related to the ineffectiveness of fair value hedges and cash flow hedges that are recognized under "Net income (loss) on securities at fair value through profit or loss" in the Combined Statements of Income for the years ended December 31.

	2014	2013
Losses on the hedged item	**$ (431)**	$ (95)
Gains on derivative instruments	**436**	92
Fair value hedge ineffectiveness	**$ 5**	$ (3)
Cash flow hedge ineffectiveness	**25**	(12)

Cash flows

The following tables present the expected dates of occurrence of hedged cash flows.

2014	**Terms to maturity**				
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Total**
Cash inflows (assets)	**$ 464**	**$ 887**	**$ 455**	**$ 5**	**$ 1,811**
Cash outflows (liabilities)	**149**	**152**	**14**	**-**	**315**
Net cash flows	**$ 315**	**$ 735**	**$ 441**	**$ 5**	**$ 1,496**

2013	Terms to maturity				
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Cash inflows (assets)	$ 445	$ 977	$ 571	$ 19	$ 2,012
Cash outflows (liabilities)	909	129	4	-	1,042
Net cash flows	**$ (464)**	**$ 848**	**$ 567**	**$ 19**	**$ 970**

The net impact on excess cash flows related to interest is recognized using the effective interest method over the life or the underlying instrument. During the years ended December 31, 2014 and 2013, the main hedging transactions occurred as expected.

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins Group. The manner in which Desjardins Group assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.1, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Combined Financial Statements.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
Credit risk equivalent	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by the Bank for International Settlements (BIS), excluding items prescribed by the BIS, such as the replacement cost of forward exchange contracts with an original maturity of less than 14 days and exchange-traded derivatives subject to daily cash margining.
Risk-weighted balance	The balance weighted by the risk related to the creditworthiness of the counterparty calculated at the rates prescribed by the BIS.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table gives an overview of Desjardins Group's derivative financial instruments portfolio and related credit risk, before and after the impact of master netting agreements.

	As at December 31, 2014				As at December 31, 2013			
	Notional amount	**Replacement cost**	**Credit risk equivalent**	**Risk-weighted balance**	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Swaps	**$ 86,617**	**$ 994**	**$ 1,381**	**$ 283**	$ 83,058	$ 773	$ 1,133	$ 229
Forward rate agreements	**4,130**	**4**	**13**	**9**	5,699	7	29	11
Futures	**16,267**	**-**	**-**	**-**	19,173	-	-	-
Options purchased	**8,550**	**2**	**-**	**-**	12,125	5	-	-
Options written	**12,254**	**-**	**-**	**-**	9,328	-	-	-
	127,818	**1,000**	**1,394**	**292**	129,383	785	1,162	240
Foreign exchange contracts								
Forward contracts	**16,462**	**162**	**346**	**90**	10,224	106	228	57
Currency swaps	**10,632**	**747**	**1,152**	**230**	6,071	296	506	101
Options purchased	**485**	**8**	**13**	**4**	192	3	5	2
Options written	**507**	**-**	**-**	**-**	208	-	-	-
	28,086	**917**	**1,511**	**324**	16,695	405	739	160
Other contracts								
Swaps	**2,110**	**11**	**147**	**29**	2,085	12	171	31
Futures	**689**	**-**	**-**	**-**	598	-	-	-
Options purchased	**11,274**	**1,205**	**2,086**	**417**	9,491	1,120	1,866	373
Options written	**10,873**	**-**	**-**	**-**	9,288	-	-	-
	24,946	**1,216**	**2,233**	**446**	21,462	1,132	2,037	404
Total derivative financial instruments before impact of master netting agreements	**$ 180,850**	**$ 3,133**	**$ 5,138**	**$ 1,062**	$ 167,540	$ 2,322	$ 3,938	$ 804
Less:								
Impact of master netting agreements[1]	**-**	**412**	**-**	**649**	-	442	-	486
Total derivative financial instruments after impact of master netting agreements	**$ 180,850**	**$ 2,721**	**$ 5,138**	**$ 413**	**$ 167,540**	**$ 1,880**	**$ 3,938**	**$ 318**

[1] Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

	As at December 31, 2014		As at December 31, 2013	
	Replacement cost	**Risk-weighted balance**	Replacement cost	Risk-weighted balance
Credit risk rating[1]				
AAA, AA+, AA, AA-	**$ 807**	**$ 251**	$ 652	$ 201
A+, A, A-	**2,167**	**734**	1,554	542
BBB, B, BB-, BBB-	**89**	**31**	15	13
Not rated	**70**	**46**	101	48
Total	**3,133**	**1,062**	2,322	804
Less:				
Impact of master netting agreements[2]	**412**	**649**	442	486
Total after impact of master netting agreements	**$ 2,721**	**$ 413**	**$ 1,880**	**$ 318**
Type of counterparty				
Financial institutions	**$ 3,047**	**$ 999**	$ 2,260	$ 765
Other	**86**	**63**	62	39
Total	**3,133**	**1,062**	2,322	804
Less:				
Impact of master netting agreements[2]	**412**	**649**	442	486
Total after impact of master netting agreements	**$ 2,721**	**$ 413**	**$ 1,880**	**$ 318**

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group.
(2) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 22 – SIGNIFICANT ACQUISITIONS

ACQUISITIONS

Year ended December 31, 2014

Except for the acquisition of the Canadian property and casualty and life and health insurance businesses of State Farm Mutual Automobile Insurance Company on January 1, 2015, Desjardins Group made no significant acquisition during the year.

Year ended December 31, 2013

Coast Capital Insurance Services Ltd.

On July 2, 2013, Desjardins Group acquired, through Western Financial Group Inc., a wholly-owned subsidiary of Desjardins Financial Corporation Inc., 100% of the outstanding shares of Coast Capital Insurance Services Ltd. (CCIS) for an aggregate amount of $99 million in addition to the excess working capital of $17 million of this company. CCIS offers property and casualty and commercial insurance products on the Western Canada retail market. This acquisition enabled Desjardins Group to pursue its Canada-wide development.

This transaction qualifies as a business combination and was accounted for using the acquisition method. Goodwill is attributable to the business opportunities and synergies expected to result from the acquisition of CCIS by Desjardins Group. No portion of the goodwill recognized is tax-deductible.

As at December 31, 2013, the contribution of CCIS to Desjardins Group's "Total income" and "Net surplus earnings for the year after member dividends" amounted to $14 million and $3 million, respectively. If the acquisition had occurred at the beginning of fiscal 2013, this contribution would have amounted to $28 million and $11 million, respectively.

Qtrade Canada Inc.

On April 3, 2013, Desjardins Group acquired, through Desjardins Financial Corporation Inc., a wholly-owned subsidiary of the Federation, 40% of the outstanding shares of Qtrade Canada Inc. (Qtrade) on a fully diluted basis for an aggregate amount of $65 million. Qtrade is a company specializing in online brokerage and wealth management services, primarily for credit unions. This acquisition enabled Desjardins Group to accelerate its development across Canada and increase its operations with credit unions.

This transaction qualifies as a business combination since Desjardins Group has acquired 100% of the voting shares and has taken control of Qtrade's operations. Non-controlling interests, which comprise the holders of Qtrade's non-voting Class A and C shares, was measured on the basis of the proportionate share of identifiable net assets. Goodwill is attributable to the business opportunities and synergies expected to result from the acquisition of Qtrade by Desjardins Group. No portion of the goodwill recognized is tax-deductible.

As at December 31, 2013, the contribution of Qtrade had increased Desjardins Group's "Total income" by $43 million and had decreased its "Net surplus for the year after member dividends" by $1 million. If the acquisition had occurred at the beginning of fiscal 2013, the contribution of Qtrade would have increased Desjardins Group's "Total income" by $58 million and would have decreased its "Net surplus for the year after member dividends" by $2 million in 2013.

In connection with this transaction, Desjardins Group wrote in favour of the holders of non-controlling interests put options that give them the right to sell their interests at predetermined dates at a price representing fair value as at such dates. As at the acquisition date, Desjardins Group recognized a financial liability related to these put options of $96 million, representing the present value of the redemption amount, under "Other liabilities - Other". A corresponding amount was recorded against "Reserves". Subsequent changes in the fair value of the liability related to put options have been recognized in the Combined Statements of Income.

As at the acquisition date, the fair value of the identifiable assets acquired and liabilities assumed was as follows:

	CCIS	Qtrade
Net identifiable assets acquired		
Cash and deposits with financial institutions	$ 6	$ 6
Securities	-	49
Intangible assets	43	-
Other assets	17	437
Other liabilities	(17)	(410)
	$ 49	**$ 82**
Goodwill resulting from the acquisition	67	32
Less:		
Non-controlling interests	-	49
Total consideration	**$ 116**	**$ 65**
Less:		
Acquired cash and deposits with financial institutions	6	6
Net cash used for the acquisition	**$ 110**	**$ 59**

NOTE 23 – CAPITAL STOCK

AUTHORIZED

Capital stock comprises qualifying shares, permanent shares, surplus shares and capital shares.

The caisses may issue an unlimited number of qualifying shares with a par value of $5, redeemable in the cases set forth in the Act. Members have only one vote each, no matter how many qualifying shares they own.

The Act authorizes the issuance of an unlimited number of permanent and surplus shares with a par value of $10 and $1, respectively. These shares do not carry any voting rights and cannot be redeemed except under certain conditions stipulated by the Act. The interest is determined annually by the general meeting of each caisse. Under the interest reinvestment program, interest on surplus shares is paid in shares, while interest on permanent shares is paid in cash. Interest is recognized under “Remuneration on capital stock” in the Combined Statements of Changes in Equity after being approved by the general meeting of each caisse, which is held in the four months following year-end.

The Federation may issue an unlimited number of F capital shares with a par value of $10. These shares do not carry any voting rights. F capital shares may be issued only to members of Desjardins caisses in Quebec, including their auxiliary members. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, F capital shares at any time. The Federation may also purchase, in whole or in part, F capital shares by private agreement, at any time, with the authorization of the AMF. The interest rate on F capital shares is determined by the Federation’s Board of Directors. Interest is recognized under “Remuneration on capital stock” in the Combined Statements of Changes in Equity after being approved by the general meeting. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2014	As at December 31, 2013
Qualifying shares	**$ 36**	$ 36
Permanent shares	**2,069**	2,184
Surplus shares	**188**	163
F capital shares	**2,484**	1,498
	$ 4,777	**$ 3,881**

ISSUANCE OF SHARES

In 2014, the Federation issued 98,719,777 F capital shares for a cash consideration of $986 million, which represents the gross proceeds of this issuance of $987 million less issue costs and other items totalling $1 million.

During the year ended December 31, 2013, the Federation had issued 47,613,073 F capital shares for a cash consideration of $473 million, which represents the gross proceeds of this issuance of $476 million less issue costs and other items totalling $3 million.

REDEMPTION OF SHARES

Permanent shares

During the year ended December 31, 2014, the AMF authorized the redemption for cancellation of a predetermined amount of permanent shares, subject to certain conditions, over a period ending December 31, 2015.

Surplus shares

During the year ended December 31, 2014, the AMF authorized the redemption for cancellation of all surplus shares subject to certain conditions.

NOTE 24 – SHARE CAPITAL

AUTHORIZED

There is an unlimited number of Class A preferred shares, offered only to member of caisses populaires of Ontario, non-voting, without par value, redeemable at the option of the issuer at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative.

There is an unlimited number of Class B preferred shares, non-voting, without par value, redeemable at the option of the issuer, i. e. the *Fédération des caisses populaires de l'Ontario Inc.* and the caisses populaires of Ontario, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

There is an unlimited number of Class C preferred shares, non-voting, without par value, redeemable at the option of the issuer, i. e. the *Fédération des caisses populaires de l'Ontario Inc.*, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

SPECIFIC CHARACTERISTICS OF ISSUED AND PAID CLASS B PREFERED – SERIES 2000, 2002 AND 2003 AND CLASS C PREFERRED SHARES – SERIES 2010

The dividend rate will be equal to the higher of: the average interest rate for the year on non-redeemable term deposits of five years plus 0.50% or 6.00% for Class B – Series 2000, plus 1.00% or 5.25% for Class B – Series 2002; plus 1.00% or 4.00% for Class B – Series 2003; and plus 0.5% or 4.25% for Class C – Series 2010, i.e., the minimum rate. Should the issuer be unable to pay the dividend in full, a partial dividend may be declared. A dividend may be declared every time the issuer's surplus earnings allow it and that all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the Board of Directors' approval, up to a maximum of 10% of the issued and outstanding shares of the prior year. They have been redeemable at the option of the issuer since September 30, 2005, for Class B –- Series 2000; since July 1, 2007, for Class B – Series 2002; and since March 1, 2008, for Class B – Series 2003; and are redeemable at the option of the issuer on or after January 1, 2015 for Class C – Series 2010. Shares can be redeemed only if the issuer does not or will not violate section 84 of the Ontario *Credit Unions and Caisses Populaires Act, 1994*, regarding capital adequacy.

ISSUED AND PAID SHARES

	As at December 31, 2014		As at December 31, 2013	
	Number of shares	**Amount**	Number of shares	Amount
Class A preferred shares	**663,600**	**$ 7**	689,400	$ 7
Class B preferred shares – Series 2000	**53,300**	**1**	51,600	1
Class B preferred shares – Series 2002	**430,100**	**4**	392,500	4
Class B preferred shares – Series 2003	**695,000**	**7**	678,900	6
Class C preferred shares – Series 2010	**6,663,500**	**66**	6,430,000	64
		$ 85		**$ 82**

During fiscal 2014, the issuer paid a dividend of $2 million in the form of Class C preferred shares – Series 2010 (233,500 shares). It also issued 1,700 Class B preferred shares – Series 2000, 37,600 Class B preferred shares – Series 2002 and 16,100 Class B preferred shares – Series 2003 for an amount of $1 million and redeemed 25,800 Class A preferred shares for an immaterial amount.

During fiscal 2013, the issuer had paid a dividend of $2 million in the form of Class C preferred shares – Series 2010 (224,700 shares). It had also issued 7,400 Class A preferred shares, 1,600 Class B preferred shares – Series 2000, 12,300 Class B preferred shares – Series 2002 and 23,700 Class B preferred shares – Series 2003.

NOTE 25 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the main components of "Accumulated other comprehensive income" (net of taxes).

	As at December 31, 2014		As at December 31, 2013	
	Group's share	**Non-controlling interests' share**	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains on available-for-sale securities	**$ 438**	**$ 44**	$ 291	$ 33
Net gains on derivative financial instruments designated as cash flow hedges	**176**	**-**	129	-
Net unrealized exchange gains on the translation of self-sustaining foreign operations, net of hedging transactions	**1**	**-**	-	-
Accumulated other comprehensive income	**$ 615**	**$ 44**	**$ 420**	**$ 33**

NOTE 26 – CAPITAL MANAGEMENT

The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained for the following reasons: to have flexibility for its development, to maintain favourable credit ratings and to maintain the confidence of depositors and financial markets.

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The regulatory capital adequacy and composition of Desjardins Group as a whole are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF. The AMF requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components. Insurance subsidiaries are deconsolidated and presented as a deduction to capital. Life and health insurance subsidiaries are subject to the guideline on capital adequacy requirements (CAR) issued by the AMF as well as the guideline on minimum continuing capital and surplus requirements (MCCSR) for Life Insurance Companies issued by OSFI. Property and casualty insurance subsidiaries are subject to the guideline on capital adequacy requirements, the minimum capital test (MCT), issued by the AMF and the guideline on MCT for federally regulated property and casualty insurance companies issued by OSFI.

Some Desjardins Group subsidiaries are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum requirements that could limit the ability of Desjardins Group to allocate a portion of such capital to other purposes.

The capital adequacy of Quebec caisses and *Caisse centrale Desjardins* is governed by the Federation's standards, which draw on those of the AMF and address capital base adequacy, items comprising capital base and proportions between those items. The capital adequacy of the *Fédération des caisses populaires de l'Ontario* and associated caisses is governed by a regulation and guidelines issued by the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario.

Desjardins Group's capital management is the responsibility of the Federation's Board of Directors. To support it with this task, it has mandated the Finance and Risk Management Committee to ensure that Desjardins Group has a sufficient and reliable capital base. Every year, the Finance Executive Division and Office of the CFO of Desjardins Group prepares, with the help of its components, a capitalization plan that is combined with the Integrated Capital Management Framework to project changes in regulatory capital, to develop strategies and to recommend action plans in order to meet objectives and capital targets.

BASEL III

Desjardins Group's capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets. This guideline was amended as at January 1, 2013 to take into account the revised framework for international convergence of capital measurement and capital standards (Basel III) issued by the BIS. The minimum Tier 1a capital ratio that Desjardins Group must maintain is now 7%. In addition, its Tier 1 capital ratio must be above 8.5%, including a 2.5% capital conservation buffer. Lastly, its total capital ratio must be above 10.5%, including this buffer.

NOTE 26 – CAPITAL MANAGEMENT *(continued)*

The regulatory capital of Desjardins Group differs from the equity disclosed in the Combined Balance Sheets. It comprises the following components:

i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1a (core capital) and Tier 1b (additional capital). Tier 1a capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings, accumulated other comprehensive income and non-controlling interests. Tier 1b capital also includes a portion of non-controlling interests.

ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It consists of subordinated notes, eligible qualifying shares, non-controlling interests and the eligible portion of the collective allowance.

The amount of non-controlling interests allocated to the various capital tiers is determined, in particular, based on the nature of the operations and the capitalization level of the investee.

In June 2013, the AMF ruled that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI). Effective January 1, 2016, Desjardins Group, as a D-SIFI, will be subject to an additional requirement with respect of its minimum capital ratios.

Since January 1, 2014, the measures and requirements related to the credit valuation adjustment (CVA) charge have been phased in as set out in the guideline. This phased-in charge will reach 100% by 2019 for each of the capital ratios. As at December 31, 2014, only 57%, 65% and 77% of the total CVA charge have been applied to the Tier 1a capital ratio, the Tier 1 capital ratio and the total capital ratio, respectively.

In addition to minimum Tier 1a, Tier 1 and total capital ratios, the AMF required that Desjardins Group maintain an assets-to-regulatory capital ratio of under 20 to 1. This ratio determined the overall capital adequacy of Desjardins Group with respect to its total assets, including certain off-balance sheet items.

In December 2014, the AMF update its guideline to specify that, effective January 1, 2015, the asset/capital ratio will be replaced by a new leverage ratio defined as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items. According to the guideline, the minimum leverage ratio that Desjardins Group must meet is 3%. Desjardins Group has assessed the impact of this change and meets the new requirements.

The following table presents the composition of Desjardins Group's regulatory capital.

	As at December 31, 2014	As at December 31, 2013
Tier 1a capital		
F capital shares	**$ 2,486**	$ 1,500
Permanent shares and surplus shares subject to phase-out	**1,681**	1,889
Reserves	**11,476**	11,056
Undistributed surplus earnings	**1,436**	1,311
Eligible accumulated other comprehensive income	**470**	326
Deferral attributable to amendments to IAS 19	**-**	286
Non-controlling interests	**14**	14
Deductions[(1)]	**(2,300)**	(2,360)
Total net Tier 1a capital	**15,263**	**14,022**
Non-controlling interests	**24**	21
Total Tier 1b capital	**24**	**21**
Total Tier 1 capital	**$ 15,287**	$ **14,043**
Tier 2 capital		
Subordinated notes subject to phase-out	**$ 2,474**	$ 2,783
Eligible collective allowance	**291**	275
Other eligible instruments	**25**	25
Non-controlling interests	**2**	6
Deductions [(2)]	**(700)**	(700)
Total net Tier 2 capital	**$ 2,092**	$ **2,389**
Total regulatory capital (Tier 1 and 2)	**$ 17,379**	**$ 16,432**

(1) Represents essentially the portion of investments in the components deconsolidated for regulatory capital purposes (mainly the insurance subsidiaries) that exceeds 10% of capital net of regulatory adjustments. The non-deducted balance will be subject to risk-weighting at a rate of 250%.

(2) Represents an investment in preferred shares of one of the life and health insurance subsidiaries deconsolidated for regulatory capital purposes.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013. However, in accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began January 1, 2013. These instruments include permanent shares and surplus shares issued before September 12, 2010, which total $2.1 billion.

In addition, the subordinated notes described in Note 20, "Subordinated notes", are also subject to the 10% amortization. In order to be fully eligible as Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group does not plan to issue any financial instruments of this type until these requirements are further clarified.

NOTE 26 – CAPITAL MANAGEMENT *(continued)*

In addition, since January 1, 2013, Desjardins Group has amortized on a straight-line basis the eligible portion of the $572 million impact of the amendments to IAS 19, for a quarterly amortization of $72 million, and has done so up to December 31, 2014. This election is irrevocable and mitigates the impact of the amendments to this accounting standard on Desjardins Group’s capital ratios.

In terms of developing the Integrated Capital Management Framework, the financial goal for Desjardins Group’s Tier 1 capital ratio was maintained at a minimum of 15% under Basel III, given the global economic context, the new AMF regulatory requirements with respect to Basel III and the application of the amendments to IAS 19. In that respect, as at the date of conversion to Basel III, Desjardins Group elected to use the transitional provisions set out in the guideline and described in the previous paragraphs.

Desjardins Group's regulatory capital amounted to $17,379 million at the reporting date, up $947 million from December 31, 2013. This increase is mainly explained by the growth of $545 million in reserves and undistributed surplus earnings and the issue of $986 million of capital shares of the Federation. However, the amortization of capital instruments that no longer meet the Basel III eligibility criteria reduced capital by approximately $517 million.

As mentioned in Note 23, “Capital stock”, in 2014, the Federation issued shares for net proceeds of $986 million ($473 million in 2013). Furthermore, on December 19, 2014, the Federation was authorized by the AMF to file a new prospectus for the issuance of additional shares totalling $1 billion. This new issuance began on January 14, 2015.

In addition, on April 1, 2014, *Desjardins Group* called all of its outstanding Series E subordinated notes in the amount of $500 million.

COMPLIANCE WITH REQUIREMENTS

Desjardins Group and all its components that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2014, as they were in the previous year.

NOTE 27 – NET INCOME (LOSS) ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL INSTRUMENTS HELD FOR TRADING

The following table presents the impact of income from financial instruments held for trading on the Combined Statements of Income for the years ended December 31.

	2014	2013
Income		
Net interest income	**$ 19**	$ 17
Net income (loss) on securities at fair value through profit or loss	**249**	(385)
	$ 268	**$ (368)**

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table presents the impact of income from financial instruments designated as at fair value through profit or loss on the Combined Statements of Income for the years ended December 31.

	2014	2013
Income		
Net interest income	**$ 4**	$ 13
Net income (loss) on securities at fair value through profit or loss	**1,756**	(282)
	$ 1,760	**$ (269)**

NOTE 28 – NON-INTEREST EXPENSE – OTHER

For the years ended December 31, “Non-interest expense – Other” presented in the Combined Statements of Income consisted of the following:

	2014	2013
Professional fees	**$ 582**	$ 545
Commissions	**492**	423
Other employee expenses	**196**	210
Business and capital taxes	**185**	179
Amortization of intangible assets	**84**	94
Expenses related to deposits, services and other	**84**	92
Sponsorships and donations	**82**	81
Other	**512**	391
	$ 2,217	**$ 2,015**

NOTE 29 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense (recovery) recognized in the Combined Financial Statements for the years ended December 31 is detailed as follows:

	2014	2013
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 463**	$ 465
Adjustments for current tax of prior years	**6**	5
Current tax recovery on remuneration on capital stock	**(40)**	(30)
Tax recovery on member dividends	**(57)**	(45)
	372	395
Deferred income taxes		
Origination and reversal of temporary differences	**7**	3
Changes in tax rates	**(2)**	(4)
	5	(1)
	377	394
Combined Statements of Comprehensive Income		
Current income taxes	**23**	(112)
Deferred income taxes	**(203)**	108
	(180)	(4)
Total income tax expense	**$ 197**	**$ 390**

Income taxes on surplus earnings presented in the Combined Statements of Income for the years ended December 31 are detailed as follows:

	2014	2013
Income taxes on surplus earnings	**$ 434**	$ 439
Tax recovery on dividends	**(57)**	(45)
Income taxes on surplus earnings	**$ 377**	**$ 394**

NOTE 29 – INCOME TAXES ON SURPLUS EARNINGS *(continued)*

TAX RATE RECONCILIATION

The income tax expense (recovery) on surplus earnings recognized in the Combined Statements of Income for the years ended December 31 differs from the income tax expense (recovery) determined using the Canadian statutory rate for the following reasons:

	2014	2013
Income taxes at the combined statutory rate of 26.77% (26.97% in 2013)	**$ 484**	$ 485
Small business deduction and additional credit for credit unions	**(13)**	(18)
Non-taxable investment income and other items	**(72)**	(50)
Changes in tax rates	**(2)**	(4)
Non-deductible expenses	**12**	8
Adjustment for current tax of prior years	**7**	5
Current tax recovery on remuneration on capital stock	**(40)**	(30)
Other	**1**	(2)
	$ 377	**$ 394**

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		**Combined Statements of Income**	
	As at December 31, 2014	As at December 31, 2013	**2014**	2013
Deferred tax assets				
Insurance contract liabilities	**$ -**	$ 30	**$ 30**	$ 31
Allowance for credit losses	**84**	73	**(11)**	(4)
Net defined benefit plan liabilities	**714**	479	**(6)**	(39)
Tax losses	**89**	112	**23**	(39)
Other	**62**	8	**(38)**	(24)
	949	**702**	**(2)**	**(75)**
Deferred tax liabilities				
Property, plant and equipment and investment property	**114**	108	**3**	3
Securities and other financial instruments	**113**	87	**(4)**	71
Insurance contract liabilities	**8**	-	**8**	-
	235	**195**	**7**	**74**
Net deferred income tax assets	**$ 714**	**$ 507**	**$ 5**	**$ (1)**

For the purposes of presenting the Combined Balance Sheets, deferred tax assets and liabilities are measured by legal entities and presented as follows:

	As at December 31, 2014	As at December 31, 2013
Deferred tax assets[(1)]	**$ 1,043**	$ 810
Deferred tax liabilities[(1)]	**329**	303
	$ 714	**$ 507**

[(1)] Deferred income taxes will reverse mainly in the long term.

The amount of deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Combined Balance Sheets was $23 million ($23 million as at December 31, 2013). These amounts do not expire.

NOTE 30 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, Desjardins Group uses credit instruments and off-balance sheet guarantees to meet the financing needs of members and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that Desjardins Group granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that Desjardins Group could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that Desjardins Group could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater that the amount recognized in the Combined Balance Sheets.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Combined Balance Sheets expose Desjardins Group to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2014	As at December 31, 2013
Commitments		
Credit commitments[(1)]	**$ 77,118**	$ 65,429
Indemnification commitments related to securities lending	**2,172**	2,299
Documentary letters of credit	**74**	78
Financial guarantees		
Guarantees and standby letters of credit	**938**	869
Credit default swaps	**563**	545

(1) Includes the funding facility related to MAV 1. Additional information is provided in the "Asset-backed term notes" section of Note 8, "Securities".

Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Indemnification commitments related to securities lending

As part of its asset custody operations, Desjardins Group entered into securities lending agreements with clients. Desjardins Group makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times (with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount). There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

Documentary letters of credit

Documentary letters of credit are instruments issued for a member or a client and represent Desjardins Group’s agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. Desjardins Group is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by Desjardins Group to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group’s policy with respect to collateral received for these instruments is generally the same as for loans.

NOTE 30 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

Credit default swaps

In the normal course of its investment operations, Desjardins Group entered into credit default swaps and undertook to assume the credit risk for the bonds that constitute the underlying assets for these swaps. The guarantee given is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection.

Other indemnification agreements

In the normal course of its operations, Desjardins Group enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, Desjardins Group may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that Desjardins Group could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, Desjardins Group enters into asset pledge agreements and receives from its members and clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor's right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of Desjardins Group's financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	As at December 31, 2014	As at December 31, 2013
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	**$ 4**	$ 5
Securities	**13,233**	9,844
Loans	**23,587**	17,834
	36,824	27,683
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**11,624**	8,903
Less: Assets not sold or not repledged	**7,896**	7,645
	3,728	1,258
	$ 40,552	**$ 28,941**
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 15,371**	$ 9,934
Transactions involving commitments related to securities sold short	**987**	402
Securitization transactions	**8,008**	6,444
Covered bonds	**6,798**	3,219
Transactions on derivative financial instruments	**52**	141
Clearing systems, payment systems and depositories (1)	**9,214**	8,680
Caisse network money supply from the Bank of Canada	**122**	121
	$ 40,552	**$ 28,941**

(1) In the normal course of its operations, Desjardins Group must pledge collateral to the Bank of Canada for the use of the Large Value Transfer System.

NOTE 30 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

LITIGATION

In the normal course of its operations, Desjardins Group is involved in various litigation matters and lawsuits relating to its various products, services, investments and other activities. Motions for leave to commence class actions have been filed against certain Desjardins Group entities, including with respect to the management and distribution of guaranteed-capital products.

It is not currently possible to predict the outcome of certain of these litigation matters and lawsuits, including the above-mentioned class actions, the timing of such outcomes, or the potential impact on Desjardins Group's financial position. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and lawsuits, to the extent that it can be measured, could have an impact on Desjardins Group's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 31 – LEASES

LEASES – AS LESSEE

Operating leases

The minimum future commitments under leases for premises and equipment for the years ended December 31 are presented in the following table.

	2014	2013
Under 1 year	**$ 179**	$ 85
1 to 5 years	**455**	242
Over 5 years	**142**	142
Total minimum future commitments	**$ 776**	**$ 469**

Lease payments recognized as expenses for the year ended December 31, 2014 totalled $74 million ($64 million in 2013).

LEASES – AS LESSOR

Operating leases

For the years ended December 31, future minimum lease payments to be received under non-cancellable leases for premises and equipment are as follows:

	2014	2013
Under 1 year	**$ 52**	$ 54
1 to 5 years	**148**	137
Over 5 years	**81**	80
Total future minimum payments	**$ 281**	**$ 271**

No contingent rents were recognized as income for the years ended December 31, 2014 and 2013.

NOTE 32 – FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which Desjardins Group assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.1, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Combined Financial Statements.

NOTE 33 – INTEREST RATE SENSITIVITY AND MATURITY MATCHING

The following table presents the exposure to interest rate risks. Financial instruments are presented based on their maturity date or repricing date, whichever is earlier.

	Floating rate	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive and provisions	As at December 31, 2014	As at December 31, 2013
Assets									
Cash and deposits with financial institutions	$ 190	$ 220	$ -	$ -	$ -	$ -	$ 1,371	$ 1,781	$ 1,320
Effective interest rate		*1.00 %*							
Securities	2,009	4,615	507	1,105	17,592	15,565	3,342	44,735	42,577
Effective interest rate		*1.59 %*	*1.34 %*	*2.52 %*	*1.92 %*	*4.18 %*			
Securities borrowed or purchased under reverse repurchase agreements	-	9,948	-	-	-	-	11	9,959	7,710
Effective interest rate		*0.85 %*							
Loans	34,389	26,901	18,200	25,791	42,010	3,072	91	150,454	140,533
Effective interest rate		*4.27 %*	*3.18 %*	*3.23 %*	*3.97 %*	*5.99 %*			
Segregated fund assets and other assets(1)	-	-	-	-	-	-	22,458	22,458	19,865
	$ 36,588	$ 41,684	$ 18,707	$ 26,896	$ 59,602	$ 18,637	$ 27,273	$ 229,387	$ 212,005
Liabilities and equity									
Deposits	$ 23,875	$ 19,942	$ 7,030	$ 12,878	$ 49,113	$ 919	$ 32,567	$ 146,324	$ 136,746
Effective interest rate		*0.95 %*	*1.91 %*	*1.78 %*	*2.00 %*	*2.75 %*			
Commitments related to securities sold short	336	454	181	72	3,231	1,965	65	6,304	7,754
Effective interest rate		*2.38 %*	*2.93 %*	*1.41 %*	*1.73 %*	*3.74 %*			
Commitments related to securities lent or sold under repurchase agreements	-	13,072	-	-	-	-	-	13,072	9,579
Effective interest rate		*0.90 %*							
Insurance contract liabilities	-	-	-	-	-	-	19,435	19,435	17,070
Other liabilities(1)	-	-	-	22	13	-	23,232	23,267	21,005
Subordinated notes	-	-	-	693	482	1,389	-	2,564	3,063
Effective interest rate				*3.80 %*	*5.54 %*	*5.10 %*			
Equity	-	-	-	-	-	-	18,421	18,421	16,788
	$ 24,211	$ 33,468	$ 7,211	$ 13,665	$ 52,839	$ 4,273	$ 93,720	$ 229,387	$ 212,005
Sensitivity gap – Combined Balance Sheet items	$ 12,377	$ 8,216	$ 11,496	$ 13,231	$ 6,763	$ 14,364	$ (66,447)	$ -	$ -
Sensitivity gap – Derivative financial instruments, based on notional amounts	-	(36,371)	580	(7,211)	40,177	2,825	-	-	-
Total interest rate sensitivity gap	$ 12,377	$(28,155)	$ 12,076	$ 6,020	$ 46,940	$ 17,189	$ (66,447)	$ -	$ -

(1) Segregated fund assets and liabilities are not exposed to interest rate risk. For more information, see Note 11, “Segregated funds”.

NOTE 34 – SEGMENTED INFORMATION

Desjardins Group's financial reporting is grouped by activities, which are defined base on is the needs of its members and clients and the markets in which Desjardins Group operates and reflect Desjardins Group's internal management method. Accordingly, Desjardins Group's financial results are grouped in three business segments, namely Personal Services and Business and Institutional Services, Wealth Management and Life and Health Insurance, and Property and Casualty insurance, plus an Other category.

The Personal Services and Business and Institutional Services segment offers Desjardins Group's members and clients a comprehensive, integrated offering designed to meet the needs of individuals, businesses, institutions, not-for-profit organizations and cooperatives through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams and complementary financing teams. This offering meets a range of needs including day-to-dayt and convenience transactions, securities investments, debit and credit cards, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice. This segment also offers its products and services through complementary distribution networks and mortgage representatives, by phone, online and via applications for mobile devices, as well as ATMs.

The Wealth Management and Life and Health Insurance segment offers members and clients of Desjardins Group a range of products and services tailored to the changing wealth management and financial security needs of individuals, groups, businesses and cooperatives. The products and services of the Wealth Management and Life and Health Insurance segment are distributed through advisors and financial planners across the Desjardins caisse network and in the Private Management team, financial security advisors, life insurance and employee benefits representatives and brokers, and securities brokers. Certain product lines are also distributed online, via applications for mobile devices and through client care centres.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against disasters. It includes the operations of Desjardins General Insurance Group Inc. and Western Financial Group Inc. Desjardins General Insurance Group Inc. provides a line of home and automobile insurance products to the general public and to members of partner groups across Canada, as well as insurance products to businesses in the Quebec market. The Desjardins General Insurance Group Inc.' s products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field, online and via applications for mobile devices.

The Other category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities related to *Caisse centrale Desjardins*' operations and financial intermediation between surplus liquidity and the liquidity needs of the caisses. This category also includes the results of the support functions provided by the Federation to Desjardins Group as a whole, the operations of *Capital Desjardins inc.* and *Fonds de sécurité Desjardins* as well as those related to ABTN securities held by Desjardins Group. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments necessary to prepare the Combined Financial Statements, the intersegment balance eliminations are classified in this category.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Combined Financial Statements of Desjardins Group.

NOTE 34 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of Desjardins Group's financial results by business segment for the years ended December 31.

	Personal Services and Business and Institutional Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Net interest income	**$ 3,764**	$ 3,678	**$ 2**	$ 3	**$ -**	$ 7	**$ 210**	$ 169	**$ 3,976**	$ 3,857
Net premiums	**-**	-	**3,881**	3,655	**2,277**	2,134	**(242)**	(231)	**5,916**	5,558
Other income	**1,952**	1,822	**3,355**	562	**342**	253	**(306)**	(318)	**5,343**	2,319
Total income	**5,716**	**5,500**	**7,238**	**4,220**	**2,619**	**2,394**	**(338)**	**(380)**	**15,235**	**11,734**
Provision for credit losses	**351**	277	**-**	-	**-**	-	**-**	-	**351**	277
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**4,801**	1,921	**1,515**	1,350	**(13)**	(12)	**6,303**	3,259
Non-interest expense	**4,197**	4,194	**1,929**	1,777	**855**	766	**(427)**	(508)	**6,554**	6,229
Operating surplus earnings	**1,168**	**1,029**	**508**	**522**	**249**	**278**	**102**	**140**	**2,027**	**1,969**
Income taxes on surplus earnings	**280**	220	**97**	133	**69**	66	**(12)**	20	**434**	439
Surplus earnings before member dividends[(1)]	**888**	**809**	**411**	**389**	**180**	**212**	**114**	**120**	**1,593**	**1,530**
Member dividends, net of income tax recovery	**160**	126	**-**	-	**-**	-	**-**	-	**160**	126
Net surplus earnings for the year after member dividends	**$ 728**	**$ 683**	**$ 411**	**$ 389**	**$ 180**	**$ 212**	**$ 114**	**$ 120**	**$ 1,433**	**$ 1,404**
of which:										
Group's share	**$ 727**	$ 681	**$ 370**	$ 392	**$ 168**	$ 193	**$ 111**	$ 118	**$ 1,376**	$ 1,384
Non-controlling interests' share	**1**	2	**41**	(3)	**12**	19	**3**	2	**57**	20

(1) For the year ended December 31, 2014, the Group's share of "Surplus earnings before member dividends" was $887 million ($807 million in 2013) for the Personal Services and Business and Institutional Services segment, $370 million ($392 million in 2013) for the Wealth Management and Life and Health Insurance, $168 million ($193 million in 2013) for the Property and Casualty Insurance segment and $111 million ($118 million in 2013) for the Other category.

SEGMENT ASSETS

	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at December 31, 2014	**$ 184,210**	**$ 32,000**	**$ 6,140**	**$ 7,037**	**$ 229,387**
As at December 31, 2013	$ 171,131	$ 29,095	$ 5,703	$ 6,076	$ 212,005

NOTE 35 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and benefit plans for the benefit of employees, as well as certain entities for which the substance of the relationship indicates that they are related to Desjardins Group, including the Desjardins Funds. They also include Desjardins Group's key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH DESJARDINS GROUP'S RELATED PARTIES

Transactions with Desjardins Group's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The main transactions are associated with fund management and custody fees. They are also associated with management income from pension plans and interest expense paid on bonds to the DGPP.

These transactions and balances as at the reporting dates are as follows:

	2014			2013		
	Associates	**Other related parties**	**Total**	Associates	Other related parties	Total
Combined Statements of Income						
Brokerage and investment fund services	**$ -**	**$ 326**	**$ 326**	$ -	$ 270	$ 270
Other income	**14**	**46**	**60**	13	62	75
Other expenses	**(5)**	**16**	**11**	(1)	1	-
Combined Balance Sheets						
Securities	**$ -**	**$ 208**	**$ 208**	$ 3	$ 180	$ 183
Securities borrowed or purchased under reverse repurchase agreements	**-**	**498**	**498**	-	555	555
Segregated fund net assets	**-**	**365**	**365**	-	275	275
Loans	**75**	**102**	**177**	30	108	138
Other assets	**2**	**23**	**25**	2	14	16
Deposits	**66**	**377**	**443**	66	385	451
Commitments related to securities lent or sold under repurchase agreements	**-**	**150**	**150**	-	327	327
Other liabilities	**2**	**46**	**48**	4	46	50
Other						
Credit commitments given	**$ 10**	**$ 172**	**$ 182**	$ -	$ 138	$ 138
Guarantees given	**-**	**150**	**150**	-	327	327
Guarantees received	**-**	**498**	**498**	-	555	555

KEY MANAGEMENT PERSONNEL COMPENSATION

Desjardins Group's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of Desjardins Group. In the normal course of operations, Desjardins Group carries out financial transactions with its management personnel. In addition to the compensation paid to key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance, and property and casualty insurance transactions with the various Desjardins Group entities. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of Desjardins Group's key management personnel was as follows:

	2014	2013
Short-term benefits	**$ 13**	$ 16
Other long-term benefits	**3**	6
	$ 16	**$ 22**

NOTE 36 – SUBSEQUENT EVENT

On January 1, 2015, Desjardins Group completed the acquisition of all the Canadian property and casualty and life and health insurance businesses of State Farm Mutual Automobile Insurance Company (State Farm), as well as the shares of its Canadian mutual fund, loan and living benefit companies. The acquisition will allow Desjardins Group to increase the annual gross premiums written of its main property and casualty insurance subsidiary by approximately $1.7 billion in 2015 and the annual gross premiums written of its life and health insurance subsidiary by approximately $140 million in 2015.

This transaction qualifies as a business combination and will be accounted for using the acquisition method. The allocation of the purchase price to the assets acquired and liabilities assumed will be completed during 2015. The results of the State Farm Canadian operations will be included in the Combined Financial Statements of Desjardins Group from the transactions' closing date, which is January 1, 2015.

As part of this transaction, State Farm and Groupe des Assurances du Crédit Mutuel s.a., currently a minority partner in Desjardins General Insurance Group Inc. (DGIG), have respectively invested $450 million in non-voting preferred shares and $200 million in common shares, non-voting preferred shares and subordinated notes of DGIG's insurance subsidiaries

EFFECTIVE GOVERNANCE FOCUSED ON INTEGRITY AND RIGOUR

As a cooperative financial group, Desjardins Group has an economic and social mission that is centred on meeting the needs of our members and clients and supporting the sustainable prosperity of communities—which is why we strive to maintain strong relationships with our members and clients.

Our governance program is an important part of how we carry out our mission and ensure we operate in compliance with regulatory requirements and our own social responsibility objectives. At Desjardins, we take a continuous improvement approach to our governance program and work to make sure it is consistent with our cooperative values.

HIGHLIGHTS

In 2014, the decision-making bodies of Desjardins Group examined the following governance-related issues:

- Compliance with the Guideline Governing Integrity and Competency Criteria set by Quebec's *Autorité des marchés financiers* (AMF):
  - Adoption of a policy governing the integrity and competency of caisse officers
  - Establishment of a self-assessment knowledge grid for the preparation of a competency matrix for Federation directors
  - Activities to increase knowledge and develop director competencies with regard to the following topics:
    - Influential leadership to improve caisse performance
    - Management of risk, capital and Desjardins Group's growth
  - Update of the caisse general manager hiring standard to ensure pre-qualification

- Compliance with the AMF Governance Guideline:

  The Board of Directors led, with the support of its Corporate Governance and Human Resources commissions, an in-depth examination of the conditions and mechanisms required to ensure ongoing leadership of Desjardins Group during a presidential election period stakeholders and mitigate associated risks.

  The purpose of this work is to ensure a smooth and thorough transition in line with the expectations of internal and external Desjardins Group stakeholders. Accordingly, the Federation Board of Directors will submit for caisse delegate approval at the Annual General Meeting of March 27, 2015, the establishment of a transition period between the election of a new president and the sitting president's departure six months after the Annual General Meeting.

  The establishment of a formal transition period aims to ensure strategic leadership continuity and give the elected person the required perspective to assume his or her responsibilities. In its examination, the Board drew motivation and inspiration from evolving practices of good governance, which call for careful preparation of the transition, and by regulatory authorities' requirements with regard to continuity and the skills required for senior management of an important financial institution like Desjardins Group.

  The Board also proposes adjustments to the election process, in particular by formally instituting a profile of the function of President and CEO, as well as to require letters of recommendation from 15 individuals endorsing each candidate to be provided to the electoral college.

  The current term of Monique F. Leroux, President and CEO of Desjardins Group, will end in March 2016. If the amendments to the Internal By-laws are adopted by the Annual Meeting, she will stay on for the following six months to ensure a smooth transition, and her successor will start a four-year term at the beginning of October, 2016.

- Follow-up of 2013 Congress of Officers:
  - Federation directors voluntarily committed to not seek a new term after completing four combined terms of three years. The members of the Board of Ethics and Professional Conduct of the Federation and Caisse centrale Desjardins (CCD) adopted a similar voluntary commitment.
  - The vast majority of caisses adopted the voluntary commitment policy to ensure fair gender representation on their boards of directors.
  - The Board endorsed updating the position regarding the representation of Desjardins Group in provincial, national and international cooperative coalitions, enabling Desjardins Group to play an active role in various organizations dedicated to promoting and developing the cooperative model.

- Caisse, subsidiary and Federation officer compensation frameworks were updated to align with those of comparable cooperative organizations and adapt to the nature of officer responsibilities.

- Risk management and compliance frameworks were strengthened:
  - Policy on counterparty and issuer risk management
  - Standard on the provision for credit losses
  - Policy on compliance with the intergovernmental *Foreign Account Tax Compliance Act* agreement
  - Policy governing economic sanctions and electronic funds transfers
  - Risk appetite and tolerance policy

Other governance development initiatives undertaken by Desjardins Group in 2014 are outlined in the following pages.

GOVERNANCE PROGRAM

The purpose of Desjardins Group's corporate governance practices is to enable us to carry out our mission, which is to contribute to improving the economic and social well-being of people and communities. The Federation oversees the development and application of a Desjardins-wide governance program that takes into account its cooperative nature, its social responsibility objectives, the complexity of its activities, and AMF guidelines. This program also covers the activities of the Federation, CCD, the *Fonds de sécurité Desjardins*, the *Fédération des caisses populaires de l'Ontario Inc*., the Desjardins subsidiaries and the caisses. As certain components are subject to specific regulations, the program largely complies with rules established by the Canadian Securities Administrators (CSA) and the Office of the Superintendent of Financial Institutions, as well as on industry best practices.

MANDATE OF THE BOARD OF DIRECTORS

1. ADMINISTRATION OF THE FEDERATION

Pursuant to the *Act respecting financial services cooperatives*, the Board is responsible for managing the affairs of the Federation, with support from its commissions and committees. It ensures that the necessary mechanisms and structure are in place for it to play its full part as the organization that guides, plans, coordinates, monitors and controls all Desjardins Group operations. As part of its fiduciary role, it makes the necessary decisions and coordinates the actions of the components to ensure Desjardins Group's long-term viability. The organizational structure, which is built around the business sectors and support functions, serves to optimize overall performance, streamline the organization and improve financial and risk management. The Board's responsibilities include the following:

a. Culture of integrity

The Board of Directors is responsible for promoting the values of Desjardins Group: money at the service of human development, democratic action, personal commitment, integrity and rigour in the cooperative enterprise, solidarity with the community, and intercooperation. The Board is also responsible for enforcing Desjardins Group's rules of professional conduct.

The Federation has a Board of Ethics and Professional Conduct, the members of which are all independent from management and the Board of Directors. The body responsible for ethics and professional conduct for the Desjardins caisses is called the "board of supervision" in Quebec; in Ontario, this responsibility is assumed by the caisse's audit committee. Desjardins Group also has a policy for staff to report violations of regulatory frameworks and of the *Desjardins Group Code of Professional Conduct* (the Code). This policy is combined with a confidential reporting mechanism that protects the anonymity of those who use it.

The Code, which is available to the public on Desjardins.com, is applicable to all Desjardins Group components. It includes a section on ethics and Desjardins Group's mission and values, and a section that describes all the rules of professional conduct. In addition, all Desjardins Group employees and officers are given online training on professional conduct. Every year, all employees must sign an acknowledgement that they have read the Code and agree to uphold it.

b. Strategic and financial planning process

The Board of Directors has an ongoing strategic and financial planning process for Desjardins Group that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. This process is the basis for all other plans (for the network, business sectors and support functions) and focuses on maintaining business continuity, putting priorities first and fostering commitment. The Board adopts a rolling four-year strategic plan that is reviewed once a year. For this process, it requests the participation of the caisses, Desjardins Group's democratic bodies, the business sectors and the subsidiaries. Once this plan is adopted, each region and caisse in the cooperative network is responsible for developing its own annual business plan.

The respective boards of directors of CCD, Desjardins Financial Security Life Assurance Company, Desjardins General Insurance Group Inc., Desjardins Securities Inc., and Desjardins Trust Inc. each adopt strategic and financial plans specific to their own sector, which tie in with the overall Desjardins Group plan.

A unique trait of Desjardins Group, the strategic planning process allows those responsible for the planning exercise to occasionally call on the Congress of Elected Officers to define certain key directions. The Congress is a bi-annual assembly of more than 1,000 caisse delegates. It is also an opportunity to consult the Assembly of Representatives if needed, which ensures the legitimacy and agility of decision-making on major Desjardins Group issues.

The Board plays a supervisory and monitoring role in this process, for which it also receives support from the Desjardins Group Management Committee. The Management Committee also produces regular reports so the Board can monitor the progress of the business plans and make any changes, as needed.

1. ADMINISTRATION OF THE FEDERATION (continued)

c. Identification and management of main risks

The Board is responsible for identifying the main risks for the Federation and Desjardins Group, setting risk tolerance and appetite limits and ensuring that management sets up the required systems to manage these risks in an integrated manner. The Federation is supported in these tasks by Desjardins Group's Operations and Performance Executive Division and the Risk Management Office. Backed by the Risk Management Commission, the Board works with the Audit and Inspection Commission, which is responsible for risks related to the financial disclosure process. The same applies to CCD and Desjardins Trust Inc. The Management Committee also supports the Board in carrying out its financial disclosure responsibilities. The Risk Management Commission holds closed-door meetings which management does not attend. The Board can also count on the contribution of the Finance and Risk Management Committee, which mainly comprises managers from finance, risk management, compliance and technology, as well as the business sectors.

A detailed presentation of the risk management principles applied at Desjardins Group can be found in the Risk Management section of this annual report on page 63.

d. Succession planning

The Board of Directors oversees the Management Succession and Development Program and is supported in this task by the Human Resources Commission (HRC) and Desjardins Group's Human Resources Executive Division. The HRC runs the program and reports to the Board, making recommendations if need be. This program is an important tool for the Desjardins Group Management Committee, as it promotes personal development, supports succession planning, and helps protect the organization against staffing-related risks.

Talent development, succession planning and hiring processes promote gender equity.

President and CEO

In keeping with Desjardins's cooperative nature, the President and CEO of Desjardins Group is chosen by a 255-person electoral college made up of representatives from Quebec and Ontario caisses (the members of the regional councils and the group caisse council), plus the sitting President and CEO of Desjardins Group. Although the Board of Directors does not appoint the incumbent, it oversees the succession process, by determining the main parameters for the mandate of the Desjardins Group President and CEO.

The electoral process is governed by a Federation By-Law and the *Desjardins Group Code of Professional Conduct*, and is overseen by an election committee made up of elected officers, independent from the Board of Directors, whose responsibility is to establish the rules of the electoral process and the rules of conduct to which the electoral college, candidates, employees and elected officers must adhere. There is a two-term limit for the position of President and CEO of Desjardins Group.

Senior Executive Vice-President of Desjardins Group and General Manager of the Federation

For the purposes of independence, stability and succession planning, and pursuant to applicable legislation, the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation is appointed by the Board. The Board also adopts organizational practices for Desjardins Group's strategic management and the associated macrostructure.

e. Integrity of internal control and management reporting systems

Seconded by its Audit and Inspection Commission, the Board ensures the implementation of effective accounting, administrative and management control systems to safeguard the integrity of its operations and obtain the required reporting information from management. The Board is supported in this responsibility by the Chief Monitoring Officer of Desjardins Group, whose annual work plan is approved by its Audit and Inspection Commission. A rigorous financial governance process is applied throughout Desjardins Group to properly support the Senior Vice-President of Finance and Chief Financial Officer of Desjardins Group who, together with Desjardins Group's President and Chief Executive Officer, is responsible for certifying Desjardins Group's Combined Financial Statements.

Desjardins Group discloses financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*. Desjardins Group is not, on a combined basis, a reporting issuer according to the Regulation. However, it has elected to comply with the Regulation to show its willingness to observe best practices in financial governance. Under Desjardins Group's financial governance system, its signing officers certify, at the end of the fiscal year, the design and operating effectiveness of disclosure controls and procedures, as well as the internal controls over financial reporting.

The caisse network has an effective and efficient internal control system in place that is tailored to its particular needs. This system is designed to provide decision-making bodies with reasonable assurance that the network is achieving its business objectives in compliance with regulatory requirements.

The Board ensures that the Desjardins Group Management Committee provides the Board and its commissions and committees with information that is accurate, timely and adapted to the specific needs of its directors so they can take advantage of business opportunities and measure the risks involved. Board members are invited to assess the quality of documents used in the decision-making process.

The Board benefits from the information used by each business sector to effectively monitor key performance indicators, as it allows its members to quickly obtain strategic information pertinent to the decision-making process.

Board members receive financial and operating reports at least quarterly so they can assess Desjardins Group's situation and the status of the Federation's projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of this information.

1. ADMINISTRATION OF THE FEDERATION (continued)

e. Integrity of internal control and management reporting systems (continued)

To effectively carry out its duties, the Board holds regular meetings on a predetermined schedule. Board members receive the meeting agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process. The Board constantly seeks to increase its efficiency and focus its efforts on strategic files, which involves delegating certain operational tasks to the Management Committee.

Directors have access to technological tools, including an intranet portal purpose-built for them, where they can securely access all meeting-related documentation and management frameworks for Desjardins's operations.

f. Strategic communications

The Board adopts a communications policy and strategic communications directions for Desjardins Group, in line with the Communications Master Plan, that specify the actions to be taken and the performance metrics. The Federation also draws up internal and external communications plans in order to better manage its relations with the caisses and their members; the business sectors and their clients; its employees; socioeconomic, community and non-governmental organizations; opinion makers; the public; the media; rating agencies; and the government.

The Federation oversees the financial reporting process and the disclosure of any major changes that may affect the financial position of Desjardins Group. It uses different teams and various channels to communicate effectively with its many stakeholders.

These teams and channels include: the Office of the Ombudsman, the Desjardins Group ethics and professional conduct support team and the caisse complaint-handling procedure (*Your Satisfaction is My Priority*); as well as, within Desjardins Group: the annual general meetings, the disclosure of quarterly financial results, Desjardins publications (including our annual report, which includes social and cooperative responsibility disclosure, and *Desjardins* magazine), toll-free telephone numbers, intranet portals, including one designed especially for caisse officers, Desjardins.com (which includes information on the Co-opme Program on education, cooperation and dialogue with our members and clients, as well as a Member Relations section), the Federation's Member Services Committee, and the procedure for reporting violations of the *Desjardins Group Code of Professional Conduct* and other regulatory instruments, newsletters, and social media tools (Facebook, YouTube, LinkedIn, Twitter, etc.).

In addition, the Federation maintains relations with international rating agencies and coordinates Desjardins Group's relationships with the different levels of government in compliance with applicable lobbying legislation.

2. MEMBERSHIP OF THE BOARD OF DIRECTORS

The Federation's Board of Directors consists of 22 directors, 7 (32%) of whom are women, and the majority of whom are independent directors.

The vice-presidents of two regional councils (Outaouais, Abitibi-Témiscamingue and Nord-du-Québec; and Bas-Saint-Laurent and Gaspésie–Îles-de-la-Madeleine) also serve on the Board as managing directors and, as such, have no voting rights.

Additionally, three management members support the Board by attending its meetings: the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation; the Senior Vice-President of Finance and Chief Financial Officer; and the Desjardins Group Secretary General. The Secretary General ensures that economic, environmental and social aspects are taken into consideration by the Board, and is responsible for guiding the Board in evaluating this consideration in the decision-making process at each of these meetings.

3. NOMINATION PROCESS

In accordance with the democratic structure of Desjardins Group and the principle of delegation, 17 of the 22 members of the Board of Directors are directly elected by the delegates of the Federation member caisses at regional or group caisse meetings. Those elected also act as presidents of the regional councils and the group caisse council.[1] The Federation therefore benefits from having directors who have comprehensive knowledge of the activities of Desjardins Group yet remain independent of management. Their in-depth knowledge of the organization's activities is one of the considerable advantages of Desjardins Group's democratic structure.

The presidents of the regional councils and the group caisse council are also responsible for ensuring, firstly, that their caisses have a full understanding of the strategic directions established by the Board, and secondly, that the Board takes into consideration the concerns of the caisses. They play an important leadership role in helping to achieve regional objectives, managing performance and in promoting intercooperation.

Four of the remaining positions on the Board are filled by caisse general managers who are elected during the Assembly of Representatives of the Federation. The final position is reserved for the President and CEO of Desjardins Group. Having four caisse general managers on the Board is a way to ensure that the directions adopted by the Board reflect the concerns and needs of the caisses.

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[1] The regional councils and the group caisse council have the power to influence decisions affecting major priorities of the Federation, specifically regarding Desjardins Group strategic planning and key projects. They represent the caisses in their region, making sure they maintain relationships with the Federation and their communities. They also adhere to and promote the values of the caisses and Desjardins Group, acting in their best interests at all times. They are mainly responsible for keeping the caisses active in their community, identifying business development opportunities, updating the distribution network and overseeing the relationships among the caisses, management and other Federation decision-making bodies.

3. NOMINATION PROCESS (continued)

The methods for selecting the members of the Board and its Chair are designed so that each position is subject to a separate electoral process and a separate electoral college. This approach reinforces the independence of Board members from management.

Board members have three-year renewable terms, and each year one-third of the Board members are outgoing. Furthermore, in accordance with the directions approved by Desjardins Group's 21st Congress of Officers, the Board of Directors has adopted a voluntary limitation of four combined terms. Transitional measures were implemented to ensure the continuing governance of Desjardins Group.

The membership of the Board of Directors is contingent on a democratic process. There is no nominating committee for directors, nor is there a policy governing the search and selection of candidates for the position, and the Board may not impose female representation during the search for candidates. However, the Federation has designed tools to help electors understand the requirements of the director function so they can make an informed choice.

To promote gender parity, Desjardins Group components have adopted a voluntary commitment policy favouring balanced representation on their boards. This policy will have an effect in the medium term on the representativity of members of the regional councils, the group caisse council, and Desjardins Group decision-making bodies, since there are just as many women as men who are members of a caisse. This representativity, which reflects the gender proportion of local decision-making bodies, should extend to the regional level and, ultimately, the Board of the Federation.

4. INDEPENDENT DIRECTORS

A director is considered independent if he or she does not have any significant relationship with Desjardins Group that, in the opinion of the Board, may affect the independence of his or her judgment.

There are five non-independent members of the Board of Directors: the President and CEO of Desjardins Group, plus four caisse general managers. The former is a non-independent party because he or she is a member of Federation management, and the other four are non-independent parties because they are employees of cooperatives belonging to Desjardins Group (the caisses). None of these directors has any business or personal relationships with members of the Desjardins Group Management Committee; nor do they have any interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of the Federation or Desjardins Group, or any interests of any other nature which, in the opinion of the Board, could reasonably be perceived as harmful.

For guidance in these matters, the Board refers to the provisions of the *Desjardins Group Code of Professional Conduct*, which governs the actions of its directors, and to the declarations of interests filed annually by the directors. None of the directors sits on another board of directors for any other public company, except for the sitting President and CEO of Desjardins Group, who sits on the Board of Directors of French banking network *Crédit Industriel et Commercial*, the shares of which are listed on the Paris Stock Exchange.

INDEPENDENT DIRECTORS

In the opinion of the Board of Directors, and in accordance with CSA *Regulation 52-110 Respecting Audit Committees*, the following directors are independent:

- Jacques Baril
- Donat Boulerice
- Carole Chevalier
- André Gagné
- Jean-Robert Laporte
- Marcel Lauzon
- Denis Paré
- Sylvie St-Pierre Babin
- Yvon Vinet
- Annie P. Bélanger
- Serges Chamberland
- Luc Forand
- Andrée Lafortune
- Sylvie Larouche
- Pierre Levasseur
- Serge Rousseau
- Serge Tourangeau

Michel Allard and Benoît Turcotte are managing directors. They are independent in the same way as directors are independent.
Denis Duguay and Michel Roy were members until March 28, 2014.

NON-INDEPENDENT DIRECTORS

In the opinion of the Board of Directors, and in accordance with CSA *Regulation 52-110 Respecting Audit Committees*, the following directors are not independent:

- Sylvain Dessureault
- Yves Genest
- Monique F. Leroux
- Johanne Perron
- Alain Raîche

5. PERFORMANCE REVIEWS

The Board of Directors and its commissions and committees conduct an annual review of their performance using quantifiable objectives set by the Board at the beginning of the year. An action plan resulting from the exercise is then submitted to the Board by the Corporate Governance Commission, which oversees the plan. The Federation's review program also calls for self-assessments by each director, which may be followed by individual meetings with the Chair of the Board. Peer evaluations are also part of the process. Skills development is also addressed, in accordance with the AMF Guideline Governing Integrity and Competency Criteria. The purpose of the performance review is to obtain a picture of the competencies of Board members, who completed a self-assessment grid for that purpose, to be completed for every Board election and reelection. The results compiled from these grids are important to the design and update of a director competency matrix, and can help directors choose skills development activities.

The Chair of the Board is responsible for the review process, and the entire exercise is monitored by the Corporate Governance Commission.

With regard to the achievement of its own objectives, the Board receives a mid-year progress report and a full report at year-end. Furthermore, the Chair of the Board and CEO holds periodic, informal meetings with the directors, with the goal of making formal meetings more efficient. The results of the Board's performance evaluation show the importance of these meetings.

Every year, the Board reviews the mandates of its commissions and committees and related processes to ensure they will support the Board effectively. The Board also regularly reviews the membership rules for its commissions and committees as well as the rules for appointing chairs for the subsidiaries, commissions and committees.

6. ORIENTATION AND TRAINING PROGRAM FOR NEW DIRECTORS

The Federation organizes orientation sessions for all of its directors, provides ongoing training opportunities, and plans activities tailored to their specific needs.

All new directors attend an orientation session where they meet with members of management and receive a reference manual containing all the information they need to carry out their duties. All officers also have access to a dedicated intranet site, the Elected Officer Portal. Orientation sessions are held to ensure effective and efficient integration of new members of Board commissions and committees.

Upon request, meetings with specialists from the Federation, CCD and Desjardins Trust Inc. are organized when needed to help directors increase their general and specialized knowledge of the organization and of its main strategic projects.

The training program for Board members is part of the programming offered by the Desjardins Cooperative Institute (DCI). The DCI is the training institute for Desjardins Group elected officers, managers and employees. The Board also holds conferences on specific topics related to Desjardins Group strategic planning and resulting challenges. These conferences held occasionally with members of the Management Committee prove to be intensive skills development opportunities for Board members.

7. DIRECTOR COMPENSATION POLICY

The Board reviews, whenever it deems it necessary and at least every three years, its policy on the compensation of its directors, members of the Board of Ethics and Professional Conduct, and members of the regional councils and group caisse council. The Board receives recommendations from the Corporate Governance Commission, which keeps a close eye on industry developments. The policy's compensation rates are consistent with those of comparable cooperative organizations in Quebec, Canada and Europe.

It includes guidelines for calculating the compensation for elected officers of the caisses and the Federation as well as for directors of subsidiaries.

In accordance with the *Act respecting financial services cooperatives*, the total budget for the payment of attendance fees to members of the Board, the regional councils, the group caisse council and the Board of Ethics and Professional Conduct is authorized by the Federation's general meeting. The total compensation budget (annual stipends plus attendance fees) is reported to the general meeting. The general meeting receives a report on changes to the compensation budget every year. The total budget for 2014 was $2,550,000, down $250,000 from 2013.

Compensation rates are presented on page 195 of this section of Desjardins Group's annual report.

8. INDEPENDENCE OF THE BOARD OF DIRECTORS FROM DESJARDINS GROUP MANAGEMENT

There are a number of structures and procedures in place to ensure the Board's independence from Desjardins Group management:

- There is only one Board member who is also a member of Desjardins Group management: the Chair of the Board and CEO of Desjardins Group. To ensure legitimacy and independence, this individual is also an officer elected by the Assembly of Representatives.
- The Vice-Chair of the Board of Directors, an independent director, presides over the Board's meetings, playing the role of lead director, when the issues being discussed require the recusal of the President and CEO. The Federation's Internal By-laws specify that the Vice-Chair of the Board replaces the Chair of the Board when the latter is unable to act, such as when the Chair is in a real or perceived conflict of interest.
- The directors hold periodic informal meetings among themselves. The Chair of the Board and CEO of Desjardins Group provides updates to the members of the Desjardins Group Management Committee, who are not present at these meetings. Both independent and non-independent directors do, however, attend these meetings, given that the discussions pertain to matters that do not bear any risk of conflict of interest for the non-independent directors.
- Closed-door sessions not attended by management (except for the Chair of the Board and CEO) are held at the end of each meeting of the Board of Directors and of the Executive Committee. The same is true for Board commissions.
- The chairs of the Audit and Inspection Commission and the Risk Management Commission are independent directors.
- The Corporate Governance Commission (of which only one member is a non-independent party) assumes responsibility for:
  - Managing relations between the Board of Directors and the Desjardins Group Management Committee
  - Ensuring that the Board fulfils its duties (however, the responsibility of drawing up and overseeing meeting agendas for the Board and its commissions and committees falls to the Chair of the Board)
- Only independent directors serve on the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR).
- The division of responsibilities between the Board and Desjardins Group's Management Committee is formally documented in the Federation's Internal By-Laws, the governance policy and the mandates of these two decision-making bodies, which define their respective areas of activity.
- The Desjardins Group Management Committee is chaired by the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation. The President and CEO attends Management Committee meetings to ensure that the directions defined by the Board of Directors are taken into account.
- The members of the Human Resources Commission and the CAR are seconded, when needed, by an external consultant when dealing with issues involving the aggregate remuneration of senior management. The Board of Directors can invite delegates of the Federation's Annual General Meeting to hold an advisory vote on the compensation guidelines for Desjardins Group staff members, including senior management.

POSITION AGAINST SEPARATING THE FUNCTIONS OF CHAIR OF THE BOARD FROM THOSE OF CEO

The responsibilities of the President and CEO of Desjardins Group are set out in the Federation's Internal By-Laws. The functions of Chair of the Board and CEO of Desjardins Group have not been separated. This decision was made by the Federation's General Meeting and has been integrated into its Internal By-laws.

Desjardins Group's current position is that non-separation promotes the legitimacy and independence of the Chair and CEO of Desjardins Group. The main arguments in favour of this position are the following:

- The Desjardins CEO is elected by an electoral college of 255 Federation member representatives and the current or outgoing President and CEO. This individual's primary responsibility is to ensure that the interests of Desjardins members are protected, democratic bodies are functioning properly and that cooperative values are complied with.
- The Chair of the Board and CEO of Desjardins Group has no influence over the choice of directors because he or she cannot recommend candidates, and each director is elected at either a regional or group caisse general meeting or the assembly of representatives, where the Chair of the Board and CEO has no voting rights. The same applies to the selection of the members of the Board of Ethics and Professional Conduct.
- The Board of Directors created the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR). The CAR is chaired by the Vice-Chair of the Board of Directors, who plays the role of lead director, and made up entirely of independent directors, to eliminate any risk of conflict of interest. The CAR's meetings are closed-door, and it also holds working sessions with the Board of Directors, which the Chair does not attend.
- Owing to the complex nature of Desjardins Group's management structure and activities, and to the expectations of regulators and the general public, it is essential that the Chair of the Board be thoroughly familiar with the activities, business and projects of both the Federation and Desjardins Group in order to effectively act as a leader and uniting force for the elected officers, the management teams of the Desjardins components, caisse members, and clients.
- Desjardins Group's structure frees its CEO from the everyday operational concerns of the Federation and Desjardins Group. He or she can therefore focus more on other areas, such as promoting cooperative initiatives within Desjardins and in the community, the organization's growth and key strategic files, governance, and the engagement of Desjardins Group's elected officers and employees.
- For the same reasons, the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation:
  - Plays a supervisory and coordination role with the business sectors, to promote better unity and synergy between Desjardins Group's various growth and development activities (with each business sector falling under the purview of a Senior Vice-President and General Manager)
  - Assumes line authority over the major Desjardins Group support functions

9. SENIOR MANAGEMENT REVIEWS

a. Setting annual management objectives

President and CEO

The annual objectives of the Desjardins Group President and CEO are recommended to the Board of Directors by the CAR. The CAR is chaired by the Vice-Chair of the Board of Directors, who acts as lead director, in accordance with the established independence standards. The President and CEO is not present for the committee's deliberations.

Senior Executive Vice-President of Desjardins Group and General Manager of the Federation

The annual objectives of the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation are set by the Board of Directors, on the recommendation of the Human Resources Commission.

Other members of the Desjardins Group Management Committee

The objectives of the other members of the Management Committee are set by the President and CEO during individual performance reviews held with each committee member. Their incentive plan is taken into account.

b. Performance reviews

The Board of Directors has guidelines for setting objectives to ensure the sound management and equitable application of the incentive plans for all Desjardins components. The degree to which these objectives are achieved is measured through an annual review process. The CAR supervises the performance review of the President and CEO of Desjardins Group, with each director participating anonymously using a set of criteria prepared in advance by the CAR and without the presence of management.

10. EXTERNAL CONSULTANTS

A director may retain the services of an external consultant at the Federation's expense. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance Commission.

MANDATES AND MEMBERSHIP OF THE FEDERATION'S COMMISSIONS, COMMITTEES, AND BOARD OF ETHICS AND PROFESSIONAL CONDUCT

As at December 31, 2014

The Board creates a number of committees and commissions and defines their mandates in order to support and streamline its strategic direction, planning, supervisory and control activities. These commissions and committees are made up entirely or almost entirely of independent parties. At the end of each meeting, these commissions and committees hold closed-door sessions which management members do not attend, except for the Chair of the Board and CEO (unless his or her recusal is necessary for independence reasons). The membership and mandates of these commissions and committees are reviewed annually. Any work carried out by a commission or committee is documented in a report, which is presented at the next Board meeting.

Note: * Independent director
** Managing director

EXECUTIVE COMMITTEE

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. It held ten meetings, including four conference calls in 2014.

The Executive Committee is composed of seven directors:

- Monique F. Leroux, C.M., O.Q., FCPA, FCA, Chair of the Board
- Denis Paré,* Vice-Chair of the Board
- Yvon Vinet,* Secretary of the Board
- Jacques Baril*(i)
- Serges Chamberland*
- Alain Raîche(i)
- Sylvie Saint-Pierre Babin*(i)

(i) Term began on May 12, 2014.

Carole Chevalier* and Serge Tourangeau* were members until May 12, 2014.

COOPERATION AND NETWORK LIAISON COMMISSION

This commission assists the Board of Directors with issues related to Desjardins Group's cooperative culture and the relationship between the Federation's democratic bodies and the caisse network. The commission ensures the effective and efficient implementation of mechanisms for collaboration, participation and connection with the network. It also examines Desjardins Group's social and cooperative responsibility report and submits it to the Board for adoption with any recommendations it may have. It held six meetings in 2014.

The Cooperation and Network Liaison Commission is composed of seven directors:

- Denis Paré,* Chair
- Michel Allard*/**
- Jacques Baril*
- Sylvain Dessureault
- Andrée Lafortune,* FCPA, FCA
- Serge Rousseau*(i)
- Sylvie St-Pierre Babin*

(i) Term began on May 31, 2014.

Denis Duguay* was a member until March 28, 2014.

AUDIT AND INSPECTION COMMISSION

The Audit and Inspection Commission, established under the *Act respecting financial services cooperatives*, acts as the audit committee for the Federation's caisse inspection activities. It is composed entirely of independent directors, and its chair has accounting expertise.

The roles and responsibilities of the Commission have been defined in such a way so as to give its members a clear understanding of their oversight duties. It reviews all financial information, supervises the required reporting activities and plays a lead role in overseeing financial disclosure controls and assessing their accuracy. The Audit and Inspection Commission has a direct line of communication with the Monitoring Office, which oversees the internal audit of the Desjardins Group subsidiaries and components, the external audit of the financial statements of the Quebec caisses, and the inspection of the Quebec and Ontario caisses. It also has a line of communication with the external auditors, should the need to discuss and review certain issues arise.

The Monitoring Office provides independent opinions on caisses' management and financial statements. Consequently, through inspections and audits, it monitors the risks associated with network activities and determines whether these risks are being managed according to sound and prudent practices and in compliance with applicable legislation, regulations, standards and rules of conduct. Moreover, it audits the caisses' financial statements using recognized auditing standards and issues an opinion on these statements.

The Audit and Inspection Commission ensures the independence of the Desjardins Group internal audit sector and adopts its annual action plan. It held nine meetings in 2014.

The Audit and Inspection Commission is composed of five directors:

- André Gagné,* CPA, CGA, Chair
- Donat Boulerice*
- Luc Forand*(i)
- Pierre Levasseur*
- Benoît Turcotte*/**

(i) Term began on May 31, 2014.

Roger Desrosiers, FCPA, FCA, Serge Hamelin, Alain Raîche and Robert St-Aubin, FCPA, FCA, sit on the Audit and Inspection Commission as observers.
Annie P. Bélanger* was a member until May 31, 2014.

RISK MANAGEMENT COMMISSION

This commission assists the Board of Directors in identifying and monitoring major risks to the Federation and Desjardins Group. It held nine meetings, including three conference calls, in 2014.

The Risk Management Commission is composed of five directors:

- Andrée Lafortune,* FCPA, FCA, Chair
- Michel Allard*/**(i)
- Jean-Robert Laporte*
- Serge Rousseau*(i)
- Serge Tourangeau*

(i) Term began on May 31, 2014.

André Gagné,* CPA, CGA, and Johanne Perron(i) sit on the Risk Management Commission as observers.
Jacques Baril* and Sylvie Saint-Pierre Babin* were members until May 31, 2014.

HUMAN RESOURCES COMMISSION

This commission reviews Desjardins Group's position on overall compensation on a regular basis, in an effort to maintain market competitiveness. It ensures that the compensation practices in effect at Desjardins comply with Desjardins Group's policies and guiding principles. The mandate of the Human Resources Commission does not include the terms of employment for the President and Chief Executive Officer. It held fourteen meetings, including one conference call, in 2014.

The Human Resources Commission is composed of five directors:

- Monique F. Leroux, C.M., O.Q., FCPA, FCA, Chair of the Board
- Denis Paré,* Vice-Chair of the Board
- Annie P. Bélanger*
- Carole Chevalier*
- Yvon Vinet*

COMMITTEE ON THE AGGREGATE REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

This committee, whose members are all independent directors, is mandated to make recommendations to the Board regarding the remuneration and working conditions, as well as the annual objectives, of the President and Chief Executive Officer. It held two meetings in 2014.

The Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group is composed of four directors:

- Denis Paré,* Vice-Chair of the Board
- Annie P. Bélanger*
- Carole Chevalier*
- Yvon Vinet*

CORPORATE GOVERNANCE COMMISSION

This commission supports the Board of Directors in applying and updating the corporate governance program. It examines the guidelines and reports issued by regulatory agencies. It has no say in selecting the members of the Federation's Board of Directors but oversees the selection process for the directors of Desjardins Group's subsidiaries. It is responsible for supervising the performance review program for members of the Board of Directors and its commissions and committees, as well as the integration and skills development program for Federation officers. It also administers the Sustainable Development Policy and the Voting Rights Policy. It held ten meetings, including one conference call, in 2014.

The Corporate Governance Commission is composed of five directors:

- Monique F. Leroux, C.M., O.Q., FCPA, FCA, Chair of the Board
- Marcel Lauzon*(i)
- Pierre Levasseur*
- Denis Paré,* Vice-Chair of the Board
- Sylvie St-Pierre Babin*

(i) Term began on May 31, 2014.

Denis Duguay was a member until May 31, 2014.

INVESTMENT COMMISSION

This commission's role is fourfold: monitor the markets and develop an integrated vision; support portfolio positioning and asset distribution; follow up on strategies and directions; and act as an advisory body. The commission's activities complement those of the Risk Management Commission and Desjardins Group's various other investment committees and do not overlap with them. It held four meetings in 2014.

The Investment Commission is composed of five directors:

- Jacques Baril,* Chair
- Sylvain Dessureault
- Yves Genest
- Pierre Levasseur*
- Johanne Perron

Jean-Louis Gauvin, Michel Rouleau and Sylvie Larouche* sit on the commission as observers.

DESJARDINS GROUP RETIREMENT COMMITTEE (DGRC)

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the Desjardins Group Pension Plan (DGPP) Regulation, the DGRC is in charge of administering the DGPP, managing the pension fund and paying members and their survivors the benefits they are entitled to. The members represent employees, employers and retirees and share the role of trustee for the pension fund. It held five meetings, including one conference call, in 2014.

The Federation represents all Desjardins employees with respect to the DGPP. The Federation's Board of Directors has decision-making power in certain areas, including the DGPP Regulation, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. Through its Board of Directors, the Federation stands surety for the obligations (payment of benefits) resulting from the participation of all Desjardins Group employers in the DGPP.

The committee is composed of six directors, one external member and employer/participant/retiree representatives.

Employer representatives are appointed by the Federation's Board of Directors. Members' and retirees' representatives are elected democratically by the group that they represent.

DESJARDINS GROUP RETIREMENT COMMITTEE (DGRC) (continued)

Members of the Board of Directors, representing the employer:

- Serges Chamberland,* Chair
- Sylvie Larouche,* Vice-Chair
- Carole Chevalier,*(i) Secretary
- Jean-Robert Laporte*
- Serge Rousseau*(i)
- Benoît Turcotte*/**

(i) Term began on May 31, 2014.

Annie P. Bélanger* and Marcel Lauzon* were members until May 31, 2014.

Representing the active participants:

- Robert Bastien
- Julie Goulet
- Jérôme Mercier
- Sébastien Vallée

External representative:

- Marie Hélène Noiseux*

Representing retirees and members entitled to a deferred pension:

- Michel-Pierre Bergeron

Observer representing active participants:

- Dominic Laurin

Observer representing retirees, beneficiaries and participants entitled to a deferred pension:

- Normand Deschênes

DGRC INVESTMENT COMMITTEE

Under the responsibility of the DGRC, which establishes the investment policy, the Investment Committee's mandate is to ensure that the policy is applied as well as to coordinate the activities of the fund managers to whom management mandates are entrusted. It held ten meetings, including five conference calls, in 2014.

The DGRC Investment Committee is composed of five directors and one external member:

- Sylvie Larouche,* Chair
- Serges Chamberland*
- Carole Chevalier*(i)
- Marie Hélène Noiseux*(i)
- Jean-Robert Laporte*
- Benoît Turcotte*/**

(i) Term began on May 31, 2014.

Réal Bellemare and Gregory Chrispin sit on the committee as observers.
Reynald N. Harpin* and Marcel Lauzon* were members until May 31, 2014.

DGRC RISK MANAGEMENT ADVISORY COMMITTEE

This committee is responsible for assessing the main risks associated with managing DGPP activities. Each year, the committee recommends an integrated risk profile to the Retirement Committee and issues an opinion on the asset allocation strategy and on the plan's investment portfolio. It also assesses the plan's risk management approach. It held eight meetings, including four conference calls, in 2014.

The Risk Management Advisory Committee is composed of the following people:

- Julie Bouchard and Stéphane Bergeron, representing the Desjardins Group Operations and Performance Executive Division
- Gregory Chrispin, Vice-President of Investments and Chief Operating Officer of Desjardins Global Asset Management
- François Hudon, Manager of Liability Management, Desjardins Group Pension Plan
- Marie Hélène Noiseux,* consultant for the Desjardins Group Retirement Committee

DESJARDINS GROUP PAN-CANADIAN ADVISORY COMMITTEE

This committee contributes to the overall strategic development of Desjardins Group and brings added value to our Canada-wide and international expansion strategies and activities. The Pan-Canadian Advisory Committee monitors the market and contributes to Pan-Canadian initiatives, including opportunities for business partnerships. It is also responsible for making sure that Desjardins Group integrates multicultural diversity in its growth strategies. It held four meetings, including two conference calls, in 2014.

The Pan-Canadian Advisory Committee is composed of nine members:

- Monique F. Leroux, C.M., O.Q., FCPA, FCA, Chair
- Jim Dinning, Vice-Chair
- Scott Banda
- Dan Burns
- Aldéa Landry
- Marcel Lauzon
- Marie-Lucie Morin(1)
- Tracy Redies
- Camille Thériault

(1) Term will begin in February 2015.

Richard Dicerni was a member of the committee until he was named Deputy Minister of the Executive Council of Alberta in September 2014.

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Pursuant to the *Act respecting financial services cooperatives*, the Federation has a Board of Ethics and Professional Conduct that is independent of the Board of Directors. The eight members of this board are independent Desjardins Group elected officers. The Board of Ethics and Professional Conduct is supported by a team that reports to the Governance and Social Responsibility Division and Secretariat General, which enables it to organize education and training activities and provide advisory services.

One of the main responsibilities of this board is to ensure the independence and objectivity of the Federation's inspection and audit services for the caisses (Desjardins Group Monitoring Office) and make recommendations to the President and Chief Executive Officer of Desjardins Group regarding the appointment of the person responsible for managing these services. In addition to the above-mentioned responsibilities, the role of the Board of Ethics and Professional Conduct includes adopting the rules of conduct applicable to the officers of Desjardins Group and the subsidiaries and to the employees of the Federation and the caisses; presenting said rules for approval to the Board of Directors and ensuring the caisses and the Federation comply with them; supporting the caisses and the Federation in applying the rules of conduct; issuing advice, observations and recommendations on ethical and professional conduct issues (Desjardins Group's mission and values), particularly in cases of misconduct; notifying the Board of Directors of violations to the rules of ethics and professional conduct or if the Federation violates the provisions of the *Act respecting financial services cooperatives* or the regulations governing restricted party transactions and conflicts of interest; ensuring that complaints about the Federation originating from the caisses or other Federation members (CCD, holding companies or subsidiaries) are addressed. The Board of Ethics and Professional Conduct holds closed-door meetings that are not attended by management.

It held twelve meetings, including two conference calls, in 2014. The members of the Board of Ethics and Professional Conduct were also invited to participate in the Quebec Organizational Ethics Network's conference in 2014.

The Board of Ethics and Professional Conduct is composed of eight members:

- Hélène Lee-Gosselin, Chair
- Isabelle Bourgeois, Secretary
- Michel C. Bélisle(1)
- Michel Guénette
- Ronald Pichette
- Gabriel Plourde
- Lucie Tremblay
- Michel Yelle

(1) Michel C. Bélisle was a member until December 15, 2014.

DESJARDINS GROUP MANAGEMENT COMMITTEE

This committee supports the President and CEO of Desjardins Group and the Board of Directors in their responsibility to provide a management structure for Desjardins Group. The committee helps the Board incorporate the strategic directions of the cooperative network, business sectors and support functions and implement business development strategies. It also ensures the smooth running of operations in accordance with the frameworks and requirements set by the Board of Directors and other Desjardins Group decision-making bodies. The Management Committee is responsible for operational files with economic, environmental and social significance that have an impact on Desjardins Group. It held twenty-one meetings, including two conference calls, in 2014.

The Management Committee is composed of 12 management members, including 4 women (33%):

- **Monique F. Leroux**, C.M., O.Q., FCPA, FCA
  Chair of the Board, President and CEO of Desjardins Group
- **Stéphane Achard**
  Senior Vice-President and General Manager of Business, Card and Payment Services
- **Réal Bellemare**
  Senior Vice-President of Operations and Performance, Desjardins Group
- **Denis Berthiaume**
  Senior Vice-President and General Manager of Wealth Management and Life and Health Insurance
- **Guy Cormier**
  Senior Vice-President of Cooperative Network and Personal Services
- **Marie-Huguette Cormier**
  Senior Vice-President of Desjardins Group Marketing, Member/Client Experience and Communications
- **Normand Desautels**, CPA, CGA
  Senior Executive Vice-President of Desjardins Group and General Manager of the Federation, and chair of the committee
- **Daniel Dupuis**, CPA, CA
  Senior Vice-President of Finance and Chief Financial Officer, Desjardins Group
- **Louis-Daniel Gauvin**
  Senior Vice-President and General Manager of Caisse centrale Desjardins and Capital Desjardins inc.
- **Josianne Moisan**
  Senior Vice-President of Human Resources, Desjardins Group
- **Robert Ouellette**
  Senior Vice-President of Technology and Shared Services Centre, Desjardins Group
- **Sylvie Paquette**
  Senior Vice-President of Property and Casualty Insurance, Desjardins Group

The Management Committee has Desjardins-wide coordination committees in the following areas: operations; strategic development; operational governance and follow-up with governing bodies; finance and risk management; marketing, member/client experience and communications; network performance and integration; network liaison; development planning and follow-up; Desjardins Group Pension Plan.

EXECUTIVE COMPENSATION

Certain Desjardins Group components, namely the Federation, *Caisse centrale Desjardins* and *Capital Desjardins inc*., are subject to a number of obligations regarding the disclosure of executive compensation. As required by *Regulation 51-102 respecting Continuous Disclosure Obligations*, the compensation of executives from these components is presented in the Annual Information Forms of the Federation and *Caisse centrale Desjardins* and in the disclosure document filed by *Capital Desjardins inc*., which are incorporated by reference in this Annual Report. The Annual Information Forms and the disclosure document are available on the SEDAR website (www.sedar.com) under each component's respective company profile.

COMPENSATION RATES FOR THE MEMBERS OF THE BOARDS OF DIRECTORS OF THE FEDERATION, CCD AND DESJARDINS TRUST INC., AND THE MEMBERS OF THE BOARD OF ETHICS AND PROFESSIONAL CONDUCT OF THE FEDERATION AND CCD

	Federation	CCD	Desjardins Trust Inc.	Subsidiaries
Chair of the Board of Directors(1)	$0 This position is held by the President and CEO of Desjardins Group	$0 This position is held by the President and CEO of Desjardins Group	$0 This position is held by the President and CEO of Desjardins Group	$10,000
Annual stipend for a chair of a commission or committee of the Board of Directors(2)	$6,500	$6,500	$6,500	$6,500
Annual stipend for the Vice-Chair of the Board of Directors	$6,667	$6,667	$6,667	--
Annual stipend for a member of the Board of Directors(3)	$10,667	$10,667	$10,667	$10,000
Annual stipend for a member of a commission or committee of the Board of Directors(4)	$2,000	$2,000	$2,000	$2,000
Attendance fee for a meeting of the Board of Directors(4)	$1,200 (daily maximum)	$1,200 (daily maximum)	$1,200 (daily maximum)	$1,200 (daily maximum)
Attendance fee for commission or committee meetings(5)	$600 (per half-day)	$600 (per half-day)	$600 (per half-day)	$600 (per half-day)
Conference call	$200	$200	$200	$200
Attendance fee for a meeting of the Board of Ethics and Professional Conduct or the Ethics Committee	$2,400 for the chair $1,200 for the members	$2,400 for the chair $1,200 for the members	$2,400 for the chair $1,200 for the members	$600 (per half-day)
Annual stipend for the president of a regional council or the group caisse council(3)	$15,000	N/A	N/A	N/A
Attendance fee for a meeting of a regional council or the group caisse council	$300	N/A	N/A	N/A

N/A: Not applicable

(1) The position of Chair of the Board of the following subsidiaries is held by a member of the Federation's Board of Directors: *Développement international Desjardins*, Desjardins General Insurance Group Inc., Desjardins Financial Security Life Assurance Company and Desjardins Securities Inc.

(2) The attendance fee is doubled in lieu of the annual stipend for the chairs of commissions or committees that hold fewer than four meetings per year, except for the chair of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.

(3) Federation Board members receive an annual stipend of $32,000 for their service as directors of the Federation, of CCD and of Desjardins Trust Inc. This amount is equally allocated among these three components. The stipend paid to the two managing directors is $24,800, with an additional $7,500 for their roles as vice-presidents of their respective regional council.

(4) The annual member stipend is paid regardless of the number of commissions or committees the member sits on for the Federation, CCD or Desjardins Trust Inc. In other words, a single stipend is paid for all positions held for all three entities.

(5) The maximum daily attendance fee is $1,200, regardless of the number of Board, commission or committee meetings a member attends in a single day. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Federation's Board of Directors may invite any elected caisse officer to sit on any of its committees. The Board of Directors determines the compensation to be paid based on the nature of the responsibilities entrusted to the officer and the compensation schedule.

COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS

The compensation paid to each member of the Board for the duties they assume as directors of the Federation, CCD or Desjardins Trust Inc. or as chair of the board of a subsidiary is detailed below:

NAME	Paid by the Federation, CCD and Desjardins Trust		Other fees[1]		
	Attendance fees	Annual stipend	Attendance fees	Annual stipend	TOTAL 2014
Allard, Michel	$31,326	$34,300	$1,074	$0	$66,700
Baril, Jacques	$39,360	$55,500	$1,840	$0	$96,700
Bélanger, Annie P. (Chair of the Board, DID)[2]	$34,537	$49,000	$9,283	$18,755	$111,575
Boulerice, Donat	$29,790	$49,000	$6,879	$17,472	$103,141
Chamberland, Serges	$29,493	$49,000	$10,607	$17,000	$112,350
Chevalier, Carole	$33,543	$49,000	$3,657	$4,064	$90,264
Dessureault, Sylvain	$31,626	$34,000	$574	$0	$66,200
Forand, Luc[3]	$21,979	$36,665	$3,121	$2,917	$64,682
Gagné, André, CPA, CGA	$38,364	$68,500	$4,256	$11,500	$122,620
Genest, Yves	$30,436	$34,000	$1,084	$0	$65,520
Lafortune, Andrée, FCPA, FCA	$31,976	$68,500	$1,824	$0	$102,300
Laporte, Jean-Robert	$31,226	$49,000	$9,074	$7,000	$96,300
Larouche, Sylvie	$24,226	$49,000	$9,374	$13,500	$96,100
Lauzon, Marcel (Chair of the Board, DGIG)[2]	$27,526	$48,161	$46,574	$33,542	$155,803
Leroux, Monique F., C.M., O.Q., FCPA, FCA[4]	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
Levasseur, Pierre	$38,487	$49,000	$5,133	$5,000	$97,620
Paré, Denis	$41,774	$82,000	$4,426	$0	$128,200
Perron, Johanne	$33,026	$34,000	$574	$0	$67,600
Raîche, Alain	$30,804	$34,000	$2,596	$0	$67,400
Rousseau, Serge[3]	$22,329	$36,665	$1,671	$2,903	$63,568
St-Pierre Babin, Sylvie	$41,916	$45,325	$984	$0	$88,225
Tourangeau, Serge (Chair of the Board, Desjardins Securities)[2]	$32,510	$49,000	$11,390	$28,500	$121,400
Turcotte, Benoit (Chair of the Board, FSD)[2]	$30,487	$37,975	$12,933	$17,000	$98,395
Vinet, Yvon (Chair of the Board, DFS)[2]	$36,167	$49,000	$19,633	$28,500	$133,300
Total	**$742,909**	**$1,090,592**	**$168,560**	**$207,652**	**$2,209,713**

(1) Amounts received for: Chairing the board of a subsidiary; sitting on the Desjardins Group Retirement Committee (DGRC), the DGRC Investment Committee, or the DGRC Audit, Professional Practices and Compliance Committee; sitting on the Board of Directors of Desjardins Financial Corporation Inc., *Capital Desjardins inc.*, or *Fonds de sécurité Desjardins*; sitting on the Desjardins Cooperative Institute Educational Advisory Committee; contributing to the Greater Montreal Committee, the Desjardins Group Advisory Committee or Desjardins Financial Corporation.
(2) *Développement international Desjardins* (DID), Desjardins General Insurance Group Inc. (DGIG), Desjardins Financial Security Life Assurance Company (DFS), Desjardins Securities Inc. *and Fonds de sécurité Desjardins* (FSD).
(3) Term began on March 28, 2014.
(4) The Desjardins Group President and CEO do not receive any compensation for the position of Chair of the Board of Directors of the Federation, CCD or Desjardins Trust.

Denis Duguay and Michel Roy were members until March 28, 2014.

COMPENSATION OF MEMBERS OF THE FEDERATION'S BOARD OF ETHICS AND PROFESSIONAL CONDUCT

NAME	Attendance fees
Bélisle, Michel C.(1)	$8,600
Bourgeois, Isabelle	$9,200
Guénette, Michel	$9,200
Lee-Gosselin, Hélène	$16,000
Pichette, Ronald	$8,800
Plourde, Gabriel	$9,200
Tremblay, Lucie	$8,600
Yelle, Michel	$9,200

(1) Michel C. Bélisle was a member until December 15, 2014.

RECORD OF ATTENDANCE FOR THE MEMBERS OF THE FEDERATION'S BOARD OF DIRECTORS

Name	BoD	BoD conf. calls	EC	CNLC	AIC	RMC	HRC	CAR	CGC	IC	DGRC	DGRC IC	RC
Allard, Michel*/**	19/19	4/4		5/6		4/4							7/7
Baril, Jacques*	19/19	4/4	6/6	6/6		5/5				4/4			9/9
Bélanger, Annie P.*	19/19	3/4			5/5		11/14	2/2			2/2		7/7
Boulerice, Donat*	17/19	4/4			9/9								7/7
Chamberland, Serges*	19/19	4/4	10/10								5/5	10/10	9/9
Chevalier, Carole*	19/19	4/4	4/4				13/14	2/2			2/3	4/5	9/9
Dessureault, Sylvain	19/19	4/4		6/6						4/4			7/10
Forand, Luc*	15/15	2/2			5/5								9/9
Gagné, André*	19/19	3/4			9/9	9/9							7/7
Genest, Yves	19/19	3/4			4/4					4/4			8/8
Lafortune, Andrée*	17/19	3/4		5/6		9/9							8/8
Laporte, Jean-Robert*	19/19	4/4				9/9					4/5	7/10	8/9
Larouche, Sylvie*	17/19	4/4								3/4	5/5	10/10	8/8
Lauzon, Marcel*	19/19	4/4							5/5		2/2	5/5	9/9
Leroux, Monique F.	19/19	4/4	10/10				14/14		10/10				
Levasseur, Pierre*	18/19	4/4			8/9				10/10	4/4			9/9
Paré, Denis*	19/19	4/4	10/10	6/6			14/14	2/2	10/10				7/8
Perron, Johanne	19/19	4/4				9/9				4/4			6/8
Raîche, Alain	18/19	4/4	10/10		3/3								9/9
Rousseau, Serge*	15/15	2/2									3/3		8/8
St-Pierre Babin, Sylvie*	19/19	4/4	6/6	6/6		5/5			9/9				9/9
Tourangeau, Serge*	19/19	3/4	4/4			9/9							10/10
Turcotte, Benoît*/**	17/19	4/4			9/9						5/5	9/10	10/10
Vinet, Yvon*	19/19	4/4	10/10				14/14	2/2					9/10

BoD = Board of Directors; EC = Executive Committee; CNLC = Cooperation and Network Liaison Commission; AIC = Audit and Inspection Commission; RMC = Risk Management Commission; HRC = Human Resources Commission; CAR = Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group; CGC = Corporate Governance Commission; IC = Investment Commission; DGRC = Desjardins Group Retirement Committee; DGRC IC = Desjardins Group Retirement Committee Investment Committee; RC = regional councils and group caisse council.

The Board of Directors held 19 meeting days and 4 conference calls in 2014. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Board of Directors may invite any elected caisse officer to sit on any of its committees. The Board of Directors determines the compensation to be paid based on the nature of the responsibilities entrusted to the officer and the compensation schedule. If a director is absent for professional or personal reasons, justification must be provided. If a president of a regional council or the group caisse council is absent, he or she may be replaced by the vice-president, who acts as managing director, to ensure the region and group caisses remain represented.

ATTENDANCE RECORD FOR THE MEMBERS OF THE FEDERATION'S BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Name	Number of meetings
Bélisle, Michel C.[(1)]	11/12
Bourgeois, Isabelle	12/12
Guénette, Michel	12/12
Lee-Gosselin, Hélène	12/12
Pichette, Ronald	10/12
Plourde, Gabriel	12/12
Tremblay, Lucie	11/12
Yelle, Michel	12/12

(1) Michel C. Bélisle was a member until December 15, 2014.

MEMBERS OF THE REGIONAL COUNCILS AND GROUP CAISSE COUNCIL

Rather than publish attendance figures for all 255 members, the Board of Directors has decided to publish meeting attendance rates for the 17 regional councils and the group caisse council.

2014	Number of meetings	Attendance rate (%)
Bas-Saint-Laurent and Gaspésie—Îles-de-la-Madeleine	7	94.64
Kamouraska and Chaudière-Appalaches	8	89.52
Québec-Est	7	87.18
Québec-Ouest and Rive-Sud	8	86.61
Saguenay—Lac-Saint-Jean, Charlevoix and Côte-Nord	9	85.21
Centre-du-Québec	9	87.32
Mauricie	9	88.28
Eastern Townships	8	88.98
Richelieu-Yamaska	9	86.01
Lanaudière	9	77.78
Rive-Sud de Montréal	10	79.75
Laval–Laurentides	9	88.72
Ouest de Montréal	8	89.08
Est de Montréal	9	79.85
Outaouais	9	93.33
Abitibi-Témiscamingue and Nord-du-Québec[(1)]	10	94.29
Group caisse	10	83.95
Ontario	7	98.10

(1) The regional council for the Outaouais, Abitibi-Témiscamingue and Nord-du-Québec region divides its meetings into two sectors.

ASSEMBLY OF REPRESENTATIVES

	Number of representatives present	Attendance rate (%)
March 28, 2014	248/256	96.88
May 31, 2014	214/256	83.59
September 13, 2014	225/256	87.89

MAJOR COMPONENTS AND SUBSIDIARIES

Component or subsidiary	Main activities
CAISSES IN QUEBEC AND ONTARIO	Cooperative financial institutions
FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC	Planning, supervision, coordination and development of Desjardins Group
DESJARDINS FINANCIAL SERVICES FIRM INC.	Mutual fund brokerage and financial planning services
DESJARDINS VENTURE CAPITAL INC.	Development and venture fund capital management
CAPITAL DESJARDINS INC.	Capital issuances on financial markets and financing for the Desjardins caisses
DESJARDINS TECHNOLOGY GROUP INC.	Development, maintenance and modernization of Desjardins Group technology
DESJARDINS FINANCIAL CORPORATION INC.	Holding company
Desjardins Investment Management Inc.	Investment management
Desjardins Investments Inc.	Design, administration and distribution of insurance and investment products
Desjardins Gestion des opérations des produits de placement inc.	Processing and administration of savings and investment accounts and specialized products for Desjardins Group components
Zag Bank (formerly Bank West)	Financial institution
Desjardins Global Asset Managements Inc.	Asset management
Desjardins Securities Inc.	Mutual fund brokerage
Desjardins Trust Inc.	Asset custody and trust services
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services
Desjardins Financial Security Investments Inc.	Mutual fund investment and insurance brokerage
Sigma Assistel Inc.	Assistance services
Qtrade Canada Inc.	Online brokerage and wealth management services
Desjardins General Insurance Group Inc.	Property and casualty insurance
Desjardins General Insurance Services Inc.	Property and casualty insurance
Desjardins General Insurance Inc.	Property and casualty insurance
The Personal Insurance Company	Property and casualty insurance
Certas Direct Insurance Compagny	Property and casualty insurance
The Personal General Insurance Inc.	Property and casualty insurance
Western Financial Group Inc.	Insurance brokerage, life and health insurance, and financial services
Western Financial Group (Network) Inc.	Insurance brokerage
Western Life Assurance Company	Life and health insurance
Coast Capital Insurance Services Ltd.	Insurance brokerage
CAISSE CENTRALE DESJARDINS	Cooperative financial institution and Desjardins Group's treasurer and financial agent on the markets
FONDS DE SÉCURITÉ DESJARDINS	Financial reserve for the Desjardins caisses
LA FÉDÉRATION DES CAISSES POPULAIRES DE L'ONTARIO	Planning, supervision and activity management for the Ontario caisses

More detailed information about Desjardins Group's activities is presented in section 2.2, "Analysis of business segment results", of the 2014 Management's Discussion and Analysis (MD&A).

GLOSSARY

ACCEPTANCE

Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

ALLOWANCE FOR CREDIT LOSSES

Amount deemed sufficient by management to cover the anticipated losses on a loan portfolio. The allowance for credit losses is increased by individual and collective provisions and decreased by write-offs, net of recoveries.

ALT-A MORTGAGE LOAN

Loan to a borrower with non-standard income documentation.

AMORTIZED COST

For a financial asset or a financial liability, represents the historical cost at initial recognition, decreased or increased by amortization and any differences that made it fluctuate from inception to maturity.

ANNUITY PREMIUM

Amount invested by a policyholder in order to receive annuity payments, immediately or after an accumulation period.

APPOINTED ACTUARY

Actuary appointed by an insurance company's board of directors, in accordance with the federal and provincial laws governing insurance.

ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION

Assets managed or administered by a financial institution that are beneficially owned by clients or members and are therefore not recognized on the financial institution's Combined Balance Sheet. Services provided in respect of assets under administration are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions, while services provided in respect of assets under management include selecting investments and offering investment advice. Assets under management may also be administered by the financial institution. Assets resulting from securitization transactions are not considered assets under administration or under management.

AUTORITÉ DES MARCHÉS FINANCIERS

Organization whose mission is to administer all laws governing the supervision of the financial industry in Quebec, particularly as concerns insurance, deposit-taking institutions, financial product and service distribution, and securities.

BASIC INDICATOR APPROACH

Risk measurement approach used to assess capital requirements for operational risk. This measure corresponds to average annual gross revenues for the last three years multiplied by a fixed percentage of 15%.

BASIS POINT

Unit of measure equal to one one-hundredth of a percent (0.01%).

BENEFIT

Amount paid by an insurer under a life, disability or health insurance policy. The benefit is paid to the policyholder, the insured or the designated beneficiary. In a pension plan, this term refers to the vested rights of a participant.

BOND

Certificate evidencing a debt under which the issuer promises to pay the holder a specified amount of interest for a specified period of time, and to repay the borrowing at maturity. Generally, assets are pledged as security for the borrowing, except in the case of government or corporate bonds. This term is often used to describe any debt security.

CAPITAL RATIO

Tier 1a capital, Tier 1 capital and total regulatory capital divided by risk-weighted assets. This measure is governed by the guidelines issued by the *Autorité des marchés financiers*, which are based on the standards developed by the Basel Committee on Banking Supervision.

COLLECTIVE ALLOWANCE

Allowance established for loan portfolios that are not subject to an individual allowance and are included in groups of financial assets having similar credit characteristics.

COMMERCIAL MORTGAGE-BACKED SECURITY

Security created through the securitization of a pool of commercial mortgage loans.

COUNTERPARTY AND ISSUER RISK

Credit risk related to different types of securities, derivative financial instruments and securities lending transactions.

COVERED BOND

Full recourse on-balance sheet obligations issued by financial institutions and collateralized by assets, mainly mortgage loans, over which investors have a priority claim in the event of the issuer's insolvency or default. Theses assets are segregated from the issuer's assets and belong to a structured entity who guarantees the obligations and is immune in case of insolvency or default.

CREDIT COMMITMENT

Unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

CREDIT INSTRUMENT

Credit facility offered in the form of a loan or other financing vehicle recognized in the Combined Balance Sheets or in the form of an off-balance sheet product. Credit instruments include credit commitments, documentary letters of credit, guarantees and standby letters of credit.

CREDIT RISK

Risk of losses resulting from a borrower's or counterparty's failure to honour its contractual obligations, whether or not such obligations appear on the Combined Balance Sheets.

DEFINED BENEFIT PENSION PLAN

Pension plan that guarantees each participant a defined level of retirement income that is often based on a formula set by the plan in terms of the participant's salary and years of service.

DERIVATIVE FINANCIAL INSTRUMENT, OR DERIVATIVE

Financial contract whose value fluctuates based on an underlying asset, but that does not require holding or delivering the underlying asset itself. Derivatives are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and financial indexes.

DESJARDINS GROUP COMPONENT

Cooperative or subsidiary that is part of Desjardins Group.

DOCUMENTARY LETTER OF CREDIT

Instrument issued for a member or a client that represents Desjardins Group's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. Desjardins Group is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

ECONOMIC CAPITAL

Amount of capital that an institution must maintain, in addition to anticipated losses, to ensure its solvency over a certain horizon, at a high confidence level.

EFFECTIVE INTEREST RATE

Rate determined by discounting total future cash flows, including those related to commissions paid or received, premiums or discounts and transaction costs.

ENVIRONMENTAL RISK

Risk of financial, operational or reputational loss for Desjardins Group as a result of the impact of environmental issues, whether they occur through Desjardins Group's credit or investment activities or its operations.

EXPOSURE AT DEFAULT (EAD)

Estimate of the amount of a given exposure at time of default. For balance sheet exposures, EAD correspond to the balance as at observation time. For off-balance sheet exposures, EAD includes an estimate of additional draws that may be made between observation time and default.

FAIR VALUE MEASUREMENT

Measurement to determine the approximate value at which financial instruments could be traded in a current transaction between willing parties.

FINANCIAL ASSET-BACKED SECURITY

Security created through the securitization of a pool of financial assets.

FOREIGN EXCHANGE RISK

Risk that arises when the actual or expected value of assets denominated in a foreign currency is higher or lower than that of liabilities denominated in the same currency.

FORWARD CONTRACT

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. Forward contracts, which are derivatives, are tailored and traded over the counter.

FORWARD EXCHANGE CONTRACT

Contractual commitment to sell or purchase a fixed amount of foreign currency on a specified future date and at a predetermined exchange rate.

FUTURES CONTRACT

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. Futures contracts, which are derivatives, are standardized and exchange-traded.

GROSS PREMIUMS WRITTEN

In property and casualty insurance, the premiums stipulated in insurance policies issued during the year.

GUARANTEES AND STANDBY LETTERS OF CREDIT

Irrevocable commitments by a financial institution to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans.

HEDGE FUND

Investment fund offered to accredited investors. The manager of this fund enjoy full flexibility in its investment strategies and can use short sale, leverage, computer trading, swaps, arbitrage and derivatives products.

HEDGING

Transaction designed to reduce or offset Desjardins Group's exposure to one or more financial risks that involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

IMPAIRED LOAN

Loans, except credit card balances, whose collection is doubtful as a result of a deterioration in credit quality. Loans are classified as impaired when one of the following conditions is met: in management's opinion, there is reasonable doubt that the principal or the interest will be collected on scheduled dates; the interest or principal payment is 90 days or more past due, unless the loan is fully secured and in the process of collection; or the interest or principal is more than 180 days past due.

INDEMNIFICATION COMMITMENT RELATED TO SECURITIES LENDING

As part of its asset custody operations, Desjardins Group enters into securities lending agreements with members and clients. Desjardins Group may make indemnification commitments to members and clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

INDIVIDUAL ALLOWANCE

Specific allowance established for an individual loan portfolio for which, in Desjardins Group's opinion, there is objective evidence of impairment and a loss should be recognized in the Combined Statements of Income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Provision representing the amount of an insurance company's commitments toward all insureds and beneficiaries, established to guarantee the payment of benefits.

INSURANCE PREMIUM

Payment that the policyholder is required to make to maintain the insurance contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

INSURANCE RISK

Risk that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that profitability of these products may be affected.

INSURED

Person whose life or health is insured under an insurance policy.

INTEREST RATE RISK

Potential impact of interest rate fluctuations on net interest income and the economic value of equity.

INTERNAL RATINGS-BASED APPROACH

Approach under which risk weighing is based on the type of counterparty (individuals, small or medium-sized business, large corporation, etc.) and risk-weighting factors determined using internal parameters: the borrower's probability of default (PD), loss given default (LGD), effective maturity (EM) and exposure at default (EAD).

LEGAL AND REGULATORY ENVIRONMENT RISK

Risk resulting from Desjardins Group's non-compliance with the laws, regulations, standards and practices applicable to its operations as well as its various internal code of conduct and contractual commitments, which could lead in particular to financial losses, penalties, harm to reputation, or legal recourse.

LEVERAGED FINANCE LOAN

Loan to a large corporation or finance company whose credit rating is between BB+ and D and whose level of debt is very high compared to other companies in the same industry.

LIQUIDITY RISK

Risk related to Desjardins Group’s capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the Combined Balance Sheets.

LOSS GIVEN DEFAULT

Significance of the economic loss that may be incurred should the borrower default. It is expressed as a percentage of exposure at default (EAD).

MARKET RISK

Risk of changes in the fair value of financial instruments resulting from fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates, credit spreads and their volatility.

MASTER NETTING AGREEMENT

Standard agreement developed to reduce the credit risk of multiple derivative transactions by creating a legal right to set off the obligations of a counterparty in the event of default.

MATCHING

Process of adjusting asset, liability and off-balance sheet item maturities in order to minimize risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

MEMBER DIVIDEND

Allocation of surplus earnings to a member on the basis of their business volume with the caisse.

MORBIDITY RATE

Probability that a person of a given age will suffer an illness or disability. The accident/health insurance premium paid by a person belonging to a particular age group is based on this group’s morbidity rate.

MORTALITY RATE

Rate of death in a particular group of persons. The life insurance premium paid by a person belonging to a particular age group is based on this group’s mortality rate.

MORTGAGE-BACKED SECURITY

Security created through the securitization of a pool of residential mortgage loans under the *National Housing Act*.

MUTUAL FUND

Fund made up of amounts pooled together by investors for the purpose of making a collective investment. A third party manages the fund and must, on request, redeem the units at their net asset value (or redemption value).

NET INTEREST INCOME

Difference between what a financial institution receives on assets such as loans and securities and what it pays out on liabilities such as deposits and subordinated bonds.

NET PREMIUMS EARNED

In property and casualty insurance, premiums earned for a given period, net of reinsurance premiums.

NOTIONAL AMOUNT

Reference amount used to calculate payments for instruments such as forward rate agreements and interest rate swaps. This amount is called "notional" because it does not change hands.

OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS

Organization whose mission is to administer all laws governing the supervision of the financial industry in Canada, particularly as concerns banks, insurance companies, trust companies, loan companies and pension plans.

OPERATIONAL RISK

Risk of inadequacy or failure attributable to processes, people, internal systems or external events resulting in particular in losses, failure to achieve objectives or a negative impact on reputation.

OPTIONS

Contractual agreement that grants the right, but not the obligation, to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

PENSION PLAN

Contract under which participants receive retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made either by the employer alone or by both the employer and the participants.

PERMANENT SHARE OR CAPITAL SHARE

Equity security offered to caisse members.

POLICY

Written document that evidences the existence of an insurance or annuity contract and that sets out the terms and conditions thereof.

PROBABILITY OF DEFAULT

Probability that a borrower defaults on his obligations over a period of one year.

PROVISION FOR CREDIT LOSSES

Amount intended to cover losses on other off-balance sheet financial assets and financial assets recognized in the Combined Balance Sheets, in addition to the allowance for credit losses. Individual allowances are established to reduce the carrying amount of some assets (especially impaired loans) to an estimated realizable value. A collective allowance is established for expected losses on total unimpaired loans when credit losses cannot yet be estimated on an individual basis. For this purpose, these loans are aggregated in financial asset groups having similar credit characteristics.

REGULATORY CAPITAL

In accordance with the definition set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the *Autorité des marchés financiers*, the regulatory capital under Basel III comprises Tier 1a capital, Tier 1 capital and Tier 2 capital. The composition of these various tiers is presented in the "Capital management" section of the Management's Discussion and Analysis.

REINSURANCE TREATY

Agreement whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the treaty, the original insurer remains fully liable to its policyholders for the insurance obligations.

REPUTATION RISK

Risk that a negative perception by the stakeholders, whether or not justified, of Desjardins Group's practices, actions or lack of action could have an unfavourable impact on income and equity, and the trust that it inspires.

RISK-WEIGHTED ASSETS

Assets adjusted based on a risk-weighting factor prescribed by regulations to reflect the level of risk associated with items presented in the Combined Balance Sheets. Some assets are not weighted, but rather deducted from capital. The calculation method is defined in the *Autorité des marchés financiers* guidelines. For more details, see the “Capital management” section of the Management’s Discussion and Analysis.

SECURITIZATION

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities and transferred to a trust.

SECURITY AT FAIR VALUE THROUGH PROFIT AND LOSS

Security held on a short-term basis for arbitrage purposes.

SECURITY BORROWED OR PURCHASED

Security typically borrowed or purchased to cover short positions. The borrowing or purchase usually requires that an asset, taking the form or cash or highly rated securities, be pledged as collateral by the borrower.

SECURITY LENT OR SOLD

Security typically lent or sold to cover the short positions of the borrower. The loan or sale usually requires that an asset, taking the form or cash or highly rated securities, be pledged as collateral by the borrower.

SECURITY SOLD SHORT

Commitment by a seller to sell securities it does not own. Typically, the seller initially borrows the securities to deliver them to the purchaser. At a later date, the seller buys identical securities to replace the borrowed securities.

SEGREGATED FUND

Type of fund offered by insurance companies through a variable contract that provides the contract holder with a number of guarantees, such as principal repayment upon death. Segregated funds encompass a range of categories of securities and are designed to meet a variety of investment objectives.

STANDARDIZED APPROACH

- Credit risk

  Default approach used to calculate risk-weighted assets. Under this method, the financial institution uses valuations performed by external credit assessment institutions recognized by the *Autorité des marchés financiers* to determine the risk-weighting factors related to the various exposure categories.

- Market risk

  Default approach used to calculate risk-weighted assets for the four categories of market risks, namely interest rates risk, price risk, currency risk and commodities risk, according to pre-defined factors like the size and nature of the financial instruments held.

STRATEGIC RISK

Risk of loss attributable to an inability to adapt to a changing environment because of failure to act, an inappropriate strategic choice or the inability to effectively implement strategies.

STRESSED VALUE AT RISK

Value calculated in the same way as Value at Risk, except for the historical data used. Therefore, instead of being calculated using data for the last year, the stressed Value at Risk is calculated using historical data for a one-year stress period.

STRUCTURED ENTITY

Entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: restricted activities, a narrow and well-defined objective, insufficient equity to permit it to finance its activities without subordinated financial support, or financing in the form of multiple contractually linked instruments to investors.

SUBORDINATED NOTE

Unsecured note whose repayment in the event of liquidation is subordinated to the prior repayment of certain other creditors.

SUBPRIME RESIDENTIAL MORTGAGE LOAN

Loan to a borrower with a high credit risk profile.

SUBSIDIARY

Company controlled by the *Fédération des caisses Desjardins du Québec*.

SWAP

Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

UNDERWRITING EXPERIENCE

In life and health insurance, the difference between actual results and actuarial assumptions, used to determine premiums or actuarial liabilities, as applicable.

VALUE AT RISK (VAR)

Estimate of the potential loss over a certain period of time at a given confidence level. The calculation of VaR is based on historical data for a one-year interval.

Desjardins

Cooperating in building the future