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 and Management's Discussion and Analysis and their presentation
- Ensuring the quality and integrity of financial reporting and the use of accepted accounting practices
- Overseeing the management of significant financial risks
- Ensuring that an effective internal control system is in place
- Overseeing the work of the internal auditor and independent auditor
- Ensuring that a compliance management framework is applied

The AIC reviews Desjardins Group's interim and annual financial statements, related press releases, and its interim and annual Management's Discussion and Analysis. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, safeguarding of assets, 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 special circumstances detected, follow-up measures, credit losses, and the application of certain accounting policies and practices, such as the method of managing the allowance for credit losses.

The independent auditor is under the authority of the AIC. To fulfill its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence and objectivity by authorizing all of its non-audit services, by recommending its appointment or reappointment to the Federation's Board of Directors, 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 audit plan, 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 key stakeholders. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each Desjardins Group entity.

The AIC ensures the independence and objectivity of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC analyzes the annual internal audit plan as well as the internal audit team's responsibilities and objectivity. It ensures the plan is carried out, reviews the internal audit results and, if necessary, takes appropriate follow-up action. As part of these duties, 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* (AMF) in Quebec, 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 and Chief Operating Officer of Desjardins Group; the Executive Vice-President of Finance, Treasury and Administration and Chief Financial Officer of Desjardins Group; and the Chief Monitoring Officer of Desjardins Group. 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 and risk management committees of Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc., the chair of the Federation's Risk Management Commission, and a caisse general manager who sits on the Federation's Board of Directors. Except for this 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 entities, including their committees and commissions.

In light of the significant changes made to accounting and financial reporting requirements, the AIC members attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards and the impact of changes to capital management and corporate governance standards and regulations. All AIC members 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.

The AIC held six meetings and one training session for its members in fiscal 2018. As at December 31, 2018, the five independent directors who are members of the AIC are: Louis Babineau, Michel Doré, Pierre Perras, Mario Simard and Michel Tourangeau. The three observers are: Michel Magnan, FCPA, FCA; Robert St-Aubin, FCPA, FCA; and Jean-François Laporte. During the year, Stéphane Corbeil, Serge Tourangeau, Yves Genest and Neil Hawthorn also participated in the AIC's activities.

Louis Babineau
Chair

Montreal, Quebec
February 25, 2019

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* (AMF) in Quebec, 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 relevant segments. All financial information in the annual Management's Discussion and Analysis is consistent with these 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 professional conduct, 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 controls and disclosure procedures for financial information presented in the annual and interim filings of Desjardins Group are adequately designed and effective. As at December 31, 2018, in our capacities as Chief Executive Officer and Chief Financial Officer of Desjardins Group, we concluded that internal control over financial reporting is effective.

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 staff 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 Federation's General Meeting, 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 related issues, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Réal Bellemare
Executive Vice-President Finance, Treasury, Administration and Chief Financial Officer
Desjardins Group

Lévis, Quebec
February 27, 2019

Independent auditor's report

TO THE MEMBERS OF THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

Our opinion

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRS).

What we have audited

Desjardins Group's combined financial statements comprise:

- the combined balance sheets as at December 31, 2018 and 2017;
- the combined statements of income for the years then ended;
- the combined statements of comprehensive income for the years then ended;
- the combined statements of changes in equity for the years then ended;
- the combined statements of cash flows for the years then ended; and
- the notes to the combined financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the Management's Discussion and Analysis, rather than in the notes to the combined financial statements. These disclosures are cross-referenced from the combined financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the combined financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Desjardins Group in accordance with the ethical requirements that are relevant to our audit of the combined financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises the Management's Discussion and Analysis.

Our opinion on the combined financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the combined financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the combined financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the combined financial statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with 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.

In preparing the combined financial statements, management is responsible for assessing Desjardins Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Desjardins Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Desjardins Group's financial reporting process.

Auditor's responsibilities for the audit of the combined financial statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Desjardins Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Desjardins Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Desjardins Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Desjardins Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP(1)
(1) FCPA auditor, FCA, public accountancy permit No. A108517

Montreal, Quebec
February 27, 2019

Combined Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2018[1]	As at December 31, 2017
ASSETS			
Cash and deposits with financial institutions		**$ 3,384**	$ 2,435
Securities	6		
Securities at fair value through profit or loss		**36,916**	31,654
Available-for-sale securities		**N/A**	24,934
Securities at fair value through other comprehensive income		**21,395**	N/A
Securities at amortized cost		**1,621**	N/A
		59,932	56,588
Securities borrowed or purchased under reverse repurchase agreements		**11,934**	8,674
Loans	7 and 8		
Residential mortgages		**120,113**	113,146
Consumer, credit card and other personal loans		**26,210**	24,044
Business and government		**44,906**	40,738
		191,229	177,928
Allowance for credit losses	7	**(719)**	(438)
		190,510	177,490
Segregated fund net assets	9	**13,234**	13,379
Other assets			
Clients' liability under acceptances		**160**	31
Premiums receivable		**2,376**	2,095
Derivative financial instruments	19	**3,743**	3,206
Amounts receivable from clients, brokers and financial institutions		**1,315**	1,554
Reinsurance assets	15	**1,958**	2,202
Investment property	10	**958**	832
Property, plant and equipment	10	**1,424**	1,411
Goodwill	11	**121**	121
Intangible assets	11	**389**	466
Deferred tax assets	27	**1,174**	992
Other	12	**2,853**	2,738
Assets of the disposal group held to be transferred		**-**	881
		16,471	16,529
TOTAL ASSETS		**$ 295,465**	$ 275,095
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	14		
Individuals		**$ 105,298**	$ 100,578
Business and government		**76,174**	69,102
Deposit-taking institutions		**1,686**	1,906
		183,158	171,586
Other liabilities			
Acceptances		**160**	31
Commitments related to securities sold short		**10,829**	9,112
Commitments related to securities lent or sold under repurchase agreements		**16,845**	10,229
Derivative financial instruments	19	**2,816**	3,094
Amounts payable to clients, brokers and financial institutions		**4,105**	4,247
Insurance contract liabilities	15	**28,740**	28,272
Segregated fund net liabilities	9	**13,212**	13,354
Net defined benefit plan liabilities	16	**2,537**	2,624
Deferred tax liabilities	27	**214**	155
Other	17	**5,822**	5,568
Liabilities of the disposal group held to be transferred		**-**	662
		85,280	77,348
Subordinated notes		**1,378**	1,388
TOTAL LIABILITIES		**269,816**	250,322
EQUITY			
Capital stock	21	**5,350**	5,361
Share capital	22	**5**	90
Undistributed surplus earnings		**3,649**	1,360
Accumulated other comprehensive income	23	**(23)**	445
Reserves		**15,920**	16,707
Equity - Group's share		**24,901**	23,963
Non-controlling interests	13 and 15	**748**	810
TOTAL EQUITY		**25,649**	24,773
TOTAL LIABILITIES AND EQUITY		**$ 295,465**	$ 275,095

[1] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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*,

Guy Cormier
Chair of the Board

Serge Rousseau
Vice-Chair of the Board

Combined Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	2018[1]	2017
INTEREST INCOME			
Loans		**$ 6,931**	$ 5,923
Securities		**390**	323
		7,321	6,246
INTEREST EXPENSE			
Deposits		**2,235**	1,711
Subordinated notes and other		**192**	78
		2,427	1,789
NET INTEREST INCOME	25	**4,894**	4,457
NET PREMIUMS	15	**8,823**	8,049
OTHER INCOME			
Deposit and payment service charges		**433**	458
Lending fees and credit card service revenues		**697**	660
Brokerage and investment fund services		**905**	1,030
Management and custodial service fees		**551**	485
Net investment income	25	**211**	1,688
Overlay approach adjustment for insurance operations financial assets		**523**	N/A
Foreign exchange income		**91**	77
Other		**182**	249
		3,593	4,647
TOTAL INCOME		**17,310**	17,153
PROVISION FOR CREDIT LOSSES	7	**384**	349
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	15	**6,579**	6,717
NON-INTEREST EXPENSE			
Salaries and fringe benefits		**3,407**	3,452
Premises, equipment and furniture, including depreciation		**701**	727
Service agreements and outsourcing		**338**	319
Communications		**261**	284
Other	26	**2,778**	2,618
		7,485	7,400
OPERATING SURPLUS EARNINGS		**2,862**	2,687
Income taxes on surplus earnings	27	**536**	536
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS[2]		**2,326**	2,151
Member dividends		**253**	202
Tax recovery on member dividends	27	**(68)**	(54)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		**$ 2,141**	$ 2,003
of which:			
Group's share		**$ 2,100**	$ 1,960
Non-controlling interests' share	13	**41**	43

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

(2) The Group's share of "Surplus earnings before member dividends" is presented in Note 32, "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)	2018[1]	2017
Net surplus earnings for the year after member dividends	**$ 2,141**	$ 2,003
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	**1**	(269)
Share of associates and joint ventures accounted for using the equity method	**-**	(2)
	1	(271)
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	**N/A**	196
Reclassification of net gains to the Combined Statements of Income	**N/A**	(170)
	N/A	26
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized losses	**(24)**	N/A
Reclassification of net losses to the Combined Statements of Income	**15**	N/A
	(9)	N/A
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized losses	**(288)**	N/A
Reclassification of net gains to the Combined Statements of Income	**(129)**	N/A
	(417)	N/A
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**19**	(16)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(52)**	(72)
	(33)	(88)
	(459)	(62)
Total other comprehensive income, net of income taxes	**(458)**	(333)
COMPREHENSIVE INCOME FOR THE YEAR	**$ 1,683**	$ 1,670
of which:		
Group's share	**$ 1,664**	$ 1,623
Non-controlling interests' share	**19**	47

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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 for the year is presented in the following table.

For the years ended December 31

(in millions of Canadian dollars)	2018[1]	2017
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ -**	$ (96)
	-	(96)
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	**N/A**	34
Reclassification of net gains to the Combined Statements of Income	**N/A**	(35)
	N/A	(1)
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized losses	**(7)**	N/A
Reclassification of net losses to the Combined Statements of Income	**6**	N/A
	(1)	N/A
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized losses	**(88)**	N/A
Reclassification of net gains to the Combined Statements of Income	**(18)**	N/A
	(106)	N/A
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**9**	(6)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(23)**	(25)
	(14)	(31)
	(121)	(32)
Total income tax recovery	**$ (121)**	$ (128)

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

Combined Statements of Changes in Equity

For the years ended December 31

(in millions of Canadian dollars)	Note	Capital				Reserves						
		Capital stock (Note 21)	Share capital (Note 22)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 23)	Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves	Equity - Group's share	Non-controlling interests (Notes 13 and 15)	Total equity
BALANCE AS AT DECEMBER 31, 2016		$ 5,292	$ 88	$ 1,529	$ 514	$ 983	$ 459	$ 13,610	$ 15,052	$ 22,475	$ 818	$ 23,293
Net surplus earnings for the year after member dividends		-	-	1,960	-	-	-	-	-	1,960	43	2,003
Other comprehensive income for the year		-	-	(268)	(69)	-	-	-	-	(337)	4	(333)
Comprehensive income for the year		-	-	1,692	(69)	-	-	-	-	1,623	47	1,670
Issuance of F capital shares		375	-	-	-	-	-	-	-	375	-	375
Other net change in capital stock		(306)	-	-	-	-	-	-	-	(306)	-	(306)
Issuance of share capital		-	2	-	-	-	-	-	-	2	-	2
Redemption of share capital		-	-	-	-	-	-	-	-	-	(8)	(8)
Remuneration on capital stock		-	-	(212)	-	-	-	-	-	(212)	-	(212)
Dividends		-	-	(4)	-	-	-	-	-	(4)	(42)	(46)
Transfer between surplus earnings to be distributed and reserves		-	-	(1,650)	-	31	(12)	1,631	1,650	-	-	-
Transactions related to put options		-	-	-	-	-	-	5	5	5	(3)	2
Other		-	-	5	-	-	-	-	-	5	(2)	3
BALANCE AS AT DECEMBER 31, 2017		$ 5,361	$ 90	$ 1,360	$ 445	$ 1,014	$ 447	$ 15,246	$ 16,707	$ 23,963	$ 810	$ 24,773
Impact of changes in accounting policies	2	-	-	-	(34)	-	-	(180)	(180)	(214)	-	(214)
OPENING BALANCE AS AT JANUARY 1, 2018[1]		**$ 5,361**	**$ 90**	**$ 1,360**	**$ 411**	**$ 1,014**	**$ 447**	**$ 15,066**	**$ 16,527**	**$ 23,749**	**$ 810**	**$ 24,559**
Net surplus earnings for the year after member dividends		-	-	2,100	-	-	-	-	-	2,100	41	2,141
Other comprehensive income for the year		-	-	(2)	(434)	-	-	-	-	(436)	(22)	(458)
Comprehensive income for the year		-	-	2,098	(434)	-	-	-	-	1,664	19	1,683
Issuance of F capital shares		267	-	-	-	-	-	-	-	267	-	267
Other net change in capital stock		(278)	-	-	-	-	-	-	-	(278)	-	(278)
Issuance of share capital		-	3	-	-	-	-	-	-	3	-	3
Redemption of share capital		-	(88)	-	-	-	-	-	-	(88)	(11)	(99)
Remuneration on capital stock		-	-	(278)	-	(147)	-	-	(147)	(425)	-	(425)
Dividends		-	-	(5)	-	-	-	-	-	(5)	(36)	(41)
Transfer between surplus earnings to be distributed and reserves		-	-	477	-	88	(177)	(388)	(477)	-	-	-
Transactions related to buy-out options		-	-	-	-	-	-	30	30	30	(19)	11
Buy-out of non-controlling interests		-	-	-	-	-	-	(13)	(13)	(13)	(15)	(28)
Other		-	-	(3)	-	-	-	-	-	(3)	-	(3)
BALANCE AS AT DECEMBER 31, 2018[1]		**$ 5,350**	**$ 5**	**$ 3,649**	**$ (23)**	**$ 955**	**$ 270**	**$ 14,695**	**$ 15,920**	**$ 24,901**	**$ 748**	**$ 25,649**

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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)	2018[1]	2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 2,862**	$ 2,687
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets	**283**	290
Net change in insurance contract liabilities	**468**	945
Provision for credit losses	**384**	349
Net realized losses on securities classified as at fair value through other comprehensive income	**20**	N/A
Net realized gains on available-for-sale securities	**N/A**	(210)
Overlay approach adjustment for insurance operations financial assets	**(523)**	N/A
Impairment on available-for-sale securities recognized in profit or loss	**N/A**	6
Other	**37**	(60)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(1,884)**	(852)
Securities borrowed or purchased under reverse repurchase agreements	**(3,260)**	(984)
Loans	**(13,660)**	(11,824)
Derivative financial instruments, net amount	**(867)**	1,313
Net amounts receivable from and payable to clients, brokers and financial institutions	**41**	606
Deposits	**11,572**	11,040
Commitments related to securities sold short	**1,717**	916
Commitments related to securities lent or sold under repurchase agreements	**6,617**	(94)
Other	**292**	41
Payment of the contingent consideration	**(250)**	(243)
Income taxes paid on surplus earnings	**(399)**	(586)
Payment of member dividends	**(196)**	(145)
	3,254	3,195
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	**(11)**	10
Issuance of F capital shares	**125**	250
Other net change in capital stock	**(278)**	(306)
Remuneration on capital stock	**(136)**	(87)
Issuance of share capital	**3**	2
Redemption of share capital	**(99)**	(8)
Dividends paid	**(41)**	(46)
Buy-out of non-controlling interests	**(28)**	-
Exercise of put options written on non-controlling interests	**(63)**	(15)
	(528)	(200)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	**N/A**	(60,954)
Proceeds from disposals of available-for-sale securities	**N/A**	23,907
Proceeds from maturities of available-for-sale securities	**N/A**	34,332
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(67,341)**	N/A
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**13,342**	N/A
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**52,610**	N/A
Subsidiary disposal net of cash and cash equivalents (sold)	**-**	684
Payment of the contingent consideration recognized at acquisition date	**(27)**	(23)
Acquisitions of property, plant and equipment, intangible assets and investment property	**(474)**	(378)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	**87**	22
	(1,803)	(2,410)
Net increase in cash and cash equivalents	**923**	585
Cash and cash equivalents at beginning of year	**2,461**	1,876
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3,384**	2,461
Less:		
Cash and cash equivalents of the disposal group held to be transferred	**-**	26
CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS AT END OF YEAR	**$ 3,384**	$ 2,435
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 2,258**	$ 1,989
Interest and dividends received	**8,508**	7,437

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

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 32, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

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 of Quebec, 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 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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, 2018 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 27, 2019.

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, impairment of financial instruments, 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 – BASIS OF PRESENTATION AND 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;
- 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 ventures 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 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

CHANGES IN ACCOUNTING POLICIES

On January 1, 2018, Desjardins Group adopted IFRS 9, "Financial Instruments", IFRS 15, "Revenue from Contracts with Customers", and the amendments to IFRS 4, "Insurance Contracts", on a retrospective basis without restatement of comparative periods. IFRS 7, "Financial Instruments: Disclosures", was also amended to reflect the differences between IFRS 9 and IAS 39. Consequently, the information presented for fiscal 2018 is in accordance with these standards, while the information presented for the comparative year is in accordance with the standards that were effective before January 1, 2018.

IFRS 9 replaces IAS 39, "Financial Instruments: Recognition and Measurement", and gives rise to new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial instruments, as well as requirements for hedge accounting. As permitted by IFRS 9, Desjardins Group decided to continue applying the hedge accounting requirements of IAS 39 instead of adopting the provisions of IFRS 9.

The amendments to IFRS 4 are designed to address the concerns of insurers and their representative bodies about the different effective dates of IFRS 9 and IFRS 17, "Insurance Contracts". These amendments permit, but do not require, an entity that issues insurance contracts to elect to use one of two options in connection with adopting IFRS 9: deferring the initial application date of IFRS 9 to January 1, 2021 or applying the overlay approach. Desjardins Group elected to apply the overlay approach, which is the only option proposed by these amendments that it could apply, to financial assets that are eligible and designated in accordance with certain specific criteria.

IFRS 15 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 financial instruments, insurance contracts and leases. The core principle of this standard is that revenue recognition should depict the transfer of control over a good or a service in an amount that reflects the consideration received or expected to be received in exchange for such good or service.

The retrospective impact of applying IFRS 9, IFRS 15 and the amendments to IFRS 4 has been recognized in the opening balances of the Combined Balance Sheet as at January 1, 2018 and is presented in the "Impact of changes in accounting policies" section of this note.

SIGNIFICANT ACCOUNTING POLICIES

a) 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

Accounting policies applicable since January 1, 2018

Under IFRS 9, financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

Contractual cash flow characteristics

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset, the cash flows from this asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally the fair value of the financial asset at initial recognition. Interest consists mainly of consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, but it may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, as well as a certain profit margin.

Business models

Desjardins Group's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how Desjardins Group manages its financial assets in order to generate cash flows. They therefore reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence that is available to Desjardins Group at the date of the assessment.

Desjardins Group's business models are defined as follows:

- Held to collect contractual cash flows: The objective of holding financial assets is achieved by collecting contractual cash flows.
- Held to collect contractual cash flows and sell: The objective is achieved by both collecting contractual cash flows and selling financial assets.
- Other business models: The objective is not consistent with any of the above-mentioned business models.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The classification and measurement of financial assets under IFRS 9 can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial assets	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	At fair value through other comprehensive income (iv)	Classified as at fair value through other comprehensive income (v)	Fair value	Fair value
		Designated as at fair value through other comprehensive income (vi)	Fair value	Fair value
	Amortized cost (vii)		Fair value	Amortized cost

(i) Financial assets included in the "At fair value through profit or loss" class comprise financial assets "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of financial assets included in this class are recorded under "Net investment income" in the Combined Statements of Income.
- Interest income calculated using the effective interest method and dividend income from securities included in the "At fair value through profit or loss" class of the Personal and Business Services segment and the Other category are recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net investment income". Interest income from derivative financial instruments is recognized under "Net investment income".

(ii) Financial assets "Classified as at fair value through profit or loss" include the following:

- Debt instruments that are managed for trading purposes or on a fair value basis or do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- Equity instruments.
- Derivative financial instruments.

Section m), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

Certain financial assets "Classified as at fair value through profit or loss" under IFRS 9 are designated for the overlay approach. For more information, see the "Application of the overlay approach to insurance operations financial assets" section of this note.

(iii) Financial assets "Designated as at fair value through profit or loss" are debt securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset.

Desjardins Group's financial assets included in this measurement category comprise mainly securities (debt instruments) that back the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims.

(iv) Financial assets included in the "At fair value through other comprehensive income" class comprise financial assets "Classified as at fair value through other comprehensive income" and "Designated as at fair value through other comprehensive income". Therefore:

- Changes in fair value of financial assets included in this class, except for changes related to the loss allowance for expected credit losses and exchange gains and losses on financial assets "Classified as at fair value through other comprehensive income", are recorded in the Combined Statements of Comprehensive Income as net unrealized gains and losses. For financial assets "Classified as at fair value through other comprehensive income", gains and losses are reclassified to the Combined Statements of Income when the asset is derecognized, while for financial assets "Designated as at fair value through other comprehensive income", gains and losses are never reclassified subsequently to the Combined Statements of Income and are reclassified immediately to undistributed surplus earnings.
- Premiums and discounts on the purchase of financial assets "At fair value through other comprehensive income" are amortized over the life of the securities using the effective interest method and recognized under "Interest income – Securities" for the Personal and Business Services segment and the Other category. For the other segments, they are mainly recognized under "Net investment income".

(v) Financial assets "Classified as at fair value through other comprehensive income" include debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(vi) Financial assets "Designated as at fair value through other comprehensive income" include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that are held on a long-term basis.

(vii) Securities included in the "Amortized cost" class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

Securities included in this class 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 included in the "Amortized cost" class is presented under "Interest income – Loans" in the Combined Statements of Income when it is recognized by the Personal and Business Services segment and the Other category. For the other segments, it is recognized mainly under "Net investment income".

Financial assets are not reclassified following their initial recognition, except when the business model for managing those financial assets is changed.

Application of the overlay approach to insurance operations financial assets

Desjardins Group elected to designate certain eligible financial assets for the overlay approach to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, "Financial Instruments", and IFRS 17, "Insurance Contracts". To be eligible, a financial asset must meet the following criteria:

- It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39, "Financial Instruments: Recognition and Measurement".
- It is held in respect of an activity connected with contracts within the scope of IFRS 4.

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported if Desjardins Group had continued to apply IAS 39. As a result, net surplus earnings related to designated financial instruments reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39. In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers gains (losses) on sales of securities, foreign currency fair value hedge accounting for equity instruments as well as impairment losses on equity instruments using accounting policies required by IAS 39.

Reclassifications are presented under "Overlay approach adjustment for insurance operations financial assets" in the Combined Statements of Income and under "Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets" in the Combined Statements of Comprehensive Income. The overlay approach may be used for the years beginning before January 1, 2021 or until the adoption of IFRS 17, if earlier.

Financial liabilities are classified based on their characteristics and the intention of management upon their issuance.

The classification and measurement of financial liabilities under IFRS 9 can be summarized as follows:

Classes		**Categories**	**Recognition**	
			Initial	**Subsequent**
Financial liabilities	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Amortized cost (iv)		Fair value	Amortized cost

(i) Financial liabilities included in the "At fair value through profit or loss" class comprise financial liabilities "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of financial liabilities included in this class are recorded under "Net investment income" in the Combined Statements of Income. However, for financial liabilities designated as at fair value, the change in fair value that is attributable to Desjardins Group's own credit risk is recognized in other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and is reclassified immediately to undistributed surplus earnings.
- Interest expense related to financial liabilities included in the "At fair value through profit or loss" class is presented under "Net investment income".

(ii) Financial liabilities "Classified as at fair value through profit or loss" are securities held for trading and include 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.

Section m), "Derivative financial instruments and hedging activities", of this note specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iii) Financial liabilities "Designated as at fair value through profit or loss" are designated as such by management upon initial recognition, on an instrument-by-instrument basis, and are essentially debt securities. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial liability, if a group of financial liabilities is managed and its performance is evaluated on a fair value basis, or if the liabilities are hybrid financial liabilities containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Financial liabilities included in this measurement category comprise deposits containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

(iv) Financial liabilities that are not in the "At fair value through profit or loss" class are included in the "Amortized cost" class.

Financial liabilities included in this class 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 included in the "Amortized cost" class is recognized under "Interest expense" in the Combined Statements of Income for the Personal and Business Services segment and the Other category. Interest expense for the other segments is recognized mainly under "Net investment income" in the Combined Statements of Income.

Accounting policies applicable before January 1, 2018

Under IAS 39, financial assets and liabilities were classified based on their characteristics and the intention of management upon their acquisition or issuance.

The classification and measurement of financial assets under IAS 39 can be summarized as follows:

Classes		**Categories**	**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 in the "At fair value through profit or loss" class included financial assets "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities included in this class were recorded under "Net investment income" in the Combined Statements of Income.
- Interest and dividend income from securities included in the "At fair value through profit or loss" class of the Personal and Business Services segment and the Other category were recognized under "Interest income – Securities" and, for the other segments, they were mainly recognized under "Net investment income" using the effective interest method.

(ii) Financial assets classified as "Held for trading" included the following:

- Securities acquired for resale purposes in the near term and securities that were part of a portfolio of securities that were managed together and for which there was evidence of an actual pattern of short-term profit-taking; and
- Derivative financial instruments.

Section m), "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" were essentially securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management could designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions was met:

- The designation eliminated or significantly reduced a measurement or recognition inconsistency.
- The assets were part of a group of financial assets or financial assets and liabilities that were managed and whose performance was evaluated on a fair value basis.
- The assets were hybrid financial instruments containing at least one embedded derivative that would otherwise have been separated from the host contract and recognized separately.

Desjardins Group's financial assets included in this class mainly comprised certain investments made in connection with derivative instruments that were not designated as part of a hedging relationship and certain securities that backed the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims. This designation eliminated or significantly reduced a measurement or recognition inconsistency for these financial assets.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iv) Securities included in the "Loans and receivables" class were non-derivative financial assets with fixed or determinable income that were not quoted in an active market and that were not held for sale upon their acquisition or their granting.

These outstanding securities were initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they were measured at amortized cost using the effective interest method. Income recognized on these securities was presented under "Interest income – Loans" in the Combined Statements of Income when it was recognized by the Personal and Business Services segment and the Other category. Income for the other segments was recognized under "Other income – Other" in the Combined Statements of Income.

(v) Securities included in the "Available for sale" class were non-derivative financial assets initially designated as available for sale or not included in the "At fair value through profit or loss", "Held to maturity" or "Loans and receivables" classes. Available-for-sale securities could 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, were recognized under "Net unrealized gains" on available-for-sale securities in the Combined Statements of Comprehensive Income until the financial asset was derecognized. Premiums and discounts on the purchase of available-for-sale securities were amortized over the life of the securities using the effective interest method and recognized under "Interest income – Securities" for the Personal and Business Services segment and the Other category. For the other segments, they were mainly recognized under "Net investment income".

(vi) Securities included in the "Held to maturity" class were non-derivative financial assets with fixed or determinable payments and fixed maturity that management had the intention and ability to hold to maturity. These securities were recognized at amortized cost using the effective interest method. Desjardins Group held no instruments in this class as at December 31, 2017.

The classification and measurement of financial liabilities under IAS 39 can be summarized as follows:

Classes		**Categories**	**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 included in the "At fair value through profit or loss" class included financial liabilities "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities included in this class were recorded under "Net investment income" in the Combined Statements of Income.
- Interest expense related to financial liabilities included in the "At fair value through profit or loss" class was recognized under "Net investment income".

(ii) Financial liabilities classified as "Held for trading" were debt securities issued with the intention to repurchase them in the near term and securities that were part of a portfolio of securities that were managed together and for which there was evidence of an actual pattern of short-term profit-taking, such as "Commitments related to securities sold short". Derivative financial instruments were also classified as "Held for trading". Section m), "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" had been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management could designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions was met:

- The designation eliminated or significantly reduced a measurement or recognition inconsistency.
- The liabilities were part of a group of financial liabilities or financial assets and liabilities that were managed and whose performance was evaluated on a fair value basis.
- The liabilities were hybrid financial instruments containing at least one embedded derivative that would otherwise have been separated from the host contract and recognized separately.

Desjardins Group held no instruments in this class as at December 31, 2017.

(iv) Financial liabilities that were not included in the "At fair value through profit or loss" class were included in the "At amortized cost" class.

These financial liabilities were initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they were measured at amortized cost using the effective interest method. Interest expense on these securities was recognized under "Interest expense" in the Combined Statements of Income for the Personal and Business Services segment and the Other category. Income for the other segments was mainly recognized under "Net investment income" in the Combined Statements of Income.

NOTE 2 – BASIS OF PRESENTATION AND 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 performing loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and reflects estimated prepayments, adjusted to take into account credit losses on the loan portfolio. 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.

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 reflects estimated prepayments. 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. This fair value 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 19, "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. However, for financial instruments classified or designated as "At fair value through profit or loss", these costs are expensed as incurred.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

b) 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 certain fixed-income securities. 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.

c) Securities

The classification and measurement of securities are determined using the criteria stated in section a), "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.

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 ownership of these securities are retained.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 under "Net investment income" in the Combined Statements of Income.

d) Loans

Loans are recorded at amortized cost, net of the allowance for credit losses, using the effective interest method.

Fees collected and direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loans. 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 capital assets, receivables, inventory, equipment, securities (government securities, shares, etc.) or cash.

Restructured loans are loans for which Desjardins Group renegotiated the initial terms by granting concessions to the borrower in the context of financial difficulties or to prevent a failure by the borrower to meet its initial obligations. Once the terms of the loan have been renegotiated and accepted by the borrower, the loan is considered as restructured.

When the modification of the terms of a loan has no significant impact on contractual cash flows, the renegotiated loan is not derecognized. At the date of restructuring, the loan is reduced to the amount of the estimated net cash flows receivable under the modified terms, discounted at the effective interest rate (prior to the restructuring), which may result in a gain or loss on modification.

When the modification of the terms of a loan has a significant impact on contractual cash flows, the initial loan should be derecognized, which may result in a gain or loss on derecognition. In addition, a new loan should be recognized based on the new contractual terms.

Accounting policy applicable since January 1, 2018

When the modification of the terms of a loan does not result in the derecognition of such loan, the date of initial recognition of the loan remains unchanged for purposes of applying the impairment model. The default risk based on the modified contractual terms is then compared to the default risk based on the initial terms to determine whether there has been a significant increase in credit risk since initial recognition.

When the modification of the terms of a loan results in the derecognition of such loan and the recognition of a new loan, the date of the modification should become the date of initial recognition of the new loan for purposes of applying the impairment model. A new loan is usually considered as being in Stage 1 of the impairment model, but it may have to be considered as credit-impaired upon origination.

Accounting policy applicable before January 1, 2018

Restructured loans remained classified as performing loans when they did not meet the criteria requiring their classification as credit-impaired loans. In addition, management assessed whether such restructured loans were impaired in accordance with its impairment policies.

e) Impairment of financial instruments

Accounting policies applicable since January 1, 2018

Under IFRS 9, at each reporting date, Desjardins Group recognizes a loss allowance for expected credit losses for debt instruments classified as at amortized cost or as at fair value through other comprehensive income, as well as certain off-balance sheet items, namely loan commitments and financial guarantees, which are not measured at fair value through profit or loss. This allowance is estimated based on an impairment model that comprises three stages:

- Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered as credit-impaired financial assets, a loss allowance amounting to 12-month expected credit losses is recognized.
- Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition but are not considered as credit-impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized.
- Stage 3: For financial instruments considered as credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the change in credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Group bases its assessment on the change in default risk over the expected life of the financial instrument, which requires significant judgment.

To this end, Desjardins Group compares the probability of default (PD) of the financial instrument at the reporting date with its PD at the date of initial recognition. In addition, it considers reasonable and supportable information indicating a significant increase in credit risk since initial recognition, including qualitative information and information about future economic conditions to the extent that it affects the assessment of the instrument's PD. The criteria used to determine a significant increase in credit risk vary depending on the type of clients and are mainly based on a relative change combined with an absolute change in the PD. They also include absolute PD thresholds and certain other criteria. All instruments that are more than 30 days past due are transferred to Stage 2 of the impairment model.

For securities at "Amortized cost" or "Classified as at fair value through other comprehensive income", Desjardins Group elected to use the low credit risk exemption. Consequently, when credit risk is equivalent to the credit risk of the "investment grade" category at the reporting date, the credit risk on the securities is deemed to not have significantly increased since initial recognition.

Definition of default and credit-impaired financial asset

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes and for regulatory purposes. It considers relevant quantitative and qualitative factors. In particular, a loan is in default when contractual payments are over 90 days past due. A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant.

Measurement of the loss allowance for expected credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the loss allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of the contract, and total cash flows that Desjardins Group expects to receive. For credit-impaired financial assets, expected credit losses are calculated based on the difference between the gross carrying amount of the asset and estimated cash flows.

The measurement of the loss allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. The LGD of certain loans and off-balance sheet items is estimated at 0% due to the nature of the credit enhancement obtained. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12-months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics. The following table presents the main aggregation variables for the applicable parameters.

PD	LGD	EAD
Loans, loan commitments and financial guarantees: • Type of clients • Risk level • Type of instrument • Industry	*Loans, loan commitments and financial guarantees:* • Type of clients • Type of collateral • Type of guarantor • Risk level • Type of instrument • Industry	*Loans:* • No aggregation[(1)] *Loan commitments and financial guarantees[(2)]:* • Type of clients • Risk level • Utilization rate • Authorized amount • Type of product • Industry

[(1)] No aggregation variable is required to determine the EAD for loans, as it represents the anticipated balance of each loan.
[(2)] To determine the EAD for loan commitments and financial guarantees, a credit conversion factor is applied.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios (base, upside and downside) to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. Desjardins Group may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters. Incorporating forward-looking information is based on a set of assumptions and methodologies specific to credit risk and economic projections and therefore requires a high degree of judgment.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

For credit-impaired financial assets that are individually material, measuring the loss allowance for expected credit losses does not require using credit risk parameters. It is instead based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions. In some cases, Desjardins Group may not recognize any loss allowance when the probability of the collateral realization scenario is 100% and the estimated realizable value of the collateral exceeds the gross carrying amount of the loan.

Expected life

The expected life of most financial instruments is equal to the maximum contractual term during which Desjardins Group is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans. Their life is estimated as being the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions.

Recognition of the loss allowance for expected credit losses

The loss allowance for expected credit losses on loans is recorded under "Allowance for credit losses" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The loss allowance for expected credit losses on loan commitments and financial guarantees is recorded under "Other liabilities – Other" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The loss allowance for expected credit losses on securities at "Amortized cost" is recorded against "Securities – Securities at amortized cost" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income. The loss allowance for expected credit losses on securities "Classified as at fair value through other comprehensive income" is recognized under "Net unrealized losses on debt securities classified as at fair value through other comprehensive income" in the Combined Statements of Comprehensive Income and under "Provision for credit losses" in the Combined Statements of Income.

Foreclosed assets

Assets foreclosed to settle credit-impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount of the loan and the fair value recorded for the foreclosed assets is recognized under "Provision for credit losses".

Loan write-off

A loan is written off, in whole or in part, when recovery is no longer reasonably expected, which is when all attempts at restructuring or collection have been made and, based on an assessment of the file in its entirety, there are no other means to recover the loan. For secured loans, balances are generally written off once the collateral has been realized. Loans for which a consumer proposal or bankruptcy proceedings are ongoing but for which Desjardins Group has no reasonable expectation of recovery are written off, but they may continue to be subject to recovery measures by an insolvency trustee. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days. These balances could however still be subject to enforcement activity during a certain period after they have been written off. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Combined Statements of Income.

Accounting policies applicable before January 1, 2018

Credit-impaired loans

Under IAS 39, at the reporting date, Desjardins Group assessed whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A loan was considered credit-impaired when there was such evidence, and more specifically when one of the following conditions was met:

- There was reason to believe that a portion of the principal or interest could not be collected;
- The interest or principal repayment was contractually 90 days past due, unless the loan was fully secured and in the process of collection;
- The interest or principal was more than 180 days past due.

A loan was not classified as credit-impaired when it was fully guaranteed or insured by a Canadian government (federal or provincial) or an agency of a Canadian government.

A loan was considered past due when the borrower had failed to make a payment by the contractual due date.

A loan ceased to be considered credit-impaired when principal and interest payments were up to date and there was no doubt as to its collection or when it was restructured and was treated as a new loan and there was no doubt as to the collection of principal and interest.

Assets foreclosed to settle credit-impaired loans were 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 was recognized under "Provision for credit losses".

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A loan classified as "Loans and receivables" was written off when all attempts at restructuring or collection had been made and the likelihood of future recovery was remote. When a loan was written off completely, any subsequent payments were recorded under "Provision for credit losses" in the Combined Statements of Income. Credit card balances were written off completely when no payment had been received at the end of a period of 180 days.

Allowance for credit losses on loans

Under IAS 39, objective evidence of impairment resulted from a loss event that had occurred after the loan was granted but before the reporting date and that had an impact on the estimated future cash flows of loans.

The impairment of a loan or a group of loans was determined by estimating the recoverable amount of these financial assets. The allowance was equal to the difference between this amount and the carrying amount. This allowance was presented in deduction of assets under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, Desjardins Group discounted the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows could not be estimated with reasonable reliability, the estimated recoverable amount was 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 could vary depending on the type of loan.

The allowance for credit losses on loans represented management's best estimate for loan impairment at the reporting date. As part of its evaluation, management had to make judgments to determine the data, assumptions and estimates to be used, including determining when a loan was considered credit-impaired and the amount that could have been recovered. Changing these estimates and assumptions would have had an impact on the allowance for credit losses and the provision for credit losses for the year.

The allowance for credit losses related to credit-impaired loans was measured either individually or collectively for loans that were not individually material, while the allowance for credit losses was measured collectively for non- credit impaired loans.

Individual allowances

Desjardins Group first reviewed its loan portfolios on a loan-by-loan basis to assess credit risk and determined whether there was any objective evidence of impairment for which a loss should have been recognized in the Combined Statements of Income. Loan portfolios for which there was no objective evidence of impairment were included in groups of financial assets having similar credit characteristics and were subject to a collective allowance.

Collective allowance on credit-impaired loans

Certain consumer, credit card and other personal loan portfolios comprised a large number of homogeneous balances that were not individually material. A collective allowance was established on such loans based on the portfolio's historical net loss rate.

Collective allowance

The method used by Desjardins Group to determine the collective allowance took into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models took into account certain factors such as PD (loss frequency), LGD (extent of losses) and EAD (gross exposures at default). These parameters were based on historical losses and determined according to the category and risk rating of each loan. The measurement of the collective allowance relied heavily on management's judgments and depended 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 allowance for credit losses related to off-balance sheet items, namely loan commitments and financial guarantees, was recognized 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

Under IAS 39, securities classified in the "Available for sale" category were examined at the reporting date to determine whether there was any objective evidence that they were impaired. In measuring an impairment loss, Desjardins Group took into account many facts specific to each investment and all the factors that could have indicated that there had been impairment. Factors considered included, but were 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 would enter bankruptcy or a restructuring, and the disappearance of an active market for the asset. Management also used its judgment to determine when to recognize an impairment loss.

Desjardins Group individually assessed debt securities included in the "Available for sale" class, including preferred shares with characteristics and behaviour similar to those of debt securities, to determine whether there was any objective evidence of impairment. The impairment loss represented the cumulative loss, which was the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income was 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 increased and that increase could be objectively related to a credit event occurring after the impairment loss had been recognized in the Combined Statements of Income, the impairment loss was reversed through the Combined Statements of Income.

For equity securities included in the "Available for sale" class, when evidence of impairment existed, the cumulative loss which corresponded to the difference between acquisition cost and current fair value, less any impairment loss previously recognized was 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 were not reversed to the Combined Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss were instead recorded directly in other comprehensive income, in the Combined Statements of Comprehensive Income. Any impairment loss on securities previously impaired was directly recognized in the Combined Statements of Income.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f) 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. They 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.

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 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	1 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 investment income” for investment property.

g) 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

h) 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 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.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions. 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.

i) Acceptances and clients' liability under acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our clients and that we guarantee for a fee. The potential liability of Desjardins Group under acceptances is recognized under "Acceptances", in "Other liabilities". Desjardins Group has equivalent offsetting claims against its clients in the event of a call on these commitments, which are recognized under "Clients' liability under acceptances", in "Other assets". Fees are recognized under "Other income – Other".

j) 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 these 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. 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 of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 contract. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health insurance subsidiaries elected not to recognize the participating portion of these contracts separately.

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 with 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 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.

k) Segregated funds

Certain insurance contracts allow contract holders 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 contract holders, 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 a), “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 contract holders’ rights to the segregated fund net assets is also recognized separately.

l) 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 obligations 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.

m) 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 consist mainly of futures. The types of contracts used are defined in Note 19, “Derivative financial instruments and hedging activities”.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recognized at fair value on the Combined Balance Sheets. Changes in fair value of embedded derivatives required to be accounted for separately are recognized under "Net investment income" in the Combined Statements of Income.

Hybrid financial instruments

Accounting policy applicable since January 1, 2018

When a hybrid contract contains a host that is an asset within the scope of IFRS 9, the entire hybrid contract is classified and recognized based on the characteristics of the hybrid contract.

An embedded derivative is separated from the host and accounted for separately as a derivative when the host is not an asset within the scope of IFRS 9 and the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid contract is not measured at fair value with changes in fair value recognized in the Combined Statements of Income.

Accounting policy applicable before January 1, 2018

Under IAS 39, embedded derivative financial instruments were separated from their host contract and accounted for as derivatives if: (a) the economic characteristics and risks of the embedded derivatives were not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative had the same terms as a separate instrument; (c) the hybrid instrument or contract was not measured at fair value with changes in fair value recognized in combined profit or loss.

Objectives of holding derivatives

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 instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under "Net investment income" 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. They 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.

Hedging activities

Desjardins Group elected to continue applying the requirements of IAS 39 for hedge accounting instead of adopting the provisions of IFRS 9.

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.

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

In a fair value hedge transaction, changes in fair value of the hedging derivative financial instrument are recognized under "Net investment income" 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 investment income" 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. Previously recorded adjustments to 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. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under "Net investment income" in the Combined Statements of Income.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash flow hedges

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 under "Net gains (losses) on derivative financial instruments designated as cash flow hedges", in other comprehensive income, 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 under "Net investment income" in the Combined Statements of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues hedge 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 investment income".

n) Financial guarantees

A financial guarantee is a contract that could contingently require Desjardins Group to make specified payments to the guaranteed party to repay a loss that such party incurred as a result of a default by a specified third party to make a payment upon maturity in accordance with the original or modified terms and conditions of a debt security.

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, except in cases where it must be measured at fair value through profit or loss, the guarantee is measured at the higher of the following amounts:

i) The amount initially recorded less, when appropriate, accumulated amortization recognized in the Combined Statements of Income;

ii) Under IFRS 9, the amount of the allowance for credit losses (accounting policy applicable since January 1, 2018) and, under IAS 39, the best estimate of cash outflows required to settle any financial obligation resulting from the guarantee (accounting policy applicable before January 1, 2018)

If a financial guarantee meets the definition of a derivative, it is measured at fair value through profit or loss 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 amount 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.

o) 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. As at December 31, 2018, amounts appropriated to the stabilization reserve of a caisse are essentially used to pay interest on permanent shares issued by that caisse, while as at December 31, 2017, these amounts were essentially used to pay interest on permanent shares issued by that caisse when the surplus earnings of such caisse were not sufficient. As at December 31, 2018, amounts appropriated to the Federation's stabilization reserve are essentially used to pay interest on F capital shares it issued, while as at December 31, 2017, these amounts were essentially used to pay interest on permanent shares issued by a caisse when the amounts appropriated to such caisse's stabilization reserve were not sufficient, and to pay interest on F capital shares issued by the Federation when the annual surplus earnings of the Federation were not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the caisses. As at December 31, 2018, amounts appropriated to this reserve are used to pay member dividends and to appropriate amounts to the Community Development Fund, while as at December 31, 2017, these amounts allowed the caisses 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 and the *Fonds de sécurité Desjardins*. As at December 31, 2018, this reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on permanent shares, surplus shares and capital shares. As at December 31, 2017, this reserve could only be used to eliminate a deficit. It 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Revenue recognition

In addition to the items mentioned in section a), “Financial assets and liabilities”, the specific recognition criteria that follow must also be met before revenue can be recognized.

Recognition criteria

Accounting policy applicable since January 1, 2018

Under IFRS 15, revenue is recognized when Desjardins Group has transferred control of a good or service (the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

Accounting policy applicable before January 1, 2018

Under IAS 18, revenue was recognized to the extent that it was probable that the economic benefits would flow to Desjardins Group and that it could be measured reliably.

Net interest income

Accounting policy applicable since January 1, 2018

Interest income and expense are mainly earned or incurred by the Personal and Business 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 as at fair value through other comprehensive income” and for financial instruments included in the “At fair value through profit or loss” class.

The effective interest method is used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. Under IFRS 9, the effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

When calculating the effective interest rate, Desjardins Group estimates cash flows considering all contractual terms of the financial instruments, but it 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.

For financial assets that are not considered credit-impaired (Stages 1 and 2), interest income is calculated on the gross carrying amount of the financial instrument. For credit-impaired financial assets (Stage 3), interest income is calculated by applying the effective interest rate to the amortized cost of the asset, which corresponds to the gross carrying amount less the loss allowance for expected credit losses.

Accounting policy applicable before January 1, 2018

Interest income and expense were mainly earned or incurred by the Personal and Business Services segment and the Other category. They were recognized using the effective interest method for all financial instruments measured at amortized cost, for interest-bearing financial assets included in the “Available for sale” class and for financial instruments included in the “At fair value through profit or loss” class.

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. Under IAS 39, the effective interest rate was the rate that exactly discounted 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 estimated cash flows considering all contractual terms of the financial instruments, but did not consider future credit losses. The calculation included transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that formed an integral part of the effective rate of the contract, such as file setup fees and finders’ fees, were 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 they are recognized, an actuarial provision is established and recognized 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. They 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

q) 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.

r) 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 under "Foreign exchange income" in the Combined Statements of Income. However, the following items are presented in other comprehensive income in the Combined Statements of Comprehensive Income.

- Translation gains and losses on financial assets "Designated as at fair value through other comprehensive income" (accounting policy applicable since January 1, 2018).
- Unrealized gains and losses on non-monetary financial instruments classified as "Available for sale" (accounting policy applicable before January 1, 2018).
- Gains and losses on derivatives designated as cash flow hedging instruments.

s) 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 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

t) 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 operating 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 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 dates.

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).

ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the difference reverses can be controlled and it is probable that it 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 differences, tax loss carryforwards and 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).

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 difference will reverse in the foreseeable future and that a taxable profit will be available against which such 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.

u) 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 take into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Integrated Financial Plan, which, as of 2018, provides for member dividends based on Desjardins Group's financial capacity and capitalization. In 2017, the financial framework for the appropriation of surplus earnings was in relation with the caisses' financial capacity and Desjardins Group's capitalization. The difference between the amount of member dividends actually paid 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, the various service charges collected from the member depending on the services used and, for member dividends for the year ended December 31, 2018, Desjardins products held. Member dividends are recognized under "Member dividends" in the Combined Statements of Income.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

v) 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. These remeasurements 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 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPACT OF CHANGES IN ACCOUNTING POLICIES

The retrospective impact of applying IFRS 9, IFRS 15 and amendments to IFRS 4 has been recognized in the opening balances of the Combined Balance Sheet as at January 1, 2018.

The following table presents the impact of adopting these standards and amendments on Desjardins Group's Combined Balance Sheet as at January 1, 2018.

	Balance as at December 31, 2017	IFRS 9	IFRS 15	IFRS 4	Opening balance as at January 1, 2018
ASSETS					
Cash and deposits with financial institutions	$ 2,435	$ -	$ -	$ -	**$ 2,435**
Securities	56,588	-	-	-	**56,588**
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	-	-	**8,674**
Loans	177,928	-	-	-	**177,928**
Allowance for credit losses	(438)	(256)	-	-	**(694)**
Segregated fund net assets	13,379	-	-	-	**13,379**
Other assets	16,529	65	13	-	**16,607**
TOTAL ASSETS	$ 275,095	$ (191)	$ 13	$ -	**$ 274,917**
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits	$ 171,586	$ -	$ -	$ -	**$ 171,586**
Other liabilities	77,348	(12)	48	-	**77,384**
Subordinated notes	1,388	-	-	-	**1,388**
TOTAL LIABILITIES	250,322	(12)	48	-	**250,358**
EQUITY					
Capital stock	5,361	-	-	-	**5,361**
Share capital	90	-	-	-	**90**
Undistributed surplus earnings	1,360	-	-	-	**1,360**
Accumulated other comprehensive income	445	(410)	-	376	**411**
Reserves	16,707	231	(35)	(376)	**16,527**
Equity – Group's share	23,963	(179)	(35)	-	**23,749**
Non-controlling interests	810	-	-	-	**810**
TOTAL EQUITY	24,773	(179)	(35)	-	**24,559**
TOTAL LIABILITIES AND EQUITY	$ 275,095	$ (191)	$ 13	$ -	**$ 274,917**

The following table presents additional information on the impact of adopting these standards and amendments on Desjardins Group's "Equity – Group's share" as at January 1, 2018.

	Group's share
Accumulated other comprehensive income	
Balance as at December 31, 2017	**$ 445**
Adoption of the IFRS 9 measurement categories	**(411)**
Recognition of expected credit losses on debt securities at fair value through other comprehensive income	**1**
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	**376**
Opening balance as at January 1, 2018	**$ 411**
Reserves	
Balance as at December 31, 2017	**$ 16,707**
Adoption of the IFRS 9 measurement categories	**411**
Recognition of expected credit losses on financial instruments	**(180)**
Impact of the adoption of IFRS 15	**(35)**
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	**(376)**
Opening balance as at January 1, 2018	**$ 16,527**

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

The following table presents the impact of adopting of IFRS 9 on the classification and measurement of financial instruments as at January 1, 2018.

	Notes	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39 as at December 31, 2017	Carrying amount under IFRS 9 as at January 1, 2018
Financial assets					
Cash and deposits with financial institutions	**(1)**	At fair value through profit or loss – held for trading	Amortized cost	**$ 23**	**$ 23**
		At fair value through profit or loss – designated as at fair value through profit or loss	Designated as at fair value through profit or loss	**298**	**298**
		Available for sale	Classified as at fair value through other comprehensive income	**639**	**639**
		Loans and receivables	Amortized cost	**1,475**	**1,475**
Securities					
Debt instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	**13,271**	**13,271**
		At fair value through profit or loss – designated as at fair value through profit or loss	Designated as at fair value through profit or loss	**16,665**	**16,665**
	(2)	At fair value through profit or loss – designated as at fair value through profit or loss	Classified as at fair value through profit or loss	**6**	**6**
	(3)	Available for sale	Classified as at fair value through profit or loss	**23**	**23**
		Available for sale	Classified as at fair value through other comprehensive income	**20,543**	**20,543**
	(4)	Available for sale	Amortized cost	**1,091**	**1,091**
Equity instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	**41**	**41**
	(5)	At fair value through profit or loss – designated as at fair value through profit or loss	Classified as at fair value through profit or loss	**1,671**	**1,671**
	(6)	Available for sale	Classified as at fair value through profit or loss	**3,275**	**3,275**
	(7)	Available for sale	Designated as at fair value through other comprehensive income	**2**	**2**
Securities borrowed or purchased under reverse repurchase agreements		Loans and receivables	Amortized cost	**$ 8,674**	**$ 8,674**

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

The following table presents the impact of adopting IFRS 9 on the classification and measurement of financial instruments as at January 1, 2018 *(continued)*.

	Notes	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39 as at December 31, 2017	Carrying amount under IFRS 9 as at January 1, 2018
Financial assets *(continued)*					
Loans		Loans and receivables	Amortized cost	**$ 177,490**	**$ 177,234**
Other financial assets					
Clients' liability under acceptances		Loans and receivables	Amortized cost	**31**	**31**
Premiums receivable		Loans and receivables	Amortized cost	**2,095**	**2,095**
Derivative financial instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	**3,206**	**3,206**
Amounts receivable from clients, brokers and financial institutions		Loans and receivables	Amortized cost	**1,554**	**1,554**
Other		Loans and receivables	Amortized cost	**1,249**	**1,249**
Total financial assets				**$ 253,322**	**$ 253,066**
Financial liabilities					
Deposits		Financial liabilities at amortized cost	Amortized cost	**$ 171,586**	**$ 171,586**
Other financial liabilities					
Acceptances		Financial liabilities at amortized cost	Amortized cost	**31**	**31**
Commitments related to securities sold short		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	**9,112**	**9,112**
Commitments related to securities lent or sold under repurchase agreements		Financial liabilities at amortized cost	Amortized cost	**10,229**	**10,229**
Derivative financial instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	**3,094**	**3,094**
Amounts payable to clients, brokers and financial institutions		Financial liabilities at amortized cost	Amortized cost	**4,247**	**4,247**
Other		Financial liabilities at amortized cost	Amortized cost	**2,629**	**2,629**
		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	**452**	**452**
Subordinated notes		Financial liabilities at amortized cost	Amortized cost	**1,388**	**1,388**
Total financial liabilities				**$ 202,768**	**$ 202,768**

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(1) Certain items in cash and deposits with financial institutions were classified as “Held for trading” under IAS 39 as at December 31, 2017. As at January 1, 2018, Desjardins Group classified these debt instruments as at “Amortized cost” under IFRS 9 as they are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest. All these securities matured or were sold during fiscal 2018. The effective interest rate on these debt instruments ranged from 0.59% and 1.73% as at January 1, 2018, and interest income recognized on these securities following the adoption of IFRS 9 was insignificant.

(2) These debt instruments were classified as “Designated as at fair value through profit or loss” under IAS 39 as at December 31, 2017. As at January 1, 2018, they were “Classified as at fair value through profit or loss” as the contractual terms of these financial assets give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

(3) These debt instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, these debt instruments were “Classified as at fair value through profit or loss” under IFRS 9 because they are held within a business model whose objective is achieved by selling financial assets or because they do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest.

(4) These debt instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, Desjardins Group classified them as at “Amortized cost” under IFRS 9 as they are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest. The fair value of the securities still held as at December 31, 2018 was $30 million. If these securities had not be reclassified to be measured at “Amortized cost” under IFRS 9 as at January 1, 2018, an immaterial loss would have been recognized in the Combined Statement of Comprehensive Income for the year ended December 31, 2018.

(5) These equity instruments were classified as “Designated as at fair value through profit or loss” under IAS 39 as at December 31, 2017. As at January 1, 2018, they were “Classified as at fair value through profit or loss” as, under IFRS 9, all investments in equity instruments other than those designated as at fair value through other comprehensive income have to be included in this measurement category.

(6) These equity instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, they were “Classified as at fair value through profit or loss” as, under IFRS 9, all investments in equity instruments other than those designated as at fair value through other comprehensive income have to be included in this measurement category.

(7) These equity instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, these instruments, which consist of an investment in a private company that will be held on a long-term basis, were irrevocably “Designated as at fair value through other comprehensive income”. Gains and losses on these instruments will therefore never be reclassified subsequently to the Combined Statements of Income.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

The following table reconciles the carrying amounts of financial assets recognized under IAS 39 as at December 31, 2017 to the carrying amounts under IFRS 9 as at January 1, 2018.

	Carrying amount under IAS 39 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
Financial assets				
Classified as at fair value through profit or loss[1]				
Cash and deposits with financial institutions	$ 23	$ -	$ -	$ 23
To securities at amortized cost	-	(23)	-	(23)
	23	(23)	-	-
Securities				
Debt instruments	13,271	-	-	13,271
From securities designated as at fair value through profit or loss	-	6	-	6
From available-for-sale securities	-	23	-	23
Equity instruments	41	-	-	41
From securities designated as at fair value through profit or loss	-	1,671	-	1,671
From available-for-sale securities	-	3,275	-	3,275
	13,312	4,975	-	18,287
Derivative financial instruments	3,206	-	-	3,206
Total financial assets classified as at fair value through profit or loss	16,541	4,952	-	21,493
Designated as at fair value through profit or loss[2]				
Cash and deposits with financial institutions	298	-	-	298
Securities				
Debt instruments	16,671	-	-	16,671
To securities classified as at fair value through profit or loss	-	(6)	-	(6)
Equity instruments	1,671	-	-	1,671
To securities classified as at fair value through profit or loss	-	(1,671)	-	(1,671)
	18,342	(1,677)	-	16,665
Total financial assets designated as at fair value through profit or loss	18,640	(1,677)	-	16,963
Available for sale				
Cash and deposits with financial institutions	639	-	-	639
To securities classified as at fair value through other comprehensive income	-	(639)	-	(639)
	639	(639)	-	-
Securities				
Debt instruments	21,657	-	-	21,657
To securities classified as at fair value through profit or loss	-	(23)	-	(23)
To securities classified as at fair value through other comprehensive income	-	(20,543)	-	(20,543)
To securities at amortized cost	-	(1,091)	-	(1,091)
Equity instruments	3,277	-	-	3,277
To securities classified as at fair value through profit or loss	-	(3,275)	-	(3,275)
To securities designated as at fair value through other comprehensive income	-	(2)	-	(2)
	24,934	(24,934)	-	-
Total available-for-sale financial assets	$ 25,573	$ (25,573)	$ -	$ -

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

The following table reconciles the carrying amounts of financial assets recognized under IAS 39 as at December 31, 2017 to the carrying amounts under IFRS 9 as at January 1, 2018 (*continued*).

	Carrying amount under IAS 39 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
Financial assets *(continued)*				
Classified as at fair value through other comprehensive income				
Cash and deposits with financial institutions	$ -	$ -	$ -	$ -
From available-for-sale securities	-	639	-	639
	-	639	-	639
Securities				
Debt instruments	-	-	-	-
From available-for-sale securities	-	20,543	-	20,543
	-	20,543	-	20,543
Total financial assets classified as at fair value through other comprehensive income	-	21,182	-	21,182
Designated as at fair value through other comprehensive income				
Securities				
Equity instruments	-	-	-	-
From available-for-sale securities	-	2	-	2
Total financial assets designated as at fair value through other comprehensive income	-	2	-	2
Amortized cost[3]				
Cash and deposits with financial institutions	1,475	-	-	1,475
From securities held for trading	-	23	-	23
	1,475	23	-	1,498
Securities				
Debt instruments	-	-	-	-
From available-for-sale securities	-	1,091	-	1,091
	-	1,091	-	1,091
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	-	8,674
Loans	177,490	-	(256)	177,234
Other financial assets	4,929	-	-	4,929
Total financial assets at amortized cost	$ 192,568	$ 1,114	$ (256)	$ 193,426

(1) For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the "At fair value through profit or loss – held for trading" category.
(2) For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the "At fair value through profit or loss – designated as at fair value through profit or loss" category.
(3) For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the "Loans and receivables" category.

The adoption of IFRS 9 had no impact on the measurement of financial liabilities as at January 1, 2018.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

The following table reconciles allowances determined under IAS 39 and IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", as at December 31, 2017 to the allowance determined using the IFRS 9 expected credit losses model as at January 1, 2018.

	Carrying amount under IAS 39 and IAS 37 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
Allowance on financial assets at amortized cost				
Loans and receivables reclassified as at amortized cost	**$ 438**	**$ -**	**$ 256**	**$ 694**
	438	**-**	**256**	**694**
Allowance on securities at fair value through other comprehensive income				
Available-for-sale securities reclassified as at fair value through other comprehensive income	**-**	**-**	**1**	**1**
	-	**-**	**1**	**1**
Allowance on off-balance sheet items	**49**	**-**	**(12)**	**37**
Total allowances	**$ 487**	**$ -**	**$ 245**	**$ 732**

FUTURE ACCOUNTING CHANGES

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2018 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", which will replace the current standard, IAS 17, "Leases", and related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. Under IFRS 16, a lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 introduces a single recognition model for the lessee, thereby eliminating the current distinction between operating and finance leases. The lessee must recognize on the Combined Balance Sheets a lease liability corresponding to the present value of the remaining lease payments as well as a right-of-use asset measured at the amount of the lease liability, plus or minus certain adjustments, if any. An interest expense and a depreciation charge relating to the lease liability and the right-of-use asset, respectively, must be recognized and presented separately in the Combined Statements of Income. Leases with terms of 12 months or less and low-value leases will continue to be recognized as a lease expense based on the terms of the lease. In addition, Desjardins Group will apply the practical expedient which allows not to separate non-lease components from lease components for a contract.

For the lessor, the standard does not provide for any significant changes except for enhanced disclosures.

Desjardins Group will have to adopt IFRS 16 as at January 1, 2019 on a retrospective basis. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 16 will be recognized in the opening Combined Balance Sheet. Desjardins Group decided not to restate comparative periods upon adopting the provisions of IFRS 16. Consequently, the retrospective impact of applying IFRS 16 will be recognized in the Combined Balance Sheet as at January 1, 2019, which is the effective date of the new standard. In addition, Desjardins Group elected to apply the following transitional expedients proposed in the standard as at the date of transition:

- The right-of-use asset will be equal to the amount of the lease liability adjusted by the amount of prepaid lease payments.
- Existing contracts at the date of transition will not be reassessed to determine whether they are, or contain, a lease under IFRS 16.

Desjardins Group estimates that adopting IFRS 16 will result, on January 1, 2019, in the recognition of a right-of-use asset of approximately $615 million and the recognition of a corresponding lease liability. These changes will result in a decrease of approximately 8 basis points in regulatory capital ratios.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

IFRS 17, "Insurance Contracts"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", which will replace the current standard, IFRS 4, "Insurance Contracts". IFRS 17 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on current value. This model uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

Desjardins Group is currently assessing the impact of adopting IFRS 17, which will be effective for annual periods beginning on or after January 1, 2021. In November 2018, the IASB tentatively decided to defer the effective date of IFRS 17 to the annual periods beginning on or after January 1, 2022.

Conceptual Framework for Financial Reporting

In March 2018, the IASB issued the "Conceptual Framework for Financial Reporting", which replaces the current version of the conceptual framework. The "Conceptual Framework for Financial Reporting" includes new concepts, updates the definitions and recognition criteria for assets and liabilities and clarifies some key concepts. Desjardins Group is currently assessing the impact of adopting this new framework, which will be effective for annual periods beginning on or after January 1, 2020.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2018	**Classified as at fair value through profit or loss [1]**	**Designated as at fair value through profit or loss**	**Classified as at fair value through other comprehensive income[2]**	**Designated as at fair value through other comprehensive income**	**Amortized cost[2]**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ -	$ 291	$ 1,068	$ -	$ 2,025	$ 3,384
Securities	20,608	16,308	21,352	43	1,621	59,932
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,934	11,934
Loans[3]	-	-	-	-	190,510	190,510
Other financial assets						
Clients' liability under acceptances	-	-	-	-	160	160
Premiums receivable	-	-	-	-	2,376	2,376
Derivative financial instruments[4]	3,743	-	-	-	-	3,743
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	1,315	1,315
Other	13	-	-	-	1,163	1,176
Total financial assets	$ 24,364	$ 16,599	$ 22,420	$ 43	$ 211,104	$ 274,530
Financial liabilities						
Deposits	$ -	$ -	$ -	$ -	$ 183,158	$ 183,158
Other financial liabilities						
Acceptances	-	-	-	-	160	160
Commitments related to securities sold short	10,829	-	-	-	-	10,829
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	16,845	16,845
Derivative financial instruments[4]	2,816	-	-	-	-	2,816
Amounts payable to clients, brokers and financial institutions	-	-	-	-	4,105	4,105
Other	319	-	-	-	2,918	3,237
Subordinated notes	-	-	-	-	1,378	1,378
Total financial liabilities	$ 13,964	$ -	$ -	$ -	$ 208,564	$ 222,528

[1] An amount of $2,758 million corresponds to financial assets designated for the overlay approach.
[2] As at December 31, 2018, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as value through other comprehensive income" totalled $2 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance credit losses".
[3] For more information, see Note 7, "Loans and allowance for credit losses".
[4] Include derivative financial instruments designated as hedging instruments amounting to $844 million in assets and $161 million in liabilities. Detailed information on designated as hedging instruments is presented in Note 19, "Derivative financial instruments and hedging activities".

During the year ended December 31, 2018, no financial instruments have been reclassified.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

As at December 31, 2017	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[1]	Loans and receivables, and financial liabilities at amortized cost	Total
Financial assets					
Cash and deposits with financial institutions	$ 23	$ 298	$ 639	$ 1,475	$ 2,435
Securities	13,312	18,342	24,934	-	56,588
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	8,674	8,674
Loans[2]	-	-	-	177,490	177,490
Other financial assets					
Clients' liability under acceptances	-	-	-	31	31
Premiums receivable	-	-	-	2,095	2,095
Derivative financial instruments[3]	3,206	-	-	-	3,206
Amounts receivable from clients, brokers and financial institutions	-	-	-	1,554	1,554
Other	-	-	-	1,249	1,249
Total financial assets	$ 16,541	$ 18,640	$ 25,573	$ 192,568	$ 253,322
Financial liabilities					
Deposits	$ -	$ -	$ -	$ 171,586	$ 171,586
Other financial liabilities					
Acceptances	-	-	-	31	31
Commitments related to securities sold short	9,112	-	-	-	9,112
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,229	10,229
Derivative financial instruments[3]	3,094	-	-	-	3,094
Amounts payable to clients, brokers and financial institutions	-	-	-	4,247	4,247
Other	452	-	-	2,629	3,081
Subordinated notes	-	-	-	1,388	1,388
Total financial liabilities	$ 12,658	$ -	$ -	$ 190,110	$ 202,768

[1] During the year ended December 31, 2017, Desjardins Group concluded that there was no objective evidence of material impairment.
[2] For more information, see Note 7, "Loans and allowance for credit losses".
[3] Include derivative financial instruments designated as hedging instruments amounting to $325 million in assets and $411 million in liabilities.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

The fair value measurement of financial 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 4 – 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, 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 27	$ 264	$ -	$ 291
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	10,632	994	-	11,626
Provincial governmental entities and municipal corporations in Canada	15,063	1,108	-	16,171
School or public corporations in Canada	14	85	-	99
Foreign public administrations	191	-	-	191
Other securities				
Financial institutions	32	800	56	888
Other issuers	5	2,763	742	3,510
Equity securities	3,106	627	698	4,431
	29,070	6,641	1,496	37,207
Derivative financial instruments				
Interest rate contracts	-	1,111	-	1,111
Foreign exchange contracts	-	1,263	-	1,263
Other contracts	-	1,369	-	1,369
	-	3,743	-	3,743
Other assets	-	-	13	13
Total financial assets at fair value through profit or loss	29,070	10,384	1,509	40,963
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	135	933	-	1,068
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,670	2,289	-	8,959
Provincial governmental entities and municipal corporations in Canada	7,681	793	-	8,474
Other securities				
Financial institutions	100	3,129	-	3,229
Other issuers	-	593	97	690
Equity securities	-	43	-	43
Total financial assets at fair value through other comprehensive income	14,586	7,780	97	22,463
Financial instruments of segregated funds	5,556	7,610	72	13,238
Total financial assets	$ 49,212	$ 25,774	$ 1,678	$ 76,664
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Other liabilities				
Commitments related to securities sold short	$ 10,535	$ 294	$ -	$ 10,829
Other	-	-	319	319
	10,535	294	319	11,148
Derivative financial instruments				
Interest rate contracts	-	1,175	-	1,175
Foreign exchange contracts	-	313	-	313
Other contracts	-	1,328	-	1,328
	-	2,816	-	2,816
Total financial liabilities	$ 10,535	$ 3,110	$ 319	$ 13,964

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE *(continued)*

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 8	$ 313	$ -	$ 321
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,620	1,247	-	8,867
Provincial governmental entities and municipal corporations in Canada	15,232	1,176	-	16,408
School or public corporations in Canada	14	94	-	108
Foreign public administrations	312	-	-	312
Other securities				
Financial institutions	29	800	58	887
Other issuers	-	2,497	867	3,364
Equity securities	1,236	236	236	1,708
	24,451	6,363	1,161	31,975
Derivative financial instruments				
Interest rate contracts	-	1,049	-	1,049
Foreign exchange contracts	-	399	-	399
Other contracts	-	1,758	-	1,758
	-	3,206	-	3,206
Total financial assets at fair value through profit or loss	24,451	9,569	1,161	35,181
Available-for-sale financial assets				
Cash and deposits with financial institutions	36	603	-	639
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,760	2,262	-	8,022
Provincial governmental entities and municipal corporations in Canada	8,039	1,426	-	9,465
School or public corporations in Canada	15	-	-	15
Foreign public administrations	7	28	-	35
Other securities				
Financial institutions	-	3,268	-	3,268
Other issuers	5	752	95	852
Equity securities	2,367	631	279	3,277
Total available-for-sale financial assets	16,229	8,970	374	25,573
Financial instruments of segregated funds	5,859	7,456	60	13,375
Total financial assets	$ 46,539	$ 25,995	$ 1,595	$ 74,129
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 8,951	$ 161	$ -	$ 9,112
Other	-	-	452	452
	8,951	161	452	9,564
Derivative financial instruments				
Interest rate contracts	-	1,052	-	1,052
Foreign exchange contracts	-	349	-	349
Other contracts	-	1,693	-	1,693
	-	3,094	-	3,094
Total financial liabilities	$ 8,951	$ 3,255	$ 452	$ 12,658

During the years ended December 31, 2018 and December 31, 2017, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE

The carrying amount of certain financial instruments measured at amortized cost does not equal fair value. The following tables present those instruments by hierarchy level.

As at December 31, 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	**$ 1,621**	**$ 1,621**	**$ -**	**$ 1,621**	**$ -**
Loans	**190,510**	**189,523**	**-**	**7,200**	**182,323**
Financial liabilities					
Deposits	**183,158**	**182,322**	**1,222**	**181,100**	**-**
Subordinated notes	**1,378**	**1,433**	**-**	**1,433**	**-**

As at December 31, 2017	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans	$ 177,490	$ 177,065	$ -	$ 5,892	$ 171,173
Financial liabilities					
Deposits	171,586	169,626	1,169	168,457	-
Subordinated notes	1,388	1,488	-	1,488	-

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 appropriately 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 mortgage bonds, equity securities and the financial liability related to a contingent consideration resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

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 the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), Desjardins Group recognized a contingent consideration resulting from the price adjustment clause of the agreement. Under such clause, State Farm will compensate Desjardins Group for 95% of the unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contracts transferred as part of the acquisition, while Desjardins Group will give State Farm 90% of the favourable development of such provision.

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 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 *(continued)*

Changes in fair value of financial instruments categorized within Level 3

The following tables present the changes in fair value of 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.

For the year ended December 31, 2018	Balance as at December 31, 2017	Impact of changes in accounting policies (Note 2)	Balance as at January 1, 2018	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 / Other	Sales / Settlements / Other	Balance at end of year
Financial assets										
Financial assets at fair value through profit or loss										
Securities										
Other securities										
Financial institutions										
Mortgage bonds	$ 58	$ -	$ 58	$ -	$ (2)	$ -	$ -	$ -	$ -	$ 56
Other issuers										
Hedge funds	4	-	4	-	(3)	-	-	-	-	1
Asset-backed term notes	6	-	6	-	2	-	-	-	(3)	5
Mortgage bonds	857	-	857	-	(26)	-	-	-	(95)	736
Equity securities	236	279	515	-	45	-	-	150	(12)	698
Other assets	-	-	-	-	2	-	-	15	(4)	13
Total financial assets at fair value through profit or loss	1,161	279	1,440	-	18	-	-	165	(114)	1,509
Available-for-sale financial assets										
Securities										
Other securities										
Other issuers										
Mortgage bonds	95	(95)	-	-	-	-	-	-	-	-
Equity securities	279	(279)	-	-	-	-	-	-	-	-
Total available-for-sale financial assets	374	(374)	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income										
Securities										
Other securities										
Other issuers										
Mortgage bonds	-	95	95	-	-	(3)	-	-	(3)	89
Other	-	-	-	-	-	-	-	8	-	8
Total financial assets at fair value through other comprehensive income	-	95	95	-	-	(3)	-	8	(3)	97
Financial instruments of segregated funds	60	-	60	(1)	1	-	-	82	(70)	72
Total financial assets	$ 1,595	$ -	$ 1,595	$ (1)	$ 19	$ (3)	$ -	$ 255	$ (187)	$ 1,678
Financial liabilities										
Financial liabilities at fair value through profit or loss										
Other liabilities – Other										
Financial liability related to put options	$ 64	$ -	$ 64	$ -	$ -	$ -	$ -	$ -	$ (64)	$ -
Financial liability related to the contingent consideration	388	-	388	-	208	-	-	-	(277)	319
Total financial liabilities	$ 452	$ -	$ 452	$ -	$ 208	$ -	$ -	$ -	$ (341)	$ 319

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income".

(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income", while unrealized gains or losses on financial liabilities "Classified as at fair value through profit or loss" are recognized under "Net investment income" and "Other income – Other", respectively.

(3) Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized losses" on debt securities at fair value through other comprehensive income, while unrealized gains or losses on financial assets "Designated as at fair value through other comprehensive income" are recognized under "Net change in gains and losses on equity securities designated as at fair value through other comprehensive income" in the Combined Statements of Comprehensive Income.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 *(continued)*

Changes in fair value of financial instruments categorized within Level 3 *(continued)*

For the year ended December 31, 2017	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 / Other	Sales / Settlements / Other	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 60	$ -	$ (2)	$ -	$ -	$ -	$ -	$ 58
Other issuers								
Hedge funds	7	-	5	-	-	-	(8)	4
Asset-backed term notes	8	-	1	-	-	-	(3)	6
Mortgage bonds	981	-	(22)	-	-	-	(102)	857
Equity securities	97	(1)	13	-	(7)	172	(38)	236
Total financial assets at fair value through profit or loss	1,153	(1)	(5)	-	(7)	172	(151)	1,161
Available-for-sale financial assets								
Securities								
Other securities								
Other issuers								
Mortgage bonds	101	-	-	(3)	-	-	(3)	95
Equity securities	130	-	3	24	-	130	(8)	279
Total available-for-sale financial assets	231	-	3	21	-	130	(11)	374
Financial instruments of segregated funds	20	-	3	-	(4)	44	(3)	60
Total financial assets	$ 1,404	$ (1)	$ 1	$ 21	$ (11)	$ 346	$ (165)	$ 1,595
Financial liabilities								
Financial liabilities held for trading								
Other liabilities – Other								
Financial liability related to put options	$ 68	$ -	$ 7	$ -	$ -	$ -	$ (11)	$ 64
Financial liability related to the contingent consideration	364	-	290	-	-	-	(266)	388
Total financial liabilities	$ 432	$ -	$ 297	$ -	$ -	$ -	$ (277)	$ 452

(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 investment income”.

(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 investment income”, while unrealized gains or losses on financial liabilities held for trading are recognized under “Net investment income” and “Other income – Other”, respectively.

(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 4 – 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, 2018	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
			Credit spread[B,C]	**0 bp**	**to**	**300 bp**	
Mortgage bonds	**$ 881**	Discounted cash flows	Comparable inputs[B,C]	**37 bp**	**to**	**251 bp**	
	79	Brokers' valuations	Brokers' inputs	**-**		**-**	**(1)**
Equity securities	**619**	Adjusted net asset value	Adjusted net asset value[A,C]	**-**		**-**	**(1)**
Other financial assets[2]	**99**						
Total financial assets	**$ 1,678**						
Financial liabilities							
Other liabilities - Other							
Financial liability related to the contingent consideration	**319**	Actuarial techniques[3]	Provision for claims and adjustment expenses[B]	**-**		**-**	**(1)**
Total financial liabilities	**$ 319**						

As at December 31, 2017	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
			Credit spread[B,C]	0 bp	to	300 bp	
Mortgage bonds	$ 1,010	Discounted cash flows	Comparable inputs[B,C]	0 bp	to	410 bp	
	54	Brokers' valuations	Brokers' inputs	-		-	(1)
Equity securities	461	Adjusted net asset value	Adjusted net asset value[A,C]	-		-	(1)
Other financial assets[2]	70						
Total financial assets	$ 1,595						
Financial liabilities							
Other liabilities - Other							
			Enterprise value[A,C]	-		-	(4)
			Discount rate[B,C]		7.5%		
Financial liability related to put options	$ 64	Discounted cash flows	Put option exercise date[B,C]	6 months	to	2 years	
Financial liability related to the contingent consideration	388	Actuarial techniques[3]	Provision for claims and adjustment expenses[B]	-		-	(1)
Total financial liabilities	$ 452						

(1) Due to the nature of these financial instruments, no input value range is presented.
(2) Include other financial assets such as financial instruments of segregated funds.
(3) The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the "Actuarial assumptions" section of Note 15, "Insurance contract liabilities".
(4) Due to the wide-ranging operations of the underlying business lines associated with the enterprise value, no input value range is presented.

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.

NOTE 5 – 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 normal course of business.

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.

As at December 31, 2018	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]		Residual amounts not set off
				Financial instruments[3]	Financial collateral held / pledged	
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 12,628	$ 694	$ 11,934	$ 5,485	$ 6,448	$ 1
Derivative financial instruments	3,664	-	3,664	1,354	2,203	107
Amounts receivable from clients, brokers and financial institutions and other	48	27	21	2	-	19
Total financial assets	$ 16,340	$ 721	$ 15,619	$ 6,841	$ 8,651	$ 127
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 17,539	$ 694	$ 16,845	$ 5,485	$ 11,358	$ 2
Derivative financial instruments	1,468	-	1,468	1,354	69	45
Amounts payable to clients, brokers and financial institutions	56	27	29	2	-	27
Total financial liabilities	$ 19,063	$ 721	$ 18,342	$ 6,841	$ 11,427	$ 74

(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 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

As at December 31, 2017	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]	Financial collateral held / pledged	Residual amounts not set off
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 10,605	$ 1,931	$ 8,674	$ 4,538	$ 4,136	$ -
Derivative financial instruments	3,179	-	3,179	1,312	1,848	19
Amounts receivable from clients, brokers and financial institutions and other	33	24	9	5	-	4
Total financial assets	$ 13,817	$ 1,955	$ 11,862	$ 5,855	$ 5,984	$ 23
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 12,160	$ 1,931	$ 10,229	$ 4,538	$ 5,687	$ 4
Derivative financial instruments	1,469	-	1,469	1,312	111	46
Amounts payable to clients, brokers and financial institutions	90	24	66	5	-	61
Total financial liabilities	$ 13,719	$ 1,955	$ 11,764	$ 5,855	$ 5,798	$ 111

(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 6 – SECURITIES

MATURITIES OF SECURITIES

The following tables present an analysis of the maturities of Desjardins Group's securities.

	Terms to maturity						
As at December 31, 2018	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	$ 2,246	$ 2,252	$ 4,590	$ 1,419	$ 1,119	$ -	$ 11,626
Provincial governmental entities and municipal corporations in Canada	1,970	2,137	1,342	2,500	8,222	-	16,171
School or public corporations in Canada	-	-	1	16	82	-	99
Foreign public administrations	55	-	-	82	54	-	191
Other securities							
Financial institutions	281	294	65	146	102	-	888
Other issuers	189	286	451	411	2,171	2	3,510
Equity securities	-	-	-	2	6	4,423	4,431
Total financial assets at fair value through profit or loss	4,741	4,969	6,449	4,576	11,756	4,425	36,916
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	732	3,484	4,558	175	10	-	8,959
Provincial governmental entities and municipal corporations in Canada	1,405	3,251	1,652	1,370	796	-	8,474
Other securities							
Financial institutions	2,297	537	289	103	3	-	3,229
Other issuers	160	74	206	230	20	-	690
Equity securities	-	-	-	-	-	43	43
Total financial assets at fair value through other comprehensive income	4,594	7,346	6,705	1,878	829	43	21,395
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by							
Provincial governmental entities and municipal corporations in Canada	174	2	3	6	-	-	185
Foreign public administrations	-	-	1	8	18	-	27
Other securities							
Financial institutions	1,281	-	-	-	-	(1)	1,280
Other issuers	129	-	-	-	-	-	129
Total financial assets at amortized cost	1,584	2	4	14	18	(1)	1,621
Total securities	$ 10,919	$ 12,317	$ 13,158	$ 6,468	$ 12,603	$ 4,467	$ 59,932

NOTE 6 – SECURITIES *(continued)*

MATURITIES OF SECURITIES *(continued)*

	Terms to maturity						
As at December 31, 2017	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	$ 2,403	$ 1,471	$ 3,035	$ 375	$ 1,583	$ -	$ 8,867
Provincial governmental entities and municipal corporations in Canada	1,677	2,251	1,546	2,843	8,091	-	16,408
School or public corporations in Canada	-	-	-	22	86	-	108
Foreign public administrations	81	-	178	27	26	-	312
Other securities							
Financial institutions	293	313	55	113	113	-	887
Other issuers	231	178	349	489	2,113	4	3,364
Equity securities	-	-	-	-	-	1,708	1,708
Total financial assets at fair value through profit or loss	4,685	4,213	5,163	3,869	12,012	1,712	31,654
Available-for-sale financial assets							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	1,188	1,549	5,063	210	12	-	8,022
Provincial governmental entities and municipal corporations in Canada	2,196	2,799	2,342	1,334	794	-	9,465
School or public corporations in Canada	8	7	-	-	-	-	15
Foreign public administrations	9	-	1	10	15	-	35
Other securities							
Financial institutions	2,427	515	222	92	12	-	3,268
Other issuers	268	70	138	362	13	1	852
Equity securities	-	-	-	-	6	3,271	3,277
Total available-for-sale financial assets	6,096	4,940	7,766	2,008	852	3,272	24,934
Total securities	$ 10,781	$ 9,153	$12,929	$ 5,877	$ 12,864	$ 4,984	$ 56,588

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The information presented in the following tables has been prepared in accordance with IFRS 9 as at December 31, 2018 and in accordance with IAS 39 as at December 31, 2017. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS

At each reporting date, loans and off-balance sheet items are classified based on their credit quality using their 12-month PD adjusted to take into consideration relevant forward-looking information over their lifetime. This is the PD used to determine whether credit risk has significantly increased since initial recognition or identify financial instruments in regulatory default.

The following tables present PD tranches in relation with risk levels for loans and off-balance sheet items.

Residential mortgages, consumer, credit card and other personal loans

Risk levels	PD tranches
Excellent	0.00% to 0.08%
Very low	0.09% to 0.33%
Low	0.34% to 2.09%
Moderate	2.10% to 7.32%
High	7.33% to 99.99%
Default	100.00%

Business and government

Risk levels	PD tranches
Investment grade	0.00% to 0.36%
Non-investment grade	0.37% to 4.50%
Under watch	4.51% to 99.99%
Default	100.00%

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS *(continued)*

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which Desjardins Group estimates a loss allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified.

Loans

	Non-credit impaired		Credit-impaired[1]	
As at December 31, 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 36,379	$ 4	$ -	$ 36,383
Very low	30,010	7	-	30,017
Low	46,705	990	-	47,695
Moderate	2,059	2,571	-	4,630
High	31	831	-	862
Default	-	206	320	526
Total gross residential mortgages	$ 115,184	$ 4,609	$ 320	$ 120,113
Allowance for credit losses	(27)	(26)	(25)	(78)
Total net residential mortgages	$ 115,157	$ 4,583	$ 295	$ 120,035
Consumer, credit card and other personal loans				
Excellent	$ 3,409	$ -	$ -	$ 3,409
Very low	4,920	-	-	4,920
Low	10,305	94	-	10,399
Moderate	3,856	1,652	-	5,508
High	33	1,685	-	1,718
Default	-	35	221	256
Total gross consumer, credit card and other personal loans	$ 22,523	$ 3,466	$ 221	$ 26,210
Allowance for credit losses	(112)	(263)	(122)	(497)
Total net consumer, credit card and other personal loans	$ 22,411	$ 3,203	$ 99	$ 25,713
Business and government loans[2]				
Investment grade	$ 14,428	$ 46	$ -	$ 14,474
Non-investment grade	25,257	2,579	-	27,836
Under watch	849	1,272	-	2,121
Default	-	134	501	635
Total gross business and government loans	$ 40,534	$ 4,031	$ 501	$ 45,066
Allowance for credit losses	(31)	(36)	(77)	(144)
Total net business and government loans	$ 40,503	$ 3,995	$ 424	$ 44,922

[1] As at December 31, 2018, 88.2% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.
[2] Including clients' liability under acceptances.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS *(continued)*

Off-balance sheet items[1]

As at December 31, 2018	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 27,970	$ 5	$ -	$ 27,975
Very low	25,443	1	-	25,444
Low	12,859	144	-	13,003
Moderate	3,590	1,601	-	5,191
High	17	720	-	737
Default	-	-	63	63
Total gross off-balance sheet items	$ 69,879	$ 2,471	$ 63	$ 72,413
Allowance for credit losses	(28)	(10)	-	(38)
Total net off-balance sheet items	$ 69,851	$ 2,461	$ 63	$ 72,375
Business and government				
Investment grade	$ 25,704	$ 34	$ -	$ 25,738
Non-investment grade	8,557	1,058	-	9,615
Under watch	133	309	-	442
Default	-	10	193	203
Total gross off-balance sheet items	$ 34,394	$ 1,411	$ 193	$ 35,998
Allowance for credit losses	(2)	(2)	-	(4)
Total net off-balance sheet items	$ 34,392	$ 1,409	$ 193	$ 35,994

[1] Loan commitments for which Desjardins Group estimates a loss allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates a loss allowance for expected credit losses comprise guarantees and standby letters of credit.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES

The following table presents the changes in the balance of the loss allowance for expected credit losses on loans.

	Non-credit impaired		Credit-impaired	Allowance for credit losses
For the year ended December 31, 2018	**Stage 1**	**Stage 2**	**Stage 3**	
Residential mortgages				
Balance as at January 1, 2018	**$ 20**	**$ 20**	**$ 18**	**$ 58**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**21**	**(18)**	**(3)**	**-**
Stage 2	**(3)**	**8**	**(5)**	**-**
Stage 3	**-**	**(2)**	**2**	**-**
Net remeasurement due to transfers[2]	**(9)**	**5**	**16**	**12**
Changes in model inputs[3]	**(10)**	**18**	**24**	**32**
New originations or acquisitions[4]	**11**	**4**	**-**	**15**
Derecognition and maturities[5]	**(3)**	**(8)**	**(8)**	**(19)**
Net drawdowns (repayments)[6]	**-**	**(1)**	**(14)**	**(15)**
	7	**6**	**12**	**25**
Write-offs and recoveries	**-**	**-**	**(5)**	**(5)**
Balance as at December 31, 2018	**$ 27**	**$ 26**	**$ 25**	**$ 78**
Consumer, credit card and other personal loans[7]				
Balance as at January 1, 2018	**$ 106**	**$ 320**	**$ 102**	**$ 528**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**301**	**(286)**	**(15)**	**-**
Stage 2	**(46)**	**80**	**(34)**	**-**
Stage 3	**(1)**	**(33)**	**34**	**-**
Net remeasurement due to transfers[2]	**(145)**	**72**	**131**	**58**
Changes in model inputs[3]	**(102)**	**163**	**319**	**380**
New originations or acquisitions[4]	**89**	**187**	**-**	**276**
Derecognition and maturities[5]	**(42)**	**(212)**	**(186)**	**(440)**
Net drawdowns (repayments)[6]	**(19)**	**(16)**	**88**	**53**
Other	**1**	**-**	**-**	**1**
	36	**(45)**	**337**	**328**
Write-offs and recoveries	**-**	**-**	**(317)**	**(317)**
Balance as at December 31, 2018	**$ 142**	**$ 275**	**$ 122**	**$ 539**
Business and government				
Balance as at January 1, 2018	**$ 25**	**$ 34**	**$ 86**	**$ 145**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**25**	**(21)**	**(4)**	**-**
Stage 2	**(6)**	**15**	**(9)**	**-**
Stage 3	**-**	**(3)**	**3**	**-**
Net remeasurement due to transfers[2]	**(12)**	**9**	**27**	**24**
Changes in model inputs[3]	**(22)**	**11**	**33**	**22**
New originations or acquisitions[4]	**26**	**8**	**-**	**34**
Derecognition and maturities[5]	**(8)**	**(13)**	**(35)**	**(56)**
Net drawdowns (repayments)[6]	**2**	**-**	**6**	**8**
Other	**1**	**(4)**	**1**	**(2)**
	6	**2**	**22**	**30**
Write-offs and recoveries	**-**	**-**	**(31)**	**(31)**
Balance as at December 31, 2018	**$ 31**	**$ 36**	**$ 77**	**$ 144**
Total balances as at December 31, 2018	**$ 200**	**$ 337**	**$ 224**	**$ 761**
Composed of:				
Loans	**$ 170**	**$ 325**	**$ 224**	**$ 719**
Off-balance sheet items[8]	**30**	**12**	**-**	**42**

[1] Represent transfers between stages before the remeasurement of expected credit losses.
[2] Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
[3] Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
[4] Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
[5] Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
[6] Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
[7] For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet item categories are not material.
[8] The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS

Determining the loss allowance for expected credit losses under IFRS 9 is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions. Significant judgment must therefore be exercised to determine the loss allowance for expected credit losses. The main items requiring significant judgment that affected its measurement as at December 31, 2018 are the following:

- Changes in the borrowers' credit risk rating (or PD)
- Incorporation of forward-looking information
- Estimated life of revolving credit facilities

Changes in the borrowers' credit risk rating or probability of default

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. For more information about these models, see section 4.2, "Risk Management", of the Management's Discussion and Analysis. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the loss allowance for expected credit losses.

Changes in the borrowers' credit risk rating may increase or decrease the loss allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the allowance, while an improvement results in a decrease in the allowance.

Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine the loss allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the main variables presented in the table below. The macroeconomic variable projection and the determination of the probabilities of occurrence are reviewed quarterly.

The incorporation of forward-looking information may increase or decrease the loss allowance for expected credit losses. Generally, an improvement in the outlook will give rise to a decrease in the allowance, while a deterioration will result in an increase in the allowance.

As at December 31, 2018, the macroeconomic scenarios selected for calculating the loss allowance for expected credit losses include the following value ranges over the projection horizon for the most significant variables for credit risk parameters:

	2018					
	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic variables[1]						
Gross domestic product (annualized change)	**2.1%**	**1.0%**	**2.9%**	**1.7%**	**0.1%**	**0.9%**
Unemployment rate (average)	**5.1%**	**4.8%**	**4.9%**	**3.9%**	**6.3%**	**7.1%**
Consumer Price Index (annualized change)	**2.2%**	**1.0%**	**2.9%**	**2.6%**	**1.2%**	**0.7%**
Housing prices (annualized change)	**0.8%**	**1.2%**	**4.0%**	**2.9%**	**(2.7)%**	**0.1%**
Corporate credit spread[2] (average)	**109 bp**	**128 bp**	**98 bp**	**81 bp**	**141 bp**	**166 bp**
S&P/TSX stock index[2] (annualized change)	**9.1%**	**2.1%**	**10.9%**	**8.7%**	**(11.5)%**	**4.8%**

[1] All macroeconomic variables relate to the Quebec economy, unless otherwise noted.
[2] Macroeconomic variables related to the Canadian economy.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

Estimated life of revolving credit facilities

To determine the life of revolving credit facilities, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions, and considers the following:

- the period over which it was exposed to credit risk on similar financial instruments.
- the length of time for defaults to occur on similar financial instruments following a significant increase in credit risk.
- the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

The determination of the estimated life of revolving credit facilities has a significant impact on estimating the loss allowance for expected credit losses, mainly for revolving credit facilities in Stage 2 of the impairment model. Generally, an increase in the estimated life of revolving credit facilities gives rise to an increase in expected credit losses.

SENSITIVITY ANALYSIS OF THE ALLOWANCE FOR CREDIT LOSSES ON NON-CREDIT IMPAIRED LOANS

Scenarios

The amount of the loss allowance for expected credit losses depends on the probability of occurrence associated with each scenario. The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items as at December 31, 2018, which takes into account the probability weighting for the three scenarios, with the allowance for credit losses that would have been obtained if a weighting of 100% had been assigned to each scenario individually.

	Allowance for credit losses non-credit impaired loans and off-balance sheet items
Under IFRS 9	**$ 537**
Weighting of 100% assigned to the scenario :	
Base	**$ 513**
Upside	**482**
Downside	**612**

Transfers between stages

The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items as at December 31, 2018 with the allowance for credit losses that would have been obtained if all non-credit impaired loans had been included in Stage 1 of the impairment model.

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items
Under IFRS 9	**$ 537**
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 420**

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

The comparative information presented in the following tables has been prepared in accordance with IAS 39.

LOANS, CREDIT-IMPAIRED LOANS[1] AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the credit quality of loans.

As at December 31, 2017[1]	Gross loans neither past due nor credit-impaired	Gross loans past due but not credit-impaired	Gross credit-impaired loans	Individual allowances	Collective allowance[2]	Net loans
Residential mortgages	$ 110,812	$ 2,193	$ 141	$ 19	$ 47	$ 113,080
Consumer, credit card and other personal loans	23,081	874	89	12	157	23,875
Business and government	40,228	298	212	73	130	40,535
	$ 174,121	$ 3,365	$ 442	$ 104	$ 334	$ 177,490

[1] Following the adoption of IFRS 9 as at January 1, 2018, all loans included in Stage 3 of the impairment model are considered credit-impaired. Under IAS 39, the criteria applied to determine whether a loan is credit-impaired were different.
[2] Includes the collective allowance on credit impaired loans of $23 million.

GROSS LOANS PAST DUE BUT NOT CREDIT- IMPAIRED

The following table presents the aging of gross loans that are past due but not credit- impaired.

As at December 31, 2017	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 1,887	$ 167	$ 52	$ 87	$ 2,193
Consumer, credit card and other personal loans	644	150	58	22	874
Business and government	160	73	13	52	298
	$ 2,691	$ 390	$ 123	$ 161	$ 3,365

ALLOWANCE FOR CREDIT LOSSES

The following table presents the changes in the allowance for credit losses for the year ended December 31, 2017.

	Residential mortgages	Consumer, credit card and other personal loans	Business and government	Total
Balance at beginning of year	$ 68	$ 190	$ 254	$ 512
Provision for credit losses	23	312	14	349
Write-offs and recoveries	(24)	(315)	(35)	(374)
Balance at end of year	$ 67	$ 187	$ 233	$ 487
Composed of:				
Loans	$ 66	$ 169	$ 203	$ 438
Off-balance sheet items[1]	1	18	30	49

[1] The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Combined Balance Sheets.

NOTE 8 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of its liquidity and capital management strategy, Desjardins Group participates in the National Housing Act (NHA) Mortgage-Backed Securities Program. Under this program, residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) are bundled by Desjardins Group into mortgage-backed securities (NHA MBSs) and they are then either transferred to the Canada Housing Trust (CHT) or legally held by Desjardins Group. However, in 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. These loans therefore continue to be recognized in the Combined Balance Sheets. Furthermore, Desjardins Group treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received 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 giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and Desjardins Group to allow the monthly receipt of all cash flows related to the mortgage loans underlying the NHA MBSs. 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 material loss is expected on the mortgage loans as they are guaranteed by CMHC. Income related to securitization transactions is recognized under, "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, 2018		As at December 31, 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 9,921**	**$ 9,983**	$ 9,255	$ 9,319
Securities sold under repurchase agreements	**10,274**	**10,274**	6,704	6,704
Securities lent	**4**	**4**	2	2
	$ 20,199	**$ 20,261**	$ 15,961	$ 16,025
Related liabilities	**$ 20,055**	**$ 19,789**	$ 15,737	$ 15,558

NOTE 9 – SEGREGATED FUNDS

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	As at December 31, 2018	As at December 31, 2017
Investments		
Bonds	**$ 584**	$ 541
Shares and mutual fund units	**12,616**	12,789
Money market securities	**38**	45
Securities borrowed or purchased under reverse repurchase agreements	**31**	30
Other assets	**65**	74
Commitments related to securities lent or sold under repurchase agreements	**(9)**	(6)
Liabilities	**(60)**	(63)
Net assets held for segregated fund contract holders	**$ 13,265**	$ 13,410
Assets held for the insurer	**(31)**	(31)
Total segregated fund net assets[1]	**$ 13,234**	$ 13,379

(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 $22 million as at December 31, 2018 ($25 million as at December 31, 2017).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. Desjardins Group classifies these instruments 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 4, “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, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Bonds	**$ 304**	**$ 280**	**$ -**	**$ 584**
Shares and mutual fund units	**5,221**	**7,323**	**72**	**12,616**
Money market securities	**31**	**7**	**-**	**38**
Total financial instruments recognized at fair value	**$ 5,556**	**$ 7,610**	**$ 72**	**$ 13,238**

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 305	$ 236	$ -	$ 541
Shares and mutual fund units	5,518	7,211	60	12,789
Money market securities	36	9	-	45
Total financial instruments recognized at fair value	$ 5,859	$ 7,456	$ 60	$ 13,375

During the years ended December 31, 2018 and 2017, no transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value.

NOTE 9 – 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, 2018 and 2017, the carrying amount and the fair value of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets were $9 million and $6 million, respectively.

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 $9 million as at December 31, 2018 ($6 million as at December 31, 2017). 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 $1 million ($5 million as at December 31, 2017). No financial assets held as collateral had been sold or repledged in 2018 and 2017. These financial assets were received as collateral in 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, 2018	As at December 31, 2017
Balance at beginning of year – Net liabilities to segregated fund contract holders	**$ 13,386**	$ 11,987
Additions		
Amounts received from contract holders	**2,025**	1,840
Net investment income (loss)	**(276)**	1,183
	1,749	3,023
Deductions		
Withdrawals and redemptions	**1,747**	1,479
Management fees	**145**	146
	1,892	1,625
Balance at end of year – Net liabilities to segregated fund contract holders	**$ 13,243**	$ 13,385
Liabilities to the insurer	**(31)**	(31)
Total segregated fund net liabilities[(1)]	**$ 13,212**	$ 13,354

(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 $22 million as at December 31, 2018 ($25 million as at December 31, 2017).

NOTE 10 – 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, 2016	$ 108	$ 1,424	$ 517	$ 587	$ 528	$ 3,164	$ 190	$ 871	$1,061
Additions	-	33	61	31	70	195	1	36	37
Disposals	(1)	(24)	(86)	(71)	(53)	(235)	(6)	-	(6)
Other	(3)	(12)	-	(3)	-	(18)	-	4	4
As at December 31, 2017	$ 104	$ 1,421	$ 492	$ 544	$ 545	$ 3,106	$ 185	$ 911	$1,096
Additions	**-**	**36**	**76**	**34**	**58**	**204**	**45**	**128**	**173**
Disposals	**(1)**	**(22)**	**(55)**	**(57)**	**(31)**	**(166)**	**(11)**	**(2)**	**(13)**
Other	**(1)**	**(11)**	**-**	**(6)**	**3**	**(15)**	**1**	**(2)**	**(1)**
As at December 31, 2018	**$ 102**	**$ 1,424**	**$ 513**	**$ 515**	**$ 575**	**$ 3,129**	**$ 220**	**$1,035**	**$1,255**

	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, 2016	$ -	$ 585	$ 410	$ 450	$ 284	$ 1,729	$ 4	$ 234	$ 238
Depreciation	-	44	57	29	35	165	-	31	31
Disposals	-	(17)	(78)	(61)	(39)	(195)	(4)	-	(4)
Other	-	(5)	1	1	(1)	(4)	-	(1)	(1)
As at December 31, 2017	$ -	$ 607	$ 390	$ 419	$ 279	$ 1,695	$ -	$ 264	$ 264
Depreciation	**-**	**44**	**52**	**27**	**36**	**159**	**-**	**35**	**35**
Disposals	**-**	**(18)**	**(54)**	**(52)**	**(28)**	**(152)**	**-**	**-**	**-**
Other	**-**	**3**	**-**	**(4)**	**4**	**3**	**-**	**(2)**	**(2)**
As at December 31, 2018	**$ -**	**$ 636**	**$ 388**	**$ 390**	**$ 291**	**$ 1,705**	**$ -**	**$ 297**	**$ 297**

	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, 2018	**$ 102**	**$ 788**	**$ 125**	**$ 125**	**$ 284**	**$ 1,424**	**$ 220**	**$ 738**	**$ 958**
As at December 31, 2017	$ 104	$ 814	$ 102	$ 125	$ 266	$ 1,411	$ 185	$ 647	$ 832

As at December 31, 2018, an amount of $2 million ($4 million as at December 31, 2017) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $11 million ($3 million as at December 31, 2017) related to the acquisition of these buildings.

As at December 31, 2018, the fair value of investment property was $1,788 million ($1,535 million as at December 31, 2017). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 4, “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 management, mainly by using the work of independent real estate appraisers with recognized and relevant professional qualifications and any other significant information that may be deemed relevant. 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 future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2018, rental income from investment property amounted to $154 million ($156 million in 2017). Amounts recognized in profit or loss for operating expenses related to investment property that generated rental income during the year totalled $113 million ($103 million in 2017), while no amount has been recognized for those that did not generate rental income. These amounts are presented under “Net investment income” in the Combined Statements of Income.

NOTE 11 – 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, 2016	$ 415	$ 56	$ 471
Disposals[1] / retirements[2]	(315)	(35)	(350)
As at December 31, 2017	$ 100	$ 21	$ 121
As at December 31, 2018	**$ 100**	**$ 21**	**$ 121**

[1] For more information, see Note 20 "Significant transactions".
[2] As at December 31, 2017, goodwill attributable to Qtrade Canada Inc., which was previously presented in the Wealth Management and Life and Health Insurance segment, was presented under "Assets of the disposal group held to be transferred". On April 1, 2018, this subsidiary was part of the transaction that resulted in the creation of Aviso Wealth, as mentioned in Note 20, "Significant transactions".

The Property and Casualty Insurance segment includes Desjardins General Insurance Group Inc. The Wealth Management and Life and Health Insurance segment includes notably Desjardins Financial Security Life Assurance Company, Desjardins Securities Inc. and Desjardins Financial Corporation 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, 2018 and prior years. 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.

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software	Client relationships	Other[1]	Total
Cost				
As at December 31, 2016	$ 848	$ 197	$ 228	$ 1,273
Acquisitions / Additions	142	-	4	146
Disposals[2]/ Retirements[3]	(158)	(178)	(108)	(444)
Other	(3)	-	-	(3)
As at December 31, 2017	$ 829	$ 19	$ 124	$ 972
Acquisitions / Additions	**96**	**-**	**1**	**97**
Disposals / Retirements	**(108)**	**-**	**(1)**	**(109)**
Other	**(6)**	**-**	**-**	**(6)**
As at December 31, 2018	**$ 811**	**$ 19**	**$ 124**	**$ 954**

	Software	Client relationships	Other [1]	Total
Accumulated amortization				
As at December 31, 2016	$ 477	$ 61	$ 45	$ 583
Amortization	82	5	7	94
Disposals[2]/ Retirements[3]	(107)	(59)	(12)	(178)
Other	7	-	-	7
As at December 31, 2017	$ 459	$ 7	$ 40	$ 506
Amortization	**82**	**2**	**5**	**89**
Disposals / Retirements	**(35)**	**-**	**(1)**	**(36)**
Other	**6**	**-**	**-**	**6**
As at December 31, 2018	**$ 512**	**$ 9**	**$ 44**	**$ 565**

	Software	Client relationships	Other [1]	Total
Net carrying amount				
As at December 31, 2018	**$ 299**	**$ 10**	**$ 80**	**$ 389**
As at December 31, 2017	$ 370	$ 12	$ 84	$ 466

[1] The “Other” category mainly includes the amount related to the acquisition of insurance contract portfolios and a distribution network.
[2] For more information, see Note 20, "Significant transactions".
[3] As at December 31, 2017, certain intangible assets were presented under “Assets of the disposal group held to be transferred". These intangible assets were transferred during the year ended December 31, 2018 as part of the creation of Aviso Health, as mentioned in Note 20, “Significant transactions”.

NOTE 12 – OTHER ASSETS – OTHER

The following table presents the breakdown of "Other assets – Other".

	As at December 31, 2018	As at December 31, 2017
Investments in companies accounted for using the equity method (Note 13)	**$ 907**	$ 515
Interest receivable	**561**	508
Accounts receivable	**535**	574
Prepaid expenses	**210**	330
Taxes receivable	**167**	158
Other	**473**	653
	$ 2,853	$ 2,738

NOTE 13 – 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 by Desjardins Group in each of them.

	Nature of operations	As at December 31, 2018[1]	As at December 31, 2017[1]
Desjardins Capital Inc.	Issuance of securities on the markets and financing of the Desjardins caisses	**100 %**	100 %
Desjardins Financial Holding Inc.	Holding company	**100**	100
Zag Bank[2]	Financial institution	**100**	100
Desjardins Financial Corporation Inc.	Holding company	**100**	100
Desjardins Global Asset Management Inc.	Asset management	**100**	100
Desjardins General Insurance Group Inc.	Property and casualty insurance	**100**	100
Property and casualty insurance subsidiaries[3]	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.	Asset custody and trust services	**100**	100
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group's technology	**100**	100
Qtrade Canada Inc.[4]	Online brokerage and wealth management services	**-**	80.8
Desjardins Securities Inc.	Securities brokerage	**100**	100

(1) Represents also the proportion of voting rights held by Desjardins Group in these subsidiaries, except for Qtrade Canada Inc., in which Desjardins Group held 100% of the voting rights as at December 31, 2017.
(2) Desjardins Group plans to wind up this subsidiary in the coming year.
(3) Represents a group of six property and casualty insurance subsidiaries.
(4) On April 1, 2018, this subsidiary was part of the transaction that resulted in the creation of Aviso Health. For more information, see Note 20, "Significant transactions".

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

Subsidiaries that have material non-controlling interests

As at December 31, 2018 and 2017, the subsidiaries that have material non-controlling interests comprise the six property and casualty insurance subsidiaries aggregated under “Property and casualty insurance subsidiaries”.

The following tables present summarized financial information about the subsidiaries that have material non-controlling interests. This 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, 2018	As at December 31, 2017
Assets[1]	**$ 14,685**	$ 14,672
Liabilities	**12,134**	11,861
Equity[1]	**$ 2,551**	$ 2,811
Non-controlling interests	**$ 750**	$ 776

[1] Include goodwill of $100 million as at December 31, 2018 ($100 million as at December 31, 2017).

For the years ended December 31	**2018**	2017
Total income	**$ 4,710**	$ 3,945
Net surplus earnings for the year after member dividends	**176**	162
Comprehensive income for the year	**$ (46)**	$ 199
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	**$ 42**	$ 41
Dividends / distributions paid to holders of non-controlling interests	**$ 36**	$ 42

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, a structured entity, is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as this entity is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted it 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 bonds 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 this structured entity. The assets, totalling $7,985 million as at December 31, 2018 ($6,197 million as at December 31, 2017), are presented under “Loans – Residential mortgages” in the Combined Balance Sheets, and the covered bonds, amounting to $5,859 million as at December 31, 2018 ($4,517 million as at December 31, 2017), are presented under “Deposits – Business and government”.

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

JOINT VENTURES

Information about material joint ventures

Desjardins Group holds interests in the RPADS LP, 101 St-Clair and Aviso Wealth joint ventures. RPADS LP is an entity that acquires and develops real estate portfolios, 101 St-Clair is a real estate management and investment company, and Aviso Wealth is a wealth management company. These joint ventures have been incorporated in Canada and their principal place of business is in this country.

The following tables present summarized financial information about these joint ventures, namely the amounts included in their IFRS financial statements.

	As at December 31, 2018			As at December 31, 2017	
	RPADS LP	101 St-Clair	Aviso Wealth[1]	RPADS LP	101 St-Clair
Proportion of ownership interest held	**55.10%**	**60.00%**	**50.00%**	50.10%	60.00%
Assets	**$ 552**	**$ 138**	**$ 1,972**	$ 474	$ 116
Liabilities[2]	**50**	**1**	**1,758**	37	5
Equity	**$ 502**	**$ 137**	**$ 214**	$ 437	$ 111
Interests in joint ventures[3]	**$ 272**	**$ 82**	**$ 335**	$ 219	$ 66

(1) The Aviso Wealth joint venture was created in 2018, as mentioned in Note 20, "Significant transactions". The interest in the joint venture reflects adjustments of $228 million made when using the equity method.
(2) Consisting primarily of financial liabilities other than accounts payable and provisions.
(3) Represents the carrying amount of the interests in joint ventures recognized in the Combined Balance Sheets.

For the years ended December 31	2018			2017	
	RPADS LP	101 St-Clair	Aviso Wealth[1]	RPADS LP	101 St-Clair
Total income	**$ 102**	**$ 2**	**$ 374**	$ 95	$ -
Net income and comprehensive income for the year	**$ 24**	**$ (2)**	**$ 9**	$ 23	$ -

(1) Total income, net income and comprehensive income of Aviso Wealth are based on data for the nine-month period ended December 31, 2018.

JOINT OPERATIONS

Desjardins Group holds an 80% ownership interest in a joint arrangement with Fonds Immobilier Cogir 1 and a 50% ownership interest in a joint arrangement with First Capital Realty Inc. to invest in undivided co-ownership in commercial buildings in Quebec. It also holds a 50.5% ownership interest in a second joint arrangement with First Capital Realty Inc. formed during fiscal 2018 to invest in undivided co-ownership in commercial buildings in Ontario.

Desjardins Group also participates in a joint arrangement with 9509593 Canada Inc. formed to invest in undivided co-ownership in multi-residential buildings in Quebec. Desjardins Group holds a 50% ownership interest in this joint arrangement.

These joint arrangements are joint operations giving the joint operators rights to the assets and obligations for the liabilities based on their ownership interests. All decisions about the relevant activities require the unanimous consent of the joint operators. These joint operations have been incorporated in Canada and their principal place of business is in this country.

ASSOCIATES

Information about material associates

Desjardins Group holds: an interest in Fiera Holdings Inc. an associate, which operates in the investment management industry. It has been incorporated in Canada and its principal place of business is in this country. The interest previously held in Northwest & Ethical Investments L.P. (Northwest & Ethical), an associate, was part of the transaction that resulted in the creation of Aviso Wealth, on April 1, 2018, as mentioned in Note 20, "Significant transactions".

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

The following tables present summarized financial information about Fiera Holdings Inc., 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, 2018	As at December 31, 2017	
	Fiera Holdings Inc.	Fiera Holdings Inc.	Northwest & Ethical[1]
Proportion of ownership interest held[2,3]	**37.20%**	37.18%	50.00%
Assets[4,5]	**$ 1,418**	$ 1,113	$ 204
Liabilities[5]	**773**	566	54
Equity[4,5]	**$ 645**	$ 547	$ 150
Interests in associates[6]	**$ 50**	$ 52	$ 85

(1) On April 1, 2018, Northwest & Ethical was part of a transaction that resulted in the creation of Aviso Wealth. For more information, see Note 20, "Significant transactions".
(2) Represents also the proportion of voting rights held by Desjardins Group in the associates.
(3) As at December 31, 2018, Desjardins Group indirectly held an 7.41% ownership interest (8.09% as at December 31, 2017) in Fiera Capital Corporation through its interest in Fiera Holdings Inc.
(4) Include goodwill of $10 million ($10 million, as at December 31, 2017) related to Fiera Holdings Inc.
(5) The assets, liabilities and equity of Fiera Holdings Inc. for 2018 and 2017 are based on data as at September 30. The assets, liabilities and equity of Northwest & Ethical for 2017 were also based on data as at September 30.
(6) Represents the carrying amount of the interests in associates recognized in the Combined Balance Sheets.

For the years ended December 31	2018	2017	
	Fiera Holdings Inc.	Fiera Holdings Inc.	Northwest & Ethical
Total income[1]	**$ 528**	$ 427	$ 111
Net income and comprehensive income for the year[1]	**$ 2**	$ 15	$ 11

(1) Total income, net income and comprehensive income of Fiera Holdings Inc. for 2018 and 2017 are based on data for the twelve-month periods ended September 30. Total income, net income and comprehensive income of Northwest & Ethical were also based on data for the twelve-month period ended September 30,2017.

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 it holds in these funds, these units do not give Desjardins Group power over the relevant activities of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

The investments of these funds 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.

NOTE 14 – 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, 2018				As at December 31, 2017			
	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	**$ 48,771**	**$ 3,792**	**$ 52,735**	**$ 105,298**	$ 46,399	$ 3,695	$ 50,484	$ 100,578
Business and government	**25,991**	**361**	**49,822**	**76,174**	24,551	452	44,099	69,102
Deposit-taking institutions	**1,618**	**-**	**68**	**1,686**	1,407	-	499	1,906
	$ 76,380	**$ 4,153**	**$ 102,625**	**$ 183,158**	$ 72,357	$ 4,147	$ 95,082	$ 171,586

NOTE 15 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2018			2017		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Gross premiums	$ 4,636	$ 4,612	$ 9,248	$ 4,443	$ 4,271	$ 8,714
Premiums ceded under reinsurance treaties	(180)	(245)	(425)	(198)	(467)	(665)
Net premiums	$ 4,456	$ 4,367	$ 8,823	$ 4,245	$ 3,804	$ 8,049

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2018	As at December 31, 2017
Insurance contract liabilities		
Actuarial liabilities – Life and health insurance	$ 18,553	$ 18,428
Provisions for claims and adjustment expenses – Property and casualty insurance	6,489	6,457
Unearned premiums	2,547	2,274
Policyholder deposits	670	646
Provisions for benefits, policyholder dividends and experience refunds	470	480
Other	11	(13)
	$ 28,740	$ 28,272

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts.

	As at December 31, 2018	As at December 31, 2017
Gross actuarial liabilities		
Non-participating policies	$ 14,565	$ 14,326
Participating policies	3,988	4,102
	18,553	18,428
Amounts ceded to reinsurers	(915)	(915)
Net actuarial liabilities	$ 17,638	$ 17,513

	As at December 31, 2018	As at December 31, 2017
Composition of assets backing net actuarial liabilities		
Bonds	$ 11,138	$ 10,884
Mortgage and business loans	2,434	2,536
Investment property	1,116	1,040
Equities	1,430	1,531
Other	1,520	1,522
	$ 17,638	$ 17,513

The fair value of assets backing net actuarial liabilities was $18,383 million as at December 31, 2018 ($18,117 million as at December 31, 2017).

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 15 – 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 with 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 these 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, they 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 loss allowance for expected credit losses recognized through a write-down of the carrying amount of the assets, a provision amounting to $336 million as at December 31, 2018 ($345 million as at December 31, 2017) 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 15 – 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.

	2018	2017
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (53)**	$ (49)
Products for which a rate decrease increases actuarial liabilities	**(23)**	(23)
5% increase in future morbidity rates	**(80)**	(75)
10% negative change in future contract cancellation rates	**(153)**	(138)
5% increase in future operating expenses	**(45)**	(44)

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:

	2018			2017		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 18,428**	**$ (915)**	**$ 17,513**	$ 17,574	$ (935)	$ 16,639
Change due to						
Passage of time	**(512)**	**4**	**(508)**	556	(29)	527
New business	**674**	**(18)**	**656**	538	(24)	514
Changes in actuarial assumptions	**(24)**	**(13)**	**(37)**	(84)	34	(50)
Disposals[(1)]	**-**	**-**	**-**	(162)	53	(109)
	138	**(27)**	**111**	848	34	882
Other changes	**(13)**	**27**	**14**	6	(14)	(8)
Balance at end of year	**$ 18,553**	**$ (915)**	**$ 17,638**	$ 18,428	$ (915)	$ 17,513

(1) For more information, see Note 20, " Significant transactions ".

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.

	2018	2017
Changed assumptions		
Mortality	**$ 22**	$ 119
Morbidity	**9**	1
Contract cancellation rates	**(79)**	(166)
Investment return	**17**	59
Operating expenses	**47**	17
Methods and other	**11**	6
	$ 27	$ 36

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.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

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 rate of return 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.

	2018			2017		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 6,457**	**$ (1,056)**	**$ 5,401**	$ 6,679	$ (1,080)	$ 5,599
Claims incurred during the year	**3,926**	**(223)**	**3,703**	3,538	(364)	3,174
Development of claims incurred in prior years	**(532)**	**74**	**(458)**	(620)	35	(585)
Changes in discount rates	**(43)**	**6**	**(37)**	(64)	10	(54)
Claims paid during the year	**(3,319)**	**264**	**(3,055)**	(3,073)	343	(2,730)
Disposals	**-**	**-**	**-**	(3)	-	(3)
Balance at end of year	**$ 6,489**	**$ (935)**	**$ 5,554**	$ 6,457	$ (1,056)	$ 5,401

Changes in assumptions had no material impact on the Combined Financial Statements as at December 31, 2018 and 2017.

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”**	
		2018	2017
Average claims settlement cost	+5%	**$ (239)**	$ (227)

NOTE 15 – 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.

	2008 and before	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	Total
Estimated ultimate claims amount												
At the end of the accident year		$ 1,076	$ 1,101	$ 1,272	$ 1,375	$ 1,471	$ 1,536	$ 2,186	$ 2,417	$ 3,158	**$ 3,691**	
1 year later		1,063	1,103	1,272	1,322	1,447	2,453	2,168	2,387	3,121		
2 years later		1,077	1,091	1,238	1,328	2,186	2,349	2,165	2,365			
3 years later		1,072	1,071	1,221	1,967	2,086	2,272	2,117				
4 years later		1,062	1,055	1,781	1,839	1,977	2,184					
5 years later		1,049	1,577	1,657	1,769	1,910						
6 years later		1,466	1,515	1,567	1,717							
7 years later		1,379	1,434	1,547								
8 years later		1,330	1,386									
9 years later		1,295										
Cumulative payments to date		1,156	1,223	1,373	1,478	1,582	1,706	1,683	1,772	2,111	**1,977**	
Net provisions for claims and adjustment expenses	$ 282	$ 139	$ 163	$ 174	$ 239	$ 328	$ 478	$ 434	$ 593	$ 1,010	**$ 1,714**	$ 5,554
Reinsurers' share in provisions for claims and adjustment expenses	4	-	-	-	-	-	-	288	361	161	**121**	935
Gross provisions for claims and adjustment expenses	$ 286	$ 139	$ 163	$ 174	$ 239	$ 328	$ 478	$ 722	$ 954	$ 1,171	**$ 1,835**	$ 6,489

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 these 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. With respect to catastrophes, the property and casualty insurance subsidiaries have established a governance structure to monitor the various risks caused by such events and use sophisticated tools to simulate the related financial losses and operational impact. Given the unpredictable nature of large-scale catastrophic events, the property and casualty insurance subsidiaries have a catastrophe reinsurance treaty, which is reviewed at least annually.

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.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

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. This reinsurance structure takes into account their respective risk profile and appetite. In addition, these subsidiaries purchase additional reinsurance protection with respect to large-scale catastrophic events. The retention and limit amounts selected for the property and casualty insurance subsidiaries' catastrophe treaty are subject to a detailed annual review based on these subsidiaries' various catastrophe models and the positioning of their competitors in the industry.

In connection with the acquisition of the Canadian businesses of State Farm, the property and casualty insurance subsidiaries signed a share reinsurance treaty under which, over a five-year period, all premiums and claims from new business and renewals related to the acquired businesses occurring after the acquisition date are ceded using percentages decreasing from 90% for the 2015 accident year to 10% for the 2019 accident year. Pursuant to the terms and conditions of the reinsurance treaty, amounts payable and receivable under the treaty will be settled on a net basis.

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 these subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investments in trust so that it can fulfill its reinsurance obligations.

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:

	2018			2017		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 180**	**$ 245**	**$ 425**	$ 198	$ 467	$ 665
Claims, benefits, annuities and changes in insurance contract liabilities	**146**	**142**	**288**	153	319	472

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 minimum 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 minimum 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 risk 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. These 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 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.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after member dividends" of a change in interest rates on the life and health insurance subsidiaries' actuarial liabilities and the assets backing these actuarial liabilities.

	2018	2017
1% increase in interest rates	**$ 53**	$ 43
1% decrease in interest rates	**(78)**	(60)

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" 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.

	2018	2017
1% increase in interest rates	**$ 7**	$ 5
1% decrease in interest rates	**(8)**	(6)

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 these 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, 2018	As at December 31, 2017
Less than 1 year	**$ 2,734**	$ 2,615
1 to 5 years	**5,790**	5,425
Over 5 years	**36,277**	34,579
Total	**$ 44,801**	$ 42,619

NOTE 16 – 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 subsequently.

NOTE 16 – 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 an unfunded defined benefit group plan.

However, during the fourth quarter of 2018, Desjardins Group notified its employees of amendments to this plan that will come into effect on January 1, 2019. As of that date, Desjardins Group will no longer fund the post-retirement benefit plan for employees who retire, except for employees who meet, as at January 1, 2019, certain criteria allowing them to keep their rights under the current plan. These criteria are based on age and the number of years of participation in the plan. For fiscal 2018, this amendment resulted in a gain, which was recognized as a deduction to the past service cost expense in the Combined Statements of Income, with a corresponding amount reducing "Net defined benefit plan liabilities" in the Combined Balance Sheets.

Other plans

The other defined benefit plans offered are pension plans as well as another post-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 a portion of the service lives of employees using accounting policies comparable 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 liability recorded on the Combined Balance Sheets 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 or the legislative environment. This policy provides for market risk mitigation mechanisms. Among other things, 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 and cover the stabilization provision. 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 special contributions required to fund the plans' stabilization provision and deficit, if any.

Pursuant to the SPPA requirements, the DGPP's minimum funding is determined on a going-concern basis. A stabilization provision must be funded through special current service contributions and special amortization payments. Funding and stabilization deficits must be funded over a maximum period of 10 years.

NOTE 16 – 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, 2016	$ 12,527	$ 11,357	$ 1,170	$ 786	$ 801	$ 501	$ 300	$ 2,256
Amounts recognized in the Combined Statements of Income								
Current service cost	282	-	282	16	30	-	30	328
Net interest expense/income	440	392	48	27	29	18	11	86
Past service cost	(4)	-	(4)	-	(1)	-	(1)	(5)
	718	392	326	43	58	18	40	409
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	-	976	(976)	-	-	35	(35)	(1,011)
Actuarial losses (gains) arising from changes in demographic assumptions	125	-	125	(13)	1	-	1	113
Actuarial losses arising from changes in financial assumptions	1,006	-	1,006	43	62	-	62	1,111
Experience losses (gains)	141	-	141	9	2	-	2	152
	1,272	976	296	39	65	35	30	365
Other changes								
Participants' contributions	190	190	-	-	-	-	-	-
Employers' contributions	-	345	(345)	-	-	27	(27)	(372)
Benefits paid	(491)	(488)	(3)	(20)	(26)	(15)	(11)	(34)
Other changes	(10)	(10)	-	-	(1)	(1)	-	-
	(311)	37	(348)	(20)	(27)	11	(38)	(406)
As at December 31, 2017	$ 14,206	$ 12,762	$ 1,444	$ 848	$ 897	$ 565	$ 332	$ 2,624
Amounts recognized in the Combined Statements of Income								
Current service cost	**320**	**-**	**320**	**21**	**34**	**-**	**34**	**375**
Net interest expense/income	**479**	**423**	**56**	**28**	**31**	**20**	**11**	**95**
Past service cost	**(1)**	**-**	**(1)**	**(130)**	**(11)**	**-**	**(11)**	**(142)**
	798	**423**	**375**	**(81)**	**54**	**20**	**34**	**328**
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	**-**	**(346)**	**346**	**-**	**-**	**(30)**	**30**	**376**
Actuarial losses (gains) arising from changes in demographic assumptions	**221**	**-**	**221**	**(33)**	**1**	**-**	**1**	**189**
Actuarial gains arising from changes in financial assumptions	**(638)**	**-**	**(638)**	**(40)**	**(38)**	**-**	**(38)**	**(716)**
Experience losses (gains)	**146**	**-**	**146**	**8**	**(4)**	**-**	**(4)**	**150**
	(271)	**(346)**	**75**	**(65)**	**(41)**	**(30)**	**(11)**	**(1)**
Other changes								
Participants' contributions	**194**	**194**	**-**	**-**	**-**	**-**	**-**	**-**
Employers' contributions	**-**	**352**	**(352)**	**-**	**-**	**27**	**(27)**	**(379)**
Benefits paid	**(526)**	**(522)**	**(4)**	**(21)**	**(27)**	**(17)**	**(10)**	**(35)**
Other changes	**(12)**	**(12)**	**-**	**-**	**(1)**	**(1)**	**-**	**-**
	(344)	**12**	**(356)**	**(21)**	**(28)**	**9**	**(37)**	**(414)**
As at December 31, 2018	**$ 14,389**	**$ 12,851**	**$ 1,538**	**$ 681**	**$ 882**	**$ 564**	**$ 318**	**$ 2,537**

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Funding status

	As at December 31, 2018				As at December 31, 2017			
	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	**$ 14,253**	**$ -**	**$ 629**	**$ 14,882**	$ 14,076	$ -	$ 628	$ 14,704
Fair value of plan assets	**12,851**	**-**	**564**	**13,415**	12,762	-	565	13,327
	$ (1,402)	**$ -**	**$ (65)**	**$ (1,467)**	$ (1,314)	$ -	$ (63)	$ (1,377)
Unfunded plans								
Defined benefit plan obligation	**$ 136**	**$ 681**	**$ 253**	**$ 1,070**	$ 130	$ 848	$ 269	$ 1,247
	$ (136)	**$ (681)**	**$ (253)**	**$ (1,070)**	$ (130)	$ (848)	$ (269)	$ (1,247)

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, 2018[1]		As at December 31, 2017[1]	
	Non-quoted in an active market	Quoted in an active market	Non-quoted in an active market	Quoted in an active market
Bonds				
Government of Canada	**$ -**	**$ 290**	$ -	$ 210
Provinces, municipal corporations and other public administrations	**259**	**5,230**	177	4,840
Other issuers	**2,136**	**-**	2,134	3
Shares	**333**	**2,790**	381	2,856
Real estate investments	**1,443**	**128**	1,410	130
Infrastructure investments	**1,589**	**61**	1,348	67
Cash and money market securities	**523**	**153**	529	163
Other	**1,220**	**187**	974	112
Total	**$ 7,503**	**$ 8,839**	$ 6,953	$ 8,381

[1] Commitments related to securities lent or sold under repurchase agreements deducted from the main group pension plan assets are excluded from the table.

As at December 31, 2018, the DGPP held eligible investments in money market securities and segregated funds issued by Desjardins Group entities having a total fair value of $10 million ($52 million as at December 31, 2017).

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, 2018		As at December 31, 2017	
	Group pension plans	Group post-retirement benefit plan	Group pension plans	Group post-retirement benefit plan
Discount rate for the obligation[1]	**3.85 %**	**3.80 %**	3.60 %	3.60 %
Discount rate for service cost[1]	**3.90**	**3.85**	3.70	3.70
Expected rate of salary increases	**3.00**	**3.00**	3.00	3.00
Rate used to calculate interest expense on the obligation and assets[1]	**3.31**	**3.28**	3.44	3.37
Rate used to calculate interest expense on service cost[1]	**3.52**	**3.61**	3.80	3.96
Estimated annual growth rate for covered healthcare cost	**-**	**4.05**	-	4.05

[1] Weighted average rate for all plans.

NOTE 16 – 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, 2018		As at December 31, 2017	
	Change in obligation	**Change in cost recognized**	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	**$ (2,191)**	**$ (146)**	$ (2,236)	$ (126)
1% decrease	**2,970**	**166**	2,708	127
Expected rate of salary increases				
1% increase	**522**	**56**	624	43
1% decrease	**(442)**	**(46)**	(528)	(36)
Group post-retirement benefit plan				
Discount rate				
1% increase	**(88)**	**14**	(126)	(2)
1% decrease	**111**	**(18)**	164	2
Expected rate of salary increases				
1% increase	**3**	**-**	7	1
1% decrease	**(3)**	**-**	(8)	(1)
Healthcare costs				
1% increase	**52**	**(3)**	86	7
1% decrease	**(45)**	**3**	(68)	(5)

Expected contributions for 2019

Desjardins Group expects to contribute $405 million to its defined benefit pension plans in the next year.

Pension plan obligation maturity profile

For 2018, the weighted average financial duration was approximately 18 years (17 years in 2017) for the main group pension plan and approximately 15 years (17 years in 2017) for the group post-retirement benefit plan.

NOTE 17 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of “Other liabilities – Other”.

	As at December 31, 2018	As at December 31, 2017
Accounts payable and other accrued liabilities	**$ 3,086**	$ 2,622
Interest payable	**908**	736
Client contract liabilities	**382**	309
Taxes payable	**181**	64
Provisions for risks and expenses	**92**	240
Borrowings from financial institutions	**29**	30
Other	**1,144**	1,567
	$ 5,822	$ 5,568

NOTE 18 – SUBORDINATED NOTES

The subordinated notes presented in Desjardins Group's Combined Balance Sheets are senior notes issued by Desjardins Capital 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 Desjardins Capital Inc. and are secured by a hypothec on the subordinated notes issued by the Desjardins caisses in Quebec.

Repayments and cancellations of the notes are subject to the consent and approval of the various regulatory authorities. These notes comprise the following items:

	As at December 31, 2018	As at December 31, 2017
Senior Series G notes (par value of $900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer.	**$ 879**	$ 898
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.	**499**	490
	$ 1,378	$ 1,388

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The hedge accounting disclosures for 2018 presented in this note are in accordance with the disclosure requirements of IFRS 7, "Financial Instruments: Disclosures", which have been effective since January 1, 2018. As permitted by transitional requirements, the comparative information has not been restated and is therefore presented in accordance with the disclosure requirements of IFRS 7 that were effective before January 1, 2018. For more information, see Note 2, "Basis of presentation and significant accounting policies".

DERIVATIVE FINANCIAL INSTRUMENTS

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.

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.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2018	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	Assets	Liabilities
Designated as hedging instruments[1]							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the counter interest rate swaps	$ 2,040	$ 2,842	$ 5,366	$ 2,041	$ 12,289	$ 75	$ 122
Average rate	*2.1%*	*1.5%*	*2.2%*	*2.3%*			
	2,040	2,842	5,366	2,041	12,289	75	122
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	5,893	6,368	1,173	-	13,434	689	-
CAD-US average rate	*1.3347*	*1.2963*	-	-			
CAD-EUR average rate	*1.5346*	*1.5268*	*1.5202*	-			
	5,893	6,368	1,173	-	13,434	689	-
Total - Fair value hedges	7,933	9,210	6,539	2,041	25,723	764	122
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	32	6,721	4,102	4,365	15,220	81	39
Average rate	*2.3%*	*2.3%*	*2.5%*	*2.5%*			
	32	6,721	4,102	4,365	15,220	81	39
Total – Cash flow hedges	32	6,721	4,102	4,365	15,220	81	39
Total – Designated as hedging instruments	$ 7,965	$ 15,931	$ 10,641	$ 6,406	$ 40,943	$ 845	$ 161

[1] Hedging instruments are presented under "Derivative financial instruments" in the Combined Balance Sheets.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2018	**Under 1 year**	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	**Assets**	**Liabilities**
Trading purposes[1]							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	$ 45,897	$ 54,032	$ 29,482	$ 4,691	$ 134,102	$ 817	$ 867
Forward rate agreements	3,492	-	-	-	3,492	24	23
Options purchased	500	782	164	-	1,446	1	-
Options written	1,464	30	30	-	1,524	-	3
Contracts traded through a clearing house							
Interest rate swaps	13,864	14,830	3,868	2,751	35,313	111	118
Exchange-traded contracts							
Futures	8,284	4,816	-	-	13,100	-	-
Options purchased	48,348	-	-	-	48,348	2	-
Options written	35,222	-	-	-	35,222	-	4
	157,071	74,490	33,544	7,442	272,547	955	1,015
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	28,148	956	49	-	29,153	441	257
Currency swaps	2,337	10	100	450	2,897	111	25
Options purchased	668	137	24	-	829	22	-
Options written	1,110	189	20	-	1,319	-	30
Exchange-traded contracts							
Futures	-	-	-	-	34,198	-	-
	32,263	1,292	193	450	34,198	574	312
Other contracts[2]							
Over-the-counter contracts							
Swaps	144	89	118	-	351	6	2
Options purchased	3,461	11,592	10,422	-	25,475	1,363	-
Options written	3,290	10,390	8,937	-	22,617	-	1,326
Contracts traded through a clearing house							
Swaps	-	-	539	-	539	-	-
Exchange-traded-contracts							
Futures	941	-	-	-	941	-	-
	7,836	22,071	20,016	-	49,923	1,369	1,328
Total - Trading purposes	$ 197,170	$ 97,853	$ 53,753	$ 7,892	$ 356,668	$ 2,898	$ 2,655
Total derivative financial instruments before impact of master netting agreements	$ 205,135	$ 113,784	$ 64,394	$ 14,298	$ 397,611	$ 3,743	$ 2,816
Less:							
Impact of master netting agreements[3]	-	-	-	-	-	1,356	1,356
Total derivative financial instruments after impact of master netting agreements	$ 205,135	$ 113,784	$ 64,394	$ 14,298	$ 397,611	$ 2,387	$ 1,460

[1] As at December 31, 2018, include derivatives with notional amounts totalling $516 million that would have been designated as hedging instruments if Desjardins Group continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Basis of presentation and significant accounting policies".

[2] Include contracts related to indexed term savings products.

[3] Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents comparative information on the maturities of the notional amounts of derivative financial instruments.

	Terms to maturity				
As at December 31, 2017	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount
Interest rate contracts					
Over-the-counter contracts					
Interest rate swaps	$ 42,475	$ 57,411	$ 32,871	$ 5,765	$ 138,522
Forward rate agreements	2,258	-	-	-	2,258
Options purchased	1,708	754	-	-	2,462
Options written	400	-	-	-	400
Contracts traded through a clearing house					
Interest rate swaps	2,453	5,796	2,078	224	10,551
Exchange-traded contracts					
Futures	6,512	425	-	-	6,937
Options purchased	8,238	-	-	-	8,238
Options written	7,755	-	-	-	7,755
	71,799	64,386	34,949	5,989	177,123
Foreign exchange contracts					
Over-the-counter contracts					
Forward contracts	22,908	887	37	-	23,832
Currency swaps	5,988	8,575	-	300	14,863
Options purchased	581	62	6	-	649
Options written	612	83	6	-	701
Exchange-traded contracts					
Forward contracts	1	-	-	-	1
	30,090	9,607	49	300	40,046
Other contracts[1]					
Over-the-counter contracts					
Swaps	-	125	47	-	172
Options purchased	2,910	8,014	9,336	50	20,310
Options written	2,772	7,620	8,053	-	18,445
Contracts traded through a clearing house					
Swaps	-	-	616	-	616
Exchange-traded contracts					
Futures	1,037	-	-	-	1,037
	6,719	15,759	18,052	50	40,580
Total derivative financial instruments	$ 108,608	$ 89,752	$ 53,050	$ 6,339	$ 257,749

(1) Include contracts related to indexed term savings products.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents comparative information on the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

As at December 31, 2017	Notional amount	Assets	Liabilities
Designated as hedging instruments			
Fair value hedges			
Interest rate contracts			
Swaps – Other	$ 17,191	$ 49	$ 262
	17,191	49	262
Foreign exchange contracts			
Forward contracts	255	2	-
Currency swaps	10,347	219	101
	10,602	221	101
Total – Fair value hedges	27,793	270	363
Cash flow hedges			
Interest rate contracts			
Swaps	9,962	55	49
Total – Cash flow hedges	9,962	55	49
Total – Designated as hedging instruments	37,755	325	412
Trading purposes			
Interest rate contracts			
Swaps traded through a clearing house	10,550	18	33
Swaps – Other	111,370	906	699
Forward rate agreements	2,258	19	7
Futures	6,937	-	-
Options purchased	10,700	3	-
Options written	8,155	-	2
	149,970	946	741
Foreign exchange contracts			
Forward contracts	23,578	165	204
Currency swaps	4,516	5	29
Options purchased	649	6	-
Options written	701	2	15
	29,444	178	248
Other contracts			
Swaps traded through a clearing house	616	13	2
Swaps – Other	172	1	1
Futures	1,037	-	-
Options purchased	20,310	1,743	-
Options written	18,445	-	1,690
	40,580	1,757	1,693
Total – Trading purposes	219,994	2,881	2,682
Total derivative financial instruments before impact of master netting agreements	$ 257,749	$ 3,206	$ 3,094
Less:			
Impact of master netting agreements[(1)]	-	1,312	1,312
Total derivative financial instruments after impact of master netting agreements	$ 257,749	$ 1,894	$ 1,782

[(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 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The manner in which Desjardins Group assesses market risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis.

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. In addition, when a financial instrument is denominated in a foreign currency, Desjardins Group may enter into fair value hedges by using currency swaps or cross-currency interest rate swaps. 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.

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.

Effectiveness assessment and sources of hedging relationship ineffectiveness

Desjardins Group assesses the effectiveness of a hedging relationship by comparing the change in fair value or cash flows of the hedging instrument with that of the hedged item attributable to the hedged risk to demonstrate the existence of a highly effective correlation between the two instruments. When derivative financial instruments are designated as hedging instruments for a currency risk, only the change in currency risk is taken into account to assess hedge effectiveness.

There is ineffectiveness when the change in fair value of the hedged item attributable to the hedged risk differs from the change in fair value of the hedging instrument. The main sources of ineffectiveness are a difference between the actual and expected repricing dates, a difference between the discounting factors used and a difference between the payment dates for the hedging instrument and the hedged item.

The following tables present information on the ineffectiveness of fair value and cash flow hedges for the year ended December 31, 2018.

2018	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss[1]
Fair value hedges		
Interest rate contracts / Interest rate risk		
Over-the-counter interest rate swaps	$ 33	$ (1)
Foreign exchange contracts / Currency risk		
Over-the-counter currency swaps	570	(9)
Total – Fair value hedges	$ 603	$ (10)

[1] The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

2018	Gains (losses) on hedging instrument used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss[1]	Gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss	
				Active hedges[2]	Terminated hedges[1]
Cash flow hedges					
Interest rate contracts / Interest rate risk					
Over-the-counter interest rate swaps	$ 38	$ (2)	$ 28	$ (77)	$ 3
Total – Cash flow hedges	$ 38	$ (2)	$ 28	$ (77)	$ 3

[1] The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".
[2] The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents the impact of hedge accounting on balances recognized in the Combined Balance Sheets and in accumulated other comprehensive income as at December 31, 2018.

	Cash flow hedges			Fair value hedges			
	Balance of the cash flow hedge reserve	Balance of the reserve for discontinued hedges	Gains (losses) on hedged item used as the basis for calculating hedge ineffectiveness for the year	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted	Gains (losses) on hedged item used as the basis for calculating hedge ineffectiveness for the year
Interest rate risk							
Assets							
Securities	$ -	$ (2)	$ (9)	$ 758	$ -	$ -	$ 5
Loans	60	(89)	(8)	1,452	(12)	-	7
Liabilities							
Deposits	$ (20)	$ 65	$ (22)	$ 9,826	$ 92	$ 76	$ (46)
Currency risk							
Liabilities							
Deposits	$ -	$ -	$ -	$ 13,428	$ 16	$ -	$ (579)

The comparative information presented in the following tables has been prepared in accordance with the disclosure requirements of IFRS 7 that were effective before January 1, 2018.

The following table presents comparative information on the ineffectiveness of fair value and cash flow hedges, namely the gross amounts related to the ineffectiveness of fair value hedges and the amounts related to the ineffectiveness of cash flow hedges that were recognized under “Net investment income” in the Combined Statement of Income for the year ended December 31, 2017.

	2017
Gains on hedged items	$ 807
Losses on derivative instruments	(823)
Fair value hedge ineffectiveness	$ (16)
Cash flow hedge ineffectiveness	$ -

The following tables present the comparative information as at December 31, 2017 on the expected date of occurrence of hedged cash flows.

2017	Terms to maturity				
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Cash inflows (assets)	$ 117	$ 246	$ 150	$ 8	$ 521
Cash outflows (liabilities)	197	312	59	23	591
Net cash flows	$ (80)	$ (66)	$ 91	$ (15)	$ (70)

The net impact on excess cash flows related to interest is recognized using the effective interest method over the life of the underlying instrument. During the year ended December 31, 2017, the main hedging transactions occurred as expected.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

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 4.0, "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.

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, 2018				As at December 31, 2017			
	Notional amount	**Replacement cost**	**Credit risk equivalent**	**Risk-weighted balance**	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Interest rate swaps	**$ 196,924**	**$ 1,085**	**$ 1,846**	**$ 459**	$ 149,073	$ 1,028	$ 1,600	$ 415
Forward rate agreements	**3,492**	**24**	**38**	**38**	2,258	19	41	41
Futures	**13,100**	**-**	**-**	**-**	6,937	-	-	-
Options purchased	**49,794**	**2**	**5**	**2**	10,700	3	5	2
Options written	**36,746**	**-**	**-**	**-**	8,155	-	-	-
	300,056	**1,111**	**1,889**	**499**	177,123	1,050	1,646	458
Foreign exchange contracts								
Forward contracts	**29,153**	**441**	**616**	**226**	23,833	167	440	226
Currency swaps	**16,331**	**800**	**1,265**	**360**	14,863	224	736	233
Options purchased	**829**	**22**	**10**	**6**	649	6	15	10
Options written	**1,319**	**-**	**-**	**-**	701	2	3	1
	47,632	**1,263**	**1,891**	**592**	40,046	399	1,194	470
Other contracts								
Swaps	**890**	**6**	**4**	**1**	788	14	22	3
Futures	**941**	**-**	**-**	**-**	1,037	-	-	-
Options purchased	**25,475**	**1,363**	**3,342**	**1,290**	20,310	1,743	3,324	1,109
Options written	**22,617**	**-**	**-**	**-**	18,445	-	-	-
	49,923	**1,369**	**3,346**	**1,291**	40,580	1,757	3,346	1,112
Total derivative financial instruments before impact of master netting agreements	**$ 397,611**	**$ 3,743**	**$ 7,126**	**$ 2,382**	$ 257,749	$ 3,206	$ 6,186	$ 2,040
Less:								
Impact of master netting agreements[1]	**-**	**1,356**	**-**	**804**	-	1,312	-	844
Total derivative financial instruments after impact of master netting agreements	**$ 397,611**	**$ 2,387**	**$ 7,126**	**$ 1,578**	$ 257,749	$ 1,894	$ 6,186	$ 1,196

[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 19 – 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, 2018		As at December 31, 2017	
	Replacement cost	**Risk-weighted balance**	Replacement cost	Risk-weighted balance
Credit risk rating[1]				
AAA, AA+, AA, AA-	**$ 2,402**	**$ 1,233**	$ 1,942	$ 932
A+, A, A-	**955**	**989**	1,128	824
BBB, B, BB-, BBB-	**70**	**32**	54	138
Not rated	**316**	**128**	82	146
Total	**3,743**	**2,382**	3,206	2,040
Less:				
Impact of master netting agreements[2]	**1,356**	**804**	1,312	844
Total after impact of master netting agreements	**$ 2,387**	**$ 1,578**	$ 1,894	$ 1,196
Type of counterparty				
Financial institutions	**$ 3,390**	**$ 2,246**	$ 3,041	$ 1,748
Other	**353**	**136**	165	292
Total	**3,743**	**2,382**	3,206	2,040
Less:				
Impact of master netting agreements[2]	**1,356**	**804**	1,312	844
Total after impact of master netting agreements	**$ 2,387**	**$ 1,578**	$ 1,894	$ 1,196

[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 20 – SIGNIFICANT TRANSACTIONS

Year ended December 31, 2018

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit union centrals (the Centrals) and The CUMIS Group completed an agreement to merge their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments LP. This transaction resulted in the creation of Aviso Wealth, a wealth management company, in which Desjardins Group and the partnership formed by the Centrals and The CUMIS Group each hold a 50% interest.

Desjardins Group's interest in Aviso Wealth, amounting to $332 million as at April 1, 2018, is an interest in a joint venture and is accounted for using the equity method in the Wealth Management and Life and Health Insurance segment.

The assets and liabilities transferred by Desjardins Group at the time Aviso Wealth was created were as follows:

	As at April 1, 2018
Assets disposed of	
Cash and deposits with financial institutions	**$ 14**
Securities at fair value through profit or loss	**82**
Amounts receivable from clients, brokers and financial institutions	**630**
Property, plant and equipment	**2**
Goodwill	**32**
Intangible assets	**61**
Deferred tax assets	**1**
Other assets	**96**
Total assets disposed of	**$ 918**
Liabilities disposed of	
Deferred tax liabilities	**$ 14**
Amounts payable to clients, brokers and financial institutions	**682**
Other liabilities	**22**
Total liabilities disposed of	**$ 718**

A gain of $132 million on this transaction was recognized under "Other income – Other" in the Combined Statement of Income for the year December 31, 2018.

The operations of the Qtrade Canada Inc. subsidiary and the interest in the Northwest & Ethical Investments LP associate were presented in the Wealth Management and Life and Health Insurance segment.

Year ended December 31, 2017

On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of the Wawanesa Mutual Insurance Company.

The assets and liabilities of the two subsidiaries disposed of were as follows as at the date of disposal:

	As at July 1, 2017
Net assets disposed of	
Cash and deposits with financial institutions	$ 82
Securities at fair value through profit or loss	123
Available-for-sale securities	59
Amounts receivable from clients, brokers and financial institutions	17
Reinsurance assets	55
Property, plant and equipment	17
Goodwill	293
Intangible assets	155
Deferred tax assets	3
Other assets	110
Insurance contract liabilities	(161)
Deferred tax liabilities	(40)
Other liabilities	(288)
	$ 425
Proceeds from disposal	
Cash	$ 722
Less: Costs directly attributable to the disposal	19
Net proceeds from disposal	$ 703

A gain of $278 million on the disposal of these subsidiaries was recognized under "Other income – Other" in the Combined Statement of Income for the year ended December 31, 2017.

The operations of these two subsidiaries were presented in the Property and Casualty Insurance segment.

NOTE 21 – 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. As of the year ended December 31, 2018, the interest is determined and approved annually by the Federation's Board of Directors. Previously, it was determined and approved annually by the general meeting of each caisse, which is held in the four months following year-end, pursuant to Desjardins Group's applicable frameworks. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval.

The Federation may issue an unlimited number of F capital shares and contingent Z-capital shares (Z 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. Z capital shares may be issued to any person in accordance with the Act, but only for converting non-viability contingent capital instruments of the Federation or at the discretion of the Federation after such conversion. 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 and Z capital shares if any, at any time. The Federation may also purchase, in whole or in part, F and Z capital shares, if any, by private agreement, at any time, with the authorization of the AMF. As of the year ended December 31, 2018, the interest rate on F and Z capital shares, if any, is determined by the Federation's Board of Directors, which approves annually the surplus earnings that may be allocated to the payment of interest on these capital shares. Previously, it was determined by the Federation's Board of Directors and the general meeting approved the surplus earnings that could be allocated to the payment of interest. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2018	As at December 31, 2017
Qualifying shares	**$ 25**	$ 25
Permanent shares	**497**	750
Surplus shares	**57**	82
F capital shares	**4,771**	4,504
	$ 5,350	$ 5,361

ISSUANCE OF SHARES

During the year ended December 31, 2018, the Federation issued 12,433,692 F capital shares for a cash consideration of $125 million. In addition, the Federation issued 14,208,755 F capital shares having a value of $142 million as interest payments when the holders elected to receive their remuneration in F capital shares.

In 2017, the Federation had issued 24,967,040 F capital shares for a cash consideration of $244 million, which represented the gross proceeds of this issuance of $250 million less certain items totalling $6 million. In addition, it had issued 12,535,746 F capital shares having a value of $125 million as interest payments when the holders elected to receive their remuneration in F capital shares.

REDEMPTION OF SHARES

Permanent shares

During the year ended December 31, 2018, the AMF authorized, subject to certain conditions, the redemption for cancellation of all permanent shares.

Surplus shares

In 2014, the AMF authorized the redemption for cancellation of all surplus shares subject to certain conditions.

NOTE 22 – 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.* or 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 ISSUED AND PAID

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; since March 1, 2008 for Class B – Series 2003; and since 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, 2018		As at December 31, 2017	
	Number of shares	**Amount**	Number of shares	Amount
Class A preferred shares	**456,700**	**$ 5**	493,200	$ 5
Class B preferred shares – Series 2000	**-**	**-**	58,700	1
Class B preferred shares – Series 2002	**-**	**-**	477,000	5
Class B preferred shares – Series 2003	**-**	**-**	752,900	7
Class C preferred shares – Series 2010	**-**	**-**	7,248,000	72
		$ 5		$ 90

During fiscal 2018, the issuer paid a dividend amounting to $3 million in the form of Class C preferred shares – Series 2010 (267,400 shares) and subsequently redeemed all Class C preferred shares – Series 2010 for an aggregate amount of $75 million. In addition, it redeemed 36,500 Class A preferred shares and all Class B preferred shares for an aggregate amount of $13 million.

During fiscal 2017, the issuer had paid a dividend in the form of Class C preferred shares – Series 2010 (260,600 shares) and redeemed 14,800 Class C preferred shares – Series 2010, for an aggregate amount of $2 million. In addition, it had redeemed 35,700 Class A preferred shares and issued 1,800 Class B preferred shares – Series 2000, 14,800 Class B preferred shares – Series 2002 and 20,900 Class B preferred shares – Series 2003 for an immaterial aggregate amount.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the main components of "Accumulated other comprehensive income" (net of taxes).

	As at December 31, 2018		As at December 31, 2017	
	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	**N/A**	**N/A**	$ 389	$ 21
Net unrealized losses on debt securities classified as at fair value through other comprehensive income[1]	**$ (23)**	**$ (1)**	N/A	N/A
Net unrealized losses related to the overlay approach adjustment for insurance operations financial assets	**(16)**	**(2)**	N/A	N/A
Net gains on derivative financial instruments designated as cash flow hedges	**15**	**-**	55	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**1**	**-**	1	-
Accumulated other comprehensive income	**$ (23)**	**$ (3)**	$ 445	$ 21

(1) Including an allowance for credit losses of $2 million on securities classified as at fair value through other comprehensive income.

NOTE 24 – 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. Capital is managed in accordance with the Desjardins Group capital management policy approved by the Federation's Board of Directors.

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, which is derived from the normative framework developed by the Basel Committee on Banking Supervision. The guideline requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components. The holding company Desjardins Financial Corporation Inc. is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF. Consequently, for purposes of calculating capital, the holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and partly deducted from capital, in accordance with the significant investments rules set out in the guideline.

Some subsidiaries included in the scope of Desjardins Group are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements. Desjardins Group monitors and manages these entities' capital requirements to ensure capital is effectively used and regulations are complied with on an ongoing basis.

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. As it was designated by the AMF as a domestic systemically important financial institution, Desjardins Group is subject to an additional capital surcharge of 1% and must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively.

NOTE 24 – 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 and accumulated other comprehensive income. Tier 1B capital consists of non-controlling interests. Non-controlling interests are determined, in particular, based on the nature of the operations and the capitalization of the investee.

ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It consists of subordinated notes, eligible qualifying shares and the eligible portion of the collective allowance.

Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3%. This ratio is determined by dividing Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet exposures.

The following table presents regulatory capital, risk-weighted assets and capital ratios.

(in millions of dollars and as a percentage)	As at December 31, 2018	As at December 31, 2017
Capital		
Tier 1A capital	**$ 22,412**	$ 20,985
Tier 1 capital	**22,412**	20,998
Total capital	**22,838**	21,436
Risk-weighted assets		
Credit risk	**107,082**	88,067
Market risk	**5,396**	1,965
Operational risk	**12,231**	11,850
Total risk-weighted assets before adjustments	**$ 124,709**	$ 101,882
Credit valuation adjustment (CVA) charge and transitional threshold adjustment[1][2]	**4,765**	14,605
Total risk-weighted assets	**$ 129,474**	$ 116,487
Ratios and leverage ratio exposure		
Tier 1A capital	**17.3%**	18.0%
Tier 1 capital	**17.3**	18.0
Total capital	**17.6**	18.4
Leverage	**8.3**	8.5
Leverage ratio exposure	**$ 271,359**	$ 246,832

(1) As prescribed in Section 1.6 of the AMF guideline, the threshold is presented to take into account risk-weighted assets after the transitional provisions for the CVA charge applicable to capital.

(2) The scaling factors used to take into account the requirements for the CVA charge have been phased in since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios. They were respectively 80%, 83% and 86% in 2018 (72%, 77% and 81% in 2017) and will reach 100% for each capital tier by 2019.

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, 2018, as they were in the previous year.

NOTE 25 – NET INTEREST INCOME AND NET INVESTMENT INCOME

The information presented in the following tables has been prepared in accordance with IFRS 9 for the year ended December 31, 2018 and in accordance with IAS 39 for the year ended December 31, 2017. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

NET INTEREST INCOME

The following table presents the breakdown of net interest income according to the classification of financial assets and liabilities.

For the year ended December 31	2018
Interest income on financial assets	
At amortized cost	**$ 6,954**
At fair value through other comprehensive income	**330**
At fair value through profit or loss	**37**
	7,321
Interest expense on financial liabilities	
At amortized cost	**2,427**
	$ 4,894

NET INVESTMENT INCOME

The following table presents the breakdown of investment income and loss according to the classification of financial assets and liabilities.

For the year ended December 31	2018		
	Interest income and expense	Fair value gains (losses) and other	Total
Net investment income on financial assets and liabilities			
Classified as at fair value through profit or loss	**$ 430**	**$ (641)**	**$ (211)**
Designated as at fair value through profit or loss	**505**	**(446)**	**59**
Classified as at fair value through other comprehensive income	**137**	**(16)**	**121**
At amortized cost and other	**144**	**98**	**242**
	$ 1,216	**$ (1,005)**	**$ 211**

The comparative information presented in the following tables has been prepared in accordance with IAS 39.

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 year ended December 31	2017
Income	
Net interest income	$ 40
Net investment income	(35)
	$ 5

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 year ended December 31	2017
Income	
Net interest income	$ 10
Net investment income	1,114
	$ 1,124

For the year ended December 31, 2017, net income on available-for-sale securities of $408 million was included in profit or loss under “Net investment income” in the Combined Statement of Income.

NOTE 26 – 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:

	2018	2017
Commissions	**$ 735**	$ 759
Recovery of expenses related to reinsurance	**(73)**	(133)
Professional fees	**570**	533
Business and capital taxes	**369**	325
Other employee expenses	**193**	200
Sponsorships and donations	**94**	82
Amortization of intangible assets	**89**	94
Expenses related to deposits, services and other	**81**	67
Other	**720**	691
	$ 2,778	$ 2,618

NOTE 27 – 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:

	2018	2017
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 710**	$ 504
Adjustments for current tax of prior years	**(10)**	(3)
Current tax recovery on remuneration on capital stock	**(115)**	(13)
Tax recovery on member dividends	**(68)**	(54)
	517	434
Deferred income taxes		
Origination and reversal of temporary differences	**(48)**	51
Changes in tax rates	**(1)**	(3)
	(49)	48
	$ 468	$ 482
Combined Statements of Comprehensive Income		
Current income taxes	**$ (127)**	$ 13
Deferred income taxes	**6**	(141)
	(121)	(128)
Total income tax expense	**$ 347**	$ 354

Income taxes on surplus earnings presented in the Combined Statements of Income for the years ended December 31 are detailed as follows:

	2018	2017
Income taxes on surplus earnings	**$ 536**	$ 536
Tax recovery on member dividends	**(68)**	(54)
Income taxes on surplus earnings	**$ 468**	$ 482

NOTE 27 – 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:

	2018	2017
Income taxes at the combined Canadian federal and provincial statutory rate of 26.48% (26.70% in 2017)	**$ 758**	$ 718
Tax recovery on member dividends	**(68)**	(54)
Small business deduction and additional credit for credit unions	**(2)**	(2)
Non-taxable investment income and other items	**(108)**	(90)
Changes in tax rates	**(1)**	(3)
Non-deductible expenses	**11**	14
Adjustment for current tax of prior years	**(10)**	(3)
Tax recovery on remuneration on capital stock	**(115)**	(57)
Tax rate differential applicable to the gain on disposal of subsidiaries	**2**	(47)
Other	**1**	6
	$ 468	$ 482

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		Combined Statements of Income	
	As at December 31, 2018	As at December 31, 2017	2018	2017
Deferred tax assets				
Insurance contract liabilities	**$ -**	$ -	**$ -**	$ 14
Allowance for credit losses	**181**	70	**(46)**	2
Net defined benefit plan liabilities	**672**	695	**15**	(2)
Tax losses	**168**	97	**(84)**	32
Other	**148**	135	**15**	(1)
	1,169	997	**(100)**	45
Deferred tax liabilities				
Property, plant and equipment and investment property	**141**	132	**9**	(3)
Securities and other financial instruments	**21**	16	**7**	(6)
Insurance contract liabilities	**47**	12	**35**	12
	209	160	**51**	3
Net deferred income tax assets	**$ 960**	$ 837	**$ (49)**	$ 48

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, 2018	As at December 31, 2017
Deferred tax assets[1]	**$ 1,174**	$ 992
Deferred tax liabilities[1]	**214**	155
	$ 960	$ 837

[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 $21 million ($22 million as at December 31, 2017).

NOTE 28 – 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 its 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 than 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, 2018	As at December 31, 2017
Commitments		
Credit commitments	**$ 107,191**	$ 98,470
Indemnification commitments related to securities lending	**2,474**	2,024
Documentary letters of credit	**24**	7
Financial guarantees		
Guarantees and standby letters of credit	**1,196**	1,003
Credit default swaps	**537**	540

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 enters 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.

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.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

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, 2018	As at December 31, 2017
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	**$ 453**	$ 197
Securities	**19,959**	15,509
Loans	**21,623**	18,798
	42,035	34,504
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**12,506**	10,861
Less: Assets not sold or not repledged	**1,971**	1,861
	10,535	9,000
	$ 52,570	$ 43,504
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 17,235**	$ 11,948
Transactions involving commitments related to securities sold short	**10,194**	9,237
Securitization transactions	**9,921**	9,255
Covered bonds	**7,985**	6,197
Transactions on derivative financial instruments	**197**	137
Clearing systems, payment systems and depositories[(1)]	**4,916**	4,067
Transactions involving provisions for claims and adjustment expenses[(2)]	**1,917**	2,501
Caisse network money supply from the Bank of Canada	**205**	162
	$ 52,570	$ 43,504

(1) In the normal course of its operations, Desjardins Group must pledge intraday collateral to the Bank of Canada for the use of the Large Value Transfer System. Such collateral is excluded as it is released back at the end of the daily settlement cycle.

(2) Represent securities pledged as collateral in connection with the reinsurance treaty that transferred, at the date of acquisition, the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to Desjardins Group.

LITIGATION

In the normal course of its business, Desjardins Group is involved in various litigation matters and legal proceedings. It is not currently possible to predict the outcome of certain of these litigation matters and legal proceedings, 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 legal proceedings, 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 29 – 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.

	2018	2017
Under 1 year	**$ 90**	$ 92
1 to 5 years	**251**	267
Over 5 years	**226**	287
Total minimum future commitments	**$ 567**	$ 646

Lease payments recognized as expenses for the year ended December 31, 2018 totalled $98 million ($105 million in 2017).

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:

	2018	2017
Under 1 year	**$ 83**	$ 63
1 to 5 years	**240**	188
Over 5 years	**384**	360
Total future minimum payments	**$ 707**	$ 611

No contingent rents were recognized as income for the years ended December 31, 2018 and 2017.

NOTE 30 – 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 4.0, “Risk Management”, of the Management’s Discussion and Analysis. The shaded areas and tables marked with an asterisk (*) presented in that section are an integral part of these Combined Financial Statements. In addition, as a result of adopting IFRS 9 on January 1, 2018, information on credit risk related to the recognition and measurement of expected credit losses are presented in these Combined Financial Statements, mainly in Note 2, “Basis of presentation and significant accounting policies”, and in Note 7, “Loans and allowance for credit losses”.

NOTE 31 – INTEREST RATE RISK EXPOSURE

The following table presents the exposure to interest rate risk. Financial instruments are presented based on their maturity date or repricing date, whichever is earlier. Certain maturity or contractual repricing dates may be adjusted based on behavioural assumptions with respect to early repayment or redemption. In addition, certain financial instruments are presented in the "Non-interest-sensitive and provisions" column while they are actually managed using a different risk profile. Behavioural assumptions and models are internally developed using historical analyses, among others.

	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, 2018
Assets								
Cash and deposits with financial institutions	$ 929	$ 1,486	$ -	$ -	$ -	$ -	$ 969	$ 3,384
Effective interest rate		*2.04%*						
Securities	411	8,433	1,825	1,685	22,057	18,972	6,549	59,932
Effective interest rate		*2.30%*	*1.82%*	*2.14%*	*2.10%*	*3.60%*		
Securities borrowed or purchased under reverse repurchase agreements	-	11,934	-	-	-	-	-	11,934
Effective interest rate		*1.76%*						
Loans	47,545	25,915	18,210	26,882	67,666	3,442	850	190,510
Effective interest rate		*3.86%*	*3.52%*	*3.59%*	*3.80%*	*4.33%*		
Segregated fund assets and other assets[1]	-	-	-	-	-	-	29,705	29,705
	$ 48,885	$ 47,768	$ 20,035	$ 28,567	$ 89,723	$ 22,414	$ 38,073	$ 295,465
Liabilities and equity								
Deposits	$ 36,290	$ 29,875	$ 6,403	$ 14,300	$ 50,035	$ 2,259	$ 43,996	$ 183,158
Effective interest rate		*1.70%*	*1.73%*	*1.81%*	*1.84%*	*2.43%*		
Commitments related to securities sold short	209	101	-	39	4,968	4,968	544	10,829
Effective interest rate		*0.52%*		*1.83%*	*2.07%*	*3.27%*		
Commitments related to securities lent or sold under repurchase agreements	-	16,845	-	-	-	-	-	16,845
Effective interest rate		*1.80%*						
Insurance contract liabilities	-	-	-	-	-	-	28,740	28,740
Other liabilities[1]	5	10	-	-	-	13	29,586	29,614
Subordinated notes	-	-	-	-	879	499	-	1,378
Effective interest rate					*5.19%*	*4.95%*		
Equity	-	-	-	-	-	-	24,901	24,901
	$ 36,504	$ 46,831	$ 6,403	$ 14,339	$ 55,882	$ 7,739	$ 127,767	$ 295,465
Gap – Combined Balance Sheet items	$ 12,381	$ 937	$ 13,632	$ 14,228	$ 33,841	$ 14,675	$ (89,694)	$ -
Gap – Derivative financial instruments, based on notional amounts	-	(17,013)	(4,930)	1,406	13,881	6,656	-	-
Total gap	$ 12,381	$ (16,076)	$ 8,702	$ 15,634	$ 47,722	$ 21,331	$ (89,694)	$ -

[1] Segregated fund assets and liabilities have no impact on Desjardins Group's interest rate risk exposure. For more information, see the "Segregated fund risk management" section of Note 15, "Insurance contract liabilities".

NOTE 32 – SEGMENTED INFORMATION

Desjardins Group's financial reporting is grouped by activities, which are defined based on 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 and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty insurance, plus an Other category.

The Personal and Business 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. This offering meets a range of needs including day-to-day and convenience transactions, savings, payment, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice and, through its distribution network, life and health and property and casualty insurance products. 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 provides various categories of service offerings aimed at increasing the wealth of members and clients of Desjardins Group and helping them protect their financial security. These offerings are intended for individuals and businesses, while group insurance or savings plans meet the needs of employees through their businesses or those of individuals who are part of any other group. This segment designs several lines of life and health insurance protection and savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private management products. This segment also includes asset management for institutional clients. Its products and services are distributed through employees of the caisse network and Desjardins Business centres, financial security advisors, investment advisors, private managers, exclusive agents, independent partners, actuarial consulting firms and group plan representatives. Certain product lines are also distributed online, via applications for mobile devices and through client care centres. This segment includes the operations of Qtrade and the interest in Northwest & Ethical up to April 1, 2018, as well as the operations of the interest in Aviso Wealth since that same date.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. and Western Financial Group Inc. until its disposal by Desjardins Group on July 1, 2017. Its 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 in Quebec and outside Quebec, 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 and activities related to 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 and the operations of Desjardins Capital Inc. 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 32 – 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 and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Net interest income	**$ 4,374**	$ 3,916	**$ 4**	$ 1	**$ -**	$ 1	**$ 516**	$ 539	**$ 4,894**	$ 4,457
Net premiums	**-**	-	**4,676**	4,406	**4,402**	3,896	**(255)**	(253)	**8,823**	8,049
Other income	**2,107**	2,205	**2,103**	2,920	**148**	292	**(765)**	(770)	**3,593**	4,647
Total income	**6,481**	6,121	**6,783**	7,327	**4,550**	4,189	**(504)**	(484)	**17,310**	17,153
Provision for credit losses	**385**	345	**(1)**	4	**-**	-	**-**	-	**384**	349
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**3,369**	4,233	**3,209**	2,555	**1**	(71)	**6,579**	6,717
Non-interest expense	**4,406**	4,305	**2,296**	2,329	**1,127**	1,099	**(344)**	(333)	**7,485**	7,400
Operating surplus earnings	**1,690**	1,471	**1,119**	761	**214**	535	**(161)**	(80)	**2,862**	2,687
Income taxes on surplus earnings	**418**	363	**225**	149	**41**	89	**(148)**	(65)	**536**	536
Surplus earnings before member dividends[(1)]	**1,272**	1,108	**894**	612	**173**	446	**(13)**	(15)	**2,326**	2,151
Member dividends, net of income tax recovery	**185**	148	**-**	-	**-**	-	**-**	-	**185**	148
Net surplus earnings for the year after member dividends	**$ 1,087**	$ 960	**$ 894**	$ 612	**$ 173**	$ 446	**$ (13)**	$ (15)	**$ 2,141**	$ 2,003
of which:										
Group's share	**$ 1,087**	$ 960	**$ 894**	$ 610	**$ 132**	$ 405	**$ (13)**	$ (15)	**$ 2,100**	$ 1,960
Non-controlling interests' share	**-**	-	**-**	2	**41**	41	**-**	-	**41**	43

(1) For the year ended December 31, 2018, the Group's share of "Surplus earnings before member dividends" was $1,272 million ($1,108 million in 2017) for the Personal and Business Services segment $894 million ($610 million in 2017) for the Wealth Management and Life and Health Insurance segment, $132 million ($405 million in 2017) for the Property and Casualty Insurance segment and $(13) million ($(15) million in 2017) for the Other category.

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at December 31, 2018	**$ 232,526**	**$ 41,916**	**$ 13,007**	**$ 8,016**	**$ 295,465**
As at December 31, 2017	$ 211,447	$ 42,005	$ 13,138	$ 8,505	$ 275,095

NOTE 33 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and employee benefit plans, 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 to the Desjardins Group Pension Plan.

These transactions and balances as at the reporting dates are as follows:

	2018			2017		
	Associates / Joint ventures	**Other related parties**	**Total**	Associates / Joint ventures	Other related parties	Total
Combined Statements of Income						
Investment income	**$ 4**	**$ 58**	**$ 62**	$ -	$ -	$ -
Brokerage and investment fund services	**2**	**544**	**546**	1	503	504
Other income	**12**	**135**	**147**	16	23	39
Other expenses	**(5)**	**(3)**	**(8)**	(7)	1	(6)
Combined Balance Sheets						
Securities	**$ 99**	**$ 178**	**$ 277**	$ 103	$ 316	$ 419
Securities borrowed or purchased under reverse repurchase agreements	**-**	**347**	**347**	-	676	676
Segregated fund net assets	**-**	**1,237**	**1,237**	-	1,234	1,234
Loans	**76**	**-**	**76**	65	-	65
Other assets	**23**	**72**	**95**	2	23	25
Deposits	**50**	**192**	**242**	69	334	403
Commitments related to securities lent or sold under repurchase agreements	**-**	**149**	**149**	-	50	50
Other liabilities	**1**	**19**	**20**	1	(12)	(11)
Other						
Credit commitments given	**$ -**	**$ 227**	**$ 227**	$ -	$ 198	$ 198
Guarantees given	**-**	**149**	**149**	-	50	50
Guarantees received	**-**	**347**	**347**	-	676	676

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:

	2018	2017
Short-term benefits	**$ 15**	$ 12
Other long-term and post-employment benefits	**6**	5
Termination benefits	**-**	2
	$ 21	$ 19