Desjardins Group Management's Discussion and Analysis

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

The Management's Discussion and Analysis (MD&A) dated February 27, 2019, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the year ended December 31, 2018, in comparison to previous fiscal years. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this regulation. However, it has chosen to apply the provisions provided in this regulation to demonstrate its willingness to comply with best practices in financial governance. Information on the Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

The MD&A should be read in conjunction with the Combined Financial Statements, including the Notes thereto, as at December 31, 2018.

Additional information about Desjardins Group is available on the SEDAR website at www.sedar.com (under the Desjardins Capital Inc. profile). The Annual Information Form of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can be found on SEDAR as well. More information is available on the Desjardins website at www.desjardins.com/ca/about-us/investor-relations. None of the information presented on these sites is incorporated by reference into this MD&A.

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements, within the meaning of applicable securities legislation. Such forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan" and "may", words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions made may be incorrect, or that the predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially.

A number of factors, many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0, "Risk management," such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include legal and regulatory risk, environmental and social risk, and the risk related to pension plans.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to cyber threats, technological advancement and regulatory developments, household indebtedness and real estate market trends, interest rate fluctuations and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; geographic concentration; acquisitions and joint arrangements; credit ratings; and climate change. Additional information on these factors is found in Section 4.0, "Risk management" of this MD&A.

Other factors that could influence the accuracy of the forward-looking statements in this MD&A include amendments to tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of this MD&A.

Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions, given that actual results, conditions, actions or future events could differ significantly from the targets, expectations, estimates or intentions advanced in them, explicitly or implicitly. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events.

The significant economic assumptions underlying the forward-looking statements in this MD&A are described in Section 1.4 "Economic environment and outlook" of this MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section.

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

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. Desjardins Group modified certain accounting policies following the adoption of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018. For more information about the accounting policies used as well as the accounting policy changes, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

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

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

Average assets – Average loans and acceptances – Average deposits – Average equity

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

Growth differential between adjusted operating income and non-interest expense

The growth differential between operating income and non-interest expense is used to measure sustainability and profitability. It is the difference between the growth rate for operating income and for non-interest expense.

The following table presents the calculation of the growth differential between adjusted operating income and non-interest expense.

(in millions of dollars and as a percentage)	**2018[1]**	2017[2]	2016[2]
Operating income	**$ 16,576**	$ 15,465	$ 14,129
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company[3]	**-**	(278)	-
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. [3]	**(132)**	-	-
Adjusted operating expenses	**$ 16,444**	$ 15,187	$ 14,129
Growth in adjusted operating income	**8.3%**	7.5%	1.8%
Non-interest expense	**$ 7,485**	$ 7,400	$ 7,251
Growth in non-interest expense	**1.1%**	2.1%	4.2 %
Growth differential between adjusted operating income and non-interest expense	**7.2%**	5.4%	(2.4)%

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
[3] Amounts before income taxes.

Adjusted surplus earnings of Desjardins Group before member dividends

The concept of adjusted surplus earnings is used to exclude specific items in order to present financial performance based on operating activities. These specific items, such as acquisitions and disposals, are unrelated to operations.

Desjardins Group's surplus earnings before member dividends are adjusted to exclude the following specific items: the gain and expenses, net of income taxes, related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017, as well as the gain, net of income taxes, related to the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth.

The following table presents a reconciliation of surplus earnings before member dividends as presented in the Combined Financial Statements and the adjusted surplus earnings as presented in the MD&A.

(in millions of dollars)	**2018[1]**	2017[2]	2016[2]
Presentation of surplus earnings before member dividends in the Combined Financial Statements	**$ 2,326**	$ 2,151	$ 1,772
Specific items, net of income taxes			
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company	**-**	(249)	-
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**(129)**	-	-
Presentation of the adjusted surplus earnings before member dividends	**$ 2,197**	$ 1,902	$ 1,772

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.

Adjusted net surplus earnings – Wealth Management and Life and Health Insurance segment

The net surplus earnings of the Wealth Management and Life and Health Insurance segment are adjusted to exclude the following specific item: the gain, net of income taxes, related to the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investment L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth.

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

(in millions of dollars)	**2018[1]**	2017	2016
Presentation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment in the Combined Financial Statements	**$ 894**	$ 612	$ 461
Specific item, net of income taxes			
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**(129)**	-	-
Presentation of the adjusted net surplus earnings of the Wealth Management and Life and Health Insurance segment	**$ 765**	$ 612	$ 461

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

Adjusted net surplus earnings − Property and Casualty Insurance segment

The net surplus earnings of the Property and Casualty Insurance segment (P&C) are adjusted to exclude the following specific item: the gain and expenses, net of income taxes, related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.

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

(in millions of dollars)	**2018[1]**	2017[2]	2016[2]
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Combined Financial Statements	**$ 173**	$ 446	$ 296
Specific item, net of income taxes			
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company[3]	**-**	(241)	-
Presentation of the adjusted net surplus earnings of the Property and Casualty segment	**$ 173**	$ 205	$ 296

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
[3] The difference with the data presented in the table for the adjusted surplus earnings of Desjardins Group before member dividends is related to intersegment transaction expenses.

Productivity index and adjusted productivity index

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

The following table presents the calculation of the productivity index as presented in the MD&A.

(in millions of dollars and as a percentage)	**2018[1]**	2017[2]	2016[2]
Non-interest expense	**$ 7,485**	$ 7,400	$ 7,251
Total income	**17,310**	17,153	15,248
Claims, benefits, annuities and changes in insurance contract liabilities	**(6,579)**	(6,717)	(5,446)
Total income excluding claims	**$ 10,731**	$ 10,436	$ 9,802
Productivity index	**69.8%**	70.9%	74.0%
Adjusted productivity index[3]	**70.6%**	72.8%	74.0%

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
[3] Takes into account the specific items presented under "Adjusted surplus earnings of Desjardins Group before member dividends" subsection in this section.

Net interest margin

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

Table 7 of Desjardins Group's MD&A provides more detailed information on the net interest margin.

Gross credit-impaired loans/gross loans and acceptances

The gross credit-impaired loans/gross loans and acceptances ratio is used to measure loan portfolio quality and is equal to gross credit-impaired loans expressed as a percentage of total gross loans and acceptances. Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Table 37 of Desjardins Group's MD&A provides more detailed information on this ratio.

Loss ratio – Expense ratio – Combined ratio

These ratios are used to measure and analyze the performance of the Property and Casualty Insurance segment's operations.

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

The loss ratio is comprised of the following ratios:

- Current year loss ratio, which is the loss ratio excluding catastrophe and major event claims expenses for the current year as well as changes in prior year claims, net of related reinsurance, not including reinstatement premiums, as applicable.
- Loss ratio related to catastrophes and major events, which is the loss ratio including catastrophe and major event claims expenses for the current year, net of reinsurance and including the impact of reinstatement premiums, as applicable.
- Ratio of changes in prior year claims, which is the loss ratio including the effect of changes in prior year claims, net of related reinsurance, not including reinstatement premiums, as applicable.

The expense ratio is equal to operating expenses expressed as a percentage of net premiums earned.

The combined ratio is equal to the sum of the loss ratio and the expense ratio.

The following table presents the calculation of the loss ratio, the expense ratio and the combined ratio, as presented in the MD&A.

(in millions of dollars and as a percentage)	**2018**	2017	2016
Net premiums	**$ 4,402**	$ 3,896	$ 3,207
Premiums excluded from the loss ratio[1]	**-**	(61)	(149)
Net premiums considered in the ratio denominators	**$ 4,402**	$ 3,835	$ 3,058
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 3,209**	$ 2,555	$ 1,838
Market yield adjustment (MYA)	**45**	62	39
Other items excluded from the loss ratio[1]	**-**	(20)	(36)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 3,254**	$ 2,597	$ 1,841
Loss ratio	**73.9%**	67.7%	60.2%
Non-interest expense	**$ 1,127**	$ 1,099	$ 1,132
Other expenses excluded from the expense ratio[2]	**(18)**	(114)	(284)
Operating expenses	**$ 1,109**	$ 985	$ 848
Expense ratio	**25.2%**	25.7%	27.7%
Combined ratio	**99.1%**	93.4%	87.9%

(1) Due mainly to the life insurance activities of Western Life Assurance Company, the sale of which was completed on July 1, 2017.
(2) For 2018: Due mainly to investment management fees and certain other expenses. For 2017 and 2016: Due mainly to the life insurance and insurance product distribution activities of Western Life Assurance Company and Western Financial Group Inc., including expenses related to the sale of these two entities on July 1, 2017.

Return on equity and adjusted return on equity

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

The following table presents the reconciliation of return on equity with surplus earnings before member dividends as presented in the MD&A.

(in millions of dollars and as a percentage)	**2018[1]**	2017[2]	2016[2]
Surplus earnings before member dividends	**$ 2,326**	$ 2,151	$ 1,772
Non-controlling interests' share	**(41)**	(43)	(76)
Group's share	**$ 2,285**	$ 2,108	$ 1,696
Average equity before non-controlling interests' share	**$ 24,530**	$ 23,228	$ 21,236
Return on equity	**9.3%**	9.1%	8.0%
Adjusted return on equity[3]	**8.9%**	8.0%	8.0%

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) Takes into account the specific items presented under "Adjusted surplus earnings of Desjardins Group before member dividends" subsection in this section.

Income

Operating income

The concept of operating income is used to analyze financial results. This concept allows for better structuring of financial data and makes it easier to compare operating activities from one period to the next by excluding the volatility of results specific to investments, particularly regarding the extent of life and health insurance and P&C insurance operations, for which a very large proportion of investments are recognized at fair value through profit or loss. The analysis therefore breaks down Desjardins Group's income into two parts, namely operating income and investment income, which make up total income. This measure is not directly comparable to similar measures used by other companies.

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

Investment income

Investment income comprises net investment income on securities classified and designated as being at fair value through profit or loss, net investment income on securities classified as being at fair value through other comprehensive income, and net investment income on securities measured at amortized cost and other investment income, which are included under "Net investment income" in the Combined Statements of Income. Investment income also includes the overlay approach adjustment for insurance operations financial assets. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income given that these assets back insurance liabilities, which are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Combined Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss. The presentation of 2017 investment income does not take into account the standards and amendments adopted on January 1, 2018 and is therefore compliant with IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

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

(in millions of dollars)	2018[1]	2017[2]	2016[2]
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other income			
Deposit and payment service charges	**433**	458	488
Lending fees and credit card service revenues	**697**	660	574
Brokerage and investment fund services	**905**	1,030	1,060
Management and custodial service fees	**551**	485	422
Net investment income[3]	**211**	1,688	1,119
Overlay approach adjustment for insurance operations financial assets	**523**	N/A	N/A
Foreign exchange income	**91**	77	70
Other	**182**	249	27
Total income	**$ 17,310**	$ 17,153	$ 15,248
Presentation of income in the MD&A			
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other operating income			
Deposit and payment service charges	**433**	458	488
Lending fees and credit card service revenues	**697**	660	574
Brokerage and investment fund services	**905**	1,030	1,060
Management and custodial service fees	**551**	485	422
Foreign exchange income	**91**	77	70
Other	**182**	249	27
Operating income	**16,576**	15,465	14,129
Investment income			
Net investment income[3]	**211**	1,688	1,119
Overlay approach adjustment for insurance operations financial assets	**523**	N/A	N/A
Investment income	**734**	1,688	1,119
Total income	**$ 17,310**	$ 17,153	$ 15,248

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) The breakdown of this line item is presented in Note 25, "Net interest income and net investment income", to the Combined Financial Statements.

Credit loss provisioning rate

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

The following table presents the calculation of the credit loss provisioning rate as presented in the MD&A.

(in millions of dollars and as a percentage)	2018[1]	2017	2016
Provision for credit losses	**$ 384**	$ 349	$ 319
Average gross loans	**184,382**	171,737	162,979
Average gross acceptances	**105**	69	108
Average gross loans and acceptances	**$ 184,487**	$ 171,806	$ 163,087
Credit loss provisioning rate	**0.21%**	0.20%	0.20%

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

REGULATORY ENVIRONMENT

Regulatory environment

Desjardins Group's operations are governed in particular by the *Act respecting financial services cooperatives* and the *Act respecting insurance*, which will become the *Insurers Act* in June 2019. The AMF is the main government agency that oversees and monitors deposit-taking institutions (other than banks) and insurance companies that do business in Quebec and are governed by Quebec law, including the caisses and the Federation and its insurance subsidiaries. Other federal and provincial regulations, in addition to those of regulators, may also govern some operations of Desjardins Group entities, such as the Office of the Superintendent of Financial Institutions (OSFI) related to property and casualty insurance, custodial and trust services and banking services provided by Zag Bank.

Moreover, Desjardins Group complies with the minimum regulatory capital requirements issued by the AMF, which reflect the provisions of the Basel III Accord. As mentioned on page 12, although Desjardins Group is not a reporting issuer under AMF *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, it has chosen to apply the provisions in the regulation to demonstrate its willingness to comply with sound practices in financial governance. Desjardins Group's financial and corporate governance are discussed on page 109 of this MD&A and in the "Corporate governance" section of the 2018 Desjardins Group Annual Report.

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI), which subjects Desjardins Group to higher capital requirements and enhanced disclosure requirements, among other things, as instructed by the AMF. Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios. Also, based on the recommendations issued by the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board contained in the document "Enhancing the Risk Disclosures of Banks", Desjardins Group is continuing to integrate all these recommendations into its risk management disclosure framework. Desjardins Group also continues to adapt its disclosure to comply with the principles of risk data aggregation and risk reporting (RDARR), which will strengthen governance as well as risk data aggregation and risk reporting capabilities. Furthermore, Desjardins Group developed a living will, detailing the actions it will take to restore its financial position in the event of a crisis.

It should also be mentioned that Desjardins Bank, National Association, a subsidiary of the Federation incorporated under U.S. federal laws, is supervised by the Office of the Comptroller of the Currency of the United States (OCC), and that the Federation's operations in the United States, as a bank holding company, are subject to the supervisory and regulatory authority of the Board of Governors of the Federal Reserve System. Desjardins Florida Branch, the branch of the Federation operating in the State of Florida and incorporated under U.S. federal laws, is also supervised by the OCC. Desjardins Group is further governed by the U.S. *Bank Holding Company Act* and has the status of Financial Holding Company (FHC) in the U.S. In order to maintain such status, Desjardins Group must continue to meet capital requirements and certain other requirements to be considered "well capitalized" and be deemed "well managed" in accordance with the regulations of the U.S. Federal Reserve (the Fed).

Changes in the regulatory environment

Desjardins Group closely monitors regulations for financial products and services, as well as new developments in fraud, corruption, tax evasion, protection of personal information, money laundering, terrorist financing and domestic and international economic sanctions in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information on changes in regulatory capital is provided in the "Capital management" section.

The Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions

On June 13, 2018, the Quebec National Assembly passed Bill 141, *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions* (the Act), which applies to all institutions and intermediaries operating in Quebec's financial sector. The main goal of the Act is to update and modernize the legislative framework for Quebec's financial sector so that the financial institutions that it governs will have all the levers they need to operate in a very competitive environment and governance that is consistent with best practices. The Act affects a series of laws, such as the *Act respecting insurance*, the *Act respecting financial services cooperatives*, the *Act respecting the distribution of financial products and services* and the *Deposit Insurance Act*. The *Act respecting financial service cooperatives* has been amended, among other things, to prescribe the rules for organizing a network of financial services cooperatives and a financial group, and the rules for issuing capital shares and investment shares.

The Act also adds a chapter concerning the *Groupe coopératif Desjardins* (the cooperative group), which comprises the Desjardins caisses in Quebec, the Federation and the *Fonds de sécurité Desjardins*. The chapter aims to strengthen financial solidarity mechanisms within the cooperative group, among other things. In this way, the Act affirms the Federation's mission to look after Desjardins Group's risk management and see to the financial health of the cooperative group and its sustainability. The Federation and the *Fonds de sécurité Desjardins* have additional special powers of supervision and intervention regarding the protection of creditors, including depositors. As well, the Federation may, in accordance with its mission and when it considers that the financial position of the cooperative group so warrants, give written instructions to any caisse or order it to adopt and apply a recovery plan. For its part, the *Fonds de sécurité Desjardins* is required to ensure the distribution of capital and other assets among the components of the cooperative group so that each one can perform its obligations to its depositors and other creditors in full, correctly and without delay. It is required to intervene with a component of the cooperative group each time it appears necessary to do so in order to protect the component's creditors. The *Fonds de sécurité Desjardins* may, in such circumstances, order the assignment of any part of the business of a caisse, order the amalgamation or dissolution of caisses or establish a legal entity to facilitate the liquidation of a caisse's bad assets. Furthermore, the *Fonds de sécurité Desjardins* mutualizes the cost of its interventions between the components belonging to the cooperative group. In addition, if it considers that its financial resources are inadequate to carry out its mission, it may set a special assessment and require any component of the cooperative group to pay it. The revised Act also provides that all the caisses, the Federation and the *Fonds de sécurité Desjardins* may be amalgamated into a single legal entity to be wound up, as these entities cannot be wound up in any other manner.

The amendments to the *Deposit Insurance Act* (to be renamed the *Deposit Institutions and Deposit Protection Act*) provide for new rules for the supervision and control of deposit-taking activities and the activities of authorized deposit-taking institutions, as well as recovery and resolution mechanisms in the event of failure of deposit-taking institutions. Furthermore, the Act introduces a new *Insurers Act* that provides for revised supervision for Quebec insurers. A significant change in this new legislation is to allow insurers to sell insurance over the Internet. A few changes aimed at modernizing the *Act respecting the distribution of financial products and services* were also introduced, such as rules for insurance brokers in offering products and new rules applicable to distributing products without a representative. In addition, in property and casualty insurance, the Act makes it mandatory for divided co-owners to have co-ownership insurance.

Generally speaking, the provisions of the Act applicable to financial services cooperatives came into force on July 13, 2018, one month after assent, but there are several exceptions. Among these, the chapter concerning the cooperative group came into force when the first internal by-law of the cooperative group was adopted, on December 7, 2018. The new provisions of the *Insurers Act*, for their part, will come into force on June 13, 2019 or subsequently, as the case may be, along with a large portion of the amendments to the *Act respecting the distribution of financial products and services.*

Desjardins Group is continuing its work to update its frameworks in order to reflect the new requirements.

Rules concerning capital instruments

The Capital Adequacy Requirements (CAR) Guideline of the Office of the Superintendent of Financial Institutions (OSFI) applicable to Canadian financial institutions includes requirements for Non-Viability Contingent Capital as part of regulatory capital. Desjardins Group, under the AMF's guideline on adequacy of capital base standards for financial services cooperatives, is subject to similar rules applicable to non-viability contingent capital in its regulatory capital. However, Desjardins Group has not issued any instrument subject to these rules, given that discussions with the AMF are still underway on how Desjardins Group will apply them. For further information, see the "Capital management" section on page 61.

The Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)

In June 2018, proposals for significant changes to the PCMLTFA and its regulations were published by the Department of Finance Canada. Desjardins Group is participating in work sessions with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Department of Finance Canada and other industry players to discuss these and other changes to the Canadian money laundering and terrorist financing (ML/TF) regime. While preparing for the implementation of these legislative changes, Desjardins Group is continuing to closely monitor developments to assess their impact on its operations.

Financial reforms in the U.S.

Should reform initiatives in the U.S. pertaining to financial regulation become a reality, they may affect non-U.S. financial institutions operating in the U.S., including Desjardins Group. The deregulation bill of U.S. Congress and the American regulators has been set in motion, in particular with the enactment of a statute providing some relief concerning certain rules prescribed by the Dodd-Frank Wall Street Reform and Consumer Protection Act and a proposal for a draft regulation simplifying the Volcker rule which deals with proprietary trading and hedge fund ownership interests. Desjardins Group continues to closely monitor developments in these draft reforms, for which the scope and timetable remain uncertain at this time.

Recapitalization regime for domestic systemically important banks

On April 18, 2018, the Department of Finance Canada published the final version of three regulations to implement the main features of the Bank Recapitalization (Bail-in) Regime and the OSFI issued the final version of its guideline on Total Loss Absorbing Capacity (TLAC). The introduction of the regulations and the TLAC guideline are intended to ensure that a non-viable domestic systemically important bank (D-SIB) has sufficient loss absorbing capacity to support its recapitalization. These regulations and the TLAC guideline came into force on September 23, 2018. The D-SIBs will be required to issue the ratios specified in the TLAC guideline as of the quarter commencing November 1, 2018 and comply with the requirements of the TLAC guideline no later than November 1, 2021. This regime is not applicable to Desjardins Group because it is regulated by the AMF. Furthermore, the amendments to the *Deposit Insurance Act* (to be renamed the *Deposit Institutions and Deposit Protection Act*) passed by the Quebec government on June 13, 2018, as mentioned above, provide for certain recovery and resolution mechanisms in the event of the failure of deposit-taking institutions. On October 25, 2018, the AMF issued for comment its draft regulations on a bail-in regime for a cooperative group as well as a draft TLAC guideline. The comment period initiated by the AMF ended on November 23, 2018. Desjardins Group will continue to monitor developments in this file and is expecting the adoption and implementation of a recapitalization regime similar to the federal one described above on March 31, 2019.

Data confidentiality and security

Data confidentiality and security is a rapidly changing area. In Canada, new provisions of the *Personal Information Protection and Electronic Documents Act* (PIPEDA) came into force on November 1, 2018. They will, in particular, require businesses to give notice of any breaches of security safeguards and impose the keeping of a register. Failure to give notice will result in a fine. It should be noted that in Europe, the *General Data Protection Regulation* (GDPR), which came into force on May 25, 2018, provides for new obligations that apply internationally to entities that control or process the personal data of citizens in the territory of the European Union. Although the impact of this regulation is not considered significant for Desjardins Group, the organization must closely monitor this file since several of its competitors are subject to it in whole or in part. In Quebec, consultations took place concerning amendments to *An Act respecting the protection of personal information in the private sector* (ARPPIPS). As a result, Desjardins Group can expect that stricter rules will be adopted, and it is closely monitoring developments to assess the impacts on its operations.

Pillar 3 disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). To this end, in January 2015, the Committee issued a new standard related to the third pillar, which aims to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group issued a Pillar 3 report for the period ended December 31, 2018, in order to comply. In addition, in March 2017, the BCBS issued the second phase of the revisions to Pillar 3 disclosure. In the fourth quarter of 2018, the AMF presented a draft update of its guideline. The changes would be effective on March 31, 2019 and will include requirements resulting from the second phase of the standard related to Pillar 3, particularly with respect to the leverage ratio, composition of capital and total loss absorbing capacity. For further information, see the "Capital management" section on page 61.

Capital adequacy requirements for life and health insurers

In October 2016, the AMF issued the new *Capital Adequacy Requirements Guideline (CARLI) – Insurance of persons*. This new regulatory framework replaced the *Capital Adequacy Requirements Guideline (CAR) – Life and Health Insurance* as of January 1, 2018. The subsidiary Desjardins Financial Security Life Assurance Company complies with the requirements of the new guideline.

Report on Ontario's auto insurance plan

Before the election, in June 2018, of a new majority government in Ontario, the Ontario Finance Minister at the time unveiled the Fair Auto Insurance Plan in December 2017, aimed at making automobile insurance more affordable for drivers and providing better care for accident victims. The Plan was based on a report by David Marshall on the province of Ontario's automobile insurance system, released in April 2017, and provided for the implementation by the government of various initiatives in the short- and medium-term. In spite of the uncertainty surrounding the potential implementation of the recommendations as a result of the change in government, Desjardins Group continues to monitor and support developments in Ontario's automobile insurance system.

Guideline on granting residential mortgages

In February 2018, the AMF issued the revision of its guideline on granting residential mortgages, which went into effect in March 2018. The AMF's requirements are similar to those of the OSFI, issued in October 2017, which aim to encourage mortgage lenders to remain prudent in their mortgage underwriting practices and set a minimum interest rate or "stress test" for uninsured mortgages. Desjardins Group has already applied these practices since January 1, 2018.

Modernization of the Canadian payments system

Technological progress and innovation affect the payments ecosystem, which is undergoing major changes. In 2016, Payments Canada launched a multiyear initiative to modernize the Canadian payments system. On December 19, 2018, Payments Canada issued its "Modernization Delivery Roadmap 2018 Update". The activities involve, in particular, the new high-value payments system – Lynx, real-time payments, and retail batch payments. These initiatives are in addition to the one already introduced in 2018, with the implementation of a new credit risk assessment model for the retail payments system in Canada and enhancements to automated funds transfers. Desjardins Group continues to monitor work by the industry, the federal government and Payments Canada.

Qualified Intermediary Agreement

The U.S. Qualified Intermediary regime allows clients of financial intermediaries to benefit from more streamlined administrative procedures and more readily take advantage of the reduced tax rates allowed under tax agreements concerning taxable U.S source income. For their part, financial institutions must comply with the sometimes-complex provisions of an agreement established by the U.S. tax authorities. This agreement has undergone several significant changes in the past few years with very short implementation deadlines. Desjardins Group entities that are QIs are continuing their efforts to take the necessary measures to comply with the last agreement issued in January 2017 and monitor future changes.

Section 871(m) of the *U.S. Internal Revenue Code*

Section 871(m) of the *U.S. Internal Revenue Code* (IRS) was set up to ensure that non-U.S. investors pay tax on dividend payments on U.S. equity-linked instruments. This regulation, which has been in effect since January 1, 2017, provides for phased-in application of additional regulatory requirements in 2019, 2020 and 2021. Following the IRS's publication of Notice 2018-72 in September 2018, some relief has been provided for applications scheduled for 2019. The applicable regulatory requirements basically deal with subject loan, securities lending and delta-one transactions. Delta one is a ratio that measures the sensitivity of the derivative product to fluctuations in the underlying product price to which it refers. The calculation of delta can apply by individual transaction or combined transactions. The combined transaction rules also apply progressively. The regulatory requirements for non-delta one transactions have been postponed until January 1, 2021, while QSL status (Qualified Securities Lender – described in IRS Notice 2010-46) is maintained until January 1, 2021. The Desjardins Group entities concerned are putting measures in place to apply the regulation and monitor future changes.

Regulation 93-101, Derivatives: Business Conduct and Regulation 93-102, Derivatives: Registration

In April 2017, the CSA issued draft *National Instrument 93-101 – Derivatives: Business Conduct* and draft *Companion Policy 93-101 Derivatives: Business Conduct* to establish a comprehensive regime for regulating the business conduct of participants in over-the-counter derivatives markets. In June 2018, the CSA published a second version of these drafts for comment. The consultation ended in September 2018. In April 2018, the CSA published for consultation draft *National Instrument 93-102 – Derivatives: Registration* and draft *Companion Policy 93-102 – Derivatives: Registration* for derivatives dealers, derivatives advisers and potentially other derivatives market participants. This consultation also ended in September 2018. The various derivatives market participants are furthermore subject directly or indirectly to a certain number of national and international standards resulting from a regulatory reform that is gradually taking effect. The Desjardins Group entities concerned are closely watching this regulatory development.

Application of the new framework for European markets in financial instruments

In May 2014, European legislatures adopted a new framework for markets in financial instruments (MIF 2), in the form of the *Markets in Financial Instruments Directive* and the *Markets in Financial Instruments Regulation*. The regulatory requirements related to the MIF 2 directive have been applicable since January 3, 2018 and change the framework for carrying on market activities in Europe. One purpose of the new framework is to strengthen investor protection and make financial markets more resilient and transparent. The Desjardins Group entities concerned are closely monitoring this regulatory development in Canada and the notices issued in this regard by the CSA.

Report on Climate change-related Disclosure Project

On April 5, 2018, the CSA issued CSA *Staff Notice 51-354, Report on Climate change-related Disclosure Project*. The report summarizes the findings of its project to review the disclosure by reporting issuers of risks and financial impacts associated with climate change, and its plans for future work. The Staff Notice also mentions that the CSA will continue to monitor the quality of issuers' disclosure with respect to climate change-related matters, best practices in the area of climate change-related disclosure and the development of disclosure frameworks. Desjardins Group is closely monitoring regulatory developments in this regard.

Desjardins Group presents a specific disclosure, based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), in its annual social and cooperative responsibility report. This disclosure is not incorporated by reference into this MD&A.

1.0 Desjardins Group

1.1 Profile and structure

WHO WE ARE

Desjardins Group is the largest financial cooperative in Canada, with assets of $295.5 billion. The organization brings together 271 caisses in Quebec and Ontario as at December 31, 2018, the *Fédération des caisses Desjardins du Québec* and its subsidiaries, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 46,000 employees and the commitment of over 3,700 directors.

The Federation is, among other things, the treasurer and official representative of Desjardins Group with the Bank of Canada and the Canadian banking system.

WHAT MAKES US DIFFERENT

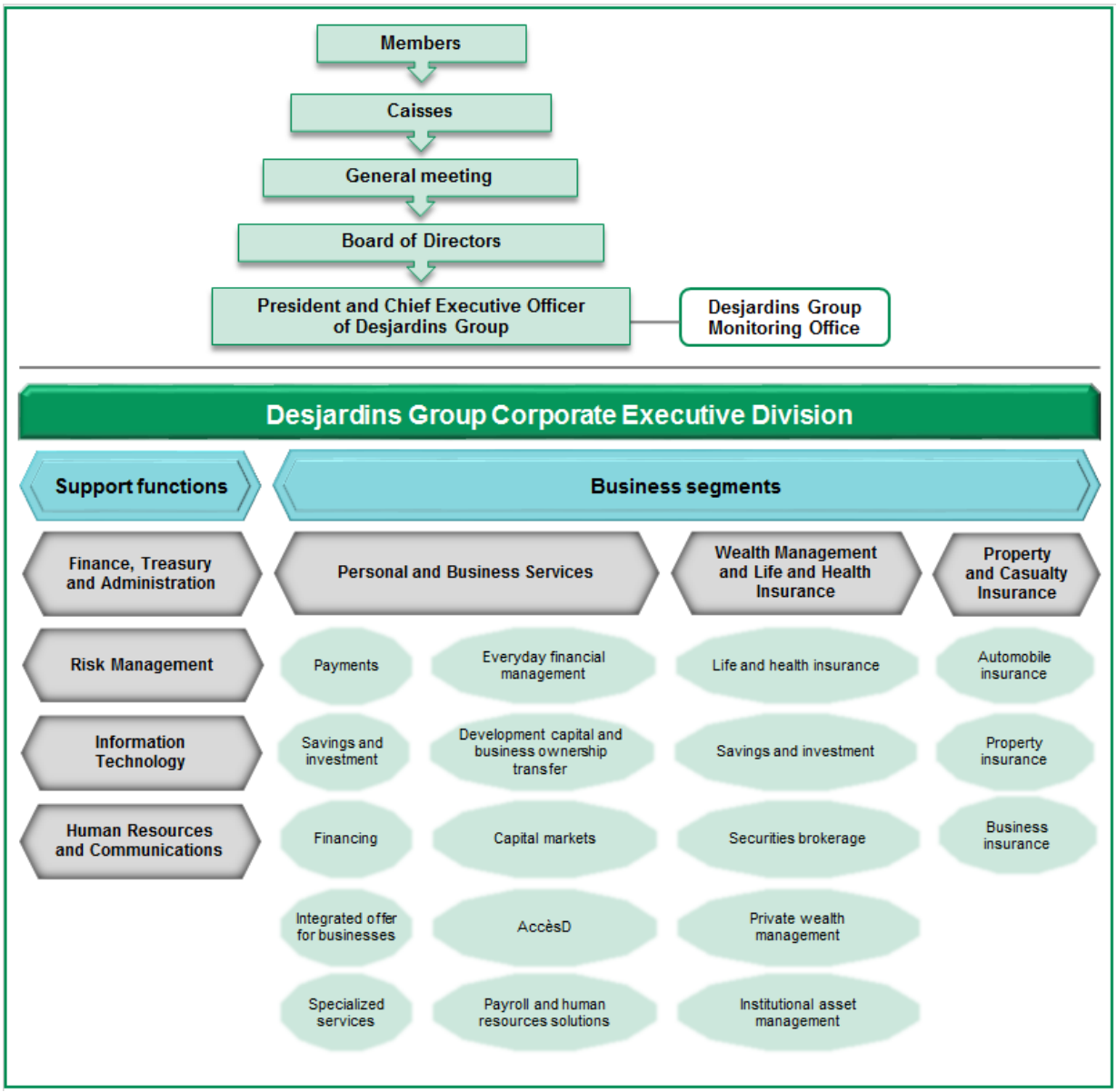
Desjardins Group stands out from other Canadian financial institutions because of its cooperative nature. The resulting mission and values are the driving force for its directors, managers and employees. They are echoed in its orientations, and help Desjardins Group achieve its vision of sustainable prosperity within the communities it serves. Since the first caisse was founded in 1900 in Lévis, Desjardins Group has always been a key player in financial education, and it believes that the cooperative business model is more relevant now than ever in a greatly changing world.

Desjardins Group's ambition is to be first in people's hearts. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best meet members' increasingly diverse needs, Desjardins Group pays special attention to the caisse network and its range of service delivery methods. This process is also part of Desjardins Group's continued commitment to the vitality of cooperation at the caisse level in terms of democratic life, representation, education and training, cooperation with other cooperatives and support for community development.

Another hallmark of Desjardins Group is its modern, grassroots-level democratic governance, based on the active participation of directors elected by caisse members. This participation is expressed in working together and in terms of governance. Bodies that address local issues are active in various areas where the caisses are present, and the *Forum de concertation Mouvement* serves a similar purpose at the caisse network level. In terms of governance, the caisses' elected officers participate at the general meeting, at orientation congresses and on the Federation's Board of Directors and its various commissions.

STRUCTURE OF DESJARDINS GROUP

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



Desjardins Group's 2018 highlights

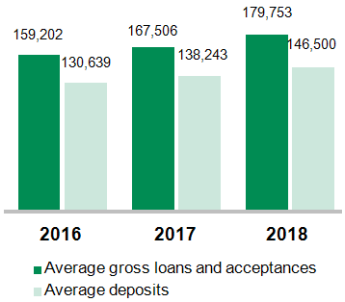
Surplus earnings before member dividends	Loans and acceptances outstanding	Assets under management	Tier 1A capital ratio	Total asset growth
$2,326 million	+ $13.1 billion	$57.4 billion	17.3%	+ $20.4 billion

- Surplus earnings before member dividends up $175 million, or 8.1%, compared to 2017.
- Increase of $295 million, or 15.5%, in adjusted surplus earnings[1] before member dividends compared to 2017.
- A total of $389 million returned to members and the community, including member dividends, sponsorships, donations and bursaries.
- Operating income[1] of $16,576 million, up 7.2% compared to 2017.
- Adjusted operating income[1] of $16,444 million, up 8.3% compared to 2017.
- Record growth in 2018 in loans and acceptances outstanding, up $13.1 billion compared to 2017.
- On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P., leading to the creation of Aviso Wealth.

2018 segment highlights

PERSONAL AND BUSINESS SERVICES

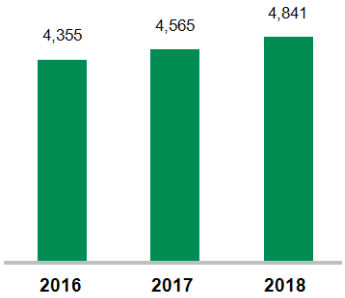
Average gross loans and acceptances and average deposits[1]
(in millions of dollars)



- Quebec's leader in residential mortgages and a leading player in consumer loans, including financing, with estimated market shares of 37.8% and 22.8%, respectively.
- Leader credit and debit card issuer in Quebec and No. 5 in Canada (based on 2017 outstandings), the segment has issued more than 6.9 million credit cards and 5.7 million debit cards in Canada.
- Leader in agricultural credit in Quebec, with a market share of 40.8%.
- Strong growth in commercial and industrial niche activities in Quebec, with estimated market share up to total 20.9%.
- Surplus earnings before member dividends totalled $1,272 million, up 14.8% compared to 2017, due to higher net interest income as a result of growth in outstandings and, to a lesser degree, higher interest rates.
- Acquisition and set-up of new Canada-wide credit card portfolios.
- Leader in on-balance sheet savings in Quebec with growth of 5.3% in 2018 for an estimated market share of 42.2%.
- Growth of 10.6% compared to 2017 in business volume related to credit card products, Accord D, and auto and durables financing.
- Growth of $12.2 billion compared to 2017 in the entire average portfolio of loans and acceptances.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

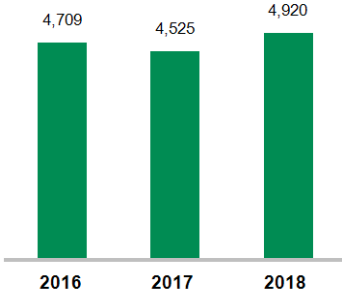
Written premiums
(in millions of dollars)



- No. 5 life and health insurer in Canada and No. 2 in Quebec (based on written premiums in 2017).
- No. 2 in Canada and No. 1 in Quebec for market-linked guaranteed investments (based on 2017 assets under management).
- Record net sales of $3.5 billion for market-linked guaranteed investments, up 70.1% in 2018.
- Desjardins Private Wealth Management named "Best Private Wealth Management Company in Canada" for a third straight year, according to the Global Banking and Finance Review, particularly for its comprehensive range of products and services, its financial soundness and the quality of its customer experience.
- Net surplus earnings of $894 million, up 46.1%, compared to 2017.
- Adjusted net surplus earnings[1] of $765 million, up 25.0% compared to 2017, related to a more favourable product claims experience and higher income due to the increase in assets under management.
- Gross insurance premiums of $4.3 billion, up 2.6% compared to 2017.
- Significant growth of 117.2% in net sales for online brokerage in 2018.

PROPERTY AND CASUALTY INSURANCE

Gross written premiums
(in millions of dollars)



- Canada's No. 3 and Quebec's No. 2 property and casualty insurer (based on gross direct premiums written in 2017).
- Underwriting profits for the 26th consecutive year, in spite of automobile insurance material damage coverage under pressure in all geographic markets in 2018.
- Launch of the "Radar" functionality in the mobile application so that insureds can be alerted to severe weather risks for their property.
- Transition to the Desjardins brand for the Canadian operations acquired from State Farm and introduction of a new contract for the exclusive agent network in Ontario, Western Canada and Atlantic Canada.
- Net surplus earnings of $173 million for the year, down $273 million due to the gain net of expenses on the sale of subsidiaries in 2017.
- Adjusted net surplus earnings[1] down $32 million, or 15.6%, compared to 2017, on account of the increase in the loss ratio, mainly in automobile insurance.
- Growth of $506 million, or 13.0%, compared to 2017, in net premiums to total $4.4 billion.
- Improvement in the expense ratio[1] to 25.2% in 2018, compared to 25.7% in 2017.

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

Table 1 – Financial results and indicators

For the years ended December 31

(in millions of dollars and as a percentage)	2018[1]	2017[2]	2016[2]
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other operating income[3]	**2,859**	2,959	2,641
Operating income[3]	**16,576**	15,465	14,129
Investment income[3]	**734**	1,688	1,119
Total income	**17,310**	17,153	15,248
Provision for credit losses	**384**	349	319
Claims, benefits, annuities and changes in insurance contract liabilities	**6,579**	6,717	5,446
Non-interest expense	**7,485**	7,400	7,251
Income taxes on surplus earnings	**536**	536	460
Surplus earnings before member dividends	**$ 2,326**	$ 2,151	$ 1,772
Adjusted surplus earnings before member dividends[3]	**$ 2,197**	$ 1,902	$ 1,772
Contribution to combined surplus earnings by business segment[4]			
Personal and Business Services	**$ 1,272**	$ 1,108	$ 1,025
Wealth Management and Life and Health Insurance	**894**	612	461
Property and Casualty Insurance	**173**	446	296
Other	**(13)**	(15)	(10)
	$ 2,326	$ 2,151	$ 1,772
Amount returned to members and the community			
Member dividends	**$ 253**	$ 202	$ 144
Sponsorships, donations and bursaries	**94**	82	82
Desjardins Member Advantages program	**42**	36	33
	$ 389	$ 320	$ 259
Indicators			
Net interest margin[3]	**2.39%**	2.34%	2.41%
Return on equity[3]	**9.3**	9.1	8.0
Adjusted return on equity[3]	**8.9**	8.0	8.0
Productivity index[3]	**69.8**	70.9	74.0
Adjusted productivity index[3]	**70.6**	72.8	74.0
Credit loss provisioning rate[3]	**0.21**	0.20	0.20

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".
(4) The breakdown by line item is presented in Note 32, "Segmented information", to the Combined Financial Statements.

Table 2 – Balance sheets and indicators

As at December 31

(in millions of dollars and as a percentage)	2018[1]	2017	2016
Balance sheet			
Assets	**$ 295,465**	$ 275,095	$ 258,367
Net loans and acceptances	**190,670**	177,521	166,026
Deposits	**183,158**	171,586	160,546
Equity	**25,649**	24,773	23,293
Indicators			
Assets under administration	**$ 373,558**	$ 411,548	$ 420,166
Assets under management[2]	**57,448**	58,220	51,550
Tier 1A capital ratio	**17.3%**	18.0%	17.3%
Tier 1 capital ratio	**17.3**	18.0	17.3
Total capital ratio	**17.6**	18.4	17.9
Leverage ratio	**8.3**	8.5	8.1
Liquidity coverage ratio[3]	**122.1**	121.4	121.1
Gross credit-impaired loans[4] / gross loans and acceptances[5]	**0.54**	0.25	0.32

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.
(3) Average for the quarters ended December 31 of each year indicated.
(4) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(5) See "Basis of presentation of financial information".

1.2 Significant events in 2018

Creation of Aviso Wealth

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and a partnership between the Centrals and The CUMIS Group. A gain of $129 million, net of income taxes, related to this transaction, was recognized in the Combined Statements of Income for the year ended December 31, 2018. Desjardins Group's interest in Aviso Wealth represents an investment in a joint venture and is recognized using the equity method of accounting in the Wealth Management and Life and Health Insurance segment. The results of the subsidiary Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P. were also presented in the Wealth Management and Life and Health Insurance segment.

Additional financial information is presented in Section 2.1 "Impact of significant transactions".

Zag Bank

On November 5, 2018, Zag Bank announced that it was winding down its operations, and will close down during 2019. This decision is the result of a recent shift in focus by Desjardins Group, following a recent review of its operations in Ontario, the Atlantic Provinces and Western Canada, to concentrate in particular on growing its property and casualty insurance operations, wealth management activities and payment services. Given this focus, having a direct or online bank no longer fits into the long-term strategy of Desjardins Group, Zag Bank's shareholder. The financial impact of this decision was reported mainly in the third and fourth quarters of 2018.

1.3 Strategic orientations and financial objectives

STRATEGIC ORIENTATIONS AND PRIORITIES

Fiscal 2018 marked the second year of the 2020 strategic framework. The organization continued to align itself with the three main strategic orientations of the framework:

- "Accelerate the shift to a member and client culture" focuses on significantly enhancing the quality of the Desjardins member and client experience. After its first year, the organization has deployed a number of initiatives in the best interests of members of clients.
- "Affirm our cooperative difference" allows Desjardins to bring the cooperative difference up to date and live it out, as well as to strengthen its fundamental purpose, which is to enrich the lives of people and communities.
- "Capitalize on the strengths of our expansive cooperative group" by leveraging new growth opportunities to optimize group synergies.

These three orientations are based on attributes that present Desjardins as a simple, human, modern and efficient cooperative for its members and clients, as well as its directors, managers and employees. The 2019 strategic priorities for Desjardins Group's business segments derived from these orientations may be found in Section 2.3 "Analysis of business segment results" of this MD&A.

FINANCIAL OBJECTIVES

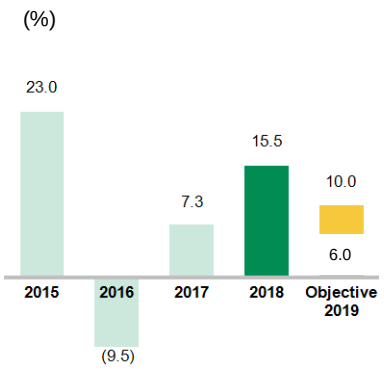
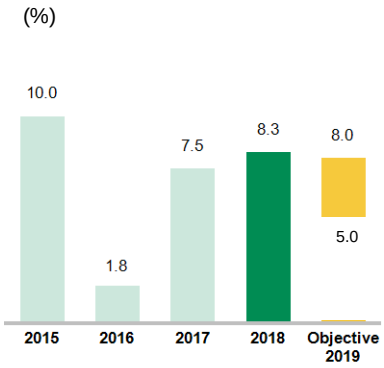
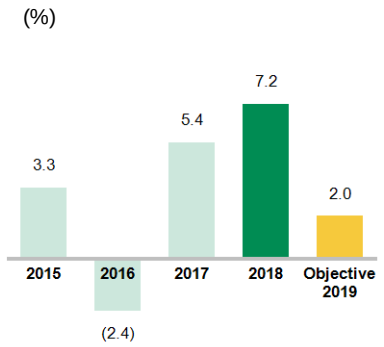
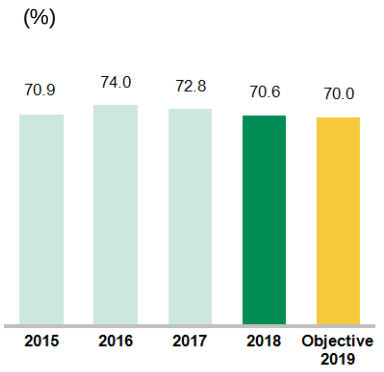
Desjardins Group sets medium-term financial objectives that provide it with the means of realizing its ambitions for members and clients by seeking new ways to increase its return to the community, ensure its sustainability and support its growth.

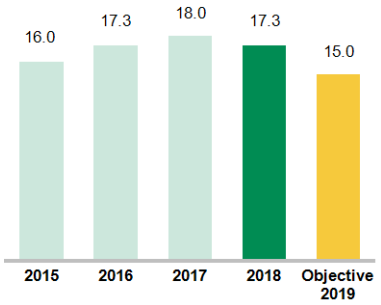
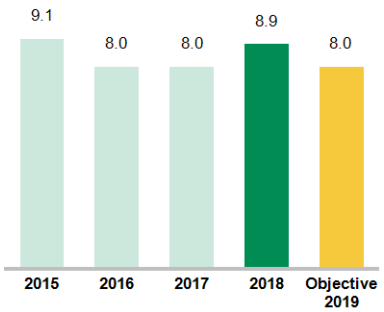
This section shows the progress made toward the objectives stated in 2018 and shows them in relation to the results achieved. Performance in 2019 will be measured using key indicators aligned with Desjardins's new ambitions according to the strategic orientations and priorities. Desjardins Group, through its members and clients, enriches the lives of people and communities in order to be first in people's hearts. Creating wealth and redistributing it to its members and their communities, constantly working in the best interests of members and clients, involves Desjardins Group's financial performance, as well as other factors.

Overall performance

The trend in Desjardins Group's overall performance over the last few years has been positive. Surplus earnings before member dividends and operating income have grown, and the targets for return on equity and capital were met. For the coming years, senior management expects an increasing recurrent return for members and clients consistent with Desjardins Group's financial performance. Additional investments, particularly in innovative information technology platforms, related primarily to the digital transformation, will allow Desjardins to enhance the member and client experience and to improve productivity.

The financial objectives are monitored exclusive of the specific items as defined in the "Basis of presentation of financial information". Readers may refer to Section 2.0 "Review of financial results" for an analysis of Desjardins Group's results before the specific items.

Key indicators[1]	Results achieved in 2018	2019 objectives	Trend[2][3]
Growth in adjusted surplus earnings before member dividends: A measure of value creation for members and clients.	The result for this indicator was 15.5%, exceeding the 5% to 10% objective for 2018. The increase in adjusted surplus earnings before member dividends was mainly due to continued growth in caisse network and payment activities, the more favourable claims experience in life and health insurance, higher income resulting from growth in assets under management, mitigated by a higher claims experience in property and casualty insurance. In addition, the reduction in investment portfolio provisions and the impact of the change in the post-retirement benefit plan had a favourable effect on non-interest expense.	The objective is to achieve growth of between 6% and 10%.	
Growth in adjusted operating income: A measure of growth in Desjardins Group's operations.	Growth was 8.3% in 2018, in line with the 7% to 10% objective. Net interest income was up as a result of growth in the entire portfolio of loans and acceptances outstanding. In addition, this growth stemmed from growth in operations that increased Desjardins Group's income from premiums, assets under management and payment activities.	The objective is to achieve growth of between 5% and 8%.	
Growth differential between adjusted operating income and non-interest expense: A measure of sustainability and profitability.	The growth differential was 7.2% in 2018 as a result of growth in operations combined with productivity initiatives, which had an impact on non-interest expense. In addition, the reduction in investment portfolio provisions and the impact of the change in the post-retirement benefit plan had a favourable effect on non-interest expense.	The objective is to achieve a differential of 2%.	
Adjusted productivity index: A measure of efficiency.	The index was 70.6% at the end of fiscal 2018, an improvement compared to 2017 due to the items that affected results, as mentioned earlier.	Desjardins Group has again set its objective at 70%.	

Key indicators[1]	Results achieved in 2018	2019 objectives	Trend[2][3]
Tier 1A capital ratio: A measure of Desjardins Group's financial strength.	As at December 31, 2018, this ratio was 17.3%, exceeding Desjardins Group's 15% objective.	The objective remains a ratio exceeding 15%.	(%) 
Adjusted return on equity: A measure of profitability resulting in value creation for members and clients.	This indicator was 8.9% in 2018, higher than Desjardins's 8% objective in 2018.	The objective is to reach a level exceeding 8%.	(%) 

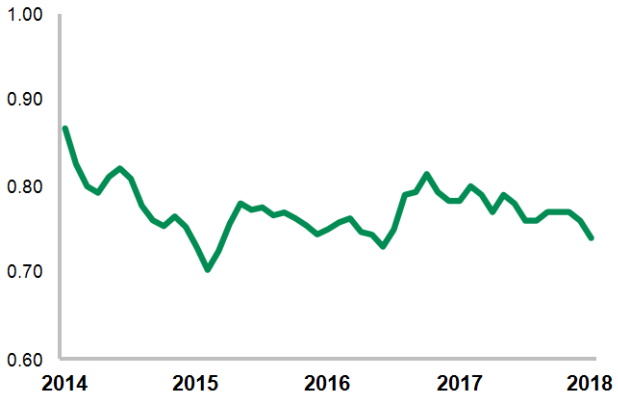
(1) See "Basis of presentation of financial information".
(2) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(3) Prior-period data have been adjusted to conform with the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.

FINANCIAL OUTLOOK

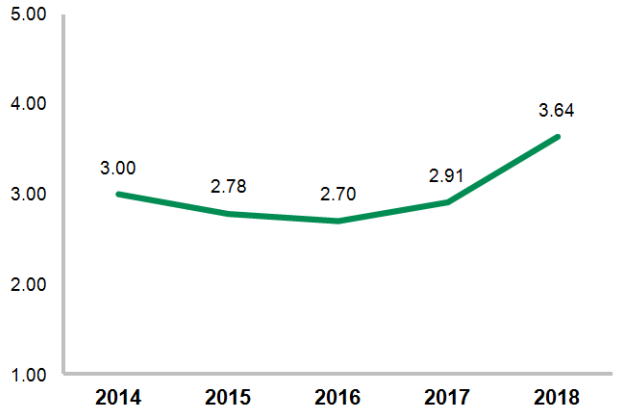
Desjardins Group should continue 2019 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry as well as increasing profitability in an expanding economic environment over the coming year. Stiff competition in the banking sector will place sustained pressure on net interest income, although the rise in interest rates that began in mid-2017 has had a favourable effect. Rigorous cost control and strict capital management will enable Desjardins Group to make significant investments for the benefit of members and communities and adopt innovative concepts to enhance service delivery, with the constant aim of being first in people's hearts and making it easier to do business with Desjardins.

1.4 Economic environment and outlook

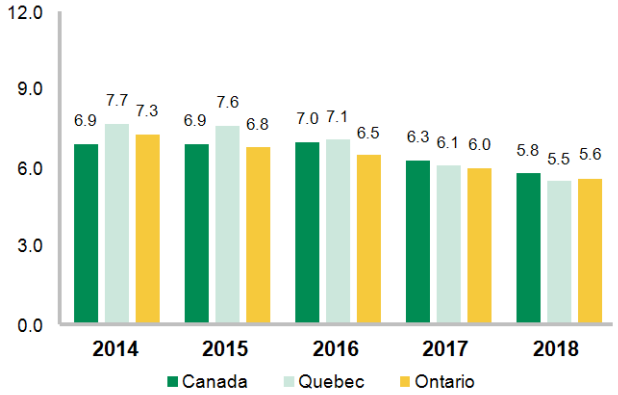
Changes in the Canadian dollar vs. the U.S. dollar (monthly average)
(Canadian dollars/U.S. dollars)



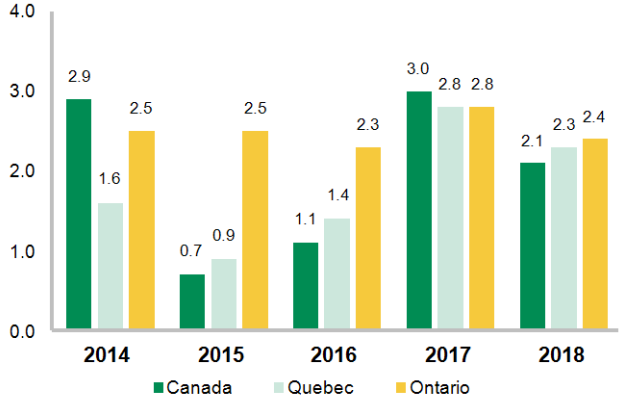
Changes in the prime rate (annual average)
(as a percentage)



Changes in the unemployment rate (annual average)
(as a percentage)



Annual growth in GDP
(as a percentage)



Global economy

After accelerating sharply in 2017, the international economy continued to expand in 2018. The annual gain in GDP is estimated at 3.7%. This good growth was despite a slowdown in international trade, the result of escalating protectionism that began in the U.S. Furthermore, the growth in several major economies slowed during the year. This was the case in the eurozone, where most confidence indices declined. Euroland's real GDP grew 1.8%, decidedly slower than the 2.5% growth posted for 2017. The Italian budgetary and political problem, the social strains in France and the difficulties in Germany's manufacturing sector have given cause for concern in Europe. In the United Kingdom, the trend is weak, due in particular to uncertainties around Brexit. The Chinese economy is growing at a slightly slower pace, at 6.6% for 2018 compared to 6.8% in 2017. Trade tensions between the U.S. and China have affected the economic environment in China, but also in many emerging countries.

The favourable economic environment and rising inflation led many central banks to continue normalizing monetary policy in 2018. In Europe, the European Central Bank stopped buying financial assets in December 2018, while the Bank of England raised its key interest rates by 0.25%. In North America, the pace of key interest rate hikes accelerated, with the U.S. Federal Reserve (the Fed) announcing four 0.25% increases, compared to three in Canada. Tighter monetary policies and optimistic statements issued by the central banks, particularly in North America, led to higher bond yields in early 2018. The rising interest rates, trade tensions and fears around the health of the global economy brought considerable volatility back to the stock markets. Even the S&P 500 Index, encouraged by tax reform and boosted by corporate earnings, nevertheless incurred two major corrections in 2018, ending the year lower compared to 2017. The year was even more difficult for most of the other stock exchanges. Stock markets in Europe and the emerging economies were held back by trade tensions, political uncertainties and the strength of the U.S. dollar, and the drop in the Toronto Stock Exchange was amplified by lower commodity prices. These factors also led to a weaker Canadian dollar and caused bond rates to fall sharply at the end of 2018.

The global economy should continue to grow in 2019, but economic activity is not expected to accelerate. The trade tensions and concerns about the emerging countries suggest a certain levelling off. In the industrialized countries, demand from the U.S. should partly offset weaker growth in the eurozone. The issue of the divorce between the European Union and the United Kingdom is not yet settled, and the related uncertainties may manifest in the economy. Volatility in the financial markets, concerns about Europe and China and the return of their monetary policies to a virtually neutral orientation should convince the Fed and the Bank of Canada to slow the pace of increases to their key interest rates. The increase in bond rates should also be limited. The return of a more positive sentiment on financial markets could exert some negative pressure on the U.S. dollar. Volatility may well remain high in the stock markets, but strong economic growth and high earnings levels leave hope that the North American indices will outperform their historical averages in 2019. The economic environment should also be quite favourable for commodities and, as a result, for the dollar and Canadian financial assets.

United States

In the wake of slightly slower growth in early 2018, economic activity in the U.S. accelerated markedly in the spring, and real GDP grew strongly again in the second half of 2018. Above all, the labour market performed very well, with the unemployment rate reaching levels not seen since the end of the 1960s. Salaries also began to rise. This environment was supported by the tax cuts enacted by the Trump administration and Congress at the end of 2017. Confidence remained strong throughout the year despite greater volatility in the financial markets, escalating protectionism, the interest rate hikes and the mid-term elections. Real GDP grew 2.9% in 2018, on the heels of a 2.2% gain in 2017.

The economic environment in the U.S. should continue to be favoured by the budgetary policies implemented in 2018. However, the situation may change due to the risk of political stalemates following the mid-term elections. This became clear with the partial shutdown of the federal government that began at the end of December. Conditions in the labour market should nevertheless continue to improve, which will exert slightly more pressure on salaries and prices. Real GDP should reach 2.6% in 2019. However, the Trump administration's protectionist measures and reprisals by other countries represent significant risks.

Canada

Following exceptional growth of 3.0% in 2017, Canadian real GDP expanded at a more sustainable rate of around 2.1% in 2018. The slower pace was due mostly to domestic demand. Household spending was not as strong, with slower growth in consumer spending and less residential investment. For the most part this was due to the effects of gradual rising Canadian interest rates and a series of restrictive measures affecting mortgage lending and the housing market. The economy experienced more problems late in the year when the energy sector was hard hit by plummeting oil prices, aggravated in Canada by constraints on the transportation of oil products. The year was also marked by an agreement to replace the North American Free Trade Agreement (NAFTA) with the Canada-United States-Mexico Agreement (CUSMA). This helped reduce uncertainty, opening the way for accelerated non-residential business investment in non-energy sectors.

The 2019 outlook in Canada is for growth near the economy's potential. The problems in the energy sector are expected to continue at the start of the year, as the Alberta government has imposed a significant cut in the province's oil production. The gradual increase in interest rates will also continue to affect consumer spending and the housing market. This being said, several favourable factors are still in place, allowing, among other things, growth in domestic demand to continue at a satisfactory pace. The labour market is strong, with the unemployment rate close to an historic low. Furthermore, demand for new and existing homes remains quite good, and the population is growing relatively quickly, particularly in the 25-to-34-year-old group. Lastly, if CUSMA is ratified as expected, businesses in the non-energy sectors should continue to invest in an environment where full use of production capacity is generating some problems satisfying growing demand. In trade, foreign demand should continue to expand in 2019, but at a slower pace. This will nevertheless foster export growth. The risks nevertheless remain substantial due to the trade wars being waged around the world. In the final analysis, real GDP could grow by 1.8% in 2019.

Quebec

The Quebec economy grew at a sustained pace in 2018. Real GDP rose by approximately 2.3% for the year, slightly slower than the 2.8% growth posted for 2017. Households continued to be active, driving the residential real estate market. Consumer spending maintained a good pace, with household confidence still high. Existing home sales reached new heights, with prices rising at close to 5.2% in 2018. All the province's regions were swept up in this growth. The Greater Montreal real estate market began to overheat in the fall of 2018, since buyers outnumbered properties for sale. The provincial unemployment rate averaged 5.5% last year, exacerbating the problems many businesses were experiencing recruiting talent. The upward pressure on salaries grew, and employees' hourly compensation increased by approximately 4% last year. Business investment and exports firmed up slightly in 2018, despite the period of uncertainty associated with the NAFTA renegotiations, which continued into the fall.

The Quebec economy is expected to slow somewhat in 2019. The interest rate increases that began in mid-2017 should moderate consumer spending, in particular purchases of big-ticket items that require financing. The residential real estate market will also be affected by higher borrowing costs. Home sales and housing starts can be expected to weaken slightly in 2019, compared to the exceptional market activity of 2018. House prices will rise less quickly due to this market lull and approach 2.5% next year. CUSMA has reduced uncertainty for businesses and will be good for both investment and exports. It remains to be seen whether the tariffs of 25% on steel and 10% on aluminum, which are not part of the new agreement, will be maintained. Quebec's real GDP is expected to grow 2% in 2019, or slightly slower than in 2018.

Changes in the markets in which Desjardins Group operates are described in the corresponding analyses in Section 2.3, "Analysis of business segment results".

2.0 Review of financial results

In the charts in this section, the information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

2.1 Impact of significant transactions

CREATION OF AVISO WEALTH IN 2018

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and the partnership between the Centrals and The CUMIS Group. For Desjardins Group, the interest in Aviso Wealth represents an investment in a joint venture and is recognized using the equity method of accounting in the Wealth Management and Life and Health Insurance segment. A $4 million share in Aviso Wealth was recognized in the Combined Statements of Income for the year ended December 31, 2018.

The table below presents the operating results of the subsidiary Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P. included in Desjardins Group's financial results for the Wealth Management and Life and Health Insurance segment.

Table 3 – Impact of the creation of Aviso Wealth
For the years ended December 31

(in millions of dollars)

	2018	2017	2016
Other operating income[1]	**$ 49**	$ 125	$ 108
Operating income[1]	**49**	125	108
Investment loss[1]	**-**	(6)	(7)
Total income	**49**	119	101
Non-interest expense	**49**	114	99
Income taxes on surplus earnings	**-**	1	1
Surplus earnings before member dividends	**$ -**	$ 4	$ 1

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

SALE OF SUBSIDIARIES IN 2017

On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, namely 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. It should also be recalled that the sale of Western Financial Insurance Company to Economical Insurance was completed on January 1, 2017.

The table below presents the operating results of these three subsidiaries included in Desjardins Group's financial results in the Property and Casualty Insurance segment.

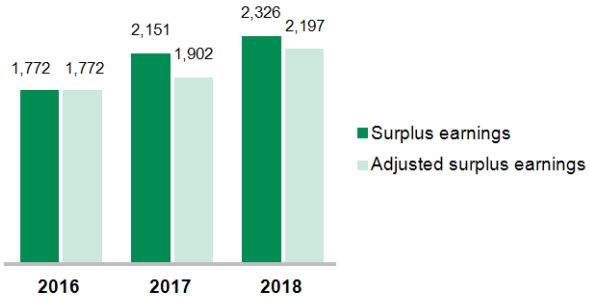
Table 4 – Impact of the sale of subsidiaries
For the years ended December 31

(in millions of dollars)	2018	2017	2016
Net interest income	**$ -**	$ 3	$ 5
Net premiums	**-**	65	213
Other operating income[1]	**-**	97	197
Operating income[1]	**-**	165	415
Investment income[1]	**-**	9	6
Total income	**-**	174	421
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	22	77
Non-interest expense	**-**	124	295
Income taxes on surplus earnings	**-**	9	16
Surplus earnings before member dividends	**$ -**	$ 19	$ 33

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

2.2 Analysis of 2018 results

Surplus earnings before member dividends
(in millions of dollars)



Segment contributions to surplus earnings before member dividends in 2018
(as a percentage)

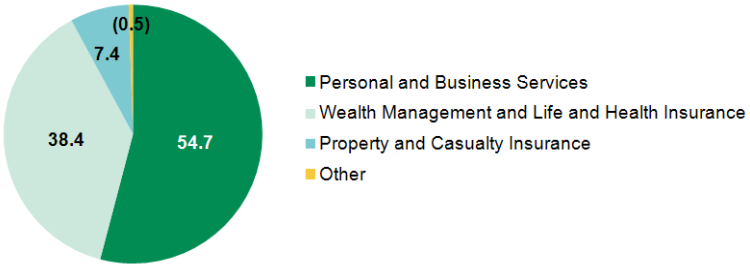


Table 5 – Financial results and indicators
For the years ended December 31

(in millions of dollars)	2018[1]	2017[2]	2016[2]
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other operating income[3]	**2,859**	2,959	2,641
Operating income[3]	**16,576**	15,465	14,129
Investment income[3]	**734**	1,688	1,119
Total income	**17,310**	17,153	15,248
Provision for credit losses	**384**	349	319
Claims, benefits, annuities and changes in insurance contract liabilities	**6,579**	6,717	5,446
Non-interest expense	**7,485**	7,400	7,251
Income taxes on surplus earnings	**536**	536	460
Surplus earnings before member dividends	**$ 2,326**	$ 2,151	$ 1,772
Adjusted surplus earnings before member dividends[3]	**$ 2,197**	$ 1,902	$ 1,772
Contribution to combined surplus earnings by business segment[4]			
Personal and Business Services	**$ 1,272**	$ 1,108	$ 1,025
Wealth Management and Life and Health Insurance	**894**	612	461
Property and Casualty Insurance	**173**	446	296
Other	**(13)**	(15)	(10)
	$ 2,326	$ 2,151	$ 1,772
Amount returned to members and the community			
Member dividends	**$ 253**	$ 202	$ 144
Sponsorships, donations and bursaries	**94**	82	82
Desjardins Member Advantages program	**42**	36	33
	$ 389	$ 320	$ 259
Indicators			
Net interest margin[3]	**2.39%**	2.34%	2.41%
Return on equity[3]	**9.3**	9.1	8.0
Adjusted return on equity[3]	**8.9**	8.0	8.0
Productivity index[3]	**69.8**	70.9	74.0
Adjusted productivity index[3]	**70.6**	72.8	74.0
Credit loss provisioning rate[3]	**0.21**	0.20	0.20

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".
(4) The breakdown by line item is presented in Note 32, "Segmented information", to the Combined Financial Statements.

2018 SURPLUS EARNINGS

For 2018, Desjardins Group continued to grow its operations and reported surplus earnings before member dividends of $2,326 million, a year-over-year increase of $175 million, or 8.1%. Surplus earnings adjusted for specific items, namely the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018 along with the gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company recognized in 2017, were up $295 million, or 15.5%, to total $2,197 million. This increase was mainly due to continued growth in caisse network and payment activities, the more favourable claims experience in life and health insurance, higher income resulting from growth in assets under management, mitigated by a higher claims experience in property and casualty insurance. In addition, the reduction in investment portfolio provisions and the impact of the change in the post-retirement benefit plan had a positive effect on non-interest expense.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in 2018.

- A total of $389 million returned to the community, compared to $320 million in 2017, a 21.6% increase.
  - Member dividends of $253 million for the year ended December 31, 2018, compared to $202 million for the previous year. For 2018, a change was made to member dividends to better recognize Desjardins products held.
  - An amount of $94 million was given to various organizations in the form of sponsorships, donations and bursaries, a $12 million increase compared to 2017.
  - Through the Desjardins Member Advantages program, $42 million was paid out, a $6 million increase compared to 2017.
- Commitments made under the $100 million fund regional development program totalled $53 million for 2018.

Segment contributions to surplus earnings

- Personal and Business Services: **Contribution of $1,272 million,** up $164 million, or 14.8% compared to 2017.
  - Solid performance from the caisse network, related especially to growth in net interest income and strict cost control.
  - Profit related to the restructuring of Interac Corp.
  - Growth in financing activities related to consumer, credit card and other personal loans. Partially offset by:
    - Lower income from trading and new issues on capital markets.
    - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
    - Expenses related to the winding-up of the operations of Zag Bank.
  - The segment contributed 54.7% to surplus earnings.
- Wealth Management and Life and Health Insurance: **Contribution of $894 million,** up $282 million, or 46.1%, and net surplus earnings adjusted for specific items up $153 million, or 25.0%, compared to 2017.
  - Higher gains on the disposal of real estate investments in 2018.
  - More favourable claims experience.
  - Higher income from growth in assets under management.
  - Offset by less favourable adjustments to actuarial assumptions in the normal course of business.
  - The segment contributed 38.4% to surplus earnings.
- Property and Casualty Insurance: **Contribution of $173 million,** down $273 million, and net surplus earnings adjusted for specific items down $32 million, or 15.6%, compared to 2017.
  - Higher claims experience compared to 2017.
  - Impact of the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - Offset by higher investment income.
  - The segment contributed 7.4% to surplus earnings.

- **Return on equity was 9.3%,** compared to 9.1% for 2017.
- **Adjusted return on equity was 8.9%,** compared to 8.0 % for 2017.

OPERATING INCOME

Table 6 – Operating income

For the years ended December 31

(in millions of dollars)	2018[1]	2017[2]	2016[2]
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other operating income[3] (see Table 9)	**2,859**	2,959	2,641
Total operating income[3]	**$ 16,576**	$ 15,465	$ 14,129

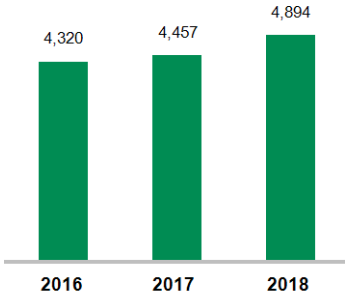
(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".

Operating income totalled $16,576 million, up $1,111 million, or 7.2%, compared to 2017. Excluding the gain of $132 million before taxes on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018 along with the gross gain of $278 million on the sale of Western Financial Group Inc. and Western Life Assurance Company recognized in 2017, operating income would have been $16,444 million, up $1,257 million, or 8.3%, compared to 2017.

Net interest income

Net interest income is the difference between interest income earned on assets, such as loans and securities, and the interest expense related to liabilities, such as deposits, borrowings and subordinated notes. It is affected by interest rate fluctuations, funding and matching strategies, as well as the composition of both interest-bearing and non-interest-bearing financial instruments. For analysis purposes, Table 7 shows the changes in net interest income for the main asset and liability classes. Table 8 details how net interest income was affected by changes in volume and interest rates for the different assets and liabilities.

Net interest income
(in millions of dollars)



- **Net interest income of $4,894 million,** up $437 million, or 9.8%, mainly because of growth in the entire average portfolio of loans and acceptances outstanding, particularly residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and, to a lesser degree, higher interest rates.
- **Net interest margin of 2.39%** in 2018, as a percentage of average interest-bearing assets, up 5 basis points compared to 2017.
- **Interest income of $7,321 million,** up $1,075 million, or 17.2%, essentially due to the following items:
  - Growth in average return on total interest-bearing assets, mainly loans, which added $610 million to interest income.
  - An increase in the average volume of total interest-bearing assets, mainly loans, which added $465 million to interest income.
- **Interest expense of $2,427 million,** up $638 million, or 35.7%, primarily as a result of the following:
  - An increase in the average cost of funding, mainly from deposits, raised this expense by $542 million.
  - Growth in average deposits, leading to a $96 million increase in interest expense.

Table 7 – Net interest income on average assets and liabilities
For the years ended December 31

(in millions of dollars and as a percentage)	2018			2017[1]			2016[1]		
	Average balance	**Interest**	**Average rate**	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets									
Interest-bearing assets									
Securities, cash and deposits with financial institutions	**$ 23,809**	**$ 390**	**1.64%**	$ 22,363	$ 323	1.44%	$ 19,977	$ 315	1.58%
Loans	**180,542**	**6,931**	**3.84**	167,944	5,923	3.53	159,363	5,686	3.57
Total interest-bearing assets	**204,351**	**7,321**	**3.58**	190,307	6,246	3.28	179,340	6,001	3.35
Other assets	**6,536**	**-**	**-**	6,126	-	-	6,431	-	-
Total assets	**$ 210,887**	**$ 7,321**	**3.47%**	$ 196,433	$ 6,246	3.18%	$ 185,771	$ 6,001	3.23%
Liabilities and equity									
Interest-bearing liabilities									
Deposits	**$ 177,490**	**$ 2,235**	**1.26%**	$ 168,098	$ 1,711	1.02%	$ 159,200	$ 1,596	1.00%
Borrowings and subordinated notes	**1,369**	**192**	**14.02**	1,377	78	5.66	1,581	85	5.38
Total interest-bearing liabilities	**178,859**	**2,427**	**1.36**	169,475	1,789	1.06	160,781	1,681	1.05
Other liabilities	**14,184**	**-**	**-**	10,147	-	-	9,496	-	-
Equity	**17,844**	**-**	**-**	16,811	-	-	15,494	-	-
Total liabilities and equity	**$ 210,887**	**$ 2,427**	**1.15%**	$ 196,433	$ 1,789	0.91%	$ 185,771	$ 1,681	0.90%
Net interest income		**$ 4,894**			$ 4,457			$ 4,320	
As a percentage of average interest-bearing assets			**2.39%**			2.34%			2.41%

[1] Data for 2017 and 2016 have been reclassified to conform to the current year's presentation.

Table 8 – Impact of changes in volumes and rates on net interest income
For the years ended December 31

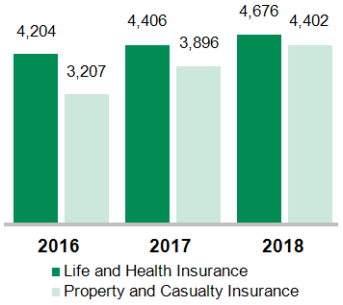
(in millions of dollars and as a percentage)	2018			Increase (decrease)		2017[1]			Increase (decrease)	
	Change in average volume	Change in average rate	Interest	Average volume	Average rate	Change in average volume	Change in average rate	Interest	Average volume	Average rate
Assets										
Securities, cash and deposits with financial institutions	**$ 1,446**	**0.20%**	**$ 67**	**$ 21**	**$ 46**	$ 2,386	(0.14)%	$ 8	$ 38	$ (30)
Loans	**12,598**	**0.31**	**1,008**	**444**	**564**	8,581	(0.04)	237	306	(69)
Change in interest income			**1,075**	**465**	**610**			245	344	(99)
Liabilities										
Deposits	**9,392**	**0.24**	**524**	**96**	**428**	8,898	0.02	115	89	26
Borrowings and subordinated notes	**(8)**	**8.36**	**114**	**-**	**114**	(204)	0.28	(7)	(11)	4
Change in interest expense			**638**	**96**	**542**			108	78	30
Change in net interest income			**$ 437**	**$ 369**	**$ 68**			$ 137	$ 266	$ (129)

(1) Data for 2017 have been reclassified to conform to the current year's presentation.

Net premiums

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, rose by $774 million, or 9.6%, to total $8,823 million as at December 31, 2018.

Net premiums[1]
(in millions of dollars)



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

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $4,676 million,** up $270 million, or 6.1%, due to business growth.
  - Premiums up $270 million, with annuities accounting for $165 million, group insurance for $69 million and individual insurance for $36 million.

Property and Casualty Insurance segment

- **Net premiums of $4,402 million,** up $506 million, or 13.0%, essentially as a result of the following:
  - Increase of $367 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly due to the change in the cession rate specified in the treaty, which provides for cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Increase due to growth in the average premium reflecting the current trend in the Canadian property and casualty insurance industry, as well as to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
  - Offset by a decrease in net premiums resulting from the sale of Western Life Assurance Company on July 1, 2017.

Other operating income

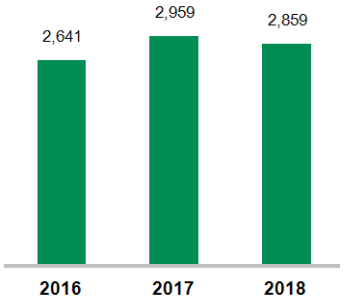
Table 9 – Other operating income
For the years ended December 31

(in millions of dollars)	2018[1]	2017[2]	2016[2]
Deposit and payment service charges	**$ 433**	$ 458	$ 488
Lending fees and credit card service revenues	**697**	660	574
Brokerage and investment fund services	**905**	1,030	1,060
Management and custodial service fees	**551**	485	422
Foreign exchange income	**91**	77	70
Other	**182**	249	27
Total other operating income[3]	**$ 2,859**	$ 2,959	$ 2,641

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".

Other operating income stood at $2,859 million for 2018, which is a decrease of $100 million, or 3.4%, compared to the previous year.

Other operating income[1]
(in millions of dollars)



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

Excluding the gain of $132 million before taxes on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018 along with the gross gain of $278 million on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company recognized in 2017, other operating income would have been $2,727 million, up $46 million, or 1.7%, compared to 2017.

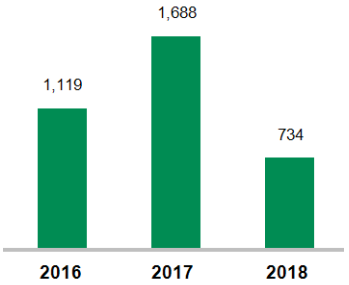
- Deposit and payment service charges of $433 million, down $25 million, or 5.5%.
  - Lower income from deposit service charges because of changes in pricing and a lower volume.
- Lending fees and credit card service revenues of $697 million, up $37 million, or 5.6%.
  - Growth in business volume from payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.
- Income from brokerage and investment fund services of $905 million, down $125 million, or 12.1%.
  - Decrease in commission income following the sale of Western Financial Group Inc. and the transaction involving Qtrade Canada Inc.
  - Offset by growth in income from assets under management.
- Management and custodial service fees up $66 million, or 13.6%.
  - Growth in fees related to assets under management.
- Other operating income of $182 million, down $67 million, or 26.9%.
  - Gross gain of $278 million on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company recognized in 2017.

  Partially offset by the following:
  - Gain before taxes of $132 million on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018.
  - Decrease in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.

INVESTMENT INCOME

Investment income totalled $734 million, a decrease of $954 million compared to the previous year.

Investment income[1]
(in millions of dollars)



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

- Decrease primarily due to fluctuations in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to the decrease in the fair value of the bond portfolio related to interest rate fluctuations.
  - Decrease largely offset by the change in actuarial liabilities that in turn led to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Lower income from trading activities.

Partially offset by the following items:

- Higher dividend income than in 2017, especially on account of reinvested income that included prior-period adjustments.
- Higher gains on disposal of real estate investments in 2018.
- Negative change in the fair value of matched bonds in the Property and Casualty Insurance segment lower than in 2017, chiefly because market interest rates did not rise as much in 2018 as they did in 2017.
- Profit related to the restructuring of Interac Corp.

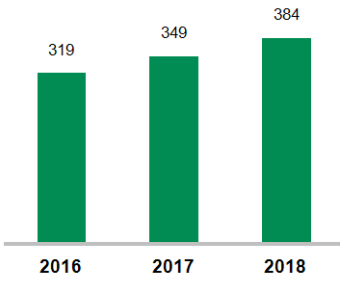
TOTAL INCOME

Total income, comprising net interest income, net premiums, other operating income and investment income, amounted to $17,310 million, an increase of $157 million, or 0.9%, compared to 2017.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $384 million, up $35 million, or 10.0%. This increase was mainly the result of growth in outstanding loans as well as the adoption of IFRS 9 as at January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and the migration of borrower ratings. Despite this increase, Desjardins Group continued to present a quality loan portfolio in 2018.

Provision for credit losses
(in millions of dollars)

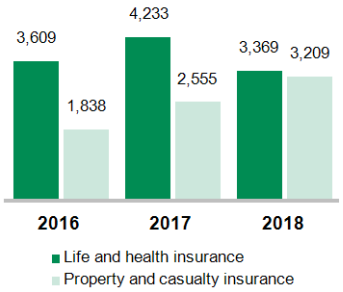


- The credit loss provisioning rate was 0.21% for 2018, compared to 0.20% in 2017.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.54% as at December 31, 2018, compared to 0.25% a year earlier. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $6,579 million, down $138 million, or 2.1%, compared to 2017.

Claims, benefits, annuities and changes in insurance contract liabilities[1]
(in millions of dollars)



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

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $3,369 million,** down $864 million, or 20.4%. This decrease was basically the result of the following:
  - Decrease of $873 million in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments.
  - The more favourable product claims experience was offset by less favourable adjustments to the changes to actuarial assumptions made in the normal course of business.

Property and Casualty Insurance segment

- **Cost of claims of $3,209 million,** up $654 million, or 25.6%, mainly due to the following items:
  - Business growth, which led to a higher cost of claims.
  - Increase due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Less positive developments than in 2017 concerning prior-year claims in automobile insurance.
  - The P&C insurers' loss ratio was 73.9% for 2018, compared to 67.7% in 2017.
    - Higher ratio primarily attributable to less positive developments than in 2017 concerning prior-year claims, (9.9)% vs. (15.0)%, essentially automobile insurance claims.
    - Higher claims experience for the current year than for 2017: 80.7% vs. 80.1%.
    - More significant impact of catastrophes and major events compared to 2017: 3.1% vs. 2.6%.

NON-INTEREST EXPENSE AND PRODUCTIVITY INDEX

Table 10 – Non-interest expense
For the years ended December 31

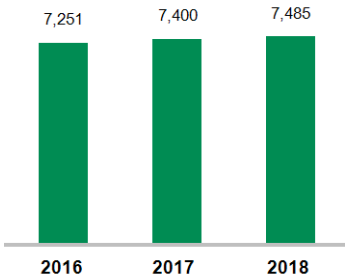
(in millions of dollars and as a percentage)	2018[1]	2017[2]	2016[2]
Salaries and fringe benefits			
Salaries	**$ 2,836**	$ 2,808	$ 2,909
Fringe benefits	**571**	644	639
	3,407	3,452	3,548
Premises, equipment and furniture, including depreciation	**701**	727	667
Service agreements and outsourcing	**338**	319	306
Communications	**261**	284	307
Other	**2,778**	2,618	2,423
Total non-interest expense	**$ 7,485**	$ 7,400	$ 7,251
Desjardins Group productivity index[3]	**69.8%**	70.9%	74.0%
Desjardins Group adjusted productivity index[3]	**70.6**	72.8	74.0

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".

Non-interest expense totalled $7,485 million for 2018, up slightly by $85 million, or 1.1%, compared to 2017. This increase was mitigated by the following:
- Reduction in investment portfolio provisions.
- Gain due to the impact of the change in the post-retirement benefit plan.

Apart from these favourable items, non-interest expense increased as a result of the following:
- Higher expenses due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
- Business growth, particularly in assets under management.

Non-interest expense
(in millions of dollars)



- **Salaries and fringe benefits of $3,407 million,** down $45 million, or 1.3%, compared to 2017, mainly because of the following:
  - Gain due to the impact of the change in the post-retirement benefit plan made during 2018.
  - Decrease in salaries following the sale of Western Financial Group Inc. and Western Life Assurance Company.
  - Offset by higher salaries due to indexing and growth in operations.
  - This expense item represented 45.5% of total non-interest expense, lower than the 46.6% recorded in 2017.
  - The ratio of fringe benefits to total base compensation was 20.1% in 2018, down compared to 22.9% in 2017, primarily because of the impact of the change in the post-retirement benefit plan made during 2018. For more information, see Note 16, "Net defined benefit plan liabilities" to the Combined Financial Statements.

- **Expenses related to premises, equipment and furniture (including depreciation) of $701 million,** down $26 million, or 3.6%, compared to 2017.
  - Reduction in the purchase of computer hardware.
  - Decrease in expenses following the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.

- **Service agreements and outsourcing of $338 million,** up $19 million, or 6.0%, compared to 2017.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.

- **Communication expenses of $261 million,** down $23 million, or 8.1%, compared to 2017.
  - The decrease resulted from the implementation of productivity initiatives.

- **Other expenses of $2,778 million,** up $160 million, or 6.1%, compared to 2017.
  - Increase in expenses due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Commitments made under the $100 million fund program.
  - Business growth, particularly in assets under management.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Write-off of certain technology assets in 2018.
  - Expenses related to the winding-up of Zag Bank's operations.

  Partly offset by the following:
  - Reduction in investment portfolio provisions.
  - Decrease in expenses due to the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017 as well as the transaction involving Qtrade Canada Inc.

- **Productivity index at 69.8% for 2018,** compared to 70.9% in 2017.
- **Adjusted productivity index at 70.6% for 2018,** compared to 72.8% in 2017. The improvement in the 2018 productivity index was due to the items mentioned earlier.

INCOME TAXES AND INDIRECT TAXES

Desjardins Group is a cooperative financial group, and each of its entities that operate as a financial services cooperative—namely the caisses, the *Fédération des caisses Desjardins du Québec* and the *Fédération des caisses populaires de l'Ontario Inc.*—is considered a private and independent company for tax purposes, unlike the vast majority of other Canadian financial institutions, which are large public corporations. Desjardins entities that are not financial services cooperatives are subject to the large corporation tax regime.

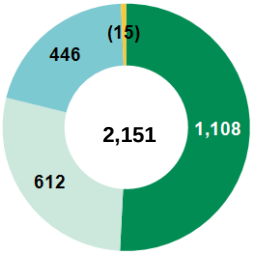
- **Income taxes on surplus earnings before member dividends of $536 million,** the same amount as in 2017.
  - Effective tax rate of 18.7% for the year ended December 31, 2018. down compared to 19.9% for 2017.
  - If specific items are excluded, the effective tax rate would have been 19.5% for 2018, down slightly compared to 21.0% in 2017. The lower rate is mainly because of the recovery of taxes related to the remuneration of F capital shares.

Note 27, "Income taxes on surplus earnings", to the Combined Financial Statements presents, among other things, a reconciliation of the statutory tax rate and the effective tax rate, expressed in dollars.

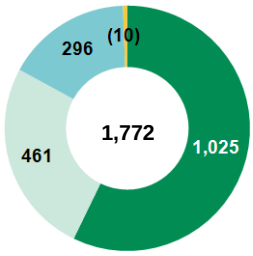
Indirect taxes consist of property and business taxes, payroll and social security taxes, the goods and services tax, and sales taxes. Indirect taxes are included in non-interest expense. For 2018, Desjardins entities paid $1,447 million in indirect taxes, compared to $1,358 million in 2017.

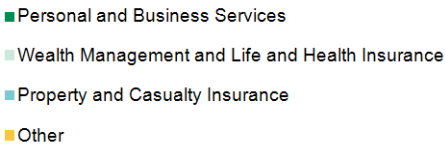
COMPARISON OF 2017 AND 2016

2017 surplus earnings before member dividends
(in millions of dollars)



2016 surplus earnings before member dividends
(in millions of dollars)





For 2017, Desjardins Group posted surplus earnings before member dividends of $2,151 million, compared to $1,772 million for 2016. Surplus earnings adjusted for specific items totalled $1,902 million, for an increase of $130 million, or 7.3%. Return on equity was 9.1%, compared to 8.0% in 2016, while adjusted return on equity was 8.0% in 2017, the same ratio as in 2016.

Segment results

- **Personal and Business Services: Surplus earnings before member dividends of $1,108 million in 2017,** up $83 million compared to 2016, chiefly due to the following:
  - Growth in caisse network activities.
  - Growth in business volume from payment and financing activities.
  - Growth in capital market income from mergers and acquisitions.

- **Wealth Management and Life and Health Insurance: Net surplus earnings of $612 million in 2017,** up $151 million compared to 2016, essentially due to the following:
  - Solid investment performance in 2017.
  - Favourable adjustments to actuarial assumptions made in the normal course of business in 2017.
  - Higher income from growth in assets under management.
  - Offset by a less favourable claims experience in 2017.

- **Property and Casualty Insurance: Net surplus earnings of $446 million in 2017,** including a gain on the sale of subsidiaries, for an increase of $150 million compared to 2016.
  - Net surplus earnings adjusted for specific items totalled $205 million, down $91 million compared to 2016.
  - Higher claims experience in 2017 than in 2016 and favourable trend in prior-year claims, which were lower than in 2016.

Combined results

- **Operating income of $15,465 million in 2017,** up $1,336 million compared to 2016.
  - Net interest income of $4,457 million in 2017, an increase of $137 million compared to 2016, mainly on account of growth in the entire average portfolio of loans and acceptances outstanding.
  - Net premiums up $881 million in 2017, mainly because of the following:
    - Increase in net premiums resulting from the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
    - Business growth related to insurance operations in the Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment.
    - Offset by a decrease in net premiums following the sale of Western Life Assurance Company on July 1, 2017 and of Western Financial Insurance Company on January 1, 2017.
  - Other operating income of $2,959 million, up $318 million in 2017, essentially due to the following:
    - Gain before taxes of $278 million on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company.
    - Higher income from assets under management.
    - Growth in business volume from payment and financing activities.

    This increase was partly offset by the following:
    - Decrease in commission income following the sale of Western Financial Group Inc.
    - Increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
    - Lower deposit income on account of changes in pricing.

- **Investment income of $1,688 million in 2017**, up $569 million compared to 2016.
  - Net income on securities at fair value through profit or loss up $546 million.
    - Increase mainly due to fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
      - Differences mostly attributable to changes in the fair value of the bond, share and derivatives portfolio.
      - Increase mostly offset by the change in actuarial liabilities that in turn led to an increase in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

    Partly offset by the following:
    - Decline in income from asset-backed term notes (ABTN) activities given that substantially all ABTN were settled in January 2017.
    - Unfavourable changes in the fair value of derivative financial instruments in 2017, including those associated with hedging operations for Desjardins Group as a whole.
  - Net income from available-for-sale securities up $20 million, mainly because of higher gains on the disposal of investments in 2017.
  - Net other investment income totalled $201 million, which was stable compared to 2016.

- **Provision for credit losses of $349 million in 2017,** up $30 million compared to 2016.
  - In 2016, refining the methodology used in the models for calculating the collective allowance resulted in a recovery of this allowance. However, favourable changes in portfolio risk mitigated this increase.
  - Credit loss provisioning rate of 0.20% as at December 31, 2017, comparable to the rate in 2016.
  - Ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, of 0.25% as at December 31, 2017, down from 0.32% as at December 31, 2016. Improved economic conditions helped to reduce the volume of gross impaired loans.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $6,717 million,** up $1,271 million in 2017.
  - Wealth Management and Life and Health Insurance segment: expenses up $624 million in 2017.
    - Increase of $425 million in the actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of an increase in the fair value of matched investments.
    - Actuarial liabilities also included the favourable effect of adjustments to actuarial assumptions as well as the less favourable effect of the claims experience.
    - Increase in benefits due to growth in operations.
  - Property and Casualty Insurance segment: expenses up $717 million in 2017.
    - Increase mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
    - Loss ratio for P&C insurers of 67.7% in 2017, compared to 60.2% in 2016.
      - Higher loss ratio partly due to a less favourable change than in 2016 concerning prior-year claims, (15.0)% vs. (20.2)%, mainly because claims taken over from State Farm as at January 1, 2015 were lower than in 2016.
      - Increased loss ratio also attributable to the higher claims experience for the current year than in 2016, 80.1% compared to 75.8%, primarily in automobile insurance claims in all geographic markets.
    - Offset by catastrophes and major events, which were less significant than in 2016, when there had been two catastrophes caused by hail and the Fort McMurray wildfire in Alberta.

- **Non-interest expense** up $149 million in 2017, mainly due to the following:
  - The effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Increased popularity of the BONUSDOLLARS Rewards Program.
  - Business growth, particularly in payment and financing activities and assets under management.

  Partially offset by the following items:
  - Decrease in expenses following the sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017 as well as Western Financial Insurance Company on January 1, 2017.
  - Effective cost control following the implementation of productivity initiatives that made it possible to limit the increase in non-interest expense in a context of operations growth.

2.3 Analysis of business segment results

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

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

2.3.1 Personal and Business Services

PROFILE

Personal and Business Services is central to Desjardins Group's operations. Through a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, Desjardins Group is a leader in financial services in Quebec and a player on the financial services scene in Ontario as well.

Desjardins's offer includes regular, convenience and savings transactions, payment services, financing, specialized services, access to capital markets, development capital, business ownership transfers and advisory services, and through its distribution network, life and health insurance and property and casualty insurance products.

In addition, members and clients know that they can rely on the largest advisory force in Quebec, made up of dedicated professionals who are there for them at every stage in their life or entrepreneurial growth.

To meet the constantly changing needs of its members and clients, Desjardins Group offers its services through the caisse network and the Desjardins Business centres, as well as through complementary distribution networks and specialized teams, by phone, online, via applications for mobile devices, and at ATMs.

Additional information about the Personal and Business Services segment's principal risks is presented on page 71 of the "Risk management" section of this MD&A.

SERVICES

- **Everyday financial management:**
  - Transaction services carried out at the caisse counter and at ATMs, requests for information and specialty services, such as purchasing foreign exchange, money orders, drafts and safety deposit boxes.
- **Savings and investments:**
  - Products distributed by the caisses such as investment funds (Desjardins Funds), market-linked guaranteed investments (MLGI), the guaranteed savings offer, the guaranteed investment fund offer, and annuity products.
- **Integrated business offer:**
  - Customized solutions to support businesses of all sizes in their expansion plans, whether on Quebec, Canadian or international markets.
- **Financing:**
  - **Residential mortgages,** for the purchase of land, new or existing homes and for renovations;
  - **Consumer loans**, such as loans for the purchase of automobiles and durable goods, personal lines of credit, student loans and Accord D financial solutions;
  - **Commercial credit,** which makes it possible to offer financing in the commercial and industrial, agricultural and agri-food, and public and institutional sectors, as well as for commercial and multi-residential real estate.
- **Payment:**
  - Debit, credit and prepaid card payment services for individuals and businesses, merchant payment acceptance services, electronic payment services and both domestic and international funds transfers.
- ***AccèsD*:**
  - Desjardins Group products and services are available at anytime, anywhere in the world, by phone, online and via applications for mobile devices.
- **Capital markets:**
  - Meeting the financing needs of Canadian corporations, institutions and cooperatives, and providing advisory services for mergers and acquisitions, as well as intermediation and execution services on the stock and fixed income securities markets;
  - Carried out by seasoned sales and trading teams who are supported by a research team that is renowned in the industry for its excellence.
- **Development capital:**
  - Facilitating investment, both directly and through funds, in small and medium-sized enterprises (SMEs) and cooperatives in every region of Quebec;
  - Desjardins Capital Inc., which manages *Capital régional et coopératif Desjardins*, supports the growth of businesses, especially in business ownership transfers;
  - With the backing of a team of specialists operating throughout Quebec, this segment helps to develop and maintain the highest calibre of entrepreneurship in Quebec by providing entrepreneurs with assistance at every stage of their company's growth.
- **Specialized services:**
  - International services, cash management services, custodial and trust services, integrated services for high-net-worth clients as well as payroll and human resources management solutions.

2018 ACHIEVEMENTS

- ***Interac* Flash:** Deployment of contactless technology on Desjardins debit cards.
- **New automated teller machines:** Start of rollout of the touchscreen ATMs that allow envelope-free deposit. More than 400 ATMs have been deployed to date, and rollout will continue throughout 2019.
- **Payment:** Acquisition and set-up of new Canada-wide credit card portfolios.
- **Insufficient funds alert:** Introduction of a new alert to notify members when they do not have the necessary funds in their account to cover a preauthorized payment. More than one million members have signed up for this alert since its launch in February 2018.
- Opening of five **Signature Service** centres in 2018**,** for a total of 16 to date in different regions of Quebec.
- **Launch of "*FondsC*"** at all Desjardins Business centres, an initiative aimed at supporting SMEs with financial assistance of up to $10,000 and encouraging our partner enterprises to initiate new growth projects throughout Quebec.
- Desjardins Capital Inc. and Export Development Canada (EDC) partnered with Siparex Group and Bpifrance to launch the **Transatlantic Fund,** with an envelope of $120 million to finance the development of European and North American companies and support their growth.
- Desjardins Group **ranked No. 2 among Quebec's most influential brands** according to the fourth edition of the *Indice Ipsos-Infopresse*.
- **Coolest financial institution**: Based on Léger's 2018 Youth Study, Desjardins Group is the coolest financial institution according to Quebec millennials.
- Desjardins Group received awards at the PMI Elixir Gala, an event recognizing the best in project management across all industries. The *Approval - Basel Business Credit Risk* and *Support for Agile Approaches by Enhancing Portfolio Management Maturity* were both honoured in the **Palmarès category**.
- Montreal Startup Community Awards – Desjardins Group was a winner: This annual gala recognizes all those who contribute to the development of the Montreal ecosystem for startups. Desjardins Group, through Desjardins Lab, was **honoured as "Corporate Champion of the Year".**
- The Personal and Business Services segment continued its digital transformation, particularly through the following:
  - **New *AccèsD* mobile app:** A significant development in the Desjardins mobile app toward a modern and intuitive platform.
  - **Electronic signature:** Large-scale deployment of electronic signature in the caisse network with the addition of consumer financing, deposit, loan insurance products and opening of business accounts.
  - **Online mortgage renewal:** Introduction of 100% online renewal for certain types of mortgages. Introduced gradually with a few caisses, the solution will expand, in 2019, to all caisses, including those in Ontario, for all eligible members and certain mortgage types.
  - Opening of business accounts online and enrolment for ***AccèsD Affaires*** services greatly simplified, thereby considerably reducing the delay in these processes for the benefit of Desjardins members.

INDUSTRY

In 2018, the Canadian financial industry comprised some 86 domestic and foreign banking institutions, as well as 523 savings and loan cooperatives, slightly more than 51.8% of which belonged to Desjardins Group.

In the Canadian banking services industry, on-balance sheet and off-balance sheet personal savings outstanding was estimated at $4,209 billion as at December 31, 2018, for a year-over-year increase of 0.5%, compared to a 7.9% increase a year earlier. This significant slowdown is due to a pullback in stock market activity (an 11.6% drop in the S&P/TSX index in 2018), which affected the value of off-balance sheet savings products (such as investment funds and securities in custody with securities brokers) and reduced the popularity of this riskier type of investment with retail investors. The outstanding volume of loans to individuals was estimated at $2,165 billion as at the same date, a year-over-year increase of 3.4%, compared to a 5.3% increase observed at year-end 2017. Business financing outstanding was estimated at $879 billion, a year-over-year increase of 9.1%, compared to an increase of 10.5% as at December 31, 2017.

In Quebec, on-balance sheet and off-balance sheet personal savings outstanding was estimated at $789 billion at year-end 2018, for nil year-over-year growth, compared to an increase of 8.2% as at December 31, 2017. The slowdown was due to the same factors as for Canada as a whole. The volume outstanding for financing to individuals was estimated at $387 billion as at the same date, a year-over-year increase of 3.9%, compared to growth of 5.0% at year-end 2017. The volume outstanding for financing to businesses was estimated at $171 billion as at December 31, 2018, a year-over-year increase of 8.8%, compared to 4.5% growth at the end of 2017. Agricultural loans, which are also part of financing to businesses, amounted to $19.5 billion as at December 31, 2018, a 9.5% year-over-year increase, compared to a 3.6% increase at the end of 2017. It is clear that Desjardins Group, with a portfolio of agricultural loans totalling $8.1 billion and a market share of close to 41% at the same date, is a leader in this area.

The major industry players are focusing primarily on client experience, access to services and proactive advice. The fight for market share is therefore very fierce, since all players are adopting strategies aimed at intensifying business relations with their clients and getting to know them better.

Desjardins Group is a Quebec leader in many segments of financial services to individuals and businesses. In loans to individuals, particularly residential mortgages, its market share was estimated at 37.8% as at December 31, 2018, while in consumer loans, it was estimated at 22.8%. Furthermore, Desjardins Group is a leader in personal savings in Quebec, especially in on-balance sheet personal savings products, with a market share of this industry estimated at 42.2% as at December 31, 2018. Finally, in financing to businesses, more specifically in commercial and industrial loans, Desjardins Group is also well positioned in Quebec, with an estimated market share of 20.9% as at December 31, 2018.

Additional information about the economic environment can be found in the "Economic environment and outlook" section of this MD&A.

2019 STRATEGIES AND PRIORITIES

The 2019 strategies and priorities of the Personal and Business Services segment are incorporated into Desjardins Group's strategic priorities and are aimed at helping Desjardins to achieve its ambition of being first in people's hearts, while working in the best interests of members and clients. The Personal and Business Services segment intends to strengthen its leadership position in financing, savings and, through its distribution network, life and health and P&C insurance products. Capitalizing on the strengths of the entire cooperative group in serving members and clients and increasing their satisfaction will again be Desjardins Group's key priorities in the coming year. To do so, Desjardins will facilitate interactions with members and clients across all its channels, in particular by streamlining its processes.

Reaching objectives requires the commitment of every director, manager and employee, as well as a high-calibre, comprehensive and integrated offer that is innovative and easy to access. The segment, focused on the financial health of its members, further intends to underscore the cooperative difference by contributing to lasting prosperity in businesses and communities. Its strategy is based on establishing enduring relationships of closeness and trust with members, clients and partners, and on sustainable growth. Its implementation is supported by strong foundations and Desjardins's long-standing commitments in the regions and in various socio-economic communities.

The Personal and Business Services segment is also continuing to implement its plan to achieve profitable growth in order to remain a major industry player in Quebec while enhancing its productivity by maximizing its synergies with other Desjardins entities and segments.

Another of the segment's priorities is to continue the digital transformation in line with members' and clients' priority life events. In concrete terms, the segment will continue its initiatives to strengthen its relational presence across all channels and spark members' and clients' interest in proactive, value-added advice. The segment also seeks to make members and clients more independent for regular interactions and to continue to simplify products, services and processes from end to end.

ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

Table 11 – Personal and Business Services – Segment results

For the years ended December 31

(in millions of dollars and as a percentage)	**2018[1]**	2017[2]	2016[2]
Net interest income	**$ 4,374**	$ 3,916	$ 3,743
Other operating income[3]	**2,007**	1,975	1,871
Operating income[3]	**6,381**	5,891	5,614
Investment income[3]	**100**	230	360
Total income	**6,481**	6,121	5,974
Provision for credit losses	**385**	345	318
Non-interest expense	**4,406**	4,305	4,212
Income taxes on surplus earnings	**418**	363	419
Surplus earnings before member dividends	**1,272**	1,108	1,025
Member dividends, net of tax recovery	**185**	148	105
Net surplus earnings for the year after member dividends	**$ 1,087**	$ 960	$ 920
Of which:			
Group's share	**$ 1,087**	$ 960	$ 918
Non-controlling interests' share	**-**	-	2
Indicators			
Average gross loans and acceptances[3]	**$ 179,753**	$ 167,506	$ 159,202
Average deposits[3]	**146,500**	138,243	130,639
Credit loss provisioning rate[3]	**0.21%**	0.21%	0.20%
Gross credit-impaired loans[4] / gross loans and acceptances ratio[3]	**0.56**	0.25	0.33

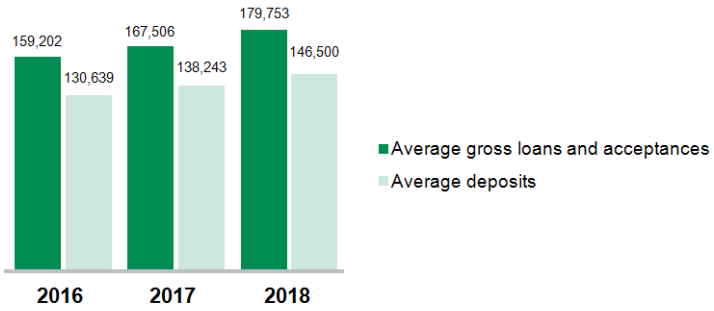
(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.

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

(4) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Average gross loans and acceptances and average deposits
(in millions of dollars)



COMPARISON OF 2018 AND 2017 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $1,272 million,** up $164 million, or 14.8%, essentially due to the following:
  - Solid performance from the caisse network, related especially to growth in net interest income and strict cost control.
  - Profit related to the restructuring of Interac Corp.
  - Growth in financing activities related to consumer, credit card and other personal loans.

  This increase was partially offset by:
  - Lower income from trading and new issues on capital markets.
  - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Expenses related to the winding-up of the operations of Zag Bank.

- **Operating income of $6,381 million,** up $490 million, or 8.3%.
  - Increase of $458 million in net interest income mainly as a result of year-over-year growth of $12.2 billion in the entire average portfolio of loans and acceptances outstanding, including residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and to a lesser extent, as a result of higher interest rates.
  - Other operating income of $2,007 million, up $32 million, or 1.6%, mainly due to:
    - Growth in business volumes of payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.
    - Increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as investment funds.

    This increase was partly offset by:
    - Lower income from deposit service charges on account of changes in pricing and lower volume.
    - Decline in income from new capital market issues.

- **Investment income of $100 million,** down $130 million, mainly as a result of:
  - Lower income from derivatives.
  - Decrease in trading income on capital markets.
  - Offset by profit related to the restructuring of Interac Corp.

- **Total income of $6,481 million,** up $360 million, or 5.9%.

- **Provision for credit losses of $385 million,** up $40 million, or 11.6%, chiefly because of the following:
  - Growth in outstandings.
  - Revision of economic scenarios and updating of parameters.
  - Migration of borrower ratings.
  - The adoption of IFRS 9 on January 1, 2018 made the allowance for credit losses more volatile.

- **Non-interest expense of $4,406 million,** up $101 million, or 2.3%, mainly because of:
  - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Expenses related to the winding-up of Zag Bank's operations.
  - Business growth, especially growth in activities to enhance the service offer to caisse members and clients and in *AccèsD* services.

  This increase was partly offset by:
  - Gain resulting from the impact of the change in the post-retirement benefit plan made in fiscal 2018.
  - Favourable effect of strict cost control.

2.3.2 Wealth Management and Life and Health Insurance

PROFILE

The Wealth Management and Life and Health Insurance segment combines different categories of service offers aimed at growing the assets of Desjardins Group members and clients and helping them protect their financial security. These offers are intended for individuals and businesses, while its group insurance and savings plans meet the needs of employees through their company, or individuals who are part of any other group.

The segment designs several lines of individual insurance (life and health) coverage as well as 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 wealth management services. The segment also includes asset management for institutional clients.

One of the greatest strengths of the Wealth Management and Life and Health Insurance segment is its vast and diversified Canada-wide distribution network, which mainly includes:

- Employees of the caisse network and Desjardins Business centres.
- Financial security advisers assigned to caisse members.
- Investment advisers and private managers.
- Exclusive agents and independent partners.
- Actuarial consulting firms and group plan representatives.

To meet members' and clients' needs and preferences, certain product lines are distributed directly via customer care centre, online or through applications for mobile devices. Online services are constantly being finetuned so that they meet clients' changing requirements.

This sector includes the operations of Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. until April 1, 2018, as well as the activities with regard to the interest in Aviso Wealth as of this same date, as mentioned in "Impact of significant transactions".

Additional information about the Wealth Management and Life and Health Insurance segment's principal risks is presented on page 71 of the "Risk management" section of this MD&A.

SERVICES

- **Insurance for individuals:**
  - Includes products and services offered on an individual basis, or to businesses or groups by way of group plans.
  - These life and health insurance coverages provide peace of mind by reducing the financial impacts that could occur due to illness, disability, accident or death.
- **Savings and investment services:**
  - Include the various investment solutions for individuals and businesses, as well as group retirement savings plans for company employees, or individuals who are part of any other group.
  - The wide array of investment solutions offered, which includes market-linked guaranteed investments (MLGI), exchange traded funds (ETF), guaranteed investment funds and mutual funds with a number of responsible investment products, allow individuals and businesses to find the one best suited to their needs, whether for preparing for retirement, planning a trip or any other financial goal.
- **Securities brokerage services:**
  - Include the distribution of all types of investments, including stock market securities.
  - There are two separate distribution models: the customized services of an investment adviser (full-service brokerage) or online brokerage services for savvy investors who want to trade on their own.
- **Private wealth management services:**
  - Are set out in a constantly updated and integrated offer intended for wealthy clients.
  - The personalized support of private managers includes a number of aspects, such as financial planning, tax and philanthropy optimization as well as portfolio management.
- **Institutional asset management services:**
  - Investment solutions are proposed by a group of investment experts specializing in asset management for institutional clients in order to obtain competitive returns and an attractive risk-return trade-off for them.

2018 ACHIEVEMENTS

Life and Health Insurance

- **Reconfiguring the insurance product portfolio** to simplify and update our offer and propose new solutions for analyzing needs.
- **Complete review of insurance coverage** for serious illnesses, including all types of cancer.
- Launching of a **telemedicine pilot project** with 5,000 participants from one of our group insurance plans.
- **New offer for group insurance plans**, with the possibility of adding therapeutic cannabis.
- Deployment of the **Financial health and well-being zone** on the desjardinslifeinsurance.com website and a new health and well-being platform.

Wealth Management

- **Enviable results for Desjardins Funds** in terms of total assets according to Strategic Insight: Ranked 1st in Quebec and 11th in Canada.
- **Three new SocieTerra funds** and a new line of eight **Responsible Investment Exchange Traded Funds** (RI ETFs) double the responsible investment products we offer. These RI ETFs are a first in Canada.
- **Three awards for Market-linked guaranteed investments** (MLGIs) from Americas Structured Products & Derivatives Awards. Having received awards for the seventh straight year, Desjardins Group is now the most recognized financial institution for this type of investment in Canada.
- In group retirement savings, Desjardins continues to deploy financial well-being services, including the **launch of a Financial well-being zone,** which helps members to feel confident about their financial future. The secure website provides an adaptive interface for mobile devices; navigation has been simplified and the content has been contextualized.
- In online brokerage, **online accounts and electronic signatures have been launched,** and the website converted to a responsive web design.
- In securities and private wealth management, **statements of account have been simplified and improved, and tax slips have been digitized.**

INDUSTRY

The wealth management industry and the life and health insurance industry are complementary because their aim is to provide products and services that will increase the net worth of Canadian households and make sure that their financial future is secure.

- **Canadian market:**
  - Wealth Management: At the end of 2017, financial assets of $4,468 billion were held by Canadian households in various savings and investment products, growing annually at 8.4% on a compound basis, and at 8.2% over the past five years.
  - Life and Health Insurance: Premium income totalled $110 billion in life and health insurance and in annuities according to 2017 figures, growing by 4.5% over the last five years. About 22 million Canadians have individual or group life insurance for a total of $4.7 trillion in insurance in force.
- **Competition in Canada:**
  - Wealth Management: A division of all major banking groups, life and health insurance companies and investment funds. Competition is fierce, and players try to outdo one another in terms of ingenuity in order to win over clients and build their loyalty.
  - Life and Health Insurance: Based on 2017 statistics, there are more than 150 insurers, of which 38 are foreign-owned life insurers doing business in Canada. Five insurers monopolize 77.9% of the market, accounting for the high degree of consolidation in this industry. Desjardins Financial Security Life Assurance Company is still a leader in Quebec and ranks fifth in Canada, with written premiums of $4.6 billion in 2017.
- **Developments and expectations of members and clients:**
  - Given such high and complex needs, financial advisors still play a key role in providing relevant information, making sales and maintaining relationships. Digital offers with virtual and mobile interfaces are increasingly used to cater to certain clients' desire for autonomy.

2019 STRATEGIES AND PRIORITIES

The 2019 strategies and priorities of the Wealth Management and Life and Health Insurance segment form part of Desjardins Group's strategic priorities that aim to help Desjardins Group to achieve its ambition of being first in people's hearts. Just like the other Desjardins Group business segments, the Wealth Management and Life and Health Insurance segment works in the interests of its members and clients.

The shift to a member- and client-focused culture is a priority for this segment, for which it plans to pick up the pace. The idea is therefore to optimize its product lines, further automate its processes and accelerate its digital transformation. The resulting efficiency gains will enable it to provide constantly better service to members and clients, which is its raison d'être.

Another priority of the Wealth Management and Life and Health Insurance segment is to help actively promote Desjardins Group's cooperative difference. Concretely, it will therefore pursue its initiatives to enhance the financial health and well-being of its members and clients, and to increase its financial literacy efforts with regard to savings and retirement as well as its activities to promote financial health and security management. Additional action would be to maintain its leadership in the area of responsible investing across Canada, thereby promoting the development of a sustainable and responsible economy.

The Wealth Management and Life and Health Insurance segment's third priority is to capitalize on Desjardins Group's strengths as an expansive cooperative group. It will therefore take action to maximize synergies within Desjardins Group, especially for groups and businesses, and to expand its product offer to all Desjardins Group distribution networks and external networks.

In order to successfully carry out the combined actions of these three priorities, this segment can rely on a team of employees and distribution partners who are determined to always better meet the needs of members and clients by providing exemplary and distinctive quality service.

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

Table 12 – Wealth Management and Life and Health Insurance – Segment results
For the years ended December 31

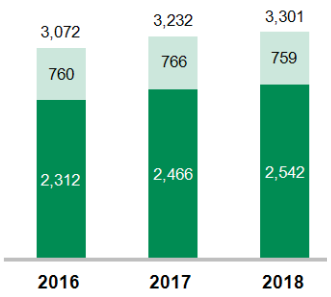
(in millions of dollars)	2018[1]	2017	2016
Net interest income	**$ 4**	$ 1	$ -
Net premiums	**4,676**	4,406	4,204
Other operating income[2]	**1,716**	1,514	1,386
Operating income[2]	**6,396**	5,921	5,590
Investment income[2]	**387**	1,406	795
Total income	**6,783**	7,327	6,385
Provision for (recovery of) credit losses	**(1)**	4	-
Claims, benefits, annuities and changes in insurance contract liabilities	**3,369**	4,233	3,609
Non-interest expense	**2,296**	2,329	2,208
Income taxes on surplus earnings	**225**	149	107
Net surplus earnings for the year	**$ 894**	$ 612	$ 461
Specific item, net of income taxes			
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**(129)**	-	-
Adjusted net surplus earnings for the year[2]	**$ 765**	$ 612	$ 461
Of which:			
Group's share	**$ 894**	$ 610	$ 440
Non-controlling interests' share	**-**	2	21
Indicators			
Net sales of savings products	**$ 7,908**	$ 8,577	$ 8,465
Insurance sales	**342**	523	471
Group insurance premiums	**3,301**	3,232	3,072
Individual insurance premiums	**872**	836	796
Annuity premiums	**503**	338	336
Receipts related to segregated funds	**2,026**	1,840	2,811

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) See "Basis of presentation of financial information".

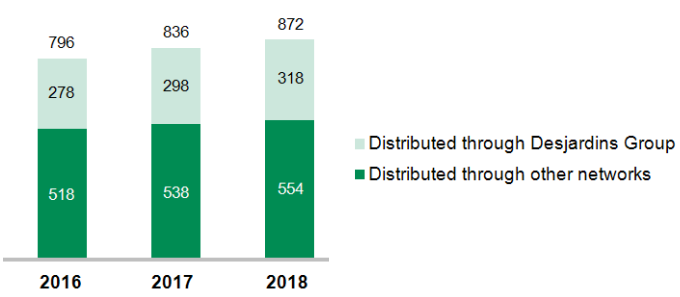
Table 13 – Expenses attributable to policyholders
For the years ended December 31

(in millions of dollars)	2018	2017	2016
Insurance and annuity benefits	**$ 3,126**	$ 3,037	$ 2,904
Change in actuarial liabilities	**111**	984	559
Policyholder dividends, experience refunds and other	**132**	212	146
Total	**$ 3,369**	$ 4,233	$ 3,609

Group insurance premiums by distribution network
(in millions of dollars)



Individual insurance premiums by distribution network
(in millions of dollars)



COMPARISON OF 2018 AND 2017 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $894 million,** up $282 million, or 46.1%, and adjusted net surplus earnings of $765 million, up $153 million, or 25.0%, mainly as a result of:
  - Higher gains on disposal of real estate investments in 2018.
  - More favourable claims experience.
  - Higher income as a result of growth in assets under management.
  - Offset by less favourable adjustments to actuarial assumptions made in the normal course of business.

- **Operating income of $6,396 million,** up $475 million, or 8.0% basically because of:
  - Increase of $270 million in premiums, of which $165 million was from annuities, $69 million was from group insurance and $36 million, from individual insurance.
  - Other operating income totalled $1,716 million, up $202 million, or 13.3%.
    - Gain on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
    - Higher income from growth in assets under management.
    - Offset by lower income as a result of the aforesaid transaction.

- **Investment income of $387 million,** down $1,019 million, or 72.5%.
  - Decrease primarily due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change due mostly to a decrease in the fair value of the bond portfolio as a result of interest rate fluctuations.
    - Decrease largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Offset by the higher gains on the disposal of real estate investments.

- **Total income of $6,783 million,** down $544 million, or 7.4%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $3,369 million**, down $864 million, or 20.4%, essentially as a result of:
  - Decrease of $873 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decline in the fair value of matched investments.
  - The more favourable claims experience for products was offset by the less favourable adjustments related to the changes to actuarial assumptions made in the normal course of business.

- **Non-interest expense of $2,296 million,** down $33 million, or 1.4%, mainly because of the following:
  - The transaction involving Qtrade Canada Inc. led to a decrease in expenses.
  - Offset by the higher expenses for assets under management.

2.3.3 Property and Casualty Insurance

PROFILE

The Property and Casualty (P&C) Insurance segment offers insurance products providing coverage for Desjardins Group members and clients against disasters. Since the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017, it includes only the operations of Desjardins General Insurance Group Inc. and its subsidiaries. Desjardins General Insurance Group Inc. offers a personal line of automobile and property insurance products across Canada and also provides businesses with insurance products. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network in Quebec, a number of client care centres (call centres) and Desjardins Business centres, through an exclusive agent network of close to 500 agencies outside Quebec distributing P&C insurance and several other financial products online and via applications for mobile devices.

Desjardins General Insurance Group Inc., which has more than 3,000,000 clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance and State Farm banners, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner. As part of its integration plan for State Farm's Canadian operations, Desjardins Group started to switch from the State Farm banner to the Desjardins Insurance banner on May 1, 2018. The transition will be carried out by December 31, 2019.

Additional information about the Property and Casualty Insurance segment's principal risks is presented on page 71 of the "Risk management" section of this MD&A.

SERVICES

- **Automobile insurance,** including motorcycle and recreational vehicle insurance:
  - Offers insurance coverage tailored to clients' specific needs and their vehicle features;
  - Also includes the necessary coverage to obtain financial compensation for bodily injury in provinces where such coverage is not provided by a public plan.
- **Property insurance:**
  - Offers owners and tenants insurance coverage to protect their physical property, with all-risk insurance coverage and optional coverages for primary and secondary residences.
- **Business insurance:**
  - Covers the insurance requirements for commercial vehicles, commercial property and public liability for businesses;
  - Service is provided to the following sectors, among others: service firms, retailers and wholesalers, garages, self-employed workers, general or specialized contractors, restaurants, offices, health care professionals, commercial buildings, condominiums and apartment buildings.

2018 ACHIEVEMENTS

- Continued streamlining, modernizing and enhancing of the member and client experience:
  - **Improvement of the member and client experience**, in particular by making it easy to purchase home insurance in all regions and business lines and by simplifying automobile claims.
  - Continuation of the digital transformation, in particular by:
    - Deploying online purchase of auto insurance in Quebec.
    - Launching online purchase of home insurance for tenants and condo insurance across Canada.
    - Enhancing its **mobile offer** in a number of ways:
      - Clients can now take photos of damage to their vehicle themselves and send them to a body shop or claims adjuster for an estimate so as to save time and avoid running around.
      - Continue to focus on prevention: In addition to Ajusto (telematics program providing personalized feedback on driving) and Alert (program to prevent water damage in home insurance by using a detector placed close to a potential source of leaks), there is the new **Radar** program, which provides severe weather alerts so steps can be taken to prevent certain damage to a client's home, auto or other property.
      - The functionalities of the P&C Insurance segment's mobile offer, namely the Alert home insurance program and the Ajusto auto insurance program, are being phased into the **Bancassurance Desjardins Mobile Services** app for Quebec members.
- **Integration of State Farm's Canadian operations:** On schedule and almost completed in 2018, with some work to be finalized in 2019. In addition, the State Farm exclusive agent network has been phasing in operations under the Desjardins Insurance banner since May 2018 and the transition should be completed by the end of 2019.
- Continuation of the **program to modernize IT systems** with the new auto rates solution for Ontario, the Atlantic region and the West, and finalizing of the implementation of the business offer for Quebec.

INDUSTRY

The Canadian P&C insurance industry offers insurance coverage for vehicles, personal and commercial property, and public liability. The Canadian P&C insurance market is a mature market, with an average annual growth rate of 3.3% over the past five years. In 2017, direct premiums written on the Canadian market totalled $49.8 billion, up 4.1% since 2016, the highest growth rate since 2011. Across Canada, individual insurance accounted for 63.2% of the market, and business insurance accounted for 36.8%. As at December 31, 2017, the P&C Insurance segment ranked third in the Canadian property and casualty insurance market, and it was in second place in the individual insurance market.

The entire auto insurance industry in Canada is now facing challenges associated with profitability resulting from a sharp rise in claims, which reflects in particular the cost of new technologies in motor vehicles and the increase in distractions behind the wheel. The Desjardins Group P&C Insurance segment is proactive regarding these challenges and has implemented an action plan to optimize its profitability in a changing world given the difficult situation. Moreover, this year, the insurance industry was particularly affected by violent winds and tornadoes. According to Insurance Bureau of Canada, the violent winds on May 4, 2018 in southern Ontario and some regions of Quebec caused $410 million in property damage, with $380 million of this damage in Ontario. More than 13,000 claims related to this event were filed with Desjardins General Insurance Group (DGIG), for a net cost of reinsurance of about $54 million, of which $48 million was essentially for Ontario. In addition, more than 2,000 claims were filed for the tornadoes and high winds that hit the Ottawa–Gatineau region on September 21, 2018, for a net cost of reinsurance of $38 million for DGIG.

While the Canadian industry is developing at an unprecedented rate, the various industry players are competing simultaneously on several fronts. The Canadian market will continue to develop quickly as in recent years, driven by technological innovations, changes in expectations and consumer behaviour as well as the advent of new business models. These insurers are starting to position themselves in the response to new trends such as InsurTech or the sharing economy, and the Desjardins Group P&C Insurance segment is proactive vis-à-vis these new trends.

2019 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's 2019 strategies and priorities fall within the scope of Desjardins Group's strategic priorities, and aim to help Desjardins Group attain its goal of being number one in people's hearts.

As a result, in 2019, the segment will continue its efforts to be recognized as a Canadian leader in promoting the member and client experience by adapting its business practices in the interests of its members and clients, by optimizing the performance of its value chain and by modernizing the business line systems. Moreover, in order to affirm Desjardins Group's cooperative difference, the segment intends to continue to modernize its insurance model to enhance added value interactions by capitalizing on analytics and the digital transformation. The segment will also continue to build on the strengths of the expansive cooperative group to which it belongs by accelerating the shift toward Desjardins Mobile Services and by seeking the full potential of the acquisition of State Farm's Canadian operations.

The Property and Casualty Insurance segment will therefore focus its efforts on the following four priorities in 2019:

- Enhance the member and client experience.
- Improve the profitability of the auto product.
- Accelerate the digital transformation for all products and services.
- Acquire, assess, develop and mobilize talent.

ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

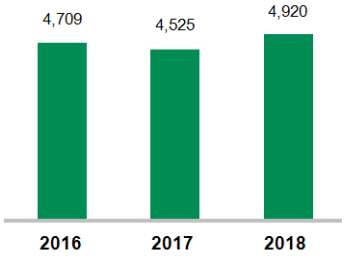
Table 14 – Property and Casualty Insurance – Segment results

For the years ended December 31

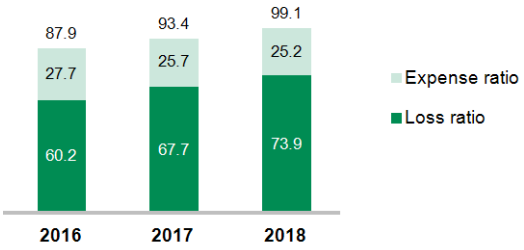
(in millions of dollars and as a percentage)	2018[1]	2017	2016
Net interest income	**$ -**	$ 1	$ 1
Net premiums	**4,402**	3,896	3,207
Other operating income (loss)[2]	**(188)**	78	(55)
Operating income[2]	**4,214**	3,975	3,153
Investment income[2]	**336**	214	206
Total income	**4,550**	4,189	3,359
Claims, benefits, annuities and changes in insurance contract liabilities	**3,209**	2,555	1,838
Non-interest expense	**1,127**	1,099	1,132
Income taxes on surplus earnings	**41**	89	93
Net surplus earnings for the year	**$ 173**	$ 446	$ 296
Specific item, net of income taxes			
Gain, net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company[3]	**-**	(241)	-
Adjusted net surplus earnings for the year[2]	**$ 173**	$ 205	$ 296
Of which:			
Group's share	**$ 132**	$ 405	$ 245
Non-controlling interests' share	**41**	41	51
Indicators			
Gross written premiums[4]	**$ 4,920**	$ 4,525	$ 4,709
Loss ratio[2]	**73.9%**	67.7%	60.2%
Current year loss ratio[2]	**80.7**	80.1	75.8
Loss ratio related to catastrophes and major events[2]	**3.1**	2.6	4.6
Ratio of favourable changes in prior year claims[2]	**(9.9)**	(15.0)	(20.2)
Expense ratio[2]	**25.2**	25.7	27.7
Combined ratio[2]	**99.1**	93.4	87.9

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) See "Basis of presentation of financial information".
(3) The difference between the data presented in the table of Desjardins Group's adjusted surplus earnings before member dividends is due to intersegment transaction expenses.
(4) Includes the life insurance premiums of Western Financial Group Inc. for 2017 and 2016.

Gross written premiums
(in millions of dollars)



Combined ratio
(as a percentage of net premiums earned)



COMPARISON OF 2018 AND 2017 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $173 million,** down $273 million, and adjusted net surplus earnings, down $32 million, or 15.6%. essentially due to the following:
  - Higher claims experience than in the previous year.
  - Impact from the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - Offset by higher investment income.

- **Operating income of $4,214 million,** up $239 million, or 6.0%.

- **Net premiums of $4,402 million,** up $506 million, or 13.0%, primarily as a result of:
  - Increase of $367 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly due to the change in the cession rate stipulated in the treaty, which provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Increase due to growth in the average premium reflecting the current trend in the Canadian P&C insurance market, and due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
  - Offsetting decrease in net premiums following the sale of Western Life Assurance Company on July 1, 2017.

- **Loss of $188 million, presented under Other operating income (loss),** while income was recognized in the prior year, for a difference of $266 million, chiefly because of the following:
  - Gain on the sale of Western Financial Group Inc. and of Western Life Assurance Company, completed on July 1, 2017, and recognized in the corresponding year.
  - Decrease in commission income following the sale of Western Financial Group Inc.
  - Offset by a smaller increase than in 2017 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, and arising from the favourable developments in claims taken over.

- **Investment income of $336 million,** up $122 million, or 57.0%, basically as a result of the following:
  - Higher dividend income than in 2017, particularly because of the reinvested income, which includes prior-period adjustments.
  - Decrease in the fair value of matched bonds, which was lower than in 2017, mainly due to an increase in market interest rates that was lower in 2018 than in 2017.

- **Total income of $4,550 million,** up $361 million, or 8.6%.

- **Cost of claims totalling $3,209 million,** up $654 million, or 25.6%, essentially as a result of the following:
  - Business growth leading to a higher cost of claims.
  - Increase due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Change in prior-year claims was not as favourable as in the preceding year in auto insurance.
  - Loss ratio of P&C insurers at 73.9% for 2018, compared to 67.7% in 2017.
    - Higher loss ratio mainly due to a less favourable change than in 2017 concerning prior-year claims, (9.9)% vs. (15.0)%, mainly in auto insurance.
    - Claims experience for the current year was higher than in the prior year; namely 80.7% vs. 80.1%.
    - Impact of catastrophes and major events greater than in the prior year; namely 3.1% vs. 2.6%.

- **Non-interest expense of $1,127 million,** up $28 million, or 2.5%, mainly as a result of:
  - Higher expenses due partly to the previously mentioned reinsurance treaty on the charges covered by it and to business growth.
  - Offsetting decrease in expenses resulting from the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.

2.3.4 Other category

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities and those related to financial intermediation between liquidity surpluses and needs of the caisses. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole 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 required to prepare the Combined Financial Statements, intersegment balance eliminations are classified in this category.

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

Table 15 – Other category
For the years ended December 31

(in millions of dollars)	2018[1]	2017	2016
Treasury activities	**$ 52**	$ 113	$ 110
Activities related to derivatives associated with hedging activities	**(1)**	(4)	(44)
Other[2]	**(64)**	(124)	(76)
Net deficit for the year	**$ (13)**	$ (15)	$ (10)
Of which:			
Group's share	**$ (13)**	$ (15)	$ (12)
Non-controlling interests' share	**-**	-	2

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Includes support function activities, various adjustments required to prepare the Combined Financial Statements, and intersegment balance eliminations.

COMPARISON OF 2018 AND 2017 – CONTRIBUTION BY OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $13 million,** compared to a net deficit of $15 million in 2017.

- **Treasury activities of $52 million,** compared to a contribution of $113 million to surplus earnings in 2017, mainly as a result of lower trading income because of high market volatility in 2018.

- **Activities related to derivatives associated with hedging activities recorded a deficit of $1 million,** compared to a $4 million deficit in 2017.

- **Other activities recorded a $64 million deficit,** compared to a $124 million deficit in 2017.
  - Other activities were affected, in 2018 and 2017, by expenses related to the continued implementation of Desjardins-wide strategic projects (in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital transformation), thereby enhancing the member and client experience and improving productivity. Other activities also included contributions from the $100 million fund as well as payments under the Desjardins Member Advantages program. In addition, certain technology assets were written off.

  The following items partly offset the deficit:
  - Decrease in investment portfolio provisions.
  - Income tax recovery related to the remuneration of F capital shares.

2.4 Analysis of fourth quarter results and quarterly trends

Table 16 – Results for the previous eight quarters

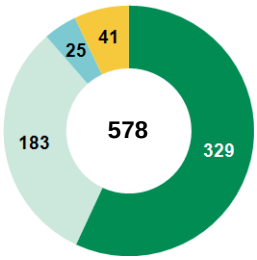
(unaudited, in millions of dollars and as a percentage)	2018				2017			
	Q4[1]	Q3[1][2]	Q2[1][2]	Q1[1][2]	Q4[2]	Q3[2]	Q2[2]	Q1[2]
Net interest income	**$ 1,284**	$ 1,286	$ 1,175	$ 1,149	$ 1,138	$ 1,149	$ 1,100	$ 1,070
Net premiums	**2,221**	2,263	2,200	2,139	2,009	1,982	2,076	1,982
Other operating income[3]								
Deposit and payment service charges	**114**	110	106	103	107	109	122	120
Lending fees and credit card service revenues	**177**	171	163	186	180	154	154	172
Brokerage and investment fund services	**211**	216	223	255	245	227	293	265
Management and custodial service fees	**130**	147	138	136	133	118	120	114
Foreign exchange income	**29**	14	21	27	22	16	20	19
Other	**(21)**	36	130	37	(100)	295	28	26
Operating income[3]	**4,145**	4,243	4,156	4,032	3,734	4,050	3,913	3,768
Investment income (loss)[3]								
Net investment income (loss)	**45**	(253)	308	111	904	(362)	711	435
Overlay approach adjustment for insurance operations financial assets	**258**	76	20	169	N/A	N/A	N/A	N/A
	303	(177)	328	280	904	(362)	711	435
Total income	**4,448**	4,066	4,484	4,312	4,638	3,688	4,624	4,203
Provision for credit losses	**89**	100	80	115	89	92	76	92
Claims, benefits, annuities and changes in insurance contract liabilities	**1,821**	1,375	1,727	1,656	2,042	1,000	1,922	1,753
Non-interest expense	**1,846**	1,859	1,853	1,927	1,951	1,698	1,891	1,860
Income taxes on surplus earnings	**114**	162	147	113	127	140	154	115
Surplus earnings before member dividends	**578**	570	677	501	429	758	581	383
Member dividends, net of tax recovery	**43**	53	53	36	49	44	29	26
Net surplus earnings for the period after member dividends	**$ 535**	$ 517	$ 624	$ 465	$ 380	$ 714	$ 552	$ 357
Of which:								
Group's share	**$ 527**	$ 504	$ 613	$ 456	$ 371	$ 699	$ 538	$ 352
Non-controlling interests' share	**8**	13	11	9	9	15	14	5
Contribution to combined surplus earnings by business segment								
Personal and Business Services	**$ 329**	$ 369	$ 299	$ 275	$ 286	$ 304	$ 272	$ 246
Wealth Management and Life and Health Insurance	**183**	174	331	206	159	121	189	143
Property and Casualty Insurance	**25**	70	52	26	48	318	98	(18)
Other	**41**	(43)	(5)	(6)	(64)	15	22	12
	$ 578	$ 570	$ 677	$ 501	$ 429	$ 758	$ 581	$ 383
Total assets	**$ 295,465**	$ 295,265	$ 290,073	$ 282,065	$ 275,095	$ 276,310	$ 271,983	$ 267,935
Indicators								
Return on equity[3]	**9.0%**	8.8%	11.0%	8.3%	7.0%	12.6%	9.9%	6.8%
Tier 1A capital ratio	**17.3**	17.7	17.5	17.4	18.0	17.8	17.1	17.2
Total capital ratio	**17.6**	18.0	17.8	17.7	18.4	18.2	17.5	17.6

(1) The information presented for the 2018 quarters reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Prior-period data have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".

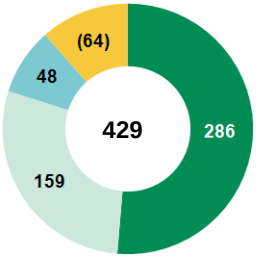
FOURTH QUARTER COMBINED RESULTS

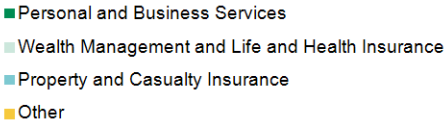
For the fourth quarter of 2018, Desjardins Group posted surplus earnings before member dividends of $578 million, up $149 million, or 34.7%, compared to the same period in 2017.

2018 surplus earnings before member dividends[1]
(in millions of dollars)



2017 surplus earnings before member dividends
(in millions of dollars)





[1] The information presented for the three-month period ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Contribution of segments to surplus earnings

- Personal and Business Services: **Contribution of $329 million,** up $43 million compared to the same period in 2017, essentially as a result of:
  - Solid performance of the caisse network, related in particular to net interest income growth and strict cost control.
  - Business volume growth from payment and financing activities.
  - Offset by decrease in income from trading and new issues on the capital market.
- Wealth Management and Life and Health Insurance: **Contribution of $183 million,** up $24 million compared to the same period in 2017, primarily due to:
  - More favourable claims experience.
  - Higher income from growth in assets under management.

  This increase was partially offset by:
  - Less favourable adjustments to actuarial assumptions made in the normal course of business.
  - Reduction in investment portfolio provisions.
- Property and Casualty Insurance: **Contribution of $25 million,** down $23 million compared to the same period in 2017, mainly as a result of:
  - Higher claims experience than in the previous period.

  This decrease was partially offset by:
  - Decrease in contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
  - Higher investment income.

- **Return on equity of 9.0%,** compared to 7.0% for the fourth quarter of 2017.

- **Operating income of $4,145 million,** up $411 million, or 11.0%.

- **Net interest income of $1,284 million,** up $146 million, or 12.8%, chiefly as a result of the growth in mortgages, consumer loans and business loans outstanding for the year, and, to a lesser degree, higher interest rates.

- **Net premiums of $2,221 million,** up $212 million, or 10.6%.
  - **Wealth Management and Life and Health Insurance:** Net insurance and annuity premiums of $1,134 million, up $46 million, or 4.2%, compared to the same period in 2017.
    - Increase of $34 million in annuity premiums.
    - Increase of $7 million in individual insurance premiums.
    - Increase of $5 million in group insurance premiums.

  - **Property and Casualty Insurance:** Net premiums of $1,150 million, up $167 million, or 17.0%, compared to the same period in 2017.
    - Increase of $109 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly as a result of the change in the cession rate stipulated in the treaty, which provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
    - Increase due to growth in the average premium and to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

- **Other operating income of $640 million,** up $53 million, or 9.0%, due to:
  - Decrease in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
  - Higher income from growth in assets under management.
  - Offset by a decrease in income following the Qtrade Canada Inc. transaction.

- **Investment income of $303 million,** down $601 million.
  - Decrease mainly due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Difference mostly due to changes in the fair value of the bond portfolio as a result of higher interest rates.
    - Decrease largely offset by the change in actuarial liabilities that in turn led to a decrease in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Decrease in trading income.

  This decrease was partially offset by:
  - Decrease in the fair value of matched bonds in the Property and Casualty Insurance segment was less than in the fourth quarter of 2017, due mainly to a lower increase in market interest rates in 2018 than that recorded in the corresponding quarter.
  - Increase in the fair value of derivative financial instruments associated with hedging operations for Desjardins Group as a whole.

- **Total income of $4,448 million,** down $190 million, or 4.1%.

- **Provision for credit losses of $89 million,** comparable to the corresponding quarter in 2017.
  - Desjardins Group continued to have a quality loan portfolio.
  - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.54%, compared to 0.25% as at December 31, 2017. This increase is due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $1,821 million,** down $221 million, or 10.8%.
  - **Wealth Management and Life and Health Insurance segment:** Expenses totalling $962 million, down $551 million, or 36.4%, compared to the same period in 2017, essentially as a result of the following:
    - Decrease of $551 million in actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of a decrease in the fair value of matched investments.
    - More favourable claims experience for products was offset by less favourable adjustments to changes to actuarial assumptions made in the normal course of business.

  - **Property and Casualty Insurance segment:** Claims expenses totalling $857 million, up $258 million, or 43.1%, compared to the same period in 2017, mainly due to the following:
    - Business growth leading to higher claims expenses.
    - Increase due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
    - Loss ratio of 70.8% for the fourth quarter of 2018, compared to 59.9% for the corresponding quarter of 2017.
      - Higher ratio due to less favourable developments in prior-year claims than in the fourth quarter of 2017: (10.1)% compared to (22.2)%.
      - Offset by less significant impact of catastrophes and major events in the corresponding quarter of 2017: 0.1% compared to 1.9%.

- **Non-interest expense of $1,846 million,** down $105 million, or 5.4%, compared to 2017.
  - Reduction in investment portfolio provisions.
  - Gain due to the impact of the change in the post-retirement benefit plan in fiscal 2018; for more information, see Note 16 "Net defined benefit plan liabilities", to the Combined Financial Statements.
  - Lower expenses as a result of the Qtrade Canada Inc. transaction.

  This decrease was partly offset by:
  - Increase in payroll related to indexing and growth in operations.
  - Write-off of some technology assets.
  - Expenses related to the winding-up of Zag Bank's operations.
  - Higher expenses as a result of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.

- **Productivity index at 70.3% for the fourth quarter of 2018,** compared to 75.2% for the same period in 2017. The improvement in the productivity index for the fourth quarter of 2018 was due to the previously mentioned items.

QUARTERLY TRENDS

Quarterly income, expenses and surplus earnings before member dividends are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the capital markets. Desjardins Group's results for the most recent eight quarters were therefore affected by developments in the global, U.S., Canadian and Quebec economies. With expected growth of 2.1% in Canadian real GDP in 2018, compared to 3.0% in 2017, and 2.3% versus 2.8% for Quebec, Desjardins Group's results for the past eight quarters benefited from a steadily growing GDP. Changes in the claims experience and actuarial assumptions may also cause significant variations from quarter to quarter. Lastly, the past eight quarters were affected by the low interest rate environment that continued in 2017 and 2018. However, as of the third quarter of 2017, there were five hikes in Canada's key interest rates as a result of monetary tightening.

Combined surplus earnings

- Trend in surplus earnings before member dividends was chiefly affected by the change in claims experience from one quarter to the next and by the contribution of the caisse network, which continues to grow.
- Growth in income from assets under management throughout 2018.
- Second quarter 2018 results affected by the gain of $129 million on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth.
- Solid investment performance in the Wealth Management and Life and Health Insurance segment, which contributed to the higher surplus earnings for the second quarter of 2017.
- Fourth quarter of 2017 affected by smaller favourable developments in prior-year automobile insurance claims and a higher claims experience for the current year.
- 2017 third quarter results affected by a gain of $249 million, net of expenses and after income taxes, on the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.

Combined results

- **Operating income – Upward trend for 2018 quarters, compared to 2017 quarters.**
  - Higher net interest income, chiefly as a result of the growth in the average outstanding amount of the entire mortgage, consumer loan and business loan portfolio and, to a lesser degree, higher interest rates.
  - Operations growth allowed Desjardins Group to grow operating income, in particular premium income.
  - Increase in net premiums due mainly to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Growth in business volume of payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios in 2018, as well as in assets under management.
  - Increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations in the fourth quarter of 2018 and in the fourth quarter of 2017, which reduced operating income.
  - Operating income for the second quarter of 2018 was affected by the gain on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., completed on April 1, 2018, while income from brokerage and investment fund services was down following this transaction, namely during the last three quarters of 2018.
  - Operating income for the third quarter of 2017 was affected by the gain on the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.

- **Investment income – Fluctuations mainly a result of market volatility leading to changes in the fair value of assets backing liabilities related to life and health insurance operations.** On account of a matching strategy, these fluctuations were offset by a change in actuarial liabilities, the effect of which was reflected in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

- **Provision for credit losses – Trending up when the 2018 and 2017 quarters are compared.**
  - Explained mainly by the growth in outstandings and the adoption of IFRS 9 as at January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and the migration borrower ratings.
  - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, has been trending up for the 2018 quarters compared to the 2017 quarters. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant. Desjardins Group has continued to have a quality loan portfolio.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
  - Growth in business leading to an increase in claims expenses.
  - All the 2018 quarters were affected by increased claims resulting from the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Expenses mainly affected by a change in the fair value of investments associated with life and health insurance activities in 2018, whose impact was particularly strong in the third quarter of 2017.
  - Expenses affected by the higher loss ratios for property and casualty insurance in 2018.
  - The second and third quarters of 2018 were affected by three catastrophes in all, while the second quarter of 2017 was affected by one catastrophe.
  - Fiscal 2018 was affected by four major events compared to nine in fiscal 2017.
  - 2017 fourth quarter results were affected by a less significant favourable trend in prior-year automobile insurance claims and a higher claims experience for the current year.

- **Non-interest expense – Relatively stable when 2018 and 2017 quarters are compared.**
  - The reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations with regard to the charges covered by the treaty and business growth, particularly growth in payment and financing activities and in assets under management, led to increases in non-interest expense.
  - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios for the 2018 quarters.
  - Transaction involving Qtrade Canada Inc. was completed on April 1, 2018, reducing non-interest expense for the last three quarters of 2018.
  - Sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017, reducing non-interest expense as of the third quarter of 2017.

Surplus earnings from business segments

- **Surplus earnings before member dividends of the Personal and Business Services segment trending up when 2018 and 2017 quarters compared.**
  - Solid performance of caisse network as of the third quarter of 2017, particularly on account of strict cost control.
  - Net interest income up because of growth in the entire average portfolio of loans and acceptances outstanding, and because of higher interest rates.
  - Decline in trading income and in new issues launched on capital markets in 2018.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios which affected the 2018 quarters.
  - Profit on the restructuring of Interac Corp. in first quarter 2018.

- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the past eight quarters.**
  - More favourable claims experience for almost all business lines, which affected net surplus earnings positively over the last three quarters of 2018 and the first two quarters of 2017.
  - 2018 second quarter results were affected by the $129 million gain on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., which was completed on April 1, 2018.
  - Income growth related to assets under management during 2018.
  - Higher surplus earnings for fourth quarter 2017, mainly due to favourable adjustments to the actuarial assumptions and partly offset by deterioration in claims experience.
  - Solid investment performance, which also contributed to higher surplus earnings in the second quarter of 2017.

- **Net surplus earnings of the Property and Casualty Insurance segment fluctuating over the past eight quarters.**
  - Larger increase in the cost of claims for the 2018 quarters as a result of business growth and the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which affected each quarter.
  - Results for the second and third quarters of 2018 were affected by three catastrophes, namely damage caused by water and winds in April, by wind in May and damage caused by high winds and tornadoes, mainly in the Ottawa and Gatineau regions in September.
  - Smaller increase in the first and fourth quarter of 2018 compared to the 2017 quarters in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
  - 2017 fourth quarter results were affected by less significant favourable developments in prior-year automobile insurance claims and by a higher claims experience for the current year.
  - 2017 third quarter results were affected by a $241 million gain, net of expenses and after taxes, on the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.
  - The first quarter of 2017 was affected by higher claims experience for the current year because of unfavourable winter weather conditions, with damage caused by water and major snowfalls in Quebec and the windstorm in Ontario.

3.0 Balance sheet review

3.1 Balance sheet management

Table 17 – Combined Balance Sheets
As at December 31

(in millions of dollars and as a percentage)	2018[1]		2017		2016	
Assets						
Cash and deposits with financial institutions	**$ 3,384**	**1.1%**	$ 2,435	0.9%	$ 1,876	0.7%
Securities	**59,932**	**20.3**	56,588	20.6	53,285	20.6
Securities borrowed or purchased under reverse repurchase agreements	**11,934**	**4.0**	8,674	3.2	7,690	3.0
Net loans and acceptances	**190,670**	**64.5**	177,521	64.4	166,026	64.3
Segregated fund net assets	**13,234**	**4.5**	13,379	4.9	11,965	4.6
Derivative financial instruments	**3,743**	**1.3**	3,206	1.2	3,572	1.4
Other assets	**12,568**	**4.3**	13,292	4.8	13,953	5.4
Total assets	**$ 295,465**	**100.0%**	$ 275,095	100.0%	$ 258,367	100.0%
Liabilities and equity						
Deposits	**$ 183,158**	**61.9%**	$ 171,586	62.4%	$ 160,546	62.2%
Commitments related to securities sold short	**10,829**	**3.7**	9,112	3.3	8,196	3.2
Commitments related to securities lent or sold under repurchase agreements	**16,845**	**5.7**	10,229	3.7	10,323	4.0
Derivative financial instruments	**2,816**	**1.0**	3,094	1.1	2,057	0.8
Insurance contract liabilities	**28,740**	**9.7**	28,272	10.3	27,493	10.6
Segregated fund net liabilities	**13,212**	**4.5**	13,354	4.9	11,957	4.6
Other liabilities	**12,838**	**4.3**	13,287	4.8	13,124	5.1
Subordinated notes	**1,378**	**0.5**	1,388	0.5	1,378	0.5
Equity	**25,649**	**8.7**	24,773	9.0	23,293	9.0
Total liabilities and equity	**$ 295,465**	**100.0%**	$ 275,095	100.0%	$ 258,367	100.0%

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

TOTAL ASSETS

As at December 31, 2018, Desjardins Group's total assets stood at $295.5 billion, up by $20.4 billion, or 7.4%, over the year, compared to growth of $16.7 billion, or 6.5%, for 2017. This growth was largely due to an increase in net loans and acceptances as well as securities, including those borrowed or purchased under reverse repurchase agreements.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at December 31, 2018, Desjardins Group's cash and deposits with financial institutions amounted to $3.4 billion, an increase of $949 million, or 39.0%, over the year, compared to an increase of $559 million, or 29.8%, in 2017. Securities, including those borrowed or purchased under reverse repurchase agreements, totalled $71.9 billion, an increase of $6.6 billion, or 10.1%, over the year, compared to an increase of $4.3 billion, or 7.0%, in 2017. The large volume of market activities generated the increase.

LOANS AND CLIENTS' LIABILITY UNDER ACCEPTANCES

As at December 31, 2018, Desjardins Group's outstanding loan portfolio, including clients' liability under acceptances, net of the allowance for credit losses, was $190.7 billion, an increase of $13.1 billion, or 7.4%, over the year, compared to growth of $11.5 billion, or 6.9%, during 2017. Residential mortgages, which hold a very important place in Desjardins Group's financing activities, were largely responsible for the growth observed in 2018 and accounted for 62.8% of its portfolio at that date.

Table 18 – Loans and acceptances
As at December 31

(in millions of dollars and as a percentage)	**2018[1]**		2017		2016	
Residential mortgages	**$ 120,113**	**62.8%**	$ 113,146	63.6%	$ 106,695	64.1%
Consumer, credit card and other personal loans	**26,210**	**13.7**	24,044	13.5	22,150	13.3
Business and government	**45,066**	**23.5**	40,769	22.9	37,637	22.6
	191,389	**100.0%**	177,959	100.0%	166,482	100.0%
Provision for credit losses	**(719)**		(438)		(456)	
Total loans and acceptances by borrower category	**$ 190,670**		$ 177,521		$ 166,026	
Loans guaranteed or insured[2]	**$ 47,129**		$ 46,952		$ 45,373	
Loans guaranteed or insured[2] as a percentage of total gross loans and acceptances	**24.6%**		26.4%		27.3%	
Residential mortgages and consumer, credit card and other personal loans as a percentage of total gross loans and acceptances	**76.5**		77.1		77.4	

[1] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Loans fully or partially guaranteed or insured by a public or private insurer or a government.

Desjardins Group's outstanding residential mortgages totalled $120.1 billion, for growth of $7.0 billion, or 6.2%, as at December 31, 2018, compared to an increase of $6.5 billion, or 6.0%, during 2017. Desjardins Group capitalized on sustained growth in the housing sector, particularly in Quebec, and assisted a large number of its members and clients in buying a home. New home construction increased by 0.8% annually in Quebec in 2018, whereas resales of existing homes were up 4.9% during the same period, fostering a 5.2% rise in the average selling price of homes.

Desjardins Group's outstanding business and government loans, including acceptances, amounted to $45.1 billion as at December 31, 2018, for a year-over-year increase of $4.3 billion, or 10.5%, compared to an increase of $3.1 billion, or 8.3%, as at December 31, 2017. Consumer, credit card and other personal loans outstanding stood at $26.2 billion, up $2.2 billion, or 9.0% since the end of 2017, compared to an increase of $1.9 billion, or 8.6%, a year earlier. Note that Desjardins Group acquired Canada-wide credit card portfolios in 2018.

Credit quality

Information about the quality of Desjardins Group's loan portfolio is presented in Section 4.2, "Risk management", on pages 84 to 87 of this MD&A.

DEPOSITS

Table 19 – Deposits
As at December 31

(in millions of dollars and as a percentage)	2018					2017		2016	
	Payable on demand	Payable upon notice	Payable on a fixed date	Total		Total		Total	
Individuals	$ 48,771	$ 3,792	$ 52,735	$ 105,298	57.5%	$ 100,578	58.6%	$ 96,278	60.0%
Business and government	25,991	361	49,822	76,174	41.6	69,102	40.3	62,799	39.1
Deposit-taking institutions	1,618	-	68	1,686	0.9	1,906	1.1	1,469	0.9
Total deposits	$ 76,380	$ 4,153	$ 102,625	$ 183,158	100.0%	$ 171,586	100.0%	$ 160,546	100.0%

As at December 31, 2018, Desjardins Group's outstanding deposits totalled $183.2 billion, up $11.6 billion, or 6.7%, compared to an increase of $11.0 billion, or 6.9%, as at December 31, 2017. The increase in business and government deposits, which accounted for 41.6% of its total deposit portfolio as at that date, is largely responsible for this growth. In fact, deposit liabilities were up $7.1 billion, or 10.2%, since the end of 2017, to reach $76.2 billion as at December 31, 2018, compared to an increase of $6.3 billion, or 10.0%, observed a year earlier. Various securities, including commercial paper and covered bonds issued on U.S., Canadian and European markets, made it possible to support the growth of Desjardins Group's funding requirements, which largely accounted for this increase.

As at December 31, 2018, savings from individuals at Desjardins Group totalled $105.3 billion, up $4.7 billion, or 4.7%, since the end of 2017, compared to growth of $4.3 billion, or 4.5%, during the previous year. Note that this deposit category accounted for 57.5% of Desjardins Group's total deposit portfolio at the same date. Deposits from deposit-taking institutions were down $220 million, or 11.5%, since the end of 2017, compared to an increase of $437 million, or 29.7%, observed a year earlier, for a total of $1.7 billion as at December 31, 2018.

INSURANCE CONTRACT LIABILITIES

As at December 31, 2018, Desjardins Group's insurance contract liabilities were $28.7 billion, up $468 million, or 1.7%, from December 31, 2017, compared to a $779 million, or 2.8%, increase observed a year earlier. This growth is partly due to higher unearned premiums of $273 million and actuarial liabilities as a result of life and health insurance operations, which grew by $125 million.

Note 15, "Insurance contract liabilities", to the Annual Combined Financial Statements provides additional information about these Desjardins Group liabilities.

EQUITY

As at December 31, 2018, equity totalled $25.6 billion, up $876 million, or 3.5%, compared to an increase of $1.5 billion, or 6.4%, a year earlier. Net surplus earnings after member dividends, totalling $2,141 million, were a source of this growth. In addition, the Federation issued F capital shares for a cash consideration of $125 million, as well as F capital shares having a value of $142 million for the payment of interest when the holder has elected to receive remuneration in F capital shares. The redemption of permanent shares of $253 million, the remuneration of $425 million on capital stock and the impact of changes in accounting policies totalling $214 million reduced equity. Moreover, during the year ended December 31, 2018, *La Fédération des caisses populaires de l'Ontario Inc.* bought back Class B preferred shares in their entirety for a cash consideration of $13 million, and all the Class C preferred shares for a cash consideration of $75 million.

Note 21, "Capital stock", to the Annual Combined Financial Statements provides additional information about Desjardins Group's capital stock.

3.2 Capital management

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

Desjardins Group advocates prudent management of its capital. Its purpose is to maintain higher regulatory capital ratios than those of the Canadian banking industry and regulatory requirements. Desjardins's prudent capital management is reflected in the quality of the credit ratings assigned by the various rating agencies.

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

Desjardins Group's Integrated Capital Management Framework

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

In addition, the Internal Capital Adequacy Assessment Program (ICAAP) enables Desjardins Group to ensure it has an appropriate level of capital to cover all the significant risks to which it is exposed and to implement capital management strategies that take into account changes in its risk profile.

Desjardins Group has developed a stress-testing program aimed at establishing and measuring the effect of various integrated scenarios, i.e. to simulate various economic scenarios and to assess their financial and regulatory repercussions. This process makes it possible to determine if the minimum capital target, as established in the capitalization plan, is adequate in view of the risks to which Desjardins Group is exposed. Additional information on the ICAAP and the stress-testing program is presented in Section 4.2 "Risk management".

Regulatory framework and internal policies

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

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

Desjardins Group's regulatory capital ratios are calculated according to the AMF's guideline on adequacy of capital base standards for financial services cooperatives (the guideline). This guideline takes into account the global regulatory framework for more resilient banks and banking systems (Basel III) issued by the Bank for International Settlements.

The Basel III regulatory framework increases capital requirements. Even though the Basel III regulatory framework provides for a transitional period from 2013 to 2019 to mitigate the impact of the new capitalization rules, the AMF required Desjardins Group to meet the Tier 1A, Tier 1 and total capital ratio requirements for 2019 in the first quarter of 2013. The AMF may also set higher target ratios at its discretion when circumstances warrant.

Under this framework, a minimum amount of capital must be maintained on a combined basis by all the Desjardins Group components. Some of these components are subject to separate requirements regarding regulatory capital, liquidity and financing, which are set by regulatory authorities governing banks, insurers and securities, in particular. Desjardins Group oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulation.

In this regard, it should be mentioned that the life and health insurance subsidiaries under provincial jurisdiction are subject to the Capital Adequacy Requirements Guideline (CARLI) issued by the AMF. The property and casualty insurance subsidiaries under provincial jurisdiction must comply with the Guideline on Capital Adequacy Requirements issued by the AMF. The property and casualty insurance subsidiaries under federal jurisdiction must comply with the OSFI's Minimum Capital Test (MCT) Guideline for federally regulated property and casualty insurance companies. Developments in these guidelines are presented in the "Changes in the regulatory environment" section of this MD&A.

For the purpose of calculating capital, Desjardins Financial Corporation Inc., the holding corporation that mainly includes the insurance companies, has been deconsolidated and presented as a partial capital deduction under the rules for significant investments stated in the guideline. Furthermore, Desjardins Financial Corporation Inc. is subject to the AMF's CARLI guideline.

The table below presents a summary of the target regulatory ratios set by the AMF under Basel III.

Table 20 – Summary of ratios regulated by the AMF under Basel III[1][2]

	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[3]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at December 31, 2018
Tier 1A capital ratio	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**17.3%**
Tier 1 capital ratio	> 6.0	2.5	> 8.5	1.0	> 9.5	**17.3**
Total capital ratio	> 8.0	2.5	> 10.5	1.0	> 11.5	**17.6**
Leverage ratio	> 3.0	N/A	> 3.0	N/A	> 3.0	**8.3**

(1) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets in accordance with the guideline.
(2) The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk that includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet items.
(3) In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios.

Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS) and to assess their impact on the capital ratios and the leverage ratio.

On October 25, 2017, the BCBS issued a guideline entitled "Identification and management of step-in risk", aimed at measuring the risk related to the support that a financial institution could give an unconsolidated entity, should such entity find itself in financial distress, even beyond or in the absence of contractual obligations. The proposed framework does not call for capital requirements to be automatically added to those required under present Basel standards. It is scheduled to come into force in 2020.

On December 7, 2017, the BCBS issued a discussion paper on the regulatory treatment of sovereign exposures. Comments on the topic could be sent to the BCBS until March 9, 2018. The BCBS did not obtain a consensus in order to make changes to the treatment of exposures to sovereign risk.

On December 7, 2017, the Group of Central Bank Governors and Heads of Supervision, the BCBS's oversight body, endorsed the outstanding Basel III post-crisis regulatory reforms. The reforms are intended to help reduce excessive variability in risk-weighted assets (RWA) and improve the comparability and transparency of financial institutions' capital ratios by:

- enhancing the robustness and risk sensitivity of the standardized approaches for credit risk, credit valuation adjustment (CVA) risk and operational risk;
- constraining the use of the internal model approaches, by placing limits on certain inputs used to calculate capital requirements under the Internal Ratings-Based (IRB) approach for credit risk and by removing the use of the internal model approaches for the CVA risk and for operational risk;
- adjusting the leverage ratio exposure measurement; and
- replacing the existing Basel I output floor with a more robust risk-sensitive floor based on the revised Basel III standardized approaches.

The BCBS has scheduled the implementation of these reforms for January 1, 2022 and the transitional provisions for applying the output floor based on the revised Basel III standardized approach.

On March 22, 2018, the BCBS issued a consultative document entitled "Revisions to the minimum capital requirements for market risk", which addresses certain issues raised following the publication on January 14, 2016 of the revised version of the minimum capital requirements for market risk. The consultative document includes proposed changes aimed, in particular, at increasing the risk sensitivity of the standardized approach and recalibrating risk weights for interest risk, equity risk and foreign exchange risk. It also proposes changes to the "Simplified alternative to the standardised approach to market risk capital requirements" issued on June 29, 2017. On December 7, 2017, the BCBS had announced that financial institutions should present information using the standardized approach as of January 1, 2022.

On July 16, 2018, the OSFI released a discussion paper on the proposed implementation timetable for the recent Basel III reforms in Canada. The paper also details the OSFI's views on some of the proposed changes. The AMF has not yet expressed its opinion of the timetable for adopting the new reforms.

Finally, in November 2018, the guideline on adequacy of capital base standards for financial services cooperatives issued by the AMF was revised and it is expected to be effective on March 31, 2019. The main changes cover the following elements:

- Introduction of TLAC provisions;
- Revision of the framework for securitization;
- Implementation of the standardized approach for counterparty credit risk (SA-CCR) and the revised capital requirements for bank exposure to central counterparties;
- Raising of the minimum requirement for the leverage ratio to 3.5% for institutions designated as D-SIFI;
- Introduction of provisions regarding the countercyclical buffer;
- Revision of the Pillar 3 standard;
- Introduction of a new output floor for risk-weighted assets: Since the adoption of the Basel III framework in 2008, the AMF has imposed a requirement regarding the capital output floor for institutions that apply the advanced internal ratings-based approach (credit risk or operational risk). This capital output floor was determined according to Basel I requirements rather than the Basel II standardized approach. For the first quarter of 2019, the AMF is proposing a new capital output floor based on the revised Basel III standardized approach.

The "Changes in the regulatory environment" section presents additional details on regulation as it affects all Desjardins Group operations. In addition, this section contains information on the internal recapitalization (bail-in) file, or the TLAC guideline project.

Compliance with requirements

As at December 31, 2018, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 17.3%, 17.3% and 17.6%, respectively. The leverage ratio was 8.3%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at December 31, 2018.

Regulatory capital

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

Table 21 – Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A[1]	Tier 1B[1]	
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • Federation capital shares • Permanent shares and surplus shares subject to phase-out	• Non-controlling interests[2]	• General allowance • Subordinated notes subject to phase-out • Eligible qualifying shares
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance		
Deductions	• Mainly significant investments in financial institutions[3]		• Investment in preferred shares of a component deconsolidated for regulatory capital purposes • Subordinated financial instrument

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios, for financial services cooperatives regulated by the AMF.
(2) The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(3) Represent the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from this capital. The net non-deducted balance will be subject to risk-weighting at a rate of 250%.

Table 22 – Regulatory capital
As at December 31

(in millions of dollars and as a percentage)	2018[1]	2017
Tier 1A capital		
Federation capital shares[2]	**$ 4,784**	$ 4,518
Permanent shares and surplus shares subject to phase-out	**532**	794
Reserves	**15,921**	16,707
Undistributed surplus earnings	**3,634**	1,336
Eligible accumulated other comprehensive income	**(28)**	410
Deductions[3]	**(2,431)**	(2,780)
Total Tier 1A capital	**22,412**	20,985
Non-controlling interests	**-**	13
Total Tier 1B capital	**-**	13
Total Tier 1 capital	**22,412**	20,998
Tier 2 capital		
Subordinated notes subject to phase-out	**844**	1,032
General allowance	**377**	257
Other eligible instruments	**25**	25
Deductions	**(820)**	(876)
Total Tier 2 capital	**426**	438
Total regulatory capital (Tiers 1 and 2)	**$ 22,838**	$ 21,436
Ratios and leverage ratio exposure		
Tier 1A capital ratio	**17.3%**	18.0%
Tier 1 capital ratio	**17.3**	18.0
Total capital ratio	**17.6**	18.4
Leverage ratio	**8.3**	8.5
Leverage ratio exposure	**$ 271,359**	$ 246,832

(1) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Including capital shares held in segregated funds.
(3) Deductions from Tier 1A are comprised of regulatory adjustments and significant investments of $661 million and $1,770 million, respectively, as at December 31, 2018, and of $651 million and $2,129 million as at December 31, 2017.

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

In addition, the subordinated notes issued by Desjardins Capital Inc. are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Desjardins Group has not issued any instruments of this type as discussions concerning the application of these regulations by Desjardins Group are still in progress with the AMF.

During 2018, the *Fédération des caisses populaires de l'Ontario Inc.* bought back all Class B preferred shares for a cash consideration of $13 million and all Class C preferred shares for a cash consideration of $75 million.

On December 21, 2018, the Federation filed a new short-form prospectus and obtained a receipt allowing it to issue, in the 12 months following the date of the receipt, F capital shares for a maximum amount of $125 million. This new issue started on January 15, 2019. During 2018, the Federation issued F capital shares for a cash consideration of $125 million. It also issued F capital shares for an amount of $142 million in order to pay interest where a holder elected to receive remuneration in F capital shares.

As at December 31, 2018, the Tier 1A capital ratio was down 71 basis points compared to December 31, 2017. Growth in surplus earnings was partly offset by an increase in risk-weighted assets, the transition to IFRS 9 and the reduction in accumulated other comprehensive income. As mentioned in the "Regulatory developments" section, the AMF has announced the implementation of a new capital output floor from the end of the first quarter of 2019. Desjardins Groups believes that the impact of this change will result in an increase of approximately 70 basis points in the Tier 1A capital ratio as at March 31, 2019.

Table 23 – Change in regulatory capital
For the years ended December 31

(in millions of dollars)	**2018[1]**	2017
Tier 1A capital		
Balance at beginning of year	**$ 20,985**	$ 18,720
Increase in reserves and undistributed surplus earnings[2]	**1,512**	1,489
Eligible accumulated other comprehensive income	**(438)**	18
Federation's capital shares[3]	**266**	376
Permanent shares and surplus shares subject to phase-out	**(262)**	(284)
Deductions	**349**	666
Balance at end of year	**22,412**	20,985
Tier 1B capital		
Balance at beginning of year	**13**	12
Non-controlling interests	**(13)**	1
Balance at end of year	**-**	13
Total Tier 1 capital	**22,412**	20,998
Tier 2 capital		
Balance at beginning of year	**438**	611
Senior notes subject to phase-out	**(188)**	(174)
General allowance	**120**	5
Deductions	**56**	(4)
Balance at end of year	**426**	438
Total capital	**$ 22,838**	$ 21,436

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Amount including the change in defined benefit pension plan liabilities.
(3) Amount net of issuance expenses.

Risk-weighted assets (RWA)

Desjardins Group calculates the risk-weighted assets for credit risk, market risk and operational risk. Since March 2009, Desjardins has been using the Internal Ratings-Based Approach for credit risk related to retail loan portfolios − Personal. Other exposures to credit risk are measured according to the Standardized Approach. On June 19, 2017, Desjardins Group received the AMF's authorization to use the Standardized Approach for calculating operational risk as of June 30, 2017. On June 29, 2018, Desjardins Group received the AMF's approval to use market risk internal models for trading portfolios while continuing to use the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio as of September 30, 2018. In addition, Desjardins Group is subject to a threshold defined under Basel I, where the threshold is determined by the difference between the minimum regulatory capital requirement in accordance with the rules of the last version of the AMF guideline based on Basel I, multiplied by an adjustment factor set by the AMF, and the minimum regulatory capital requirement calculated under Basel III.

As indicated in the table below, risk-weighted assets totalled $129.5 billion as at December 31, 2018. Of this amount, $106.8 billion was for credit risk, $5.4 billion for market risk, $12.2 billion for operational risk, and $5.1 billion was for the threshold adjustment. As at December 31, 2017, risk-weighted assets stood at $116.5 billion.

Table 24 – Risk-weighted assets

(in millions of dollars and as a percentage)	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2018				Total as at December 31, 2017
	Exposure [1]	Risk-weighted assets	Exposure [1]	Risk-weighted assets	Exposure [1]	Risk-weighted assets	Capital requirement [2]	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	$ -	$ -	$ 15,346	$ 102	$ 15,346	$ 102	$ 8	0.7%	$ 28
Financial institutions	-	-	10,743	2,106	10,743	2,106	168	19.6	2,094
Businesses	-	-	67,208	56,333	67,208	56,333	4,507	83.8	43,738
Securitizations	-	-	5	63	5	63	5	1,250.0	75
Equities	-	-	250	334	250	334	27	133.6	241
SMEs similar to other retail client exposures	-	-	8,294	5,394	8,294	5,394	432	65.0	4,687
Mortgages	103,893	11,491	435	152	104,328	11,643	931	11.2	9,769
Other retail client exposures (excluding SMEs)	11,271	4,741	1,057	793	12,328	5,534	443	44.9	3,975
Qualifying revolving retail client exposures	39,177	10,159	-	-	39,177	10,159	812	25.9	8,833
Subtotal - Credit risk other than counterparty risk	154,341	26,391	103,338	65,277	257,679	91,668	7,333	35.6	73,440
Counterparty risk									
Sovereign borrowers	-	-	8	-	8	-	-	-	-
Financial institutions	-	-	2,755	551	2,755	551	44	20.0	343
Businesses	-	-	12	12	12	12	1	100.0	5
Trading portfolio	-	-	1,234	533	1,234	533	43	43.2	365
Credit valuation adjustment charge	-	-	-	-	-	1,452	116	-	903
Additional requirements for banking and trading portfolio	-	-	-	-	264	14	1	-	1
Subtotal - Counterparty risk	-	-	4,009	1,096	4,273	2,562	205	60.0	1,617
Other assets[3]	-	-	-	-	15,920	11,268	902	70.8	11,677
Scaling factor[4]	-	1,585	-	-	-	1,584	127	-	1,333
Total credit risk	154,341	27,976	107,347	66,373	277,872	107,082	8,567	38.5	88,067
Market risk									
Value at Risk (VaR)	-	575	-	-	-	575	46	-	-
Stressed Value at Risk (SVaR)	-	2,335	-	-	-	2,335	187	-	-
Incremental risk charge (IRC)[5]	-	1,732	-	-	-	1,732	139	-	-
Other[6]	-	-	-	754	-	754	60	-	1,965
Total market risk[7]	-	4,642	-	754	-	5,396	432	-	1,965
Operational risk[8]	-	-	-	12,232	-	12,232	979	-	11,850
Total risk-weighted assets before threshold	154,341	32,618	107,347	79,359	277,872	124,710	9,978	-	101,882
Risk-weighted assets (RWA) after the transitional provisions for the credit valuation adjustment charge[9]									
RWA for Tier 1A capital	-	-	-	-	-	124,419	9,954	-	101,629
RWA for Tier 1 capital	-	-	-	-	-	124,463	9,957	-	101,674
RWA for total capital	-	-	-	-	-	124,506	9,960	-	101,710
Transitional threshold adjustment[10]	-	-	-	-	-	5,055	404	-	14,858
Total risk-weighted assets	$ 154,341	$ 32,618	$ 107,347	$ 79,359	$ 277,872	$ 129,474	$ 10,358	- %	$ 116,487

[1] Net exposure after credit risk mitigation (net of allowance for expected credit losses on credit-impaired loans other than retail (except for credit card loans) using the Standardized Approach, excluding those using the Internal Ratings-Based Approach, according to the AMF guideline).
[2] The capital requirement represents 8% of risk-weighted assets.
[3] Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain threshold in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.), the investments portion below a certain threshold in associates as well as the portion of other deferred tax assets below a certain threshold. These three items are weighted at 250% and the deducted portion (namely above a certain threshold) is weighted at 0%. This class does not include the credit valuation adjustment (CVA) charge and additional requirements for the banking and trading portfolios, which are disclosed in the counterparty credit risk section.
[4] The scaling factor is a 6.0% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.
[5] Additional requirements representing an estimate of default and migration risks of unsecuritized products exposed to interest rate risk.
[6] Represents capital requirements calculated using the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio. It should be noted that since third quarter 2018, the internal models approach has been applied to all trading portfolios, after receiving the AMF's approval. Prior to this period, the Standardized Approach was used for all market risk requirements.
[7] Since third quarter 2018, internal models have been used to calculate market risk for trading portfolios in replacement of the Standardized Approach used previously. The Standardized Approach was used in prior periods. Prior-period data have not been restated.
[8] Since second quarter 2017, the Standardized Approach has been used to assess operational risk. The Basic Indicator Approach was used in prior periods.
[9] The scaling factors used since January 1, 2014 to account for CVA charge requirements are being phased in to calculate the Tier 1A, Tier 1 and total capital ratios. They were 80%, 83% and 86%, respectively, in 2018 (72%, 77% and 81% in 2017) and will reach 100% for each class of capital by 2019.
[10] 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 for Tier 1A capital.

Movements in risk-weighted assets

For credit risk, fluctuations in RWA during 2018 are segmented into two items, namely credit risk other than counterparty risk, and counterparty risk. In credit risk other than counterparty risk, the principal fluctuations were caused by changes in the portfolio's size, which resulted in an $8.5 billion increase in RWA, whereas the deterioration in portfolio quality caused an increase of $1.5 billion. In addition, the updating of models generated a $939 million increase. The integration of the downturn loss given default in the insured mortgage portfolio caused an increase of $2.1 billion, included in the $7.7 billion resulting from changes in methods and policies. On April 1, 2018, Desjardins Group completed the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., which caused a $892 million decrease in credit risk, and finally the change in exchange rates accounted for a $321 million increase. In counterparty risk, changes in the calculation method for regulatory capital, higher transaction volume and a deterioration in portfolio quality caused an increase of $905 million.

In market risk, a $3.4 billion increase in RWA was observed due to obtaining the AMF's approval to use internal models in replacement of the Standardized Approach used previously.

In operational risk, a $382 million increase in RWA was observed, on account of the fluctuation in revenue generated.

The threshold adjustment as previously defined decreased by $9.8 billion of RWA in 2018, basically as a result of changes in methods and policies.

Table 25 – Change in risk-weighted assets
As at December 31

(in millions of dollars)	2018			2017		
	Credit risk other than counterparty risk	**Counterparty and issuer risk**	**Total**	Credit risk other than counterparty risk	Counterparty and issuer risk	Total
Credit risk						
Risk-weighted assets at beginning of year	**$ 86,448**	**$ 1,366**	**$ 87,814**	$ 77,449	$ 1,038	$ 78,487
Size of portfolio[1]	**8,526**	**693**	**9,219**	7,431	282	7,713
Quality of portfolio[2]	**1,481**	**111**	**1,592**	(408)	(13)	(421)
Updating of models[3]	**939**	**-**	**939**	2,120	-	2,120
Procedures and policies[4]	**7,697**	**82**	**7,779**	8	59	67
Acquisitions and transfers	**(892)**	**-**	**(892)**	65	-	65
Change in exchange rates	**321**	**19**	**340**	(217)	-	(217)
Other	**-**	**-**	**-**	-	-	-
Total changes in risk-weighted assets	**18,072**	**905**	**18,977**	8,999	328	9,327
Risk-weighted assets at end of year	**$ 104,520**	**$ 2,271**	**$ 106,791**	$ 86,448	$ 1,366	$ 87,814

(in millions of dollars)	2018	2017
Market risk		
Risk-weighted assets at beginning of year	**$ 1,965**	$ 1,810
Change in risk levels[5]	**-**	155
Updating of models[3]	**393**	-
Procedures and policies[4]	**-**	-
Acquisitions and transfers	**3,038**	-
Change in exchange rates	**-**	-
Other	**-**	-
Total changes in risk-weighted assets	**3,431**	155
Risk-weighted assets at end of year	**$ 5,396**	$ 1,965
Operational risk		
Risk-weighted assets at beginning of year	**$ 11,850**	$ 13,315
Revenue generated	**394**	126
Procedures and policies[4]	**-**	(1,591)
Acquisitions and transfers	**(12)**	-
Total changes in risk-weighted assets	**382**	(1,465)
Risk-weighted assets at end of year	**$ 12,232**	$ 11,850
Transitional threshold adjustment		
Risk-weighted assets at beginning of year	**$ 14,858**	$ 14,532
Size of portfolio[1]	**3,231**	83
Quality of portfolio[2]	**(531)**	456
Updating of models[3]	**(916)**	(2,076)
Procedures and policies[4]	**(10,709)**	1,864
Acquisitions and transfers	**(867)**	(1)
Change in exchange rates	**(11)**	-
Other	**-**	-
Total changes in risk-weighted assets	**(9,803)**	326
Risk-weighted assets at end of year	**$ 5,055**	$ 14,858

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

3.3 Off-balance sheet arrangements

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

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

As at December 31, 2018, Desjardins Group administered, for the account of its members and clients, assets totalling $373.6 billion. This represented an annual decrease of $38.0 billion, or 9.2%, compared to a decrease of $8.6 billion, or 2.1%, recorded as at December 31, 2017. The decrease was mainly due to the transaction involving Qtrade Canada Inc., as described in Section 1.2 "Significant transactions in 2018". Financial assets placed with Desjardins Group as wealth manager amounted to $57.4 billion at the close of 2018, for a decrease of $0.8 billion, or 1.3% on an annual basis, compared to an increase of $6.7 billion, or 12.9%, a year earlier.

Assets under management and under administration by Desjardins Group are comprised essentially of financial assets in the form of investment funds, securities held in custody and assets accumulated by pension funds. They do not belong to Desjardins Group, but to its members and clients and, as a result, they are not recognized on the Combined Balance Sheets. The Wealth Management segment is primarily responsible for the activities related to assets under management and under administration.

Table 26 – Assets under management and under administration
As at December 31

(in millions of dollars)	2018	2017	2016
Assets under management			
Institutions and individuals	**$ 13,902**	$ 15,263	$ 12,205
Investment funds[1]	**43,546**	42,957	39,345
Total assets under management	**$ 57,448**	$ 58,220	$ 51,550
Assets under administration			
Individual and institutional trust and custodial services	**$ 280,378**	$ 313,517	$ 326,798
Investment funds[1]	**93,180**	98,031	93,368
Total assets under administration	**$ 373,558**	$ 411,548	$ 420,166

[1] Including Desjardins Funds and Northwest and Ethical Funds until April 1, 2018.

CREDIT INSTRUMENTS

In order to meet its members' and clients' financing needs, Desjardins Group enters into various agreements with them for such instruments as credit commitments, indemnification commitments related to securities lending and documentary letters of credit. These products are generally off-balance sheet instruments and may expose Desjardins Group to credit and liquidity risks. These instruments are subject to Desjardins Group's usual risk management rules.

Note 28, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides more detailed information about these credit instruments.

GUARANTEES

Desjardins Group also enters into various guarantee and indemnification agreements with its members and clients in the normal course of operations. These agreements remain off-balance sheet arrangements and include guarantees, standby letters of credit and credit default swaps. Note 28, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements provides information about these off-balance sheet arrangements.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of business, Desjardins Group holds financial assets as collateral as a result of transactions involving securities borrowed or those purchased under reverse repurchase agreements. Note 28, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements provides additional information about assets held as collateral.

STRUCTURED ENTITIES

Desjardins Group enters into various financial transactions with structured entities in the normal course of operations to diversify its sources of financing and manage its capital. Structured entities are usually created for a unique and distinct purpose, and they frequently have limited activities. These entities may be included in Desjardins Group's Combined Balance Sheets if it has control over them. Detailed information concerning significant exposure to structured entities not included in Desjardins Group's Combined Balance Sheets is provided below. Note 13, "Interests in other entities", to the Combined Financial Statements provides more information about structured entities.

Securitization of Desjardins Group's financial assets

Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program to manage its liquidities and capital. Transactions carried out under this program sometimes require the use of a structured entity, the Canada Housing Trust (CHT), set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 8, "Derecognition of financial assets", to the Combined Financial Statements provides more information about the securitization of Desjardins Group's loans.

4.0 Risk management

The shaded areas and tables marked with an asterisk (*) in this section contain information about credit, market and liquidity risks in accordance with IFRS 7, "Financial Instruments: Disclosures". They also contain an analysis of how Desjardins Group assesses its risks as well as a description of its risk management objectives, policies and methods. IFRS 7 provides that risk disclosures may be included in the MD&A. Consequently, the shaded areas and tables marked with an asterisk (*) are an integral part of the Combined Financial Statements, as explained in Note 30, "Financial instrument risk management", to the Combined Financial Statements.

In the charts for this section, the information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

4.1 Risk factors that could impact future results

In addition to the risks presented in Section 4.2 of this MD&A, other systemic or macroeconomic risk factors, which are outside of Desjardins Group's control, may impact its future results. Furthermore, as indicated in the caution concerning forward-looking statements, general or specific risks and uncertainties may cause the actual results of Desjardins Group to differ from those in the forward-looking statements. Some of these risk factors are presented below.

Principal emerging risks

Principal emerging risks are risks or risk factors that could have a significant impact on Desjardins Group's financial health and would likely affect its reputation, the volatility of its results, the adequacy of its capitalization or liquidities, in the event they fully materialize. Among these risks, certain so-called emerging risks are sharply growing risk factors, or ones that are developing unexpectedly, with unanticipated results. Desjardins Group continues to be proactive in identifying and tracking these risks so that it can take the appropriate management measures when required. For example, the external environment is continuously monitored to identify the risk factors and economic and regulatory events that could impact its operations. In addition, regular exchanges between the Risk Management Executive Division, risk officers and the business segments further define the risk factors of greatest concern.

Principal emerging risks	Description
Cyber threats	Risks related to cyber threats have been on the rise for a number of years. Both the aggregation of new services for members and clients and the exposure of online services are becoming increasingly complex and gradually extending to more and more areas and products. In addition, the authors of cyber threats are using increasingly sophisticated methods and strategies for criminal purposes. Consequently, Desjardins Group has been investing for many years in technology to strengthen its cyber defence capabilities in order to detect cyber security incidents as quickly as possible; in its processes, by optimizing them to respond efficiently to incidents; and in its employees, by attracting and training them in order to continue developing its defence methods. Desjardins Group has also optimized its cyber risk transfer strategies by refining its own assurance policies during 2018. There is no indication that Desjardins would be less at risk than other Canadian financial institutions. In the event of a successful cyber attack, Desjardins would be exposed to financial loss, reputational loss, the risk of not achieving its business objectives as well as major disruption in its operations. Desjardins remains vigilant and proactive in identifying and managing such risks by continuing to invest in cyber defence techniques to protect its systems and data, and its members and clients.

Principal emerging risks	Description
Household indebtedness and changes in the housing market	An economic slowdown, which is felt more acutely in times of geopolitical uncertainty, could substantially affect households whose debt levels are still high. This economic situation could lead to a decline in the housing market, which experienced solid growth in 2018, despite higher interest rates and the tighter mortgage granting rules imposed at the start of the year. Nonetheless, Desjardins remain proactive in assisting members and clients who could be affected in the event of such a situation. Desjardins has sound practices in granting and managing mortgage financing, including a stress test involving interest rates for mortgage financing, which should allow it to circumvent this risk.
Technological developments	Innovative technologies are being increasingly taken into consideration and adopted by financial institutions in the context of their digital transformation, as they represent a crucial vector for transforming business processes and models. In addition to the cyber threats risks, use of these technologies exposes financial institutions to other risks relating to system stability, the modernizing of infrastructure, complex environments and system interdependence. Regulators' expectations and the regulatory environment will be increasingly demanding, and financial sector requirements will continue to grow in terms of managing technology risk. The growing presence of FinTech and InsurTech, which offer simple, innovative technology solutions that meet the expectations of members and clients, puts more pressure on traditional financial institutions to adapt. Desjardins Group has been no exception and remains active in managing this operational and strategic risk, among others, by investing in technology and by reviewing and diversifying its products, services and distribution channels to meet the needs of its members and clients.
Regulatory developments	The financial services industry is one of the most tightly monitored and regulated, and industry regulation has been expanding for many years now. This trend is in response to a number of socio-economic phenomena such as the development of new, increasingly complex financial products, ongoing volatility in the securities market, financial fraud, the fight against money laundering and terrorist financing, the fight against tax evasion, compliance with economic sanctions and the protection of personal information. Although Desjardins Group actively monitors and manages regulatory risk, changes in regulation, its complexity and its uncertainty could have an impact on the performance of its operations, its reputation, its strategies and its financial objectives. As an independent supervisory function, the Office of the Chief Compliance Officer, Desjardins Group promotes a proactive approach to compliance by fully integrating it into the organization's regular operations. Maintaining an effective compliance management framework mobilizes significant amounts of technical, human and financial resources.
Interest rate development	The turbulence seen on capital markets at the end of 2018 lowered bond rates. Furthermore, fewer interest rate increases are now expected in 2019 while the global economy is showing signs of weakness. This rate environment puts pressure on financial intermediation margins, resulting in lower interest income and fiercer competition for deposits as a number of investors abandon investment funds for high interest savings accounts and guaranteed capital investment vehicles. This situation also affects Desjardins Group's insurer and pension plan matching activities while liability valuations increase and return on assets decreases. Desjardins Group is still actively involved in its matching strategies and effectively manages these risks. The risk-averse, highly-volatile environment observed in the last two months of 2018 caused a significant widening in credit spreads, as well as a considerable reduction in the general level of interest rates. These elements had very negative repercussions on portfolios intended for long-term strategies aimed at ensuring the stability of these market parameters.
Geopolitical uncertainties	The adoption of protectionist measures by the U.S. administration increased global uncertainty in 2018. New protectionist measures could be decreed in 2019, particularly if the current negotiations between China and the U.S. are not conclusive. For Canada more specifically, there could be some new twists in the United States–Mexico–Canada (USMC) Agreement, which has not yet been accepted by the legislatures concerned. Some of the articles of the agreement could be contested, which would start the negotiating process all over again. The situation in Europe is one of greater political uncertainty. In addition to Brexit, which is marking time, there is the yellow vest crisis in France and the rise of populism. The European economy may slow again in 2019. The likelihood of a recession has also increased. Aware of the strength of global economic integration, Desjardins Group remains vigilant and continues to rely on its robust risk management framework to identify, measure and mitigate risk.

Other risk factors that could impact future results

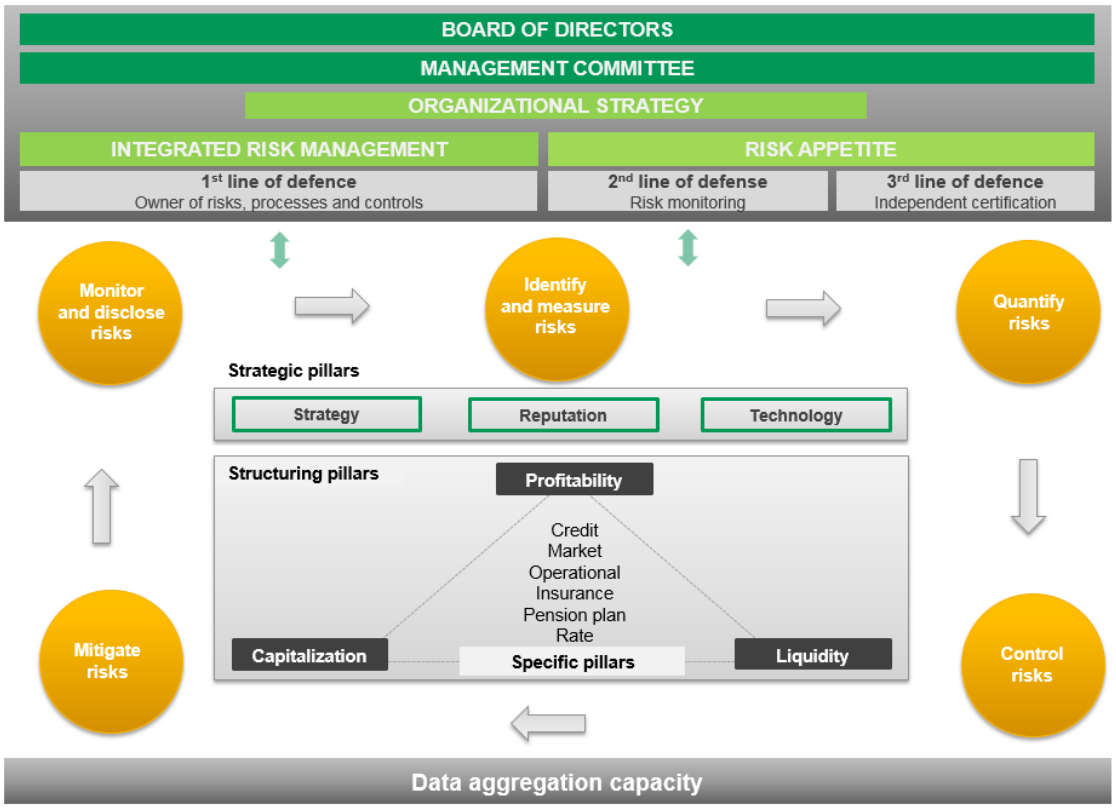
Risk factors	Description
General economic and business conditions in regions in which Desjardins Group operates	General economic and business conditions in the regions in which Desjardins Group operates may significantly affect its income and surplus earnings. These conditions include short- and long-term interest rates, inflation, debt securities market fluctuations, foreign exchange rates, the volatility of capital markets, tighter liquidity conditions in certain markets, the level of indebtedness, the strength of the economy, consumer spending and saving habits, and the volume of business conducted by Desjardins Group in a given region.
Monetary policies	The monetary policies of the Bank of Canada and the U.S. Federal Reserve (the Fed), as well as interventions in capital markets, have an impact on Desjardins Group's income. The general level of interest rates may impact Desjardins Group's profitability because interest rate fluctuations affect the spread between interest paid on deposits and interest earned on loans, thereby affecting Desjardins Group's net interest income. Furthermore, considering the current level of indebtedness of Canadian households, higher interest rates could have an adverse effect on consumers' ability to service their debt, leading to an increased risk of loan losses for financial institutions. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.
Accuracy and completeness of information concerning clients and counterparties	Desjardins Group relies on the accuracy and completeness of the information it has on its clients and counterparties. When deciding to authorize a loan or other transactions with clients or counterparties, Desjardins Group may use information provided by them, including financial statements and other financial information. It may also rely on representations made by clients and counterparties regarding the completeness and accuracy of such information, and on auditors' reports regarding the financial statements. The financial position and income of Desjardins Group could be adversely affected if the financial statements on which it relies fail to comply with accounting standards, are misleading or do not present fairly, in all material respects, the financial position, performance and cash flows of its members, clients and counterparties. Desjardins Group trains its employees and implements procedures to mitigate the risks related to the use of inaccurate, incomplete or fraudulent information from its members, clients or counterparties.
Critical accounting estimates and accounting standards	The Combined Financial Statements are prepared in accordance with the IFRS. The accounting policies used by Desjardins Group determine how it reports its financial position and results of operations, and management may be required to make estimates or rely on assumptions about matters that are inherently uncertain. Any change in these estimates and assumptions, as well as in accounting standards and policies, may have a significant impact on Desjardins Group's financial position and results of operations. The significant accounting policies and future accounting changes are described in Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
New products and services to maintain or increase market share	Strong competitive pressures from Canadian financial institutions and the emergence of new competitors have led Desjardins Group to develop new products and services at a faster pace to maintain or increase its attractiveness as a financial institution with its clients. Developing these new products and services could require large investments by Desjardins or involve risks not identified at the time of their development. Desjardins cannot be certain that the new products and services it offers will result in the anticipated financial benefits.
Geographic concentration	Desjardins Group's operations are heavily concentrated in Quebec. As at December 31, 2018, Desjardins Group's loans to Quebec members and clients therefore accounted for 90.9% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results largely depend on economic conditions in Quebec. Any deterioration in these conditions could adversely impact: • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in approval of transactions by regulators or their imposing of additional conditions, the inability to apply the strategic plan in its original form, difficulties in integrating or retaining clients, an increase in regulatory costs, unexpected expenses, or changes in the economic and competitive environment. As a result, synergies, higher income, cost savings, increased market share and other expected benefits may not materialize or may be delayed, thereby impacting Desjardins Group's future surplus earnings.
Credit ratings	The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. These ratings may be revised or withdrawn at any time by the agencies. In addition, a significant downgrade to various ratings could raise Desjardins Group's cost of funding, reduce its access to capital markets, and increase additional obligations required by its counterparties.

Risk factors	Description
Climate change	Climate change is an external risk factor that is part of environmental risk. It is defined as an entity's vulnerability to the negative effects of climate change, which could lead to financial losses. It includes: • physical risks, namely the risks resulting from damage caused by extreme weather events; • transition risks, namely the risks related to implementation of measures to ensure environmental transition. Catastrophes resulting from extreme weather events are unforeseeable and their frequency seems to be growing. The severity of their effects means that they could have a material impact on Desjardins Group's results. Given the nature of their operations, Desjardins's property and casualty insurance subsidiaries are particularly affected by climate change, especially through the catastrophe risk that is an integral part of insurance risk.
Other factors	Other factors that may have an impact on Desjardins Group's future results include changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact of international conflicts on operations, and Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment. Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

4.2 Risk management

Integrated Risk Management Framework

Desjardins Group's objective in risk management is to optimize the risk-return trade-off by developing and applying integrated risk management strategies, frameworks, practices and procedures to all of the organization's business segments and support functions. To this end, Desjardins developed an Integrated Risk Management Framework reflective of its organizational strategy and risk appetite which is aimed, among other things, at giving its senior management and the Federation's Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of the full spectrum of risks associated with the achievement of its objectives.



RISK IDENTIFICATION

Desjardins Group considers it important to periodically assess the environment in which it operates and to identify key risks, as well as the aforesaid principal risk factors and emerging risk factors to which it is exposed. Desjardins Group has a risk log that sets out the main categories and subcategories of risks which could affect Desjardins Group. The log is updated at least annually and is used as a basis to make a quantitative and qualitative assessment of risk materiality, to determine Desjardins Group's risk profile and to implement appropriate strategies to mitigate risk.

In the normal course of business, Desjardins Group is exposed to the principal risks shown below, which are covered in specific subsections of this MD&A.

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

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

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

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

RISK MEASUREMENT

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

Models play a central role in assessing risk at Desjardins Group and support decision-making in many situations. They are applied to various aspects of risk management. Quantitative models are used for modelling credit risk measurement parameters. They are also used in market risk measurement, economic capital calculations, asset valuation and pricing. Risks are quantified based on both the current economic context as well as on hypothetical stress-testing situations, which are measured for specific risks on a Desjardins-wide integrated basis.

Desjardins-wide integrated stress testing

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

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

This exercise requires input from various business units and business segments to ensure a global perspective for the analysis as well as consistency among the various estimated impacts. Credit portfolios belonging to the Desjardins caisse network and the Federation are among the large portfolios analyzed. The analysis also covers the two insurance groups, namely Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc., as well as the Desjardins Group Pension Plan.

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

During Desjardins-wide stress testing in 2018, the scenarios developed separately considered the possibility of a long recession in the U.S. combined with a significant real estate correction in Canada, and a global trade war. The results obtained from the assessment of these scenarios show that Desjardins Group's current capitalization levels would be enough to withstand the economic deterioration considered and that its capital ratios would still exceed regulatory limits and its own risk appetite limits.

The results of the exercise are presented annually to various internal committees consisting of Desjardins Group's directors and senior management, namely the Risk Management Commission, the Desjardins Group Finance and Risk Management Committee, the Desjardins Group Management Committee and the Federation's Board of Directors.

In addition to the crisis scenarios studied during its integrated financial planning, Desjardins Group carries out regulatory stress testing based on AMF prescribed assumptions and according to the frequency set by the AMF, generally every two years.

Governance and model validation

In order to ensure sound governance of the use of Desjardins Group risk models and support the unit monitoring risk models and strategies in its role, activities such as the design, performance monitoring and validation of models for credit risk, market risk, economic capital and stress testing are subject to guidelines that specify the roles and responsibilities of the various parties involved in these activities.

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

RISK DISCLOSURE

A risk disclosure report is prepared quarterly and presented to the Desjardins Group Finance and Risk Management Committee, the Desjardins Group Management Committee, the Risk Management Commission and the Federation's Board of Directors. These reports provide relevant information on changes in the principal risks identified as well as on the capital position, particularly capital adequacy in relation to Desjardins Group's risk profile. These reports are regularly updated to include the latest risk management developments.

RISK APPETITE

As a significant component of the Integrated Risk Management Framework, risk appetite makes it possible to determine the risk type and level that Desjardins is prepared to assume in pursuing its business, financial and strategic objectives. Risk appetite forms an integral part of strategic planning, which makes it possible to guide risk-taking in order to ensure Desjardins Group's stability and sustainability in the case of unfavourable future events that could affect reputation, the volatility of profitability, capital adequacy or liquidities. As a result, risk appetite provides a basis for integrated risk management by promoting a better understanding of the effect of principal risks and emerging risks on Desjardins Group's actual results.

The risk appetite framework reflects Desjardins Group's risk-taking philosophy, mission and values and is based on:

- taking necessary risks to enrich the lives of people and communities, contributing to the development of a sustainable and responsible economy and managing such risks conscientiously;
- protecting Desjardins Group's reputation with its members, clients, communities, regulatory authorities and other stakeholders, while respecting its cooperative values;
- understanding the risks arising from Desjardins Group's operations and engaging in only new activities for which the risks are defined, assessed and understood;
- modernizing Desjardins Group's technologies to adapt to the needs of members, clients and employees in order to simplify their experience;
- thanks to adequate profitability in light of risk exposure, ensuring Desjardins Group's sustainability to be able to give back to members and communities and to meet its commitments to holders of debt securities and equity securities;
- maintaining financial stability within the market by preserving a capitalization level that meets market expectations and complies with regulatory requirements;
- managing liquidities and refinancing activities in order to guard against liquidity risk;
- avoiding excessively large risk concentrations;
- adequately managing operational and regulatory risks.

The risk management function ensures that Desjardins Group's risk profile is in line with its risk appetite. Each quarter, it makes sure that the statements and indicators set by senior management and the Board of Directors are respected, and keeps them informed. In the event a threshold or limit for a risk appetite indicator is exceeded, an immediate investigation is required. The supporting commentary and an action plan, as applicable, are then brought to the attention of the appropriate bodies. The Board of Directors is responsible for approving the risk appetite framework and ensuring that Desjardins Group's financial and strategic objectives are in line with its risk appetite.

The risk appetite framework is reviewed regularly and submitted to the Federation's Board of Directors for approval. The Desjardins Group Risk Management Executive Division relays the main guidelines for risk appetite to the business segments and components, and supports them in implementing these concepts by ensuring consistency in all the indicators, targets, levels and limits with the Desjardins Group framework.

PROACTIVE RISK MANAGEMENT APPROACH

A proactive risk management approach is one of the cornerstones of Desjardins Group's Integrated Risk Management Framework. It represents all the practices and behaviours of individuals and groups within the organization that condition the collective ability to identify, understand and openly discuss risks and handle present and future risks. Stakeholders, including the Board of Directors, senior management and the Risk Management Executive Division, encourage risk-taking behaviour in line with Desjardins Group's risk management frameworks. A proactive risk management approach promotes open and transparent communication between Desjardins Group's risk management function and its other support functions, business segments and components, while promoting an appropriate risk-return trade-off.

Ethical conduct and integrity are firmly entrenched in Desjardins Group's proactive risk management approach, which relies on the *Desjardins Code of Professional Conduct.* The code sets out the values and principles that Desjardins Group has espoused in order to maintain a high level of integrity.

Other methods used to support the proactive risk management approach and to promote accountability for risk include:
- defining and communicating risk management roles and responsibilities to all line levels in terms of an operations management approach based on the Three Lines of Defence model;
- alignment of strategic decisions and compensation processes with risk-taking;
- the dissemination of risk management frameworks;
- the organizing of risk management training and awareness sessions, bearing in mind the type of risk discussed and the role of the various parties involved.

Risk management and the Integrated Risk Management Framework are based on the following guidelines that provide in particular for:
- the accountability of Desjardins Group's business segments and other functions with regard to the risks inherent to their operations;
- the independence of the risk management function in relation to business segments;
- implementation at every level of the organization in order to obtain a comprehensive vision of risk exposure;
- a procedure aimed at ensuring that risk matters are disclosed and flagged accurately and transparently to senior management in a timely manner;
- the existence and presence of a complete and rigorous process to determine the appropriate capital level based on the risks assumed;
- consideration of risk management in the formulation of strategic plans and business strategies and in the resulting decisions;
- thorough risk assessment prior to launching new products or initiating transactions with a strong financial impact.

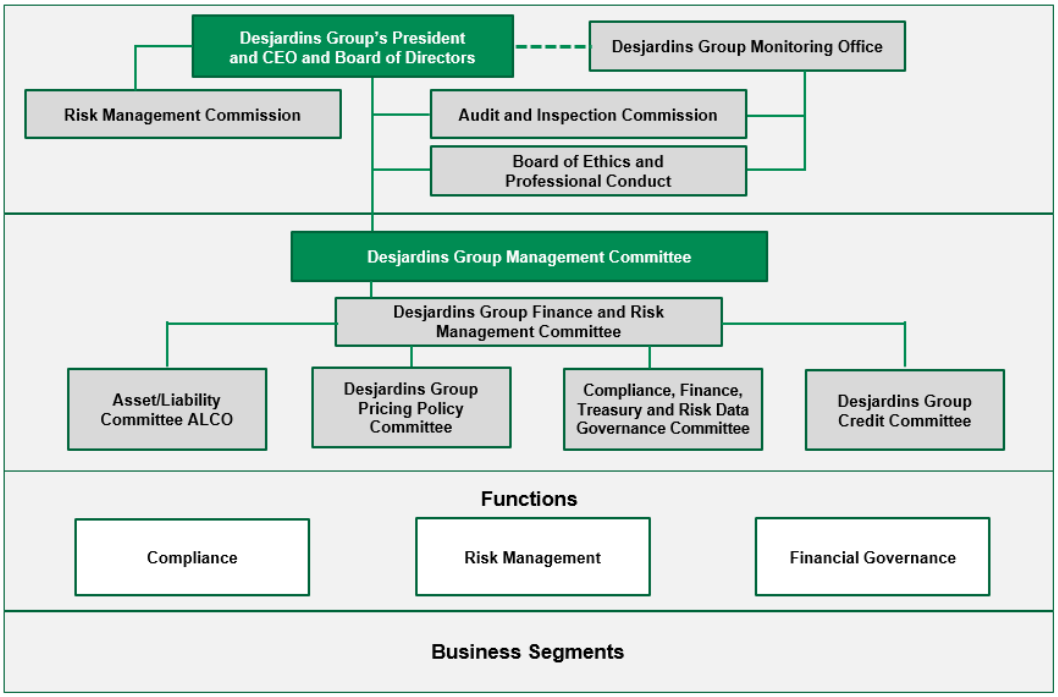
Compensation in relation to risk management

Desjardins Group has established strict governance with regard to total compensation. The Board of Directors is responsible for the annual changes in the total compensation of senior executives, members of the Management Committee and all employees. In this regard, it establishes an annual salary review, sets the objectives and measures the results of the general incentive plan. Acting as a subcommittee of the Board of Directors, the Human Resources Commission periodically reviews Desjardins Group's position with regard to total compensation so that it can remain competitive.

Incentive plans for senior executives, which are consistent with risk-taking at Desjardins Group, provide, as a general rule, for the medium to long-term deferral of a significant portion of members' annual bonus. The amounts thus deferred can vary annually depending on Desjardins Group's results. This formula encourages key stakeholders to have a long-term vision of Desjardins Group's development, which is beneficial for the organization's members and clients.

RISK MANAGEMENT GOVERNANCE

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



The **Federation's Board of Directors** is responsible for guiding, planning, coordinating and monitoring all of Desjardins Group's operations, and in such capacity, it participates actively in overseeing the major risks to which Desjardins Group is exposed. It is in particular responsible for adopting the overall directions and strategies proposed by senior management as well as risk management policies aimed at ensuring sound and prudent management of operations.

The Board is supported in this regard by the Risk Management Commission, the Audit and Inspection Commission, the Board of Ethics and Professional Conduct and the Desjardins Group Management Committee. Further information about these bodies is found in the Corporate Governance section of the 2018 Desjardins Group Annual Report.

The **Desjardins Group Management Committee** makes recommendations to the Board of Directors concerning risk management guidelines and strategies and ensures that they are implemented effectively and efficiently.

The Management Committee relies on the Finance and Risk Management Committee in performing its duties.

The **Desjardins Group Finance and Risk Management Committee** is responsible for ensuring that the on- or off-balance sheet principal risks to which Desjardins Group is or will be exposed directly or through one or more of its subsidiaries, have been identified and measured, and for assessing the potential impact of identified risks on business strategies.

This committee is supported by the Desjardins Group Credit Committee and the Compliance, Finance, Treasury and Risk Data Governance Committee:

- **The Desjardins Group Credit Committee** approves large credit commitments and monitors activities related to assessing and quantifying credit risk. In its monitoring role, the committee is supported by the model and strategy monitoring unit and by the collective allowance governance committee.
- **The Compliance, Finance, Treasury and Risk Data Governance Committee** provides guidance and exercises authority in establishing and monitoring risk data governance in accordance with Desjardins Group's needs and regulatory requirements. In addition, it prioritizes the actions to improve risk data quality.

The Desjardins Group Finance and Risk Management Committee is also responsible for overseeing and monitoring interest rate and liquidity risk management as well as ensuring compliance with Desjardins Group's pricing policy and the consistency of pricing with Desjardins's strategic objectives and financial targets. These mandates are performed through the **Asset/Liability Committee (ALCO)** and the **Desjardins Group Pricing Policy Committee**.

Operations management approach based on the Three Lines of Defence model

Risk management governance and the Integrated Risk Management Framework are also based on the Three Lines of Defence model. The Three Lines of Defence encompass complementary responsibilities that are coordinated to support sound and prudent risk management. The management approach based on this model focuses in particular on segregation of tasks and the assignment of complementary roles and responsibilities that are clearly defined between the various parties within the organization in terms of risk management, as the following table illustrates:

Three Lines of Defence model	
First line	
Owner of risks, processes and controls	• Identifies and manages process-related risks • Manages its activities in line with the organization's risk appetite • Is responsible for performance of its activities • Designs, implements and maintains effective internal controls • Identifies potential conflict of interest situations and remedies them by adequate segregation of tasks • Produces and reports on its risk profile
Second line	
Risk monitoring	• Establishes risk management frameworks and ensures that they are applied • Monitors and does a critical review of the first line's risk management and the effectiveness of the controls it puts in place • Advises and equips the first line so that it can carry out its responsibilities • Monitors and reports on compliance with risk appetite
Third line	
Independent certification	• Gives an independent opinion on the effectiveness of governance, risk management and internal controls within the organization

1st Line of Defence

The first line of defence, assumed by process owners, is responsible for the overall performance of the activities assigned to it in the process and for managing the resulting risks.

Consequently, the business sectors ensure day-to-day risk management in compliance with the risk appetite framework, design, implement and maintain effective internal controls, and monitor their risk profile.

2nd Line of Defence

The Risk Management Executive Division is a strategic function whose main purpose is to partner with the business sectors and Desjardins as a whole in their development by identifying, measuring and managing risks. It also ensures that risk management is aligned with Desjardins's risk appetite and business strategy.

In partnership with the business sectors, the Desjardins Group risk management function is responsible for recommending and establishing risk management frameworks, and ensures that the appropriate risk management infrastructure, processes and practices are set up to target all major Desjardins-wide risks.

The Risk Management Executive Division can also rely on the work performed by the compliance and financial governance functions which, based on their separate mandates, help to regulate and manage certain issues inherent to Desjardins Group's operations.

3rd Line of Defence

The **Desjardins Group Monitoring Office** is an independent and objective advisory and assurance body that assists Desjardins Group's officers in carrying out their governance, risk management and control responsibilities.

Moreover, it assists the President and Chief Executive Officer of Desjardins Group, and oversees and advises management in its duty to ensure sound and prudent management. In so doing, it contributes to improving Desjardins Group's overall performance and maintaining the confidence of its members, the public and regulatory bodies. The Desjardins Group Monitoring Office includes the internal audit services of Desjardins Group components.

Basel capital accord

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

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

In compliance with the guideline on adequacy of capital base standards, which was adapted to reflect the provisions of Basel III, Desjardins Group uses the Internal Ratings-Based Approach for credit risk related to the retail loan portfolios − Personal. Other exposures to credit risk are currently measured according to the Standardized Approach. On June 19, 2017, Desjardins Group received the AMF's authorization to use the Standardized Approach for calculating operational risk as of June 30, 2017. On June 29, 2018, Desjardins Group received the AMF's approval to use market risk internal models for trading portfolios while continuing to use the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio as of September 30, 2018. These provisions are used to calculate Desjardins Group's capital ratios, among other things.

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

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

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

In the course of its operations, Desjardins Group is exposed to various risks. The table below provides its risk profile by business segment. Economic capital is broken down to illustrate the relative size of the risks associated with the various business segments. The distribution of risk-weighted assets shows Desjardins Group's exposure to credit risk, market risk and operational risk for the purposes of regulatory capital measurement.

Table 27 – Economic capital and risk-weighted assets[1] by business segment and by risk type
As at December 31, 2018

(in millions of dollars and as a percentage)

Desjardins Group

Economic capital	
Banking activities	
Credit risk	32.4%
Market risk	3.5
Operational risk	6.2
Other risks[2]	18.2
Total banking activities	60.3
Insurance activities	32.9
Risk related to goodwill and other intangible assets[3]	6.9

Risk-weighted assets	
Credit risk	$ 106,791
Market risk	5,396
Operational risk	12,232
Threshold adjustment	5,055

Business segment	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other
Balance sheet[4]	Assets $ 232,526	Assets $ 41,916	Assets $ 13,007	Assets $ 8,016
Economic capital				
Proportion of total for Desjardins Group	45.1%	26.7%	14.8%	13.4%
Banking activities				
Credit risk	66.1	0.7	-	16.3
Market risk	2.4	-	-	18.8
Operational risk	12.2	3.4	-	-
Other risks[5]	19.1	5.4	-	57.8
Total banking activities	99.8	9.5	-	92.9
Insurance activities[6]	-	79.4	88.1	-
Risk related to goodwill and other intangible assets[3]	0.2	11.1	11.9	7.1
Risk-weighted assets				
Credit risk	$ 93,687	$ 4,487	$ 2,376	$ 6,241
Market risk	2,153	21	-	3,222
Operational risk	9,700	852	-	1,680

Risk profile

Desjardins Group is exposed to credit risk, market risk, operational risk and other risks, including in particular defined benefit plan risk, liquidity risk, interest rate risk, strategic risk, reputation risk and insurance risk.

(1) The amount of risk-weighted assets is the risk-weighted asset amount used to calculate the Tier 1A capital ratio.
(2) Includes defined benefit plan risk, liquidity risk, interest rate risk, strategic risk, reputation risk and the diversification effect.
(3) The economic capital amount for the risk related to goodwill and other intangible assets is the carrying amount of these assets. It is considered that in a worst-case scenario for economic capital, the value of these assets would become nil.
(4) The different adjustments required to prepare the Combined Financial Statements as well as intersegment balance eliminations are classified in the asset amount of the Other category.
(5) Includes liquidity risk, interest rate risk, strategic risk and reputation risk. The risk related to other credit assets and deferred tax assets, defined benefit-plan risk and the diversification effect are not allocated to business segments.
(6) For insurance operations, economic capital is the amount of capital equal to each insurance subsidiary's internal target ratio. Such economic capital covers all risks.

Again this year, numerous efforts were made throughout Desjardins Group to reinforce the implementation of sound risk management practices and to align regulatory capital requirements more closely with risk exposure. Desjardins Group is continuing to invest in improving its tools and systems and aligning them with sound practices in the industry for the principal types of risk. In recent years, the Bank for International Settlements has issued new requirements (Basel III) for the global regulation of capital standards. These new rules, in effect since January 1, 2013, have increased not only capital requirements but also risk management requirements. In addition to the changes made to the level and definition of eligible capital and the measurement of risk-weighted assets, Basel III has, under the second pillar, introduced new liquidity requirements and raised expectations for a number of management practices. Disclosure standards, which fall under the third pillar, have also been enhanced. These new requirements under the third pillar took effect for Desjardins Group on December 31, 2018. They are produced and presented in the Pillar 3 Report available on the Desjardins website, at www.desjardins.com/about-us/investor-relations. This Pillar 3 Report is not incorporated by reference into this MD&A. Desjardins Group will continue its development by integrating these new regulatory requirements into its Integrated Risk Management Framework.

Additional information about capital management is presented in Section 3.2, "Capital management".

Credit risk

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

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans, which accounted for 64.5% of assets on the Combined Balance Sheets as at December 31, 2018, comparable to the ratio recorded a year earlier. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as securities transactions.

CREDIT RISK MANAGEMENT

Desjardins Group upholds its goal of providing efficient service to all its members and clients. To this end, it has developed distribution channels specialized by product and customer base. The various units and components making up these channels are considered centres of expertise and are accountable for their performance in their respective markets, including credit risk management. In this regard, they have specific frameworks to support them, powers of approval, and the corresponding management and monitoring tools. To provide assistance in this area to these units and components, Desjardins Group has set up centralized structures and procedures to ensure that its Integrated Risk Management Framework allows for effective management that remains sound and prudent.

The Risk Management Executive Division has been structured so that it can effectively manage credit risk and provide credit approval, support, quantification and monitoring, and report on credit matters.

Framework

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

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

Assessment of regulatory capital

The AMF has authorized two credit risk assessment approaches to be included in calculating regulatory capital, namely the Standardized Approach and the Internal Ratings-Based Approach. RWA calculations are used to measure Desjardins Group's credit risk, as well as market risk and operational risk. Desjardins has adopted the Internal Ratings-Based Approach for credit risk related to loan portfolios of retail clients – Personal. In order to apply this method, Desjardins Group had to make internal estimates to calculate the probability of default (PD), loss given default (LGD) and exposure at default (EAD) on loan products. Other credit risk exposures are measured using the Standardized Approach.

PD is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. For retail customers, behavioural scoring models, estimated using logistic regressions, produce risk levels monthly. The predictive features of these models include in particular borrower and account-specific features such as account age, loan size and delinquency. These models allow proactive management of the portfolio credit risk. However, for regulatory purposes, the PD from scoring models is:

- calibrated by groups of products according to the following drivers: residential mortgages, loans and lines of credit, point-of-sale financing and credit cards.
- adjusted slightly upward (prudential margin) to compensate for the historical volatility of PD.

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

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

Differences between the parameters used for accounting and regulatory capital purposes

Loss allowances for expected credit losses for accounting purposes according to IFRS 9 are based primarily on the parameters used to calculate regulatory capital under the Internal-Ratings Based Approach, namely PD, LGD and EAD. However, there are certain differences, and the main ones are presented in the table below:

	Regulatory capital	IFRS 9
PD	• Estimated using a long-term average for a full economic cycle. • Projected over the next 12 months. • Definition of default associated with an instrument for which payments have been past due for over 90 days, plus certain other criteria.	• Estimated at a point in time for the next 12 months or for the lifetime of the instrument. • Based on past experience, current conditions and relevant forward-looking information. • Will correspond to the definition of default used for regulatory capital purposes.
LGD	• Based on losses that would be expected during an economic downturn. • Subject to certain regulatory floors. • Takes into account all direct and indirect recovery costs. • Discounted to account for the recovery period until default using the discount rate required for regulatory capital purposes.	• Based on past experience, current conditions and relevant forward-looking information. • Excessive conservatism and floors are excluded. • Takes into account only direct recovery costs. • Discounted to account for the recovery period until default using the initial effective interest rate.
EAD	• Corresponds to drawn amounts plus expected use of undrawn amounts before default.	• Based on the expected balance of amounts in default projected over the next 12 months or the lifetime of the instrument based on forward-looking expectations.
Discounting	• No discounting between the date of default and the reporting date.	• Discounted from the date of default to the reporting date using the initial effective interest rate.

More specifically, credit and counterparty risk exposure includes the following categories:

- Used exposure is the amount of funds invested or advanced to a member or client.
- Unused exposure is the amount of credit in loans or margins that has been authorized, but not yet used after credit conversion factors (CCF) have been applied.
- Repo-style transactions are contractual transactions between two parties, including a retrocession commitment at a pre-set price. Repo-style transactions include repurchase agreement transactions, reverse repurchase agreement transactions, and lending and borrowing of securities that are not outstanding with a central counterparty as well as these same transactions carried out with a non-qualifying central counterparty.
- Over-the-counter (OTC) derivative instruments refer to all OTC derivative financial instruments with different underlying instruments.
- Off-balance sheet exposures include guarantees, commitments, derivatives and other contractual agreements of which the total notional principal amount may not be recognized on the balance sheet.
- The net exposure is calculated after using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

As at December 31, 2018, the EAD was $287.5 billion before using CRM techniques, and $261.7 billion after using CRM techniques. The complete results of the credit risk assessment, depending on the type of risk exposure, asset class and the calculation method used (the Standardized Approach or the Internal Ratings-Based Approach (Basel III), as required by the AMF), are found in Table 28 – Risk exposure by asset class.

Desjardins Group uses the Internal-Ratings Based approach for 53.7% of exposure at default. Thus 46.3% of EAD is for the moment measured using the Standardized Approach. Work to obtain credit risk approval for the vast majority of portfolios is continuing. It is estimated that, at term, 89.5% of EAD will be measured using the Internal-Ratings Based approach.

Table 28 – Risk exposure by asset class (Exposure at default [EAD])[1]*
As at December 31

(in millions of dollars)	2018 Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[2]	EAD as a % of total
Standardized Approach								
Sovereign borrowers	**$ 14,493**	**$ 669**	**$ 30**	**$ 8**	**$ 184**	**$ 15,384**	**$ 15,354**	**5.3%**
Financial institutions	**8,052**	**2,581**	**2,069**	**4,593**	**390**	**17,685**	**13,498**	**6.1**
Businesses	**60,191**	**6,090**	**147**	**17**	**1,397**	**67,842**	**67,220**	**23.6**
SMEs similar to other retail client exposures	**8,151**	**129**	**-**	**-**	**103**	**8,383**	**8,294**	**2.9**
Mortgages	**435**	**-**	**-**	**-**	**-**	**435**	**435**	**0.2**
Other retail client exposures (excluding SMEs)	**1,541**	**406**	**-**	**-**	**-**	**1,947**	**1,057**	**0.7**
Securitization	**5**	**-**	**-**	**-**	**-**	**5**	**5**	**-**
Equities	**250**	**-**	**-**	**-**	**-**	**250**	**250**	**0.1**
Trading portfolio	**-**	**-**	**20,375**	**828**	**-**	**21,203**	**1,234**	**7.4**
Subtotal – Standardized Approach	**93,118**	**9,875**	**22,621**	**5,446**	**2,074**	**133,134**	**107,347**	**46.3**
Internal Ratings-Based approach								
Mortgages	**92,158**	**11,735**	**-**	**-**	**-**	**103,893**	**103,893**	**36.2**
Revolving retail client exposures	**11,879**	**27,298**	**-**	**-**	**-**	**39,177**	**39,177**	**13.6**
Other retail client exposures	**10,785**	**443**	**-**	**-**	**43**	**11,271**	**11,271**	**3.9**
Subtotal – Internal Ratings-Based approach	**114,822**	**39,476**	**-**	**-**	**43**	**154,341**	**154,341**	**53.7**
Total	**$ 207,940**	**$ 49,351**	**$ 22,621**	**$ 5,446**	**$ 2,117**	**$ 287,475**	**$ 261,688**	**100.0%**

(in millions of dollars)	2017 Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[2]	EAD as a % of total
Standardized Approach								
Sovereign borrowers	$ 13,745	$ 678	$ 16	$ 8	$ 141	$ 14,588	$ 14,572	5.5%
Financial institutions	7,475	2,478	483	3,287	524	14,247	11,778	5.4
Businesses	49,094	4,823	283	2	639	54,841	54,122	20.7
SMEs similar to other retail client exposures	6,822	188	-	-	34	7,044	6,981	2.6
Mortgages	411	-	-	-	-	411	411	0.2
Other retail client exposures (excluding SMEs)	1,438	67	-	-	-	1,505	279	0.6
Securitization	6	-	-	-	-	6	6	-
Equities	152	-	-	-	-	152	152	0.1
Trading portfolio	-	-	17,840	750	-	18,590	1,268	7.0
Subtotal – Standardized Approach	79,143	8,234	18,622	4,047	1,338	111,384	89,569	42.1
Internal Ratings-Based approach								
Mortgages	93,067	12,614	-	-	-	105,681	105,681	40.0
Revolving retail client exposures	11,239	26,110	-	-	-	37,349	37,349	14.1
Other retail client exposures	9,577	395	-	-	21	9,993	9,993	3.8
Subtotal – Internal Ratings-Based approach	113,883	39,119	-	-	21	153,023	153,023	57.9
Total	$ 193,026	$ 47,353	$ 18,622	$ 4,047	$ 1,359	$ 264,407	$ 242,592	100.0%

[1] The definition of exposure classes related to regulatory capital requirements differs from the accounting classification.
[2] After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

The following table presents exposure at default for portfolios of businesses, sovereign borrowers and financial institutions by industry using the Standardized Approach. The different industries are based on the North American Industry Classification System.

Table 29 – Exposure at default - Businesses, sovereign borrowers and financial institutions by industry*
As at December 31

	2018						
(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[1]
Agriculture	$ 6,703	$ 200	$ -	$ -	$ 15	$ 6,918	$ 6,912
Mining, oil and gas	298	458	-	-	94	850	851
Utilities	13,596	1,559	30	3	267	15,455	15,417
Construction	2,499	913	-	-	177	3,589	3,516
Manufacturing	3,245	876	-	-	219	4,340	4,325
Wholesale trade	1,283	125	-	-	70	1,478	1,469
Retail trade	2,411	355	-	-	24	2,790	2,772
Transportation	1,054	365	-	-	99	1,518	1,514
Information industry	456	307	-	-	261	1,024	1,023
Finance and insurance	8,768	1,378	2,216	4,615	545	17,522	13,060
Real estate	32,722	1,060	-	-	82	33,864	33,769
Professional services	519	175	-	-	27	721	710
Management of companies	801	74	-	-	17	892	821
Administrative services	291	15	-	-	28	334	325
Education	1,564	1,028	-	-	8	2,600	2,598
Health care	3,222	244	-	-	6	3,472	3,462
Arts and entertainment	613	57	-	-	8	678	675
Accommodation	1,131	13	-	-	3	1,147	1,139
Other services	600	33	-	-	11	644	639
Other businesses	960	105	-	-	10	1,075	1,075
Total business loans	**$ 82,736**	**$ 9,340**	**$ 2,246**	**$ 4,618**	**$ 1,971**	**$ 100,911**	**$ 96,072**

	2017						
(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[1]
Agriculture	$ 6,492	$ 144	$ -	$ -	$ 12	$ 6,648	$ 6,640
Mining, oil and gas	308	460	-	-	52	820	819
Utilities	13,306	1,404	16	-	174	14,900	14,877
Construction	2,066	583	-	-	78	2,727	2,678
Manufacturing	2,601	597	-	-	96	3,294	3,280
Wholesale trade	1,256	192	-	-	45	1,493	1,484
Retail trade	2,592	328	-	-	8	2,928	2,910
Transportation	1,090	463	-	-	53	1,606	1,600
Information industry	333	345	-	-	-	678	677
Finance and insurance	7,345	1,053	766	3,297	683	13,144	10,247
Real estate	23,863	623	-	-	42	24,528	24,466
Professional services	445	133	-	-	14	592	586
Management of companies	817	224	-	-	18	1,059	982
Administrative services	206	15	-	-	7	228	219
Education	1,621	926	-	-	4	2,551	2,550
Health care	2,716	216	-	-	1	2,933	2,926
Arts and entertainment	729	41	-	-	3	773	772
Accommodation	1,020	33	-	-	2	1,055	1,046
Other services	635	34	-	-	7	676	669
Other businesses	873	165	-	-	5	1,043	1,044
Total business loans	$ 70,314	$ 7,979	$ 782	$ 3,297	$ 1,304	$ 83,676	$ 80,472

[1] After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

Credit granting

The Risk Management Executive Division assigns approval limits to the various units and components, including the caisse network. The units and components are primarily responsible for approving the files originating from them. However, the Risk Management Executive Division approves any commitments exceeding the approval limits assigned to them. Its approval responsibilities and the depth of the analyses required depend on product features as well as the complexity and extent of transaction risk.

The Risk Management Executive Division also sets commitment limits, namely the maximum commitment that can be granted to a borrower and the related entities. Where required, risk-sharing arrangements can be used, mainly with other caisses or certain Desjardins Group components. Risk-sharing arrangements can also be made with other financial institutions through banking syndicates.

Retail loans

Retail loan portfolios consist of residential mortgages, personal loans and lines of credit, point-of-sale financing and credit card loans. The Internal Ratings-Based Approach for credit risk is currently used for most of these portfolios.

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

Table 30 presents PD tranches in relation to risk levels.

Table 30 – Probabilities of default of retail clients by risk level*

Risk levels	PD tranches
Excellent	**0.00% - 0.14%**
Very low	**0.15% - 0.49%**
Low	**0.50% - 2.49%**
Average	**2.50% - 9.99%**
High	**10.00% - 99.99%**
Default	**100.00%**

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

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

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

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

More specifically for PD, such back testing takes the form of various statistical tests to assess the following criteria:
- model's discriminating power;
- calibration of the model;
- stability of model results.

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

The model approval procedure and reporting are regulated by different bodies depending on the type and size of the approval in question. As a result, new models and significant changes to existing models are approved by the next higher committee than the one that is informed of the annual model performance monitoring results and authorizes any resulting recommendations.

The table below shows the quality of the retail loan portfolio by asset class using the Internal Ratings-Based Approach.

Table 31 – Exposure to credit risk of retail loan portfolios[1]*
As at December 31

	2018				2017
	EAD				
(in millions of dollars)	Exposures related to residential mortgage loans	Qualifying revolving retail client exposures	Other retail client exposures	Total	Total
Excellent	$ 36,105	$ 15,103	$ 1,152	$ 52,360	$ 51,974
Very low	27,289	13,527	1,367	42,183	42,327
Low	35,147	7,839	4,109	47,095	46,681
Average	4,155	1,376	4,117	9,648	9,077
High	778	1,213	406	2,397	2,414
Default	419	119	120	658	550
Total	**$ 103,893**	**$ 39,177**	**$ 11,271**	**$ 154,341**	$ 153,023

(1) Exposures depend on the regulatory scope, which excludes insurance operations.

The table below presents the quality of the retail loan portfolio subject to the Standardized Approach by risk tranche.

Table 32 – Exposures to retail clients by risk tranche[1]*
As at December 31

	2018								2017
	Risk tranches								
(in millions of dollars)	0%	20%	35%	50%	75%	100%	Other	Total	Total
Residential mortgages	$ -	$ -	$ 435	$ -	$ -	$ -	$ -	$ 435	$ 411
Other retail client exposures (except for SMEs)	-	-	-	-	1,944	3	-	1,947	1,506
Total	**$ -**	**$ -**	**$ 435**	**$ -**	**$ 1,944**	**$ 3**	**$ -**	**$ 2,382**	$ 1,917

(1) Exposures depend on the regulatory scope, which excludes insurance operations.

Loans to businesses, sovereign borrowers and financial institutions

These loans include retail loans, loans to sovereign borrowers and public bodies, loans to the housing sector and loans to other businesses. Work is in progress to switch these portfolios to the Internal Ratings-Based Approach.

The following table presents the credit quality of the portfolio of loans and acceptances to businesses, sovereign borrowers and financial institutions by risk tranche.

Table 33 – Exposures to businesses, sovereign borrowers and financial institutions by risk tranche[1]*
As at December 31

	2018								2017
	Risk tranches								
(in millions of dollars)	0%	20%	35%	50%	75%	100%	Other	Total	Total
Sovereign borrowers	$ 15,282	$ -	$ -	$ -	$ -	$ 102	$ -	$ 15,384	$ 940
Financial institutions	-	17,659	-	21	-	4	1	17,685	6,154
Businesses	-	219	-	653	-	66,260	710	67,842	53,614
SMEs similar to other retail client exposures	-	-	-	-	8,120	113	150	8,383	6,973
Total	**$ 15,282**	**$ 17,878**	**$ -**	**$ 674**	**$ 8,120**	**$ 66,479**	**$ 861**	**$ 109,294**	$ 67,681

(1) Exposures depend on the regulatory scope, which excludes insurance operations.

Retail clients, small residential rental properties and small commercial rental properties

Credit scoring systems based on proven statistics are used to assess the risk of credit activities involving these client bases.

These systems were designed using the behavioural history of borrowers with a profile or characteristics similar to those of the applicant in order to estimate the transaction risk.

Such systems are used for initial approval as well as for the monthly reassessment of borrowers' risk level. Ongoing updates allow for proactive management of the portfolios' credit risk.

The performance of these systems is periodically analyzed and adjustments are made regularly to measure transaction and borrower risk as adequately as possible. The units responsible for developing scoring systems and the underlying models ensure that adequate controls are set up to monitor their stability and performance.

Other segments

The granting of credit is based on the detailed analysis of a file. Each borrower's financial, market and management characteristics are analyzed using a credit risk assessment model designed from internal and external historical data, taking into account the size of the business, the special characteristics of the main industry in which the borrower operates, and the performance of comparable businesses.

In order to determine the model to be used, a segment is assigned to each borrower based on the borrower's main industry and some other features. A quantitative analysis based on financial data is supplemented by an assessment of qualitative factors by the person in charge of the file. Once this analysis is finished, each borrower is assigned a credit risk rating representing the borrower's risk level.

The use of scoring results has been expanded to other risk management and governance activities such as establishing analysis requirements and the required decision-making level, determining the different types of follow-up activities, as well as assessing and disclosing portfolio risk quality.

Credit risk mitigation

When a loan is granted to a member or client, Desjardins Group may obtain collateral to mitigate the borrower's credit risk. Such collateral normally takes the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities, equities, etc.) or cash.

For some portfolios, programs offered by various organizations, in particular Canada Mortgage and Housing Corporation (CMHC) and *La Financière agricole du Québec*, are used in addition to customary collateral. As at December 31, 2018, guaranteed or insured loans represented 24.6% of Desjardins Group's total gross loans, compared to 26.4% at the end of 2017. As a result of these additional measures, the residual credit risk is minimal for loan portfolios with such collateral. In order for enhanced credit offered by a guarantor to be considered a credit risk mitigation technique, the guarantor must meet certain specific criteria to allow this.

Frameworks adapted to each type of collateral contain the requirements for appraising collateral, its legal validity and follow-up. The type of collateral as well as the value of the assets encumbered by such collateral are established on the basis of a credit risk assessment of the transaction and the borrower, depending in particular on the borrower's PD. Such an assessment is required whenever any new loan is granted in accordance with Desjardins Group's frameworks. When an outside professional, such as a chartered appraiser or an environmental assessment firm, is required to determine the value of the collateral, the selection of the professional and the mandate must comply with the necessary requirements in the frameworks. Considering that the collateral is used to recover all or part of the unpaid balance of a loan in the event of the borrower's default to make payment, the quality, the legal validity and the ease with which the collateral can be realized are determining factors in obtaining a loan.

In order to ensure that the value of the collateral remains adequate, it must be periodically updated. The frequency of reappraisals depends in particular on the risk level, the type of collateral or certain triggering events such as a deterioration in the borrower's financial position or the sale of an asset held as collateral. The decision-making level is responsible for approving the updated value of the collateral, if applicable.

During the year ended December 31, 2018, no major change was made to the credit risk mitigation policies, and the quality of assets held as collateral did not change significantly.

Loan debt relief

In managing loan portfolios, Desjardins Group may, for financial or legal reasons, change the original terms and conditions of a loan granted to a borrower experiencing financial difficulty and therefore prevented from discharging his obligations. Such changes may include an interest rate adjustment, the deferral or extension of principal and interest payments or the waiver of a tranche of the principal or interest.

Loans with debt relief totalled $155 million as at December 31, 2018, compared to $242 million at the end of 2017. Of these loans, $91 million were classified as gross credit-impaired loans as at December 31, 2018, compared to $77 million as at December 31, 2017. The increase in the volume of loans classified as credit-impaired was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant.

File monitoring and management of higher risk files

Credit practices govern the monitoring of loans. Files are reassessed on a regular basis. Requirements regarding review frequency and depth increase with a higher PD or the size of potential losses on receivables. The officer in charge of the file monitors high risk loans using various intervention methods. A positioning, which must be authorized by the appropriate decision-making level, is required to be performed for files with irregularities or increased risk as well as for files in default.

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

Default situations

Identification of default

In accordance with the AMF guideline on adequacy of capital base standards, the following two criteria are used to identify a default situation:

- Quantitative criterion: A borrower's payments are past due by more than 90 days.
- Qualitative criterion: Desjardins Group believes that a borrower is unlikely to repay his debt in full unless the appropriate action is taken, such as realization on a collateral or guarantee, if any.

These criteria are applicable to all clients.

Impact of default

The impact of a default consists of associating the identified default on exposure to all the same borrower's commitments as well as to other entities in its borrower group. Such impacts vary according to the type of client base.

For individuals, Desjardins Group does not pass on the default.

For retail businesses, small residential rental properties and small commercial rental properties, the default is passed on only to the borrower's exposures to commitments with the same entity within the scope of Desjardins Group. For the application of this criterion, the caisse network is considered one and the same entity.

For non-retail businesses, public bodies, financial institutions and sovereign borrowers, the default is entirely passed on through all the borrower's commitments in the scope of Desjardins Group. The default may also be passed on to other entities forming part of its borrower group according to a case-by-case analysis.

Removing default

When default is recognized in terms of the quantitative criterion, it may be removed immediately for clients that are retail businesses, small residential rental properties, small commercial rental properties and individuals. If not, it is generally removed within a minimum of three to six months if certain conditions set out in the credit risk guidelines are met.

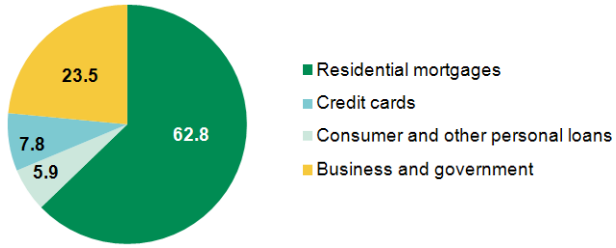
Monitoring of portfolio and reporting

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

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

The following chart presents the distribution of loans and acceptances by borrower category. Over half of the portfolio consists of residential mortgages, for which, statistically, the loss rate is lower.

Breakdown of loans and acceptances
As at December 31, 2018
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2018, the main sectors of the business loan portfolio were agriculture, real estate and manufacturing, which accounted for 50.3% of the business loan portfolio amounting to $41.6 billion. The main industries are the same as they were as at December 31, 2017.

Table 34 – Loans by borrower category and by industry
As at December 31

(in millions of dollars)	2018[1]		2017		2016	
	Gross loans	Gross credit-impaired[2] loans	Gross loans	Gross impaired[2] loans	Gross loans	Gross impaired[2] loans
Residential mortgages	$ 120,113	$ 320	$ 113,146	$ 141	$ 106,695	$ 174
Consumer, credit card and other personal loans	26,210	221	24,044	89	22,150	102
Public bodies[3]	3,326	-	3,621	-	2,925	-
Business						
Agriculture	9,191	115	7,988	24	7,506	37
Mining, oil and gas	336	1	306	1	321	1
Utilities	751	-	410	6	518	-
Construction	2,857	154	2,168	35	2,109	45
Manufacturing	3,892	36	2,750	38	2,640	41
Wholesale trade	1,455	12	1,261	5	1,118	7
Retail trade	3,046	37	2,933	22	2,737	22
Transportation	1,475	19	1,277	9	1,307	10
Information industry	519	6	344	6	387	7
Finance and insurance	651	-	753	-	649	1
Real estate	7,849	34	8,099	10	7,195	13
Professional services	788	4	614	4	550	5
Management of companies	945	5	927	1	907	2
Administrative services	311	4	255	4	231	6
Education	232	2	183	-	324	2
Health care	3,140	22	2,511	17	2,306	13
Arts and entertainment	809	12	722	4	733	7
Accommodation	1,545	29	1,267	16	1,217	26
Other services	1,046	9	803	8	887	11
Other businesses	742	-	1,546	2	1,059	-
Total business loans	$ 41,580	$ 501	$ 37,117	$ 212	$ 34,701	$ 256
Total loans	$ 191,229	$ 1,042	$ 177,928	$ 442	$ 166,471	$ 532

[1] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[3] Including loans to governments.

Loans by geographic distribution are presented in the table below. Desjardins Group's operations are highly concentrated in Quebec. Therefore, as at December 31, 2018, the loans granted by Desjardins to members and clients in Quebec accounted for 90.9% of the total loan portfolio, compared to 92.1% as at December 31, 2017.

Table 35 – Loans by geographic distribution
As at December 31

(in millions of dollars)	2018[1]		2017		2016	
	Gross loans	Gross credit-impaired[2] loans	Gross loans	Gross impaired[2] loans	Gross loans	Gross impaired[2] loans
Canada						
Quebec	$ 173,788	$ 830	$ 163,921	$ 389	$ 154,551	$ 480
Other Canadian provinces	16,752	209	13,667	50	11,587	51
Total - Canada	$ 190,540	$ 1,039	$ 177,588	$ 439	$ 166,138	$ 531
Other countries	689	3	340	3	333	1
Total	$ 191,229	$ 1,042	$ 177,928	$ 442	$ 166,471	$ 532

[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", to the Combined Financial Statements.
[2] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

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

Table 36 – Gross loans past due but not credit-impaired[1]

As at December 31, 2018[2]	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 1,894	$ 171	$ 46	$ 11	$ 2,122
Consumer, credit card and other personal loans	824	155	69	1	1,049
Business and government	359	39	22	2	422
	$ 3,077	$ 365	$ 137	$ 14	$ 3,593

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

(1) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

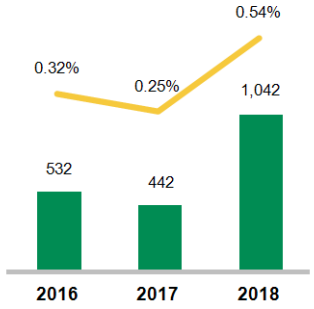
(2) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

On January 1, 2018, Desjardins Group adopted IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". Contrary to the approach of IAS 39, which was based on an incurred credit loss impairment model, IFRS 9 is based instead on an expected credit loss impairment model. The impairment model under IFRS 9 is therefore more forward-looking in nature. For more information, see Note 2, "Basis of presentation and significant accounting policies" to the Combined Financial Statements.

According to Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements, the allowance for credit losses as at December 31, 2018 stood at $719 million, up $281 million compared to December 31, 2017. This increase was mainly the result of growth in outstanding loans and the adoption of IFRS 9 as at January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and of the migration of borrower ratings.

Gross credit-impaired loans outstanding are now the loans included in stage 3 of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.54% as at December 31, 2018, contrary to 0.25% as at December 31, 2017. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant. The allowance for credit losses on credit-impaired loans totalled $224 million as at December 31, 2018, for a provisioning rate on credit-impaired loans of 21.5%.

Gross credit-impaired loans and gross credit-impaired loan ratio [1]
(in millions of dollars and as a percentage)



(1) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Tables 37 and 38 present the gross credit-impaired loans by Desjardins Group borrower category and the change in the gross credit-impaired loan balance.

Table 37 – Gross credit-impaired[1] loans by borrower category
As at December 31

(in millions of dollars and as a percentage)	2018[2]				2017		2016	
	Gross carrying amount							
	Gross loans and acceptances	Gross credit-impaired loans		Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross impaired loans	Net impaired loans	Gross impaired loans	Net impaired loans
Residential mortgages	**$ 120,113**	**$ 320**	**0.27%**	**$ 25**	**$ 295**	$ 141	$ 122	$ 174	$ 155
Consumer, credit card and other personal loans	**26,210**	**221**	**0.84**	**122**	**99**	89	54	102	65
Business and government	**45,066**	**501**	**1.11**	**77**	**424**	212	139	256	169
Total	**$ 191,389**	**$ 1,042**	**0.54%**	**$ 224**	**$ 818**	$ 442	$ 315	$ 532	$ 389

(1) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Table 38 – Change in gross credit-impaired loans[1]
As at December 31

(in millions of dollars)	2018[2]	2017	2016
Gross impaired loans at the beginning of the year under IAS 39	**$ 442**	$ 532	$ 541
Impact of adopting IFRS 9 as at January 1, 2018	**492**	N/A	N/A
Gross credit-impaired loans at the beginning of the year under IFRS 9	**934**	N/A	N/A
Gross credit-impaired loans since the past year	**1,619**	901	1,023
Reinstatement to non-credit-impaired status	**(1,115)**	(668)	(697)
Write-offs and recoveries	**(353)**	(374)	(367)
Other changes	**(43)**	51	32
Gross credit-impaired loans at the end of the year	**$ 1,042**	$ 442	$ 532

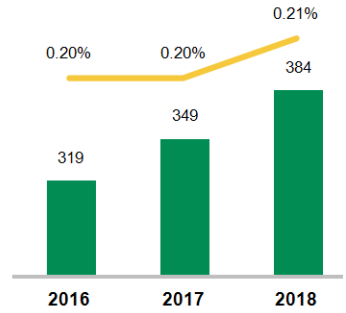
(1) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Provision for credit losses

Desjardins Group's provision for credit losses totalled $384 million for 2018, up $35 million compared to 2017. This increase was mainly the result of growth in outstanding loans and the adoption of IFRS 9 as at January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and the migration of borrower ratings. The credit loss provisioning rate was 0.21% at the end of 2018, compared to a ratio of 0.20% recorded as at December 31, 2017.

Additional information about the credit risk related to the recognition and measurement of the allowance for credit losses is presented in Note 2, "Basis of presentation and significant accounting policies", and Note 7, "Loans and allowance for credit losses", to the Combined Financial Statements.

Provision for credit losses and credit loss provisioning rate
(in millions of dollars and as a percentage)



Counterparty and issuer risk

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

The Risk Management Executive Division establishes a risk rating for each counterparty and issuer before authorizing an exposure limit. The rating comes from internal models or is based on rating agencies (DBRS, Moody's, Standard & Poor's and Fitch) recognized by the AMF and the OSFI. Risk ratings are also used as parameters in calculating capital requirements for counterparty and issuer risk. Desjardins Group's exposure limits are established on the basis of its risk appetite framework and its Tier 1A capital. These amounts are then allocated to various components based on their needs. Limits may also apply to certain financial instruments, if considered relevant.

A large proportion of Desjardins Group's risk exposure is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. Desjardins Group's exposure to U.S. and European financial institutions is low, and its exposure to sovereign debt is concentrated in Canada and the United States.

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

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

The credit risk associated with derivative financial instruments traded over the counter refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins. This risk normally represents a small fraction of the notional amount. It is quantified using two measurements, namely replacement cost and the credit risk equivalent. Replacement cost refers to the current replacement cost of all contracts with a positive fair value. Credit risk equivalent is equal to the sum of this replacement cost and the potential credit exposure. Desjardins Group also limits counterparty risk exposure by entering into master agreements called International Swaps and Derivatives Association (ISDA) agreements, which define the terms and conditions for the transactions. These agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreement in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold, which has been set at zero for its main counterparties. The value of these different measures and the impact of the master netting agreements is presented in Note 19, "Derivative financial instruments and hedging activities", to the Combined Financial Statements.

Desjardins Group also limits its risk by doing business with counterparties that have a high credit rating. Note 19, "Derivative financial instruments and hedging activities", to the Combined Financial Statements presents derivative financial instruments by credit risk rating and type of counterparty. Based on replacement cost, this note indicates that substantially all of Desjardins Group's counterparties have credit ratings ranging from AAA to A-. Furthermore, by purchasing hedges through credit derivatives, such as credit default swaps and total return swaps, Desjardins Group can transfer credit risk to a counterparty or hedge itself against various types of risk.

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

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

Additional information about credit risk is presented in Note 5, "Offsetting financial assets and liabilities", Note 19, "Derivative financial instruments and hedging activities", and Note 28, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

Market risk

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

Desjardins Group is exposed to market risk through its trading activities, which result primarily from short-term transactions conducted with the intention of profiting from current price movements or to provide arbitrage revenue. Desjardins Group is also exposed to market risk through its non-trading activities, which group together mainly asset/liability management transactions in the course of its traditional banking activities as well as investment portfolios related to its insurance operations. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

GOVERNANCE

Desjardins Group's components are primarily structured into different legal entities to deliver products and services that can be distributed to Desjardins Group members and clients. These legal entities manage financial instruments exposed to market risk and are subject to different regulatory environments such as the banking, securities brokerage, wealth management, life and health insurance and property and casualty insurance industries. The board of directors of these entities delegate to various committees the responsibility of setting up systems and procedures to establish measures adapted to their operations and regulatory environments. These measures, together with the appropriate follow-up procedures, are incorporated into their respective policies and guidelines. The function of the Risk Management Executive Division is to monitor these measures and ensure compliance with the said policies. The main measures used and their follow-up processes are described below.

Link between market risk and the Combined Balance Sheets

Table 39 presents the link between the main Combined Balance Sheet data and the positions included in its trading activities and non-trading activities. The principal market risks associated with non-trading activities are also indicated in the table.

Table 39 – Link between market risk and the Combined Balance Sheets
As at December 31, 2018[1]

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[2]	Exposed to market risk: Non-trading activities[3]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 3,384	$ -	$ 3,384	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	36,916	15,965	20,951	-	Interest rate
Securities at fair value through other comprehensive income	21,395	-	21,395	-	Interest rate, FX, price
Securities at amortized cost	1,621	-	1,621	-	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	11,934	11,081	853	-	Interest rate
Net loans and acceptances	190,670	-	190,670	-	Interest rate
Segregated fund net assets	13,234	-	13,234	-	Interest rate, price
Derivative financial instruments	3,743	670	3,073	-	Interest rate, FX, price
Other assets	12,568	-	-	12,568	
Total assets	$ 295,465	$ 27,716	$ 255,181	$ 12,568	
Liabilities and equity					
Deposits	$ 183,158	$ -	$ 183,158	$ -	Interest rate
Commitments related to securities sold short	10,829	10,829	-	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	16,845	15,329	1,516	-	Interest rate
Derivative financial instruments	2,816	449	2,367	-	Interest rate, FX, price
Insurance contract liabilities	28,740	-	28,740	-	Interest rate
Segregated fund net liabilities	13,212	-	13,212	-	Interest rate, price
Other liabilities	12,838	-	2,537	10,301	Interest rate
Subordinated notes	1,378	-	1,378	-	Interest rate
Total equity	25,649	-	-	25,649	
Total liabilities and equity	$ 295,465	$ 26,607	$ 232,908	$ 35,950	

See next page for footnotes.

Table 39 – Link between market risk and the Combined Balance Sheets (continued)
As at December 31, 2017

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[2]	Exposed to market risk: Non-trading activities[3]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 2,435	$ -	$ 2,435	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	31,654	13,112	18,542	-	Interest rate
Available-for-sale securities	24,934	-	24,934	-	Interest rate, FX, price
Securities borrowed or purchased under reverse repurchase agreements	8,674	8,320	354	-	Interest rate
Net loans and acceptances	177,521	-	177,521	-	Interest rate
Segregated fund net assets	13,379	-	13,379	-	Interest rate, price
Derivative financial instruments	3,206	248	2,958	-	Interest rate, FX, price
Other assets	13,292	-	-	13,292	
Total assets	$ 275,095	$ 21,680	$ 240,123	$ 13,292	
Liabilities and equity					
Deposits	$ 171,586	$ -	$ 171,586	$ -	Interest rate
Commitments related to securities sold short	9,112	9,112	-	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	10,229	9,566	663	-	Interest rate
Derivative financial instruments	3,094	296	2,798	-	Interest rate, FX, price
Insurance contract liabilities	28,272	-	28,272	-	Interest rate
Segregated fund net liabilities	13,354	-	13,354	-	Interest rate, price
Other liabilities	13,287	-	2,624	10,663	Interest rate
Subordinated notes	1,388	-	1,388	-	Interest rate
Equity	24,773	-	-	24,773	
Total liabilities and equity	$ 275,095	$ 18,974	$ 220,685	$ 35,436	

(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", to the Combined Financial Statements.
(2) Trading activity positions for which the risk measure is VaR and SVaR.
(3) Positions mainly related to non-trading banking activities and insurance activities.

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

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

The main tool used to measure this risk is "Value at Risk" (VaR). VaR is an estimate of the potential loss over a certain time interval at a given confidence level. A Monte Carlo VaR is calculated daily on the trading portfolios, using a 99% confidence level and a holding horizon of one day (holding horizon scaled up to 10 days for the purpose of regulatory capital calculations). It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

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

The incremental risk charge (IRC) supplements the VaR and SVaR measures and represents an estimate of default and migration risks of unsecuritized products held in the trading portfolio, exposed to interest rate risk, and measured over a one-year horizon at a 99.9% confidence level.

Table 40 presents the aggregate VaR and the aggregate SVaR for Desjardins Group's trading activities by risk category as well as the incremental risk charge (IRC). Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four risk categories to which Desjardins Group is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

Table 40 – Market risk measures for the trading portfolio*

(in millions of dollars)	As at December 31, 2018	For the year ended December 31, 2018			As at December 31, 2017	For the year ended December 31, 2017		
		Average	High	Low		Average	High	Low
Equities	**$ 1.0**	**$ 0.4**	**$ 1.0**	**$ 0.2**	$ 0.5	$ 0.3	$ 1.6	$ 0.1
Foreign exchange	**0.5**	**0.5**	**1.2**	**0.1**	0.4	0.3	1.8	-
Interest rate	**2.4**	**4.1**	**6.0**	**2.0**	2.1	3.0	5.1	1.8
Specific interest rate risk[1]	**5.9**	**7.1**	**9.7**	**3.6**	4.3	5.2	8.2	2.5
Diversification effect[2]	**(6.9)**	**(7.8)**	**N/A[3]**	**N/A[3]**	(5.1)	(5.7)	N/A[3]	N/A[3]
Aggregate VaR	**$ 2.9**	**$ 4.3**	**$ 6.1**	**$ 2.1**	$ 2.2	$ 3.1	$ 5.1	$ 2.0
Aggregate SVaR	**$ 16.0**	**$ 16.0**	**$ 26.1**	**$ 8.8**	$ 11.1	$ 11.9	$ 19.7	$ 8.2
Incremental risk charge (IRC)	**$ 75.2**	**$ 76.9**	**$ 98.7**	**$ 43.0**	$ 54.1	$ 104.8	$ 211.3	$ 54.1

(1) Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish the specific risk from the general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of the issuer, such as provinces, municipalities and companies, and a sub-portfolio that contains the positions considered to be without issuer risk, such as governments in the local currency.
(2) Refers to the risk reduction related to diversification, namely the difference between the sum of the VaR of the various market risks and the aggregate VaR.
(3) The highs and lows of the various market risk categories can refer to different dates.

The average of the trading portfolio's aggregate VaR was $4.3 million for 2018, up $1.2 million compared to 2017, mainly as a result of an increase in the average of the interest rate VaR. As for the average of the aggregate SVaR, it was $16.0 million for 2018, up $4.1 million compared to 2017. The average of the incremental risk charge was $76.9 million, down $27.9 million compared to 2017.

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

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

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

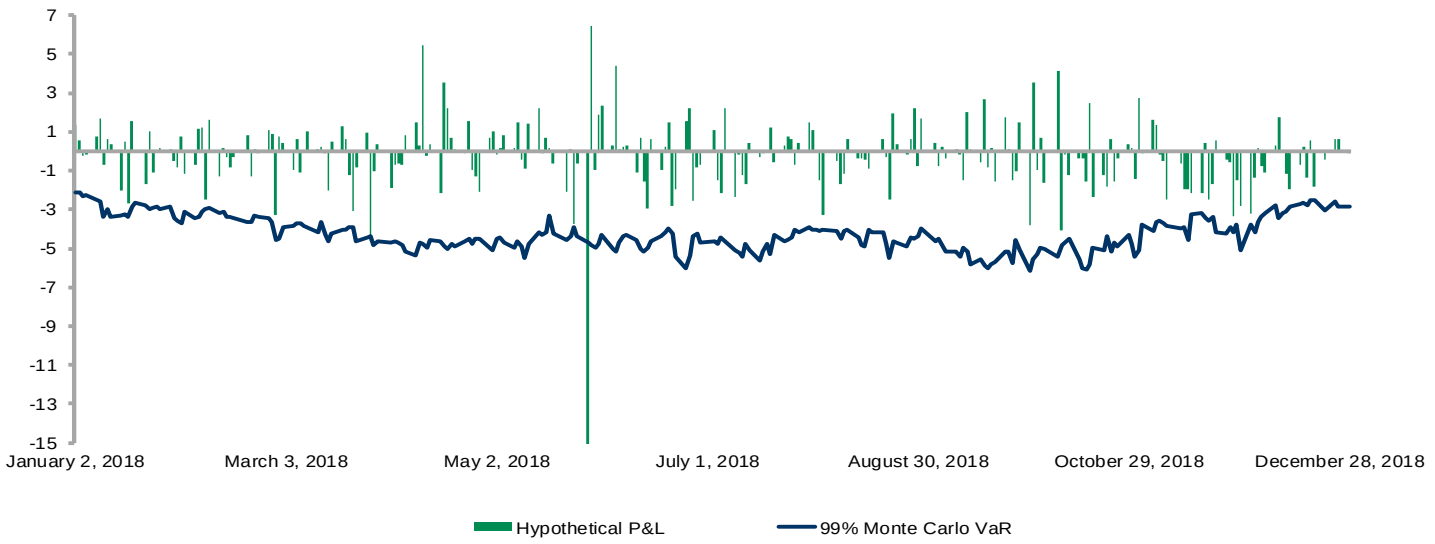
Back testing

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

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

The following chart presents changes in VaR for trading activities as well as hypothetical P&L related to these activities for 2018. Hypothetical P&L was exceeded twice during the year on March 27 and May 28, respectively. As for actual P&L compared to VaR, no overage was observed for Desjardins Group if income from commissions and subscriptions was included in actual P&L. However, two overages were observed if such income from commissions and subscriptions was not included in actual P&L. In spite of these overages, the VaR model remains adequate.

VaR compared to hypothetical P&L for trading activities
(in millions of dollars)



Stress testing

Certain events that are considered highly unlikely and that could have a significant impact on trading portfolios may occur from time to time. These events are at the tail-end of the distribution and are the result of extreme situations. Use of a stress-testing program is required to assess the impact of these potential situations.

The stress-testing program used for trading portfolios includes historical, hypothetical and sensitivity scenarios based, for instance, on events such as 9/11 or the 2008 credit crisis. Using such stress testing, changes can be monitored in the market value of positions held depending on various scenarios. Most stress-testing is predictive. For a given stress test, shocks are applied to certain risk factors (interest rates, exchange rates, commodities) and the effects of these shocks are passed on to all the risk factors taking historical correlations into account. The running of each stress test is considered to be independent of the others. In addition, certain stress testing is subject to limit tracking. Stress-testing results are analyzed and reported daily using a dashboard, together with VaR calculations, in order to detect vulnerability to such events. The stress-testing program is reviewed periodically to ensure that it is kept current.

STRUCTURAL INTEREST RATE RISK MANAGEMENT

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

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

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

In addition to the total sensitivity gap, the main structural interest rate risk factors are:
- the trend in interest rate level and volatility;
- the changes in the shape of the interest rate curve;
- member and client behaviour in their choice of products;
- the financial intermediation margin;
- the optionality of the various financial products offered.

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

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

Table 41 presents the potential impact before income taxes, with regard to structural interest rate risk management associated with banking activities, of a sudden and sustained 100 basis point increase or decrease in interest rates on net interest income and the economic value of equity for Desjardins Group. The impact related to insurance activities is presented in Note 1 of this table.

Table 41 – Interest rate sensitivity (before income taxes)[(1)]*
As at December 31

(in millions of dollars)	2018		2017	
	Net interest income[(2)]	**Economic value of equity[(3)]**	Net interest income[(2)]	Economic value of equity[(3)]
Impact of a 100-basis-point increase in interest rates	**$ (42)**	**$ 29**	$ (11)	$ 60
Impact of a 100-basis-point decrease in interest rates[(4)]	**2**	**(90)**	(27)	(79)

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a $215 million decrease in the economic value of equity before taxes as at December 31, 2018, and a $226 million decrease as at December 31, 2017. A 100-basis-point decrease in interest rates would result in an increase of $222 million in the economic value of equity before taxes as at December 31, 2018, and of $205 million as at December 31, 2017. Additional information is provided in the "Interest rate risk management" section of Note 15, "Insurance contract liabilities", to the Combined Financial Statements.
(2) Represents the interest rate sensitivity of net interest income for the next 12 months.
(3) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.
(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

PRICE RISK MANAGEMENT

In its non-trading activities, Desjardins Group is exposed to price risk, related mainly to components that operate in insurance and their investment portfolios. *Price risk is the risk of potential loss resulting from a change in the market value of assets (shares, commodities, real estate properties, index-based assets) but not resulting from a change in interest rates or foreign exchange rates, or in the credit quality of a counterparty.*

Management of price risk related to real estate activities

The insurance components may be exposed to changes in the real estate market through the properties they own, whose market value may fluctuate. They manage this risk using policies that set out diversification limits such as geographic limits and limits for real estate property categories. Each real estate investment is subject to an annual professional appraisal to determine its market value in accordance with the standards prescribed by regulatory authorities.

Management of price risk related to stock markets

The insurance components may also be exposed to price risk related to stock markets, particularly through the equity securities and derivative financial instruments they hold as well as the minimum guarantees provided under segregated fund contracts, whose value is affected by market fluctuations. They manage this risk using the different limits set in policies and a hedging program to mitigate the effect of market volatility. For additional information, see Note 15, "Insurance contract liabilities", to the Combined Financial Statements.

Liquidity risk

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

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

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group and its components have established policies describing the principles, limits, risk appetite thresholds as well as the procedures that apply to liquidity risk management. These policies are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated to reflect regulatory requirements and sound liquidity risk management practices. Given that the insurance companies are subject to specific regulatory requirements, they manage their liquidity risks based on their own needs while following Desjardins Group guidelines. The securities held by these components are not taken into account in the valuation of Desjardins Group's liquidity reserves, since they cannot be used by Desjardins Group's Treasury to generate liquidity for other components.

Desjardins Group's Treasury ensures stable and diversified sources of institutional funding by type, source and maturity. It uses a wide range of financial products and borrowing programs on various markets for its funding needs. Through these operations, the funding needs of Desjardins Group components can be satisfied under conditions comparable to those offered on capital markets.

Furthermore, Desjardins Group issues covered bonds and securitizes CHMC-insured loans in the course of its normal operations. Desjardins Group is also eligible for the Bank of Canada's various intervention programs and loan facilities for Emergency Lending Assistance advances.

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF. The effective date of the regulatory requirements concerning the NSFR has been postponed to January 1, 2020, and Desjardins Group intends to comply with the NSFR requirements once they become effective.

Applying the calculation rules established by the Basel Committee on Banking Supervision and incorporated in the AMF's Liquidity Adequacy Guideline, Desjardins Group's average LCR was 122.1% for the quarter ended December 31, 2018, compared to 120.0% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

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

Liquid assets

Table 42 presents a summary of Desjardins Group's liquid assets, which do not include assets held by the insurance subsidiaries because these assets are committed to covering insurance liabilities and not the liquidity needs of Desjardins Group's other components. Liquid assets constitute Desjardins Group's primary liquidity reserve for all its operations. Encumbered liquid assets mainly include liquid assets that are pledged as collateral or cannot be used as a result of regulatory requirements or internal policies.

Table 42 – Liquid assets[1]

As at December 31, 2018

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	**$ 1,870**	**$ -**	**$ 1,870**	**$ -**	**$ 1,870**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**29,675**	**11,646**	**41,321**	**28,281**	**13,040**
Other securities in Canada	**4,750**	**250**	**5,000**	**55**	**4,945**
Issued or guaranteed by foreign issuers	**15**	**-**	**15**	**-**	**15**
Loans					
Insured residential mortgage-backed securities	**6,663**	**-**	**6,663**	**862**	**5,801**
Total	**$ 42,973**	**$ 11,896**	**$ 54,869**	**$ 29,198**	**$ 25,671**

As at December 31, 2017

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	$ 1,453	$ -	$ 1,453	$ -	$ 1,453
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	27,112	8,644	35,756	19,773	15,983
Other securities in Canada	3,441	82	3,523	49	3,474
Issued or guaranteed by foreign issuers	58	-	58	-	58
Loans					
Insured residential mortgage-backed securities	6,733	-	6,733	1,240	5,493
Total	$ 38,797	$ 8,726	$ 47,523	$ 21,062	$ 26,461

(1) Excluding assets held by insurance subsidiaries.

Table 43 – Unencumbered liquid assets by entity[1]

As at December 31

(in millions of dollars)	2018	2017[2]
Federation	**$ 7,459**	$ 8,773
Caisse network	**14,762**	14,456
Other entities	**3,450**	3,232
Total	**$ 25,671**	$ 26,461

(1) Excluding assets held by insurance subsidiaries. Substantially all unencumbered liquid assets presented in this table are issued in Canadian dollars.
(2) Data for 2017 have been reclassified to conform to the current year's presentation.

Liquidity risk indicators

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

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

Encumbered assets

In the normal course of its operations, Desjardins Group pledges securities, loans and other assets as collateral, mainly with regard to financing operations, participation in clearing and payments systems and operations related to provisions for claims and adjustment expenses. Table 44 presents, for all assets on the Combined Balance Sheets and securities held as collateral, those that are encumbered as well as those that may be pledged as collateral as part of financing or other transactions.

Table 44 – Encumbered assets

As at December 31, 2018[1]

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[2]	Available as collateral	Other[3]
Cash and deposits with financial institutions	$ 3,384	$ -	$ 3,384	$ -	$ 258	$ 1,823	$ 1,303
Securities	59,932	896	60,828	27,650	2,098	7,687	23,393
Securities borrowed or purchased under reverse repurchase agreements	11,934	-	11,934	-	-	11,808	126
Net loans and acceptances	190,670	-	190,670	22,564	-	66,131	101,975
Segregated fund net assets	13,234	-	13,234	-	-	-	13,234
Other assets	16,311	-	16,311	-	-	-	16,311
Total	$ 295,465	$ 896	$ 296,361	$ 50,214	$ 2,356	$ 87,449	$ 156,342

As at December 31, 2017[4]

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[2]	Available as collateral	Other[3]
Cash and deposits with financial institutions	$ 2,435	$ -	$ 2,435	$ -	$ 42	$ 1,499	$ 894
Securities	56,588	2,255	58,843	21,371	2,614	11,494	23,364
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	8,674	-	-	8,532	142
Net loans and acceptances	177,521	-	177,521	19,477	-	64,025	94,019
Segregated fund net assets	13,379	-	13,379	-	-	-	13,379
Other assets	16,498	-	16,498	-	-	-	16,498
Total	$ 275,095	$ 2,255	$ 277,350	$ 40,848	$ 2,656	$ 85,550	$ 148,296

(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", to the Combined Financial Statements.
(2) Assets that cannot be used for legal or other reasons.
(3) "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.
(4) Amounts have been refined to make them comparable to the current presentation, as a result of a methodology refinement.

Liquidity coverage ratio

The Basel Committee on Banking Supervision has developed a liquidity coverage ratio (LCR) to promote the short-term resilience of the liquidity risk profile of financial institutions. The LCR is the ratio of a stock of unencumbered high-quality liquid assets (HQLA) to net cash outflows over the next 30 days in the event of an acute liquidity stress scenario.

Under the AMF's Liquidity Adequacy Guideline, HQLA eligible for the purpose of calculating the LCR consist of assets that can be converted quickly into cash at little or no loss of value on capital markets. For Desjardins Group, such high-quality liquid assets are comprised essentially of cash and highly rated securities issued or guaranteed by various levels of government. The AMF Guideline also prescribes weightings for cash inflows and outflows.

The table below presents quantitative information regarding the LCR, based on the model recommended for disclosure requirements by the Basel Committee on Banking Supervision.

Table 45 – Liquidity coverage ratio[1]

(in millions of dollars and as a percentage)	For the quarter ended December 31, 2018		For the quarter ended September 30, 2018
	Total non-weighted value[2] (average[4])	Total weighted value[3] (average[4])	Total weighted value[3] (average[4])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 23,163**	$ 22,775
Cash outflows			
Retail deposits and small business deposits, including:	**$ 71,039**	**$ 4,707**	$ 4,684
Stable deposits	**34,236**	**1,027**	1,039
Less stable deposits	**36,803**	**3,680**	3,645
Unsecured wholesale funding, including:	**25,054**	**13,277**	13,746
Operational deposits (all counterparties) and deposits in cooperative bank networks	**5,298**	**1,235**	1,281
Non-operational deposits (all counterparties)	**11,709**	**3,995**	4,094
Unsecured debt	**8,047**	**8,047**	8,371
Secured wholesale funding	**N/A**	**44**	1
Additional requirements, including:	**12,157**	**2,843**	2,708
Outflows related to exposures on derivatives and other collateral required	**1,255**	**1,137**	1,100
Outflows related to funding loss on debt products	**172**	**172**	100
Credit and liquidity facilities	**10,730**	**1,534**	1,508
Other contractual funding liabilities	**1,439**	**181**	180
Other contingent funding liabilities	**68,654**	**1,896**	1,895
Total cash outflows	**N/A**	**$ 22,948**	$ 23,214
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 7,841**	**$ 142**	$ 93
Inflows related to completely effective exposures	**3,311**	**1,672**	1,593
Other cash inflows	**3,311**	**2,166**	2,543
Total cash inflows	**$ 14,463**	**$ 3,980**	$ 4,229
		Total adjusted value[5]	Total adjusted value[5]
Total high-quality liquid assets		**$ 23,163**	$ 22,775
Total net cash outflows		**$ 18,968**	$ 18,985
Liquidity coverage ratio		**122.1%**	120.0%

(1) Excluding the insurance subsidiaries.
(2) The non-weighted values of cash inflows and outflows represent unpaid balances either maturing or falling due and payable within 30 days.
(3) Weighted values are calculated after the "haircuts" prescribed for high quality liquid assets and the rates prescribed for cash inflows and outflows have been applied.
(4) The ratio is presented based on the average of daily data for the quarter.
(5) The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

SOURCES OF FINANCING

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $183.2 billion as at December 31, 2018, up $11.6 billion since December 31, 2017. Additional information on deposits is found in Section 3.1 "Balance sheet management" of this MD&A.

Financing programs and strategies

As Desjardins Group's treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, which strategies are regulated by policies. In 2018, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional financing and the contribution of the caisse network. Short-term wholesale financing is used to finance very liquid assets while long-term wholesale financing is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

The main programs currently used by the Federation are:

Table 46 – Main financing programs
As at December 31, 2018

Financing program	Maximum authorized amount
Medium-term notes (Canadian)	**$10 billion**
Covered bonds (multi-currency)	**$10 billion**
Short-term notes (European)	**€3 billion**
Short-term notes (U.S.)	**US$15 billion**
Medium-term notes (multi-currency)	**€7 billion**

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

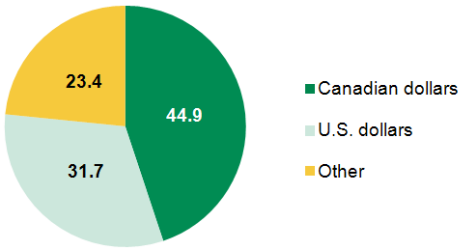
Table 47– Remaining contractual term to maturity of wholesale funding
As at December 31

(in millions of dollars)	2018								2017
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total – Less than one year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	**$ 2,508**	**$ 284**	**$ 3**	**$ 3**	**$ 2,798**	**$ -**	**$ -**	**$ 2,798**	$ 2,802
Commercial paper	**5,019**	**3,262**	**1,589**	**3,304**	**13,174**	**-**	**-**	**13,174**	9,276
Medium-term notes	**-**	**-**	**-**	**1,728**	**1,728**	**4,724**	**4,205**	**10,657**	11,030
Mortgage securitization	**65**	**318**	**511**	**798**	**1,692**	**1,098**	**6,988**	**9,778**	9,130
Covered bonds	**-**	**1,564**	**-**	**1,563**	**3,127**	**1,562**	**1,170**	**5,859**	4,517
Subordinated notes	**-**	**-**	**-**	**-**	**-**	**879**	**499**	**1,378**	1,388
Total	**$ 7,592**	**$ 5,428**	**$ 2,103**	**$ 7,396**	**$ 22,519**	**$ 8,263**	**$ 12,862**	**$ 43,644**	$ 38,143
Including:									
Secured	**$ 65**	**$ 1,882**	**$ 511**	**$ 2,361**	**$ 4,819**	**$ 3,539**	**$ 8,657**	**$ 17,015**	$ 15,035
Unsecured	**7,527**	**3,546**	**1,592**	**5,035**	**17,700**	**4,724**	**4,205**	**26,629**	23,108

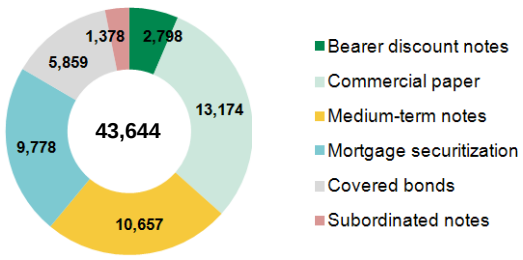
Desjardins Group's total wholesale funding presented in the preceding table was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up $5.5 billion compared to December 31, 2017, mainly because of an increase in commercial paper and covered bonds.

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

Wholesale funding by currency
As at December 31, 2018
(as a percentage)



Wholesale funding by category
As at December 31, 2018
(in millions of dollars)



Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $2.4 billion for the year. During the same period, it also completed an issue of covered bonds on the European market for a total amount of 750 million euros and an issue of 1.0 billion euros under its multi-currency medium-term note program. In addition, the Federation launched three issues for a total of $1.8 billion under its Canadian medium-term note program. Note also that on January 30, 2019, the Federation launched a new issue totalling 750 million euros under its covered bond program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $26.3 billion as at December 31, 2018, compared to $24.7 billion a year earlier. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Combined Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled $1.4 billion as at December 31, 2018, unchanged from a year earlier. Furthermore, to round out its financing and increase its capital base, in 2018, Desjardins Group, through the Federation, issued F capital shares for a cash consideration of $125 million, as well as F capital shares having a value of $142 million for the payment of interest when the holder has elected to receive remuneration in F capital shares.

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

CREDIT RATINGS OF SECURITIES ISSUED

Desjardins Group's credit ratings affect its ability to access sources of funding on capital markets, as well as the conditions of such funding. They are also a factor considered in certain Desjardins Group transactions involving counterparties.

Rating agencies assign credit ratings and related ratings outlooks based on their own proprietary methodology, which includes a number of analytical criteria, including factors that are not under Desjardins Group's control. The rating agencies evaluate Desjardins Group primarily on a combined basis and recognize its capitalization, its consistent financial performance, its significant market shares in Quebec and the quality of its assets. Consequently, the credit ratings of the Federation, a reporting issuer, and of Desjardins Capital Inc., a venture issuer, are backed by Desjardins Group's financial strength.

During 2018, the credit ratings and outlooks for the securities issued by Desjardins Group remained unchanged and were affirmed by the rating agencies Moody's, Standard & Poor's (S&P), DBRS and Fitch.

Following the publication, on April 18, 2018, of the final version of regulations to implement the main features of the Bank Recapitalization (Bail-in) Regime by the Department of Finance Canada and of the final version of the TLAC guideline by the OSFI, DBRS, Moody's and S&P issued press releases mentioning several decisions concerning the credit ratings of Canadian domestic systemically important banks (D-SIBs). Since this "bail-in" regime does not apply to Desjardins Group, which is regulated by the AMF, DBRS, Moody's and S&P did not mention Desjardins in their press releases.

The ratings outlooks for Desjardins Group from S&P and Fitch are stable, but DBRS's and Moody's outlooks are negative. The negative ratings outlook assigned to Desjardins Group by DBRS and Moody's is due to uncertainty about the implementation of a "bail-in" regime for Desjardins Group. However, Moody's ratings outlook for Desjardins Capital Inc. is stable.

The Federation and Desjardins Capital Inc. have first-class credit ratings that are among the best of the major Canadian and international banking institutions.

Table 48 – Credit ratings of securities issued

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
Fédération des caisses Desjardins du Québec				
Short-term	**R-1 (high)**	**A-1**	**P-1**	**F1+**
Medium- and long-term, senior	**AA**	**A+**	**Aa2**	**AA-**
Desjardins Capital Inc.				
Medium- and long-term, senior	**AA (low)**	**A**	**A2**	**A+**

Desjardins Group regularly monitors the additional level of obligations its counterparties would require in the event of a credit rating downgrade for the Federation and Desjardins Capital Inc. This monitoring enables Desjardins Group to assess the impact of such a downgrade on its funding capabilities and its ability to perform transactions in the normal course of its operations as well as ensure that it has the additional liquid assets and collateral necessary to meet its obligations. Currently, Desjardins Group is not obliged to provide additional collateral in the event of its credit rating being lowered three notches by one or several credit rating agencies.

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS

Table 49 presents assets and liabilities recorded on the Combined Balance Sheets and off-balance sheet commitments at their carrying amount and classified according to their residual contractual maturities. The classification of maturities is an information source with regard to liquidity and financing risk, but it differs from the analysis performed by Desjardins Group to determine the expected maturity of the items for liquidity risk management purposes. Many factors other than contractual maturity are taken into consideration to measure expected future cash flows and liquidity risk.

The value of the credit commitments presented in this table represents the maximum amount of additional credit that Desjardins Group could be required to grant if the commitments were fully used. The value of guarantees and standby letters of credit correspond to the maximum cash outflows that Desjardins Group could be required to make in the event of complete default of the parties to the guarantees, without taking any possible recovery into account. These commitments and guarantees do not necessarily represent future liquidity needs, because a large portion of these instruments will expire or be cancelled without giving rise to any cash outflows.

Note 15, "Insurance contract liabilities", provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

Table 49 – Residual contractual maturities of on-balance sheet items and off-balance sheet commitments*
As at December 31, 2018[1]

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 2,969	$ 307	$ -	$ -	$ -	$ -	$ 1	$ -	$ 107	$ 3,384
Securities										
Securities at fair value through profit or loss[2]	168	718	1,409	977	1,470	2,947	8,471	16,331	4,425	36,916
Securities at fair value through other comprehensive income[2]	1,599	784	1,056	667	417	2,895	11,226	2,708	43	21,395
Securities at amortized cost	1,124	172	196	89	2	1	5	32	-	1,621
Securities borrowed or purchased under reverse repurchase agreements	11,576	311	47	-	-	-	-	-	-	11,934
Loans										
Residential mortgages[3]	2,051	2,641	6,147	6,834	8,068	23,195	62,476	1,747	6,954	120,113
Consumer, credit card and other personal loans[3]	83	79	197	220	314	1,183	5,762	7,945	10,427	26,210
Business and governments[3]	9,958	3,461	4,346	4,013	4,092	4,402	6,958	2,166	5,510	44,906
Allowance for credit losses	-	-	-	-	-	-	-	-	(719)	(719)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,234	13,234
Clients' liability under acceptances	123	36	1	-	-	-	-	-	-	160
Premiums receivable	175	64	13	3	-	-	-	-	2,121	2,376
Derivative financial instruments	231	377	173	349	175	759	1,467	196	16	3,743
Amounts receivable from clients, brokers and financial institutions	1,293	1	-	-	-	-	-	-	21	1,315
Reinsurance assets	38	76	77	70	68	198	390	1,041	-	1,958
Investment property	-	-	-	-	-	-	-	-	958	958
Property, plant and equipment	-	-	-	-	-	-	-	-	1,424	1,424
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	389	389
Deferred tax assets	-	-	-	-	-	-	-	-	1,174	1,174
Other assets	282	68	70	3	11	9	26	333	2,051	2,853
Total assets	$ 31,670	$ 9,095	$ 13,732	$ 13,225	$ 14,617	$ 35,589	$ 96,782	$ 32,499	$ 48,256	$ 295,465

See page 103 for footnotes.

Table 49– Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)*
As at December 31, 2018[1]

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[4]	$ 4,687	$ 3,258	$ 6,568	$ 4,616	$ 5,185	$ 12,193	$ 15,808	$ 416	$ 52,567	$ 105,298
Business and governments[4]	9,637	5,878	2,770	4,068	4,597	8,752	11,780	2,336	26,356	76,174
Deposit-taking institutions[4]	22	-	13	7	1	15	9	-	1,619	1,686
Acceptances	125	35	-	-	-	-	-	-	-	160
Commitments related to securities sold short[5]	19	491	136	38	1	780	4,315	5,049	-	10,829
Commitments related to securities lent or sold under repurchase agreements	16,845	-	-	-	-	-	-	-	-	16,845
Derivative financial instruments	119	83	48	35	65	294	596	246	1,330	2,816
Amounts payable to clients, brokers and financial institutions	2,078	4	-	-	-	-	-	-	2,023	4,105
Insurance contract liabilities	429	781	926	845	797	1,848	4,279	16,288	2,547	28,740
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,212	13,212
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	2,537	2,537
Deferred tax liabilities	-	-	-	-	-	-	-	-	214	214
Other liabilities	2,574	496	494	363	62	177	201	48	1,407	5,822
Subordinated notes	-	-	-	-	-	879	-	499	-	1,378
Total equity	-	-	-	-	-	-	-	-	25,649	25,649
Total liabilities and equity	$ 36,535	$ 11,026	$ 10,955	$ 9,972	$ 10,708	$ 24,938	$ 36,988	$ 24,882	$ 129,461	$ 295,465
Off-balance sheet commitments										
Credit commitments[6]	$ 3,792	$ 138	$ 687	$ 570	$ 802	$ 2,222	$ 7,777	$ 496	$ 90,707	$ 107,191
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,474	2,474
Commitments under lease contracts	8	16	22	23	21	77	174	226	-	567
Documentary letters of credit	3	9	7	1	3	-	-	-	1	24
Guarantees and standby letters of credit	54	151	176	259	427	29	23	76	1	1,196
Credit default swaps	-	-	-	-	-	-	537	-	-	537

See page 103 for footnotes.

Table 49 – Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)*
As at December 31, 2017

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 2,038	$ 378	$ -	$ -	$ -	$ -	$ -	$ -	$ 19	$ 2,435
Securities										
Securities at fair value through profit or loss[2]	45	541	1,152	835	2,112	2,195	7,181	15,881	1,712	31,654
Available-for-sale securities[2]	2,361	625	948	520	1,576	2,291	10,481	2,854	3,278	24,934
Securities borrowed or purchased under reverse repurchase agreements	8,279	257	123	15	-	-	-	-	-	8,674
Loans										
Residential mortgages[3]	1,793	2,580	6,467	7,356	6,417	20,878	58,935	1,645	7,075	113,146
Consumer, credit card and other personal loans[3]	70	100	221	239	304	1,264	5,007	7,116	9,723	24,044
Business and governments[3]	9,360	3,852	4,166	3,807	3,894	3,014	5,749	2,019	4,877	40,738
Allowance for credit losses	-	-	-	-	-	-	-	-	(438)	(438)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,379	13,379
Clients' liability under acceptances	31	-	-	-	-	-	-	-	-	31
Premiums receivable	170	62	13	3	-	-	-	-	1,847	2,095
Derivative financial instruments	100	115	172	153	158	652	1,723	133	-	3,206
Amounts receivable from clients, brokers and financial institutions	1,518	3	-	-	-	-	-	-	33	1,554
Reinsurance assets	35	71	72	63	60	213	423	1,038	227	2,202
Investment property	-	-	-	-	-	-	-	-	832	832
Property, plant and equipment	-	-	-	-	-	-	-	-	1,411	1,411
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	466	466
Deferred tax assets	-	-	-	-	-	-	-	-	992	992
Other assets	540	57	163	3	5	8	21	-	1,941	2,738
Assets of the disposal group held to be transferred	-	-	-	-	-	-	-	-	881	881
Total assets	$ 26,340	$ 8,641	$ 13,497	$ 12,994	$ 14,526	$ 30,515	$ 89,520	$ 30,686	$ 48,376	$ 275,095

See page 103 for footnotes.

Table 49 – Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)*
As at December 31, 2017

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[4]	$ 5,251	$ 2,916	$ 5,291	$ 4,671	$ 5,225	$ 12,146	$ 14,395	$ 565	$ 50,118	$ 100,578
Business and governments[4]	11,096	4,047	2,110	2,126	2,727	6,523	13,507	1,878	25,088	69,102
Deposit-taking institutions[4]	482	2	3	-	1	4	7	-	1,407	1,906
Acceptances	31	-	-	-	-	-	-	-	-	31
Commitments related to securities sold short[5]	155	595	114	108	21	1,366	2,225	4,526	2	9,112
Commitments related to securities lent or sold under repurchase agreements	10,229	-	-	-	-	-	-	-	-	10,229
Derivative financial instruments	151	117	176	126	146	431	1,809	138	-	3,094
Amounts payable to clients, brokers and financial institutions	2,628	1	-	-	-	-	-	-	1,618	4,247
Insurance contract liabilities	411	730	893	831	763	1,879	4,113	16,378	2,274	28,272
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,354	13,354
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	2,624	2,624
Deferred tax liabilities	-	-	-	-	-	-	-	-	155	155
Other liabilities	1,944	518	771	80	61	168	177	747	1,102	5,568
Liabilities of the disposal group held to be transferred	-	-	-	-	-	-	-	-	662	662
Subordinated notes	-	-	-	-	-	-	898	490	-	1,388
Total equity	-	-	-	-	-	-	-	-	24,773	24,773
Total liabilities and equity	$ 32,378	$ 8,926	$ 9,358	$ 7,942	$ 8,944	$ 22,517	$ 37,131	$ 24,722	$ 123,177	$ 275,095
Off-balance sheet commitments										
Credit commitments[6]	$ 3,568	$ 110	$ 149	$ 225	$ 337	$ 2,957	$ 7,031	$ 243	$ 83,850	$ 98,470
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,024	2,024
Commitments under lease contracts	8	16	23	23	22	82	185	287	-	646
Documentary letters of credit	1	2	2	-	2	-	-	-	-	7
Guarantees and standby letters of credit	64	128	134	268	289	15	20	84	1	1,003
Credit default swaps	-	-	-	-	-	-	540	-	-	540

(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", to the Combined Financial Statements.
(2) Equity securities are classified under "No stated maturity".
(3) Amounts repayable on demand are classified under "No stated maturity".
(4) Deposits payable on demand or after notice are considered as having "No stated maturity".
(5) Amounts are presented by remaining contractual maturity of the underlying security.
(6) Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion.

Operational risk

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

Operational risk is inherent to all of Desjardins Group's activities, including management and control practices in other risk areas (credit, market, liquidity, etc.) as well as activities carried out by a third party. This risk may lead to losses mainly resulting from theft, fraud, damage to tangible assets, non-compliance with legislation or regulations, systems failures, unauthorized access to computer systems, cyber threats, or problems or errors in process management. To maintain this risk at an acceptable level, an operational risk management framework has been developed and deployed throughout the organization. The framework includes the usual practices for sound management of operations and is based on the three lines of defence model, clearly defining the roles and responsibilities in risk and operations management.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

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

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

GOVERNANCE

Risk management governance emphasizes accountability and effective risk oversight. Operational risk is governed by a set of policies, directives and rules. These frameworks are reviewed periodically to ensure consistency with the Integrated Risk Management Framework approved by the Board of Directors.

Reporting is done on a regular basis to the committees that provide risk management oversight so that their members can assess Desjardins Group's operational risk exposure.

Approaches to identifying, measuring and monitoring operational risk

With respect to the operational risk management framework, the following table illustrates the tools and methods used to identify, measure and monitor operational risk.

	Description
Risk identification and measurement	A standard inventory of operational risks to which Desjardins Group is exposed has been prepared and is used as the basis for determining the most significant operational risks and evaluating the effectiveness of the mitigation measures in place to reduce them. The risk and control assessments, carried out on a periodic basis, can be related to projects, products, systems, processes and activities, as well as to strategic initiatives and important new products. Consideration of internal and external events (losses, audit findings, etc.) is an integral part of these assessments. When the results indicate operational risk exposures that exceed the established tolerance level, action plans are prepared to reduce exposure to an acceptable level.
Collection of data on operational losses	The collection of internal data on operational losses is carried out to list and quantify losses according to predetermined thresholds. Operational losses are indexed in a database. Through analysis, causes are better understood, trends are determined, and corrective measures are taken when necessary. In addition, external operational risk events in the industry are monitored to detect potential or emerging risks and increase risk management at Desjardins Group, if need be. The main trends identified through analysis of operational losses are reported to the various committees on a regular basis. During 2018, operational losses were consistent with the limits set for risk appetite by senior management and the Board of Directors. Contingent liabilities, including the impact of litigation, are presented in Note 28, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.
Key risk indicators	To monitor their risk profile and track developments in it, the business segments and support functions establish operational risk indicators to help them proactively monitor any increase in their exposure to the most significant risks and act accordingly when the tolerance level is reached.

	Description
Specialized risk assessment programs	Complementing the operational risk management framework are certain programs that are the responsibility of specialized groups. These programs supervise specific risks and track them using their oversight process. They are as follows: - Financial disclosure risk management; - Technology risk management; - Business continuity risk management; - Third party risk management; - Risk management related to fraud; - Regulatory risk management; - Risk management related to governance and data quality.
Risk-sharing insurance programs	Desjardins Group has developed insurance programs to give itself additional protection against material operational losses. These programs offer protection based on the business segment's needs, the institution's risk tolerance, as well as emerging risks on the market.
Calculation of capital exposed to operational risk	Since second quarter 2017, Desjardins Group has used the Standardized Approach to calculate its operational risk in the form of regulatory capital exposed to operational risk.

Insurance risk

Insurance risk refers to the risk that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that profitability of these products may be affected.

Desjardins Group is exposed to insurance risk in the course of its life and health and property and casualty insurance operations.

Insurance risk for the life and health insurance subsidiaries is composed of the following elements:
- mortality risk: Potential loss resulting from an increase in the mortality rate of insureds;
- longevity risk: Potential loss resulting from an increase in the life expectancy of insureds;
- morbidity/disability risk: Potential loss resulting from a decline in the state of health of insureds;
- policyholder behaviour risk: Potential loss resulting from unfavourable policyholder behaviour in keeping their policy in force or exercising any options specified in policies;
- expense risk: Potential loss resulting from an increase in the level of expenses.

Insurance risk for the property and casualty insurance subsidiaries is composed of the following elements:
- underwriting risk: Potential loss resulting from an increase in the frequency or severity of losses (e.g., fire, theft, water damage, vandalism) covered by the insurance products offered, which mainly cover physical damage to property, bodily injury as well as liability of insureds (civil, legal, etc.);
- catastrophe risk: Potential loss resulting from an increase in the frequency or severity of catastrophes covered by insurance policies;
- reserve risk: Potential loss resulting from inadequate provisions or actuarial reserves.

Identifying, assessing and mitigating the risks associated with new insurance products and changes made to existing ones are part of a thorough product approval process. All risks at the insurance subsidiaries, including insurance risk, are managed in accordance with their Integrated Risk Management Policy, in line with Desjardins Group's Integrated Risk Management Framework. The process of logging risks under this policy makes it possible to identify all risks likely to affect the subsidiary concerned that should be the subject of governance and a framework, as well as to maintain a register of all such risks and assess them using the appropriate method.

The subsidiaries are responsible for the risk they generate, including insurance risk. Each one has its own specific governance structure. Insurance risk is governed by several policies that clearly set out the roles and responsibilities of the different parties concerned so that they can comply with the various regulatory guidelines. The subsidiaries also have a robust infrastructure that includes the appropriate tools for ensuring the availability, integrity, completeness and aggregation of all the data necessary for sound insurance risk management.

Insurance risk arises from potential errors in projections concerning the many factors used to set premiums, including future returns on investments, underwriting experience in terms of claims experience, mortality and morbidity, and administrative expenses. These projections are essentially based on actuarial hypotheses that must be consistent with the standards of practice in effect in Canada. The insurance subsidiaries also adopt strict pricing standards and policies and perform spot checks to compare their projections with actual results. Insurance product design and pricing are reviewed on a regular basis. Some product pricing may be adjusted depending on the accuracy of projections.

In addition, the subsidiaries limit their losses through reinsurance treaties that vary based on the nature of the activities, and also through additional reinsurance protection with respect to large-scale catastrophic events.

To reduce reinsurance risk, the insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. Such reinsurance treaties do not release the subsidiaries from their obligations toward their policyholders but do mitigate the risks to which they are exposed.

The subsidiaries comply with the standards for sound management practices established by the regulatory bodies that govern them and test their financial soundness using unfavourable scenarios and measure the effect of such scenarios on their capitalization ratio. These tests include stress testing, including the standardized acute stress scenarios required from time to time by regulators, as well as dynamic capital adequacy testing. Test results showed that capital was adequate in each case.

Each insurance sector subsidiary provides independent reports and assessments of its exposure to different risks to its Board of Directors as well as to the appropriate levels at Desjardins Group. They report in particular on changes in material risks and the effectiveness of the procedures in place to mitigate them, the results of risk analyses, and the main assumptions and findings from the stress testing.

The activities specific to the insurance subsidiaries expose them, in addition to insurance risk, to other types of risk, notably the risks identified in Note 15, "Insurance contract liabilities", to the Combined Financial Statements, as well as other risk factors identified in Section 4.1 "Risk factors that could impact future results".

Strategic risk

Strategic risk refers to the risk of loss attributable to an inability to adapt to a changing environment because of failure to act, an inappropriate strategic choice or the inability to effectively implement strategies.

It is first up to senior management and the Board of Directors to address, define and monitor developments in the strategic orientations of Desjardins Group according to its risk appetite and the consultation processes specific to Desjardins. Events that could compromise the achievement of Desjardins Group's strategic objectives are systematically and periodically monitored by the board of directors and senior management. Business segments and support functions identify and periodically assess events and risks that could prevent the achievement of strategic objectives, and report thereon to the appropriate bodies.

Organizational development plans are assessed in light of the organization's risk appetite framework to ensure that such initiatives are in line with the organization's strategic plan. Furthermore, this plan is updated annually to take market developments into account, in particular major trends in the industry and action taken by competitors.

Reputation risk

Reputation risk is the risk that a negative perception by the stakeholders, whether or not justified, of Desjardins Group's practices, actions or lack of action could have an unfavourable impact on its income and equity, and the trust that it inspires.

A reputation is of critical importance, and reputation risk cannot be managed separately from other risks. Therefore, managing reputation risk in all its business segments is a constant concern for Desjardins Group. In this regard, Desjardins Group seeks to ensure that all employees are constantly aware of the potential repercussions of their actions on Desjardins's reputation and image. Desjardins Group considers it essential to foster a proactive approach to risk management in which integrity and ethical conduct are fundamental values.

Desjardins Group has defined a management framework, and roles and responsibilities with regard to reputation risk. This framework is in addition to various processes already in place to identify, measure and govern this risk, such as the previously mentioned operational risk management initiatives, the regulatory compliance program, ethical requirements, and reputation risk assessment as part of new initiatives and the introduction of new products. All these aspects aim to promote sound reputation risk management. All officers and employees are required to perform their duties in accordance with these principles and Desjardins Group's values.

Pension plan risk

Pension plan risk is the risk of loss resulting from pension plan commitments made by Desjardins Group for the benefit of its employees. This risk basically arises from rate, price, foreign exchange and longevity risks.

The organization's main pension plan is the Desjardins Group Pension Plan (DGPP). The Federation, through its Board of Directors, is the sponsor of the DGPP and, as such, acts as the representative for all Desjardins Group employers. The Desjardins Group Retirement Committee, which is composed of members of the Board of Directors of the Federation and representatives of active participants and retirees, is the administrator of the DGPP. It is responsible for managing pension fund assets and administering the benefits promised by the plan. It sees to it that the rules specified in the plan are applied and ensures legal compliance as well as sound governance of the plan. In this regard, it has developed policies and an internal by-law as required under the *Supplemental Pension Plans Act*.

To properly manage DGPP risks, the Desjardins Group Retirement Committee has set up a Risk Management Advisory Committee. This committee, under the responsibility of the Desjardins Group Retirement Committee, is tasked with analyzing the main risks associated with management of DGPP operations. In this regard, it examines the integrated risk profile and the asset allocation strategy every year. It also issues opinions on new investments which are submitted to the Investment Committee. In addition, a risk management dashboard for the DGPP, made up of risk indicators identified in the profile, is updated quarterly.

Environmental or social risk

Environmental or social risk results from an environmental event or social issue during Desjardins Group's operations or its financing, investment or insurance activities, which could lead to financial loss or harm its reputation.

Regarding environmental risk, potential financial losses could be incurred as a result of higher costs or the impairment of an asset because of an internal risk, namely a risk generated by an entity and having a negative impact on the environment, or an external risk, namely an event caused by the environment and having a detrimental effect on the entity. Climate change is identified as an external risk factor and defined in Section 4.1 "Risk factors that could impact future results".

In addition, business relations with entities whose operations could involve social, environmental or governance issues could lead to reputation risk.

In order to mitigate environmental or social risk, and to uphold its commitment to contribute to the development of a sustainable and responsible economy, Desjardins Group has incorporated Environmental, Social or Governance (ESG) factors into all of its business decisions. Tools and reference materials are being developed to support business segments. An ESG orientation committee, a subcommittee of Desjardins Group's Management Committee, has been set up to recommend orientations and promote a cohesive approach within the organization.

Since sustainable development is an integral part of Desjardins's strategic priorities, Desjardins Group has developed a sustainable development policy for all its operations, incorporating orientations for the development of a sustainable and responsible economy as part of the strategic alignment of its risk appetite framework.

Furthermore, Desjardins Group maintains its leadership in sustainable development through a number of integrated initiatives in its Strategic Plan and its performance management, particularly by setting targets for reducing its carbon footprint and gradually integrating these targets into its performance objectives. It is also continuing the innovative development of products and services, focused on sustainable development, for its members and clients. All these initiatives may be consulted in its annual social and cooperative responsibility report based on Global Reporting Initiative (GRI) indicators. This report is not incorporated by reference in this MD&A.

In addition, recognizing the major impact of climate change on the environment, society and the economy, Desjardins Group periodically updates its analysis of climate change risks and reports to senior management on the importance of each risk identified and the actions to be taken to mitigate such risks. Its strategy and management of these risks are also disclosed to the CDP (formerly known as the Carbon Disclosure Project) as well as in a specific climate change report based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and forming an integral part of the annual social and cooperative responsibility report.

Legal and regulatory risk

Legal and regulatory risk refers to the risk associated with Desjardins Group's non-compliance with the obligations arising from the interpretation or application of legislative and regulatory provisions or contractual commitments, which could affect its operations, reputation, strategies and financial objectives.

Legal and regulatory risk entails, *inter alia*, effectively preventing and handling possible disputes and claims that may lead in particular to judgments or decisions by a court of law or regulatory body that could result in orders to pay damages, financial penalties or sanctions. Moreover, the legal and regulatory environment is evolving quickly and could increase Desjardins Group's exposure to new types of litigation. In addition, some lawsuits against Desjardins Group may be very complex and be based on legal theories that are new or have never been verified. The outcome of such lawsuits may be difficult to predict or estimate until the proceedings have reached an advanced stage, which may take several years. Class action lawsuits or multi-party litigation may feature an additional risk of judgments with substantial monetary, non-monetary or punitive damages. Plaintiffs who bring a class action or other lawsuit sometimes claim very large amounts and it is impossible to determine Desjardins Group's liability, if any, for some time. Legal liability or an important regulatory measure could have an adverse effect on the current activities of Desjardins Group, its results of operations and its financial position, in addition to damaging its reputation. Even if Desjardins Group won its court case or was no longer the subject of measures imposed by regulatory bodies, these situations could harm its reputation and have an adverse impact on its financial position, due in particular to the costs associated with such proceedings, and its brand image.

The financial services industry is one of the most strictly regulated and monitored sectors. In recent years, the regulations governing the industry have expanded significantly in response to numerous socio-economic phenomena such as the development of new, increasingly complex financial products, the continuing volatility in the securities industry, financial fraud, the fight against money laundering and terrorist financing, and the fight against tax evasion, to mention but a few. In addition to federal (Canada and the U.S.) and provincial government requirements, the regulatory environment also includes organizations such as the AMF, the Canadian Securities Administrators, the OSFI, the Financial Transactions and Reports Analysis Centre of Canada, the Mutual Fund Dealers Association of Canada, and the Investment Industry Regulatory Organization of Canada. Complying with important legislative and regulatory provisions, such as those for the protection of personal information, laws and regulations governing insurance, the *Foreign Account Tax Compliance Act*, the Standard for Automatic Exchange of Financial Account Information in Tax Matters, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the Basel accords, requires considerable technical, human and financial resources and also affects the way Desjardins Group manages its current operations and implements its business strategies.

As an independent supervisory function, the Office of the Chief Compliance Officer of Desjardins Group fosters a proactive approach to compliance by fully integrating compliance into the organization's current operations. It is responsible for developing, updating and maintaining the compliance management framework, which is based on the identification and monitoring of regulatory obligations and the functional units subject to them. Regulatory developments and their impact on operations are therefore monitored and evaluated on an ongoing basis by the compliance function in cooperation with the Office of the Chief Legal Officer, and strategies are implemented as required to mitigate them. The compliance function provides support to managers in charge of business segments and support functions so that they can effectively manage their risks, by developing an appropriate framework and documentation, acting in an advisory capacity, setting up training programs and conducting periodic inspections of operations. The Desjardins Group Monitoring Office provides an independent assessment of the effectiveness of the compliance management framework. Lastly, Desjardins Group has set up a formal reporting process related to compliance for its senior management and various decision-making bodies. In addition, to maintain its reputation for integrity as well as the confidence of its members and clients, the market and the general public, Desjardins Group has developed a code of professional conduct applicable to all its officers and employees and to all its components. This overall management of compliance provides reasonable assurance that Desjardins Group's operations are carried out in compliance with applicable regulations. Despite all these efforts, Desjardins Group may not be able to predict the exact impact of regulatory developments and appropriately implement strategies to respond. It could then sustain an adverse impact on its financial performance, its operations and its reputation. For further information, refer to the "Regulatory environment" section of this MD&A.

Bill 141, mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions, was passed on June 13, 2018. The chapter concerning the *Groupe coopératif* (the cooperative group) came into force when the first internal by-law of the cooperative group was passed on December 7, 2018. The new provisions of the *Insurers Act* will come into force on June 13, 2019, or subsequently, as the case may be, along with a large portion of the amendments to the *Act respecting the distribution of financial products and services*. For further information, see pages 19 and 20 in the "Changes in the regulatory environment" section, which presents changes in the regulations applicable to Desjardins Group.

4.3 Additional information related to certain risk exposures

The tables below provide more details about more complex financial instruments that carry a higher risk.

Table 50 – Asset-backed securities

As at December 31

(in millions of dollars)	2018		2017	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities[1]	**$ 138**	**$ 140**	$ 146	$ 148

(1) None of the securities held is directly backed by subprime residential mortgage loans. Further to the adoption of IFRS 9 on January 1, 2018, these securities are presented under "Securities at fair value through profit or loss" and "Securities at fair value through other comprehensive income" on the Combined Balance Sheets. As at December 31, 2017, they were presented under "Securities at fair value through profit or loss" and "Available-for-sale securities".

Table 51 – Leveraged finance loans and subprime loans

As at December 31

(in millions of dollars)	2018	2017
Leveraged finance loans[1]	**$ 81**	$ 149
Alt-A mortgage loans[2]	**18**	19
Subprime residential mortgage loans[3]	**2**	1

(1) Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
(2) Alt-A mortgages are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.
(3) These loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

5.0 Additional information

5.1 Controls and procedures

Desjardins Group is not a reporting issuer, on a combined basis, under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities Administrators (CSA). However, it has chosen to apply the provisions of this National Instrument to demonstrate its willingness to comply with best practices in financial governance.

During fiscal 2018, Desjardins Group carried out work so that it could provide certification as at December 31, 2018 of the design and effectiveness of its disclosure controls and procedures, as well as of its internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the CSA guidance in National Instrument 52-109, the President and CEO as well as the Executive Vice-President, Finance, Treasury and Administration and Chief Financial Officer (CFO) designed, or caused to be designed, disclosure controls and procedures, which are supported in particular by a process for periodic certification of financial disclosures in annual and interim filings. All information collected as part of the financial governance process is reviewed on a quarterly and annual basis by the members of the Desjardins Group Disclosure Committee and of the Audit and Inspection Commission, who play a lead role in overseeing and assessing the adequacy of disclosure controls and procedures.

As at December 31, 2018, Desjardins Group management assessed the design and effectiveness of its disclosure controls and procedures. Based on the results of this assessment, the President and CEO, and the CFO concluded that disclosure controls and procedures were adequately designed and effective. These controls and procedures are designed to provide reasonable assurance that the information presented in annual, interim or other reports filed or transmitted under securities legislation is recorded, processed, summarized and reported within the time periods prescribed by such legislation. These controls and procedures are also designed to warrant that such information is assembled and disclosed to the management of Desjardins Group, including its signing officers, in accordance with what is appropriate to make timely decisions regarding disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Desjardins Group management caused an adequate internal control over financial reporting process to be designed and has maintained it. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of combined financial statements for external purposes in accordance with IFRS.

The design and effectiveness of internal control over financial reporting were assessed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control − Integrated Framework (2013) for financial controls and in accordance with the Control Objectives for Information and Related Technologies (COBIT) framework for IT general controls.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements on a timely basis. Management's assessment of the controls provides only reasonable, not absolute, assurance that all the problems related to control which could give rise to material misstatements have been detected.

The assessment of the design and effectiveness of internal control over financial reporting was performed by Desjardins Group management under the supervision of the President and CEO, and of the CFO. Based on the results of this assessment, these senior officers concluded that as at December 31, 2018, internal control over financing reporting was adequately designed and effective, and did not contain any material weakness.

There are two Desjardins Group components subject to NI 52-109 requirements, namely the Federation and Desjardins Capital Inc.

Under the supervision of the certifying officers, the respective management of the Federation and Desjardins Capital Inc. therefore assessed the design and effectiveness of disclosure controls and procedures and of internal control over financial reporting. These controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2018, Desjardins Group did not make any changes to its internal control over financial reporting that had materially affected, or may materially affect, its operations. On January 1, 2018, the adoption of IFRS 9, "Financial Instruments", IFRS 15, "Revenue from Contracts with Customers", and the amendments to IFRS 4, "Insurance Contracts", did not materially affect its internal control over financial reporting.

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the 2018 Desjardins Group Annual Report.

5.2 Related party disclosures

In the normal course of operations, Desjardins Group offers financial services to related parties, including its associates, joint ventures and other related companies, and enters into agreements for operating services with them. It also pays its key management personnel compensation under normal market conditions.

Furthermore, Desjardins Group provides its financial products and services, under normal market conditions, to its directors, its key management personnel and the persons related to them.

Desjardins Group has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's-length transactions and in compliance with the legislative framework for its various components.

Additional information about related party transactions is presented in Note 33, "Related party disclosures", to the Annual Combined Financial Statements.

5.3 Critical accounting policies and estimates

A description of the accounting policies used by Desjardins Group is essential to understanding the Combined Financial Statements as at December 31, 2018. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

STRUCTURED ENTITIES

A structured entity is consolidated when it is controlled by a Desjardins Group entity. Management must make significant judgments when it assesses the various elements and all related facts and circumstances as a whole to determine whether control exists, especially in the case of structured entities.

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: restricted activities, a narrow and well-defined objective, insufficient equity to permit it to finance its activities without subordinated financial support, or financing in the form of multiple contractually linked instruments issued to investors.

Additional information about structured entities is presented in Note 13, "Interests in other entities", to the Combined Financial Statements.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of financial instruments is determined using a three-level hierarchy, reflecting the importance of the inputs used for the measurements. Level 1 denotes measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities, while level 2 designates valuation techniques based primarily on observable market data. Level 3 concerns valuation techniques not based primarily on observable market data.

There is little subjectivity in the determination of the fair value of financial instruments, especially securities and commitments related to securities sold short, obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques rely on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is used in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

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 takes estimated prepayments into account, 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 takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. 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" describes the type 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".

Additional information on the fair value of financial instruments is presented in Note 4, "Fair value of financial instruments", to the Combined Financial Statements.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized from the Combined Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but Desjardins Group has the obligation to pay them to a third party under certain conditions, or when Desjardins Group transfers the contractual rights to receive the cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by Desjardins Group, such asset is not derecognized from the Combined Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, Desjardins Group derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Balance Sheets to the extent of its continuing involvement in said asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates Desjardins Group's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

Additional information about the derecognition of financial assets is presented in Note 8, "Derecognition of financial assets", to the Combined Financial Statements.

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 different stages:

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

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 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.

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. 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 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 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.

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.

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 affecting its measurement are the following:

- changes in the borrowers' credit risk rating or probability of default;
- 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. 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 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 following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios 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.

Estimated life of revolving credit facilities

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, for which their life must be estimated. 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.

Additional information about loans and the allowance for credit losses, in particular a sensitivity analysis of the allowance for credit losses, is presented in Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements.

Accounting policies applicable before January 1, 2018

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.

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. 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, LGD and EAD. 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 segments, the impact of changes in its credit policies, and economic conditions.

Additional information about loans and the allowance for credit losses is presented in Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements.

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 the impairment loss, Desjardins Group took into account many factors specific to each investment and all the factors that could have indicated such a loss. 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 financial asset in question. Management also used its judgment to determine when to recognize an impairment loss.

Desjardins Group individually assessed debt securities classified as "Available-for-sale", including preferred shares with characteristics and behaviour similar to those of debt instruments, to determine whether there was any objective evidence of impairment. For equity securities classified in the "Available-for-sale" category, the objective evidence also included a "significant" or "prolonged" decline in fair value below cost.

Additional information about the recognition of available-for-sale securities under IAS 39 and fair value measurement is presented in Note 3, "Carrying amount of financial instruments", and Note 4, "Fair value of financial instruments", to the Combined Financial Statements.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires that management make estimates and assumptions. 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 cash-generating unit (CGU) (or each group of CGUs) to which goodwill or the intangible asset with an indefinite useful life applies. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each intangible asset with an indefinite useful life or each CGU.

When the recoverable amount of the asset or the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statements of Income for the year and is first recorded as a reduction of the intangible asset with an indefinite useful life or, in the case of a CGU, as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of an impairment loss to the assets of a CGU (or group of CGUs) must however not result in their carrying amount being lower than the highest of the following amounts: fair value of the assets less costs to sell, their value in use, and zero. Goodwill impairment losses cannot be reversed.

Note 11, "Goodwill and intangible assets", to the Combined Financial Statements provides further information about the impairment of non-financial assets.

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provisions for dividends and experience refunds as well as policyholder 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, policyholder 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.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums, 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 Statements of Income for the year in which the revision occurs. The provision for claims and adjustment expenses is reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Note 15, "Insurance contract liabilities", to the Combined Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS

Provisions are liabilities of uncertain timing or amount. A provision is recognized when Desjardins Group has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant risks and uncertainties. As these estimates are forward-looking in nature, management must use its judgment to forecast the timing and amount of future cash flows. Actual results may differ significantly from these forecasts.

CONTINGENT LIABILITIES

In the normal course of its business, Desjardins Group is involved in various litigation and legal proceedings.

Additional information about contingent liabilities is presented in Note 28, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on 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 these income taxes, management must make judgments to establish assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond to the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Note 27, "Income taxes on surplus earnings", to the Combined Financial Statements provides additional information on income taxes on surplus earnings.

MEMBER DIVIDENDS

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends 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. The provision for member dividends is mainly allocated to the Personal and Business Services segment.

EMPLOYEE BENEFITS

Desjardins Group offers the majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents. However, during the fourth quarter of 2018, Desjardins Group notified its employees of amendments to this plan that would 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 under "Salaries and fringe benefits" in the Combined Statements of Income, with a corresponding amount reducing "Net defined benefit plan liabilities" in the Combined Balance Sheets.

Group pension plans are plans whose risks are shared by entities under common control. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a pro rata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the Consumer Price Index, up to a maximum of 3% for years of service accumulated before 2013, and of 1% for a period of 10 years starting at age 65 for years of service accumulated after 2013.

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are in general actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to differ materially from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the participants' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit reduce 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 part of the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

Note 16, "Net defined benefit plan liabilities", to the Combined Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 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 believes that adopting IFRS 16 will result, on January 1, 2019, in the recognition of a right-of-use asset of approximately $615 million and a lease liability of the same amount, as well as a decrease of about 8 basis points in regulatory capital ratios.

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.

5.5 Five-year statistical review

Table 52 – Combined Balance Sheets
For the years ended December 31

(in millions of dollars)	2018[1]	2017	2016	2015	2014
ASSETS					
Cash and deposits with financial institutions	**$ 3,384**	$ 2,435	$ 1,876	$ 1,716	$ 1,781
Securities					
Securities at fair value through profit or loss	**36,916**	31,654	31,005	28,715	24,845
Available-for-sale securities	**N/A**	24,934	22,280	23,272	19,890
Securities at fair value through other comprehensive income	**21,395**	N/A	N/A	N/A	N/A
Securities at amortized cost	**1,621**	N/A	N/A	N/A	N/A
	59,932	56,588	53,285	51,987	44,735
Securities borrowed or purchased under reverse repurchase agreements	**11,934**	8,674	7,690	7,881	9,959
Loans					
Residential mortgages	**120,113**	113,146	106,695	102,323	97,512
Consumer, credit card and other personal loans	**26,210**	24,044	22,150	21,204	20,495
Business and government	**44,906**	40,738	37,626	36,433	32,903
	191,229	177,928	166,471	159,960	150,910
Allowance for credit losses	**(719)**	(438)	(456)	(455)	(456)
	190,510	177,490	166,015	159,505	150,454
Segregated fund net assets	**13,234**	13,379	11,965	9,781	8,695
Other assets					
Clients' liability under acceptances	**160**	31	11	376	858
Premiums receivable	**2,376**	2,095	1,957	1,662	1,127
Derivative financial instruments	**3,743**	3,206	3,572	4,818	3,133
Amounts receivable from clients, brokers and financial institutions	**1,315**	1,554	2,532	2,033	1,742
Reinsurance assets	**1,958**	2,202	2,582	1,964	785
Investment property	**958**	832	823	683	571
Property, plant and equipment	**1,424**	1,411	1,435	1,451	1,374
Goodwill	**121**	121	471	472	472
Intangible assets	**389**	466	690	661	569
Deferred tax assets	**1,174**	992	874	784	1,043
Other	**2,853**	2,738	2,589	2,354	2,089
Assets of the disposal group held to be transferred	**-**	881	-	-	-
	16,471	16,529	17,536	17,258	13,763
TOTAL ASSETS	**$ 295,465**	$ 275,095	$ 258,367	$ 248,128	$ 229,387

See the next page for the footnote.

Table 52 – Combined Balance Sheets (continued)
For the years ended December 31

(in millions of dollars)	2018[1]	2017	2016	2015	2014
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 105,298**	$ 100,578	$ 96,278	$ 91,243	$ 88,463
Business and government	**76,174**	69,102	62,799	63,833	56,516
Deposit-taking institutions	**1,686**	1,906	1,469	1,498	1,345
	183,158	171,586	160,546	156,574	146,324
Other liabilities					
Acceptances	**160**	31	11	376	858
Commitments related to securities sold short	**10,829**	9,112	8,196	5,464	6,304
Commitments related to securities lent or sold under repurchase agreements	**16,845**	10,229	10,323	10,383	13,072
Derivative financial instruments	**2,816**	3,094	2,057	1,689	1,675
Amounts payable to clients, brokers and financial institutions	**4,105**	4,247	4,659	4,713	3,713
Insurance contract liabilities	**28,740**	28,272	27,493	26,734	19,435
Segregated fund net liabilities	**13,212**	13,354	11,957	9,776	8,706
Net defined benefit plan liabilities	**2,537**	2,624	2,256	2,428	2,700
Deferred tax liabilities	**214**	155	179	163	329
Other	**5,822**	5,568	6,019	6,219	4,814
Liabilities of the disposal group held to be transferred	**-**	662	-	-	-
	85,280	77,348	73,150	67,945	61,606
Subordinated notes	**1,378**	1,388	1,378	1,884	2,564
TOTAL LIABILITIES	**269,816**	250,322	235,074	226,403	210,494
EQUITY					
Capital stock	**5,350**	5,361	5,292	5,158	4,777
Share capital	**5**	90	88	86	85
Undistributed surplus earnings	**3,649**	1,360	1,529	1,793	1,468
Accumulated other comprehensive income	**(23)**	445	514	589	615
Reserves	**15,920**	16,707	15,052	12,864	11,476
Equity – Group's share	**24,901**	23,963	22,475	20,490	18,421
Non-controlling interests	**748**	810	818	1,235	472
TOTAL EQUITY	**25,649**	24,773	23,293	21,725	18,893
TOTAL LIABILITIES AND EQUITY	**$ 295,465**	$ 275,095	$ 258,367	$ 248,128	$ 229,387

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

Table 53 – Combined Statements of Income
For the years ended December 31

(in millions of dollars)	2018[1]	2017[2]	2016[2]	2015	2014
Interest income					
Loans	**$ 6,931**	$ 5,923	$ 5,686	$ 5,765	$ 5,563
Securities	**390**	323	315	308	335
	7,321	6,246	6,001	6,073	5,898
Interest expense					
Deposits	**2,235**	1,711	1,596	1,665	1,753
Subordinated notes and other	**192**	78	85	129	137
	2,427	1,789	1,681	1,794	1,890
Net interest income	**4,894**	4,457	4,320	4,279	4,008
Net premiums	**8,823**	8,049	7,168	6,907	5,916
Other income					
Deposit and payment service charges	**433**	458	488	489	498
Lending fees and credit card service revenues	**697**	660	574	550	530
Brokerage and investment fund services	**905**	1,030	1,060	1,037	970
Management and custodial service fees	**551**	485	422	365	348
Net investment income	**211**	1,688	1,119	1,362	2,581
Overlay approach adjustment for insurance operations financial assets	**523**	N/A	N/A	N/A	N/A
Foreign exchange income	**91**	77	70	88	84
Other	**182**	249	27	165	265
	3,593	4,647	3,760	4,056	5,276
Total income	**17,310**	17,153	15,248	15,242	15,200
Provision for credit losses	**384**	349	319	377	351
Claims, benefits, annuities and changes in insurance contract liabilities	**6,579**	6,717	5,446	5,431	6,303
Non-interest expense					
Salaries and fringe benefits	**3,407**	3,452	3,548	3,475	3,200
Premises, equipment and furniture, including depreciation	**701**	727	667	613	598
Service agreements and outsourcing	**338**	319	306	331	256
Communications	**261**	284	307	299	283
Other	**2,778**	2,618	2,423	2,241	2,182
	7,485	7,400	7,251	6,959	6,519
Operating surplus earnings	**2,862**	2,687	2,232	2,475	2,027
Income taxes on surplus earnings	**536**	536	460	516	434
Surplus earnings before member dividends	**2,326**	2,151	1,772	1,959	1,593
Member dividends	**253**	202	144	154	217
Tax recovery on member dividends	**(68)**	(54)	(39)	(41)	(57)
Net surplus earnings for the year after member dividends	**$ 2,141**	$ 2,003	$ 1,667	$ 1,846	$ 1,433
Of which:					
Group's share	**$ 2,100**	$ 1,960	$ 1,591	$ 1,674	$ 1,376
Non-controlling interests' share	**41**	43	76	172	57

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.

Table 54 – Selected financial measures
For the years ended December 31

(in millions of dollars and as a percentage)	**2018[1]**	2017[2]	2016[2]	2015	2014
Tier 1A capital ratio	**17.3%**	18.0%	17.3%	16.0%	15.7%
Tier 1 capital ratio	**17.3**	18.0	17.3	16.0	15.8
Total capital ratio	**17.6**	18.4	17.9	17.2	17.9
Leverage ratio[3]	**8.3**	8.5	8.1	7.8	N/A
Liquidity coverage ratio[3][4]	**122.1**	121.4	121.1	119.4	N/A
Net interest margin[5]	**2.39**	2.34	2.41	2.50	2.50
Return on equity[5]	**9.3**	9.1	8.0	9.1	8.7
Productivity index[5]	**69.8**	70.9	74.0	70.9	73.3
Credit loss provisioning rate[5]	**0.21**	0.20	0.20	0.24	0.24
Gross credit-impaired loans[6] / gross loans and acceptances ratio[5]	**0.54**	0.25	0.32	0.34	0.34
Assets under administration	**$ 373,558**	$ 411,548	$ 420,166	$ 403,350	$ 370,768
Assets under management[7]	**57,448**	58,220	51,550	46,053	40,495
Average assets[5]	**287,593**	269,938	256,500	246,694	222,542
Average net loans and acceptances[5]	**183,822**	171,361	162,630	155,449	146,542
Average deposits[5]	**178,658**	169,219	160,176	152,140	141,833

(1) The information for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) Effective since January 1, 2015.
(4) Average for the quarters ended December 31 of each year indicated.
(5) See "Basis of presentation of financial information".
(6) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(7) Assets under management may also be administered by Desjardins Group. If applicable, they are included in assets under administration.