# Fédération des caisses Desjardins du Québec

# Financial Report

**Third quarter of 2019**

## FINANCIAL HIGHLIGHTS

**Financial results and indicators**

| (in millions of dollars and as a percentage) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| Net interest income | **$ 404** | $ 372 | $ 382 | **$ 1,141** | $ 1,103 |
| Net premiums | **2,354** | 2,270 | 2,288 | **6,969** | 6,677 |
| Other operating income[2] | **905** | 900 | 885 | **2,747** | 2,849 |
| **Operating income[2]** | **3,663** | 3,542 | 3,555 | **10,857** | 10,629 |
| Investment income (loss)[2] | **568** | 1,001 | (137) | **2,826** | 477 |
| **Total income** | **4,231** | 4,543 | 3,418 | **13,683** | 11,106 |
| (Recovery of) provision for credit losses | **129** | (6) | 73 | **207** | 225 |
| Claims, benefits, annuities and changes in insurance contract liabilities | **2,263** | 2,361 | 1,380 | **7,744** | 4,763 |
| Non-interest expense | **1,608** | 1,816 | 1,598 | **5,082** | 4,794 |
| Income taxes on surplus earnings | **20** | 56 | 68 | **67** | 202 |
| **Surplus earnings after dividends to member caisses** | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 1,122 |
| **Adjusted surplus earnings after dividends to member caisses[2]** | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 993 |
| **Contribution to consolidated surplus earnings by business segment[3]** | | | | | |
| Personal and Business Services | **$ 70** | $ 138 | $ 72 | **$ 287** | $ 249 |
| Wealth Management and Life and Health Insurance | **108** | 183 | 174 | **430** | 711 |
| Property and Casualty Insurance | **34** | 123 | 70 | **76** | 148 |
| Treasury and Other Support to Desjardins Group Entities | **(1)** | (128) | (17) | **(210)** | 14 |
| | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 1,122 |
| **Indicators** | | | | | |
| Return on equity[2] | **5.5%** | 8.4% | 7.1% | **5.3%** | 9.4% |
| Adjusted return on equity[2] | **5.6** | 8.5 | 7.2 | **5.3** | 8.3 |
| Credit loss provisioning rate[2] | **0.81** | (0.04) | 0.47 | **0.44** | 0.50 |

[1] The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

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

[3] The breakdown by line item is presented in Note 12, "Segmented information", to the Interim Consolidated Financial Statements.

**Balance sheet and indicators**

| (in millions of dollars and as a percentage) | As at September 30, 2019[1] | As at December 31, 2018 |
|---|---|---|
| **Balance sheet** | | |
| Assets | **$ 165,894** | $ 157,560 |
| Net loans and acceptances | **64,017** | 61,997 |
| Deposits | **59,254** | 58,057 |
| Equity | **15,295** | 14,553 |
| **Indicators** | | |
| Assets under administration[2] | **$ 428,622** | $ 373,558 |
| Assets under management[3] | **75,807** | 66,359 |
| Tier 1A capital ratio | **16.3%** | 15.7% |
| Tier 1 capital ratio | **16.3** | 15.7 |
| Total capital ratio | **16.3** | 15.7 |
| Leverage ratio | **8.2** | 7.4 |
| Gross credit-impaired loans/gross loans and acceptances[4] | **0.65** | 0.56 |

(1) The information presented as at September 30, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.
(2) Data for 2018 have been reclassified to conform to the current period's presentation, notwithstanding the standard adopted on January 1, 2019.
(3) Assets under management may also be administered by the Federation. When this is the case, they are included in assets under administration.
(4) See "Basis of presentation of financial information".

## MESSAGE FROM SENIOR MANAGEMENT

Lévis, November 13, 2019 – For the third quarter ended September 30, 2019, the Federation posted surplus earnings after dividends to member caisses of $211 million, down $88 million compared to the corresponding quarter of 2018. The lower surplus earnings were due mainly to the less favourable claims experience in certain life and health insurance products and smaller interest margins compared to 2018 for operations in this segment. In the Property and Casualty Insurance segment, the claims experience was slightly more favourable, although still high, and partially offset the reduction in investment income.

This result reflects the contribution of $70 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $108 million and $34 million, respectively, to surplus earnings.

Guy Cormier, Desjardins Group President and Chief Executive Officer, commented: "Our third-quarter results are satisfactory. At Desjardins Group, our membership continues to expand, as does our market share in a number of segments, including in residential mortgages in Quebec. These results demonstrate the Federation's financial solidity and its capacity to deal with unexpected situations."

The Federation complies with Basel III rules and maintains very good capitalization. As at September 30, 2019, its Tier 1A and total capital ratios were both 16.3%, compared to 15.7% as at December 31, 2018.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Fédération des caisses Desjardins du Québec* (the Federation) is a cooperative entity of Desjardins Group (Desjardins Group or Desjardins). Desjardins Group comprises the Desjardins caisses in Quebec and Ontario (the caisses), the Federation and its subsidiaries, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*.

The role of the Federation and of its main subsidiaries is presented in "The Federation's profile".

The Management's Discussion and Analysis (MD&A) dated November 13, 2019 presents the analysis of the results of and main changes to the Federation's balance sheet for the period ended September 30, 2019, in comparison to previous periods. The Federation 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). Information on the Federation's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements), including the notes thereto, as at September 30, 2019, and the Federation's 2018 Annual Report (the 2018 Annual Report), which contains the MD&A and the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements).

Additional information about the Federation is available on the SEDAR website at www.sedar.com (under the *Fédération des caisses Desjardins du Québec* profile), where its Annual Information Form can be found as well. Further information is available on the Desjardins website at www.desjardins.com/ca/about-us/investor-relations. However, 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

The Federation'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. They include, but are not limited to, comments about the Federation's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Quebec, Canadian, U.S. and global 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 formulated may be incorrect, or the predictions, forecasts or other forward-looking statements as well as the Federation'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 the Federation'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", of the Federation's 2018 annual MD&A, such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include legal and regulatory risk, environmental or 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 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 the Federation operates; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by the Federation; new products and services to maintain or increase the Federation'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 the Federation's 2018 annual 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 the Federation's disaster recovery plan within a reasonable time, the potential impact of international conflicts, and the Federation'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 the Federation's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of the Federation's 2018 annual MD&A.

Although the Federation believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. The Federation cautions readers against placing undue reliance on these 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 document are described in Section 1.4 "Economic environment and outlook" of the Federation's 2018 annual 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 the Federation'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. The Federation 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 the Federation, except as required under applicable securities legislation.

## SIGNIFICANT EVENTS IN 2019

### Privacy breach

On June 20, 2019, Desjardins Group announced that some personal information of 2.9 million members had been shared with individuals outside the organization. This situation was caused by an ill-intentioned employee who has since been fired. Desjardins Group was not the victim of a cyberattack and its computer systems were in no way breached. In light of the situation, additional measures were put in place to protect the personal and financial information of all members and clients.

Desjardins Group sent a letter to the members affected by the privacy breach on June 20. It offered them, at its own cost, a credit monitoring service and identity theft insurance with Equifax for five years.

In addition, on July 15, 2019, Desjardins Group announced to all its members, not just those affected by the privacy breach, that they are now automatically protected against identity theft. This protection is available to both personal and business members, and includes the following: the protection of assets and transactions at Desjardins Group, individual support in the identity recovery process in case of identity theft and coverage that will reimburse up to $50,000 for expenses related to identify theft.

Subsequently, on November 1, 2019, Desjardins Group announced it had been informed by the Sûreté du Québec that the privacy breach now appears to have affected all individual caisse members.

On November 4, Desjardins Group informed members that had not received a letter following the June 20 announcement about the matter via their AccèsD inboxes. Members that use AccèsD will receive an activation code enabling them to sign up for a five-year credit monitoring service from Equifax free of charge. Desjardins Group is currently working to find the best possible alternative for caisse members who do not use AccèsD.

The expenses related to costs incurred and the establishment of a provision for the implementation of these protections for our members totalled $70 million for the nine-month period ended September 30, 2019. The announcement on November 1, 2019 did not have a material impact on these expenses. Desjardins Group may periodically reassess this provision based on the circumstances.

Following the announcements on June 20 and November 1, 2019, the credit ratings assigned by the ratings agencies Standard & Poor's, DBRS, Moody's and Fitch to Desjardins Group's senior securities remained unchanged.

As at September 30, 2019, over 1 million members affected by the situation were registered with the Equifax service and Desjardins Group did not observe a spike in fraud cases, either before or after the privacy breach was announced on June 20.

### Changes to our merchants' payment and financing activities

On October 31, 2019, the Federation announced it had signed a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. Under the new partnership, Global Payments will acquire the Federation's entire merchant portfolio, which is currently housed under the Monetico brand, for a total consideration of $400 million. The transaction is expected to close by April 2020, subject to obtaining the regulatory approvals and satisfying the usual closing conditions. The Federation also announced it would gradually phase out in-store Accord D financing as from May 1, 2020.

## BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Annual and Interim Consolidated Financial Statements have been prepared by the Federation'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. These Interim Consolidated Financial Statements of the Federation have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements, except for the amendments described in Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements as a result of the adoption of IFRS 16, "Leases", on January 1, 2019. For more information about the accounting policies applied, see the Annual and Interim Consolidated 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 the Federation's Annual and Interim Consolidated Financial Statements.

To assess its performance, the Federation 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. The measures are defined as follows:

### Adjusted surplus earnings of the Federation after dividends to member caisses

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.

The Federation's surplus earnings after dividends to member caisses 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 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 after dividends to member caisses as presented in the Consolidated Financial Statements and the adjusted surplus earnings as presented in the MD&A.

| (in millions of dollars) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| Presentation of surplus earnings after dividends to member caisses in the Consolidated Financial Statements | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 1,122 |
| **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 adjusted surplus earnings after dividends to member caisses** | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 993 |

[1] The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

### 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 Investments 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 Consolidated Financial Statements, and the adjusted net surplus earnings as presented in the MD&A.

| (in millions of dollars) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| Presentation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment in the Consolidated Financial Statements | **$ 108** | $ 183 | $ 174 | **$ 430** | $ 711 |
| **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** | **$ 108** | $ 183 | $ 174 | **$ 430** | $ 582 |

[1] The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

**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.

The "Gross credit-impaired loans by borrower category" table of the MD&A provides more detailed information on this ratio.

**Average loans and acceptances – Average deposits – Average equity**

The average balances for these items are used to measure growth. They are equal to averages of the amounts presented in the Consolidated Financial Statements at the end of the quarters calculated starting from the quarter prior to the period concerned.

**Loss ratio – Expense ratio – Combined ratio**

These ratios are used to measure the performance of the Property and Casualty Insurance segment.

The loss ratio is equal to incurred claims less 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) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 | **September 30, 2019** | September 30, 2018 |
| Net premiums | **$ 1,279** | $ 1,222 | $ 1,120 | **$ 3,685** | $ 3,252 |
| **Net premiums considered in the ratio denominators** | **$ 1,279** | $ 1,222 | $ 1,120 | **$ 3,685** | $ 3,252 |
| Claims, benefits, annuities, and changes in insurance contract liabilities | **$ 925** | $ 805 | $ 803 | **$ 2,831** | $ 2,352 |
| Market yield adjustment (MYA) | **(1)** | (33) | 43 | **(111)** | 88 |
| **Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA** | **$ 924** | $ 772 | $ 846 | **$ 2,720** | $ 2,440 |
| **Loss ratio** | **72.2%** | 63.2% | 75.5% | **73.8%** | 75.0% |
| Non-interest expense | **$ 299** | $ 303 | $ 271 | **$ 909** | $ 828 |
| Other expenses excluded from the expense ratio[(1)] | **(1)** | 6 | (2) | **6** | (12) |
| **Operating expenses** | **$ 298** | $ 309 | $ 269 | **$ 915** | $ 816 |
| **Expense ratio** | **23.3%** | 25.3% | 24.0% | **24.8%** | 25.1% |
| **Combined ratio** | **95.5%** | 88.5% | 99.5% | **98.6%** | 100.1% |

(1) Comes mainly from investment management expenses as well as certain other expenses.

### 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 after dividends to member caisses, 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 after dividends to member caisses as presented in the MD&A.

| (in millions of dollars and as a percentage) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| Surplus earnings after dividends to member caisses | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 1,122 |
| Non-controlling interests' share | **(11)** | (18) | (13) | **(26)** | (33) |
| **Group's share** | **$ 200** | $ 298 | $ 286 | **$ 557** | $ 1,089 |
| Average equity before non-controlling interests | **$ 14,410** | $ 14,187 | $ 15,980 | **$ 14,178** | $ 15,561 |
| **Return on equity[2]** | **5.5%** | 8.4% | 7.1% | **5.3%** | 9.4% |
| **Adjusted return on equity[2][3]** | **5.6%** | 8.5% | 7.2% | **5.3%** | 8.3% |

[1] The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

[2] Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

[3] Takes into account the specific items presented under "Adjusted surplus earnings of the Federation after dividends to member caisses" 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 the Federation'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 Treasury and Other Support to Desjardins Group Entities category, net premiums and other operating income such as assessments, service agreements, 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 Consolidated Financial Statements.

#### Investment income

Investment income includes 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 Consolidated 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 Consolidated 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 Interim Consolidated Financial Statements.

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

| (in millions of dollars) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| **Presentation of income in the Consolidated Financial Statements** | | | | | |
| Net interest income | **$ 404** | $ 372 | $ 382 | **$ 1,141** | $ 1,103 |
| Net premiums | **2,354** | 2,270 | 2,288 | **6,969** | 6,677 |
| Other income | | | | | |
| Assessments | **99** | 98 | 97 | **295** | 295 |
| Service agreements | **190** | 199 | 179 | **575** | 549 |
| Lending fees and credit card service revenues | **192** | 185 | 172 | **587** | 522 |
| Brokerage and investment fund services | **223** | 223 | 216 | **660** | 694 |
| Management and custodial service fees | **153** | 148 | 154 | **448** | 441 |
| Net investment income (loss)[2] | **581** | 991 | (213) | **2,996** | 212 |
| Overlay approach adjustment for insurance operations financial assets | **(13)** | 10 | 76 | **(170)** | 265 |
| Foreign exchange income | **18** | 19 | 15 | **51** | 63 |
| Other | **30** | 28 | 52 | **131** | 285 |
| **Total income** | **$ 4,231** | $ 4,543 | $ 3,418 | **$ 13,683** | $ 11,106 |
| **Presentation of income in the MD&A** | | | | | |
| Net interest income | **$ 404** | $ 372 | $ 382 | **$ 1,141** | $ 1,103 |
| Net premiums | **2,354** | 2,270 | 2,288 | **6,969** | 6,677 |
| Other operating income | | | | | |
| Assessments | **99** | 98 | 97 | **295** | 295 |
| Service agreements | **190** | 199 | 179 | **575** | 549 |
| Lending fees and credit card service revenues | **192** | 185 | 172 | **587** | 522 |
| Brokerage and investment fund services | **223** | 223 | 216 | **660** | 694 |
| Management and custodial service fees | **153** | 148 | 154 | **448** | 441 |
| Foreign exchange income | **18** | 19 | 15 | **51** | 63 |
| Other | **30** | 28 | 52 | **131** | 285 |
| **Operating income** | **3,663** | 3,542 | 3,555 | **10,857** | 10,629 |
| Investment income (loss) | | | | | |
| Net investment income (loss)[2] | **581** | 991 | (213) | **2,996** | 212 |
| Overlay approach adjustment for insurance operations financial assets | **(13)** | 10 | 76 | **(170)** | 265 |
| **Investment income (loss)** | **568** | 1,001 | (137) | **2,826** | 477 |
| **Total income** | **$ 4,231** | $ 4,543 | $ 3,418 | **$ 13,683** | $ 11,106 |

(1) The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, “Leases”, adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”, to the Interim Consolidated Financial Statements.

(2) The breakdown of this line item is presented in Note 11, “Net interest income and net investment income (loss)”, to the Interim Consolidated 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) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 | **September 30, 2019** | September 30, 2018 |
| **(Recovery of) provision for credit losses** | **$ 129** | $ (6) | $ 73 | **$ 207** | $ 225 |
| Average gross loans | **62,956** | 61,414 | 61,200 | **62,363** | 59,805 |
| Average gross acceptances | **188** | 168 | 147 | **170** | 92 |
| **Average gross loans and acceptances** | **$ 63,144** | $ 61,582 | $ 61,347 | **$ 62,533** | $ 59,897 |
| **Credit loss provisioning rate[(1)]** | **0.81%** | (0.04)% | 0.47% | **0.44%** | 0.50% |

(1) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

## THE FEDERATION'S PROFILE

The Federation is a cooperative entity which is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group, and acts as a financial agent on Canadian and international capital markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services. The Federation's mission is also to ensure risk management and capital management for Desjardins Group and look after the financial health of the *Groupe coopératif Desjardins*, which comprises the Desjardins caisses in Quebec, the Federation and the *Fonds de sécurité Desjardins*, as well as its sustainability pursuant to the *Act respecting financial services cooperatives*. The Federation had 238 member caisses in Quebec and Ontario as at September 30, 2019.

The Federation enables the caisses and other Desjardins Group components to accelerate their development and better respond to the needs of their members and clients. The Federation's structure has been designed to take into account the needs of Desjardins Group's members and clients, as well as the markets in which it operates.

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

The Federation also has the right to participate in the Visa Inc. and MasterCard Inc. payment systems in Canada on behalf of Desjardins Group. In addition, it manages majority interests in joint-stock companies through holding companies.

## CHANGES IN THE REGULATORY ENVIRONMENT

This section presents items related to changes in the regulatory environment that apply to Desjardins Group as a whole, including those specific to the Federation and its components.

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 can be found in the "Regulatory environment" section of the 2018 annual MD&A, and the "Capital management" section presents further information on regulatory developments relating to capital.

**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 Institutions and Deposit Protection Act* (which replaced 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 sale 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 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 *Deposit Institutions and Deposit Protection Act* (which replaced the *Deposit Insurance Act*) provides 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 passed on December 7, 2018. The new provisions of the *Insurers Act*, for their part, came into force on June 13, 2019, along with a large portion of the amendments to the *Act respecting the distribution of financial products and services* and the *Deposit Institutions and Deposit Protection Act.*

**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.

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

In July 2019, significant changes to the PCMLTFA and its regulations were published in the *Canada Gazette* by the Department of Finance Canada. Desjardins Group participated in work sessions with the Financial Transactions and Reports Analysis Centre of Canada, the Department of Finance Canada and other industry players to discuss these and other changes to the Canadian anti-money laundering/anti-terrorist financing program. Desjardins Group is analyzing the various regulatory changes and making the required adjustments, particularly the changes to be made to the systems for electronic funds transfers and large cash transaction reports.

**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 the U.S. Congress and 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. On August 20, 2019, U.S. regulators at the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency approved changes to the Volcker rule. The rule was subsequently approved by the Securities and Exchange Commission and the Commodity Futures Trading Commission, and the U.S. Federal Reserve is expected to approve the changes in the coming weeks. Desjardins Group continues to closely monitor developments in these draft reforms to assess their impact on its operations.

**Internal recapitalization (bail-in) regime and total loss absorbing capacity**

The *Deposit Institutions and Deposit Protection Act* and its regulations, as well as certain other laws, regulations and guidelines, collectively provide for a resolution process and internal recapitalization (bail-in) regime for domestic systemically important financial institutions belonging to a cooperative group. The objective of resolution operations, including the bail-in regime, is to ensure the sustainability of the operations of deposit institutions belonging to a cooperative group despite their failure, without resorting to public funds, and to have holders of contributed capital securities and creditors absorb losses, thereby minimizing taxpayer exposure to the losses.

Among other resolution operations, the AMF may (i) amalgamate the Cooperative Group and have it continued as one Quebec savings company, (ii) establish a bridge institution in order to have it assume the liabilities, in relation to deposits of money, of deposit institutions belonging to the Cooperative Group, (iii) establish an asset management company with a view to transferring any part of the assets or liabilities of a legal person belonging to the Cooperative Group to such asset management company, except liabilities in relation to deposits of money, and/or (iv) transfer the assets and liabilities of a legal person belonging to the Cooperative Group to any acquirer.

In addition, in the event any deposit institution belonging to the Cooperative Group becomes non-viable, the AMF may convert any part of the capital shares issued by the deposit institutions belonging to the Cooperative Group (such as Class F capital shares) and/or of certain other debts prescribed by regulation issued by the Federation into contributed capital securities of the Federation, of a deposit institution belonging to the Cooperative Group, or of another legal person otherwise constituted for or resulting from the resolution process of the Cooperative Group. The AMF may also cancel or write off any of such capital shares or debt instruments. Covered bonds, certain derivatives and structured notes, senior unsubordinated debt instruments that (i) have a maturity of less than 400 days (including explicit or embedded extension options) or (ii) are not assigned an international securities identification number (ISIN) or other similar designation for the purposes of trading and settlement, and subordinated notes that are non-viability contingent capital instruments are all excluded from the application of the bail-in regime. Holders of converted, cancelled or written-off capital shares or debt instruments may be eligible for indemnification as set forth under applicable regulations.

The AMF released on March 21, 2019 the *Notice relating to the bail-in power set out in the second paragraph of section 40.50 of the Deposit Insurance Act*, which clarifies the AMF's current intention with respect to the application of the bail-in regime. In this context, the AMF plans to convert negotiable and transferable unsecured debt into capital shares of the Federation in accordance with the conversion measures set out in the regulations. The AMF would then carry out an amalgamation/continuance operation, the purpose of which would be to amalgamate the entities belonging to the Cooperative Group and have them continued as one Quebec savings company. This operation would result in the capital shares issued by the amalgamating entities being converted into common shares of the savings company.

The bail-in regime applicable to Desjardins is substantially similar to the Canadian federal regime to which Canadian banks are subject. In addition, the bail-in regime is not retroactive in respect of debt instruments and will not apply to any debt instruments issued prior to March 31, 2019. The bail-in regime could adversely affect the Federation's cost of funding.

Furthermore, the AMF's *Guideline on total loss absorbing capacity* (the TLAC Guideline) applies to and establishes standards for the Federation. Under the TLAC Guideline, beginning April 1, 2022, the Federation will be required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the prescribed criteria or regulatory capital instruments to support its recapitalization in the event of a failure.

**Data confidentiality and security**

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. In Canada, the *Guidelines for obtaining meaningful consent*, which took effect on January 1, 2019, tighten the standards imposed on organizations for obtaining meaningful consent for the collection, use and disclosure of personal information. In Europe, the control authorities in charge of applying the *General Data Protection Regulation* imposed harsh penalties in January 2019 for the first time on organizations that had failed to respect the regulation. Desjardins Group continues to closely monitor this file since several of its competitors are subject to it in whole or in part. Considering the number of consultations that have taken place involving the various privacy commissioners in Canada, Desjardins Group expects that stricter rules will be adopted for the protection of personal information, and it is keeping a close watch in order to assess the potential impacts on its operations.

**Pillar 3 financial disclosure requirements**

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These requirements related to the third pillar aim 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 has issued a Pillar 3 Report since December 31, 2018 in order to comply with it. In 2018, the AMF presented an update of its guideline under which new requirements took effect on March 31, 2019. These include the expected treatment of the leverage ratio, the composition of capital and total loss absorbing capacity.

**Report on Ontario's auto insurance system**

Following the Ontario government's recent economic update concerning, among other things, property insurance and general insurance, the current automobile insurance plan will undergo another review. In the update, the government showed that it wanted to make automobile insurance more affordable for Ontario drivers. A first wave of changes is expected to roll out in 2020. The Financial Services Regulatory Authority of Ontario (FSRA), the regulator that has overseen the province's financial regime since June 2019, will in particular study how insurance rates are regulated. The FSRA aims to be a modern and innovative regulator capable of responding to the dynamic pace of change in the marketplace, the industry and consumer expectations. The Canadian insurance industry, which includes Desjardins Group, is actively working with the current government to ensure a smooth transition to the FSRA until the new reform of Ontario's automobile insurance system is in place.

**Modernization of the Canadian payments system**

Since 2016, Payments Canada has been carrying on a complex, multiyear initiative to modernize the Canadian payments system that mobilizes the financial industry, the federal government and Payments Canada. Desjardins Group continues to monitor developments in this project and to analyze the potential impacts and advantages of payments system modernization and the emergence of new payment technologies.

**Report on Climate change-related Disclosure Project**

On August 1, 2019, the CSA issued CSA *Staff Notice 51-358, Reporting of Climate Change-related Risks.* The Notice is intended to assist issuers, without creating any new legal requirements, to identify and define material climate change-related risks and to improve their disclosure of such risks. 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.

### Open banking system

The Department of Finance Canada issued a consultation paper on January 11, 2019 on the merits of open banking. An open banking system could offer a secure way for Canadian consumers to consent to sharing their financial transaction data, allowing them to benefit from enhanced products and services. Desjardins Group filed a submission on February 11, 2019 favouring a collaborative open banking system with a formal framework, and is taking part in the industry's working groups on open banking.

## ECONOMIC ENVIRONMENT AND OUTLOOK

### Global economy

World trade continued to stall in recent months, coming out flat year-over-year. Exports declined in most of the main advanced and emerging economies. As reflected by the weak global manufacturing purchasing managers' index (PMI), this slower pace mainly affected the manufacturing sector. Reassuringly, however, the service sectors are generally performing better. Unfortunately, the tariffs imposed on Chinese imports by the Trump administration on September 1, and those to be implemented on December 15, will have a greater impact on consumer goods, likely resulting in further negative repercussions for trade and the global economy over the coming months. One of the countries hard hit by the slowdown in world trade is Germany. Real GDP in the eurozone's largest economy contracted in the spring, and the German government has indicated that the situation remained difficult in the third quarter. Estimates of real GDP growth in the eurozone have been revised down from 1.2% to 1.1% for 2019 and from 1.1% to 0.7% for 2020. The situation is also fragile in the United Kingdom, where Brexit remains unresolved and a general election has been called. The emerging economies are also affected by this growing sense of gloom – especially China, which remains the main target of the trade war started by the United States. Global real GDP growth is estimated at 3.1% for 2019, while the forecast for 2020 is 3.0%.

The third quarter of 2019 was marked by considerable volatility in the financial markets and a further decline in bond yields. Following a pause in July, trade tensions and recession fears surged again in early August after President Donald Trump announced new tariffs on Chinese exports. Given the range of international uncertainties, the U.S. Federal Reserve (the Fed) lowered its key rates twice. Several other central banks, including the European Central Bank, also began easing their monetary policies again. But the Bank of Canada kept its key interest rates unchanged, as the sharp decline in bond yields already seems to have revived the Canadian housing market. A more positive outlook could be felt in the markets in early September, but concerns quickly returned, particularly when the Democrats decided to launch impeachment proceedings against President Trump. North American stock exchanges nevertheless managed to gain some ground in the third quarter on the back of a sharp fall in bond yields.

While the level of international uncertainty remains high, the Fed announced a third cut in the Federal Funds rate at the end of October, thereby completing its mid-cycle adjustment. In Canada, the economy's resilience, declining mortgage rates and high household debt all point towards the Bank of Canada maintaining the status quo, but the institution will be carefully monitoring developments around the trade tensions and their impact on the Canadian economy. Following a significant drop in recent quarters, bond yields are expected to stay slightly above their recent lows but will be highly volatile. Despite favourable developments in interest rate spreads, the loonie is likely to remain relatively stable versus the U.S. dollar, which is favoured by its safe-haven status.

### United States

After a 3.1% annualized increase in the first quarter of 2019, U.S. real GDP grew by 2.0% in the second quarter and by 1.9% in the third quarter. The slower pace is mainly a casualty of the trade war. So far, the impact has been more keenly felt in the manufacturing sector and in business investment, but further tariff increases will have a greater impact on consumers. Given this environment, forecasts for real GDP have been revised downwards for 2020, with growth of just 1.6% expected next year, compared to 2.3% in 2019. As certain signs of weakness begin to emerge, it is to be hoped they do not gather too much momentum.

### Canada

The Canadian economy grew at a faster pace in the second quarter of 2019, posting real GDP growth of 3.7% (annualized rate). However, this good result must be placed in context. After a difficult start to the year due to the restrictions imposed by the Alberta government on oil production, a gradual return to normal conditions significantly boosted growth in the energy sector in the spring. This resulted in a jump in exports during the quarter. Growth in the rest of the economy was considerably more mixed. The main difficulties stem from non-residential business investment, which plummeted 16.2% in the second quarter. Constraints on oil and gas transportation are hindering the development of new production capacities in the energy sector, while Canadian business confidence is increasingly affected by growing global trade tensions and uncertainty surrounding the ratification of the new trade agreement. There is every reason to believe that the difficulties hampering non-residential business investment will continue over the next few quarters. The slowdown in world trade will also affect Canadian exports. Fortunately, the Canadian economy is benefiting from some positive factors. After several months of decline, the housing market recently experienced a turnaround, once again trending upward in most regions. In addition, consumer spending continued on an upswing. Real GDP growth may ultimately fall slightly short of its potential over the next few quarters, with the Bank of Canada estimating an average of close to 1.8%. So the gain in 2019 could be 1.6%, followed by a 1.5% increase in 2020.

**Quebec**

Quebec continues to post strong economic growth. Real GDP grew by 2.9% (annualized rate) in the second quarter of 2019, compared to 2.2% in the previous quarter. However, the pace is expected to slow to around 1.5% by the end of 2019 and in 2020. The climate of uncertainty, which is worsening with the trade war and the global economic slowdown, is already weighing on Quebec's international exports, and this downward trend is expected to continue. The withdrawal of U.S. tariffs on steel and aluminum in May was a positive development, but China's ban on pork imports from Canada, instituted in late June until early November, hurt Quebec producers. There is still no assurance that the Canada-United States-Mexico Agreement (CUSMA) will ultimately be ratified. However, households will continue to support the economy as they benefit from the improved labour market, which is fuelling a healthy increase in incomes. Job creation remains strong, and the unemployment rate fell to 4.7% in August, the lowest of any province. The housing market is booming in Quebec. Sales of existing properties are set to peak this year, and the average price is to increase by more than 4% for a third consecutive year. Two factors could further stimulate the residential sector in the short term: the introduction, this fall, of the federal financial assistance program for first-time home buyers and the lowering of some mortgage rates. The year should therefore end on a very good note for the residential sector.

# REVIEW OF FINANCIAL RESULTS

## 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 held 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 $16 million share in Aviso Wealth was recognized in the Consolidated Statements of Income for the nine-month period ended September 30, 2019 ($5 million for the three-month period ended September 30, 2019).

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 the Federation's financial results for the Wealth Management and Life and Health Insurance segment.

| (in millions of dollars) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 | **September 30, 2019** | September 30, 2018 |
| Other operating income[1] | **$ -** | $ - | $ - | **$ -** | $ 49 |
| **Operating income[1]** | **-** | - | - | **-** | 49 |
| Non-interest expense | **-** | - | - | **-** | 44 |
| Income taxes on surplus earnings | **-** | - | - | **-** | 1 |
| **Surplus earnings after member caisses dividends** | **$ -** | $ - | $ - | **$ -** | $ 4 |

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

## ANALYSIS OF RESULTS

### Financial results and indicators

| (in millions of dollars and as a percentage) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| **Results** | | | | | |
| Net interest income | **$ 404** | $ 372 | $ 382 | **$ 1,141** | $ 1,103 |
| Net premiums | **2,354** | 2,270 | 2,288 | **6,969** | 6,677 |
| Other operating income[2] | | | | | |
| Assessments | **99** | 98 | 97 | **295** | 295 |
| Service agreements | **190** | 199 | 179 | **575** | 549 |
| Lending fees and credit card service revenues | **192** | 185 | 172 | **587** | 522 |
| Brokerage and investment fund services | **223** | 223 | 216 | **660** | 694 |
| Management and custodial service fees | **153** | 148 | 154 | **448** | 441 |
| Foreign exchange income | **18** | 19 | 15 | **51** | 63 |
| Other | **30** | 28 | 52 | **131** | 285 |
| **Operating income[2]** | **3,663** | 3,542 | 3,555 | **10,857** | 10,629 |
| Investment income (loss)[2] | | | | | |
| Net investment income (loss) | **581** | 991 | (213) | **2,996** | 212 |
| Overlay approach adjustment for insurance operations financial assets | **(13)** | 10 | 76 | **(170)** | 265 |
| **Investment income (loss)[2]** | **568** | 1,001 | (137) | **2,826** | 477 |
| **Total income** | **4,231** | 4,543 | 3,418 | **13,683** | 11,106 |
| (Recovery of) provision for credit losses | **129** | (6) | 73 | **207** | 225 |
| Claims, benefits, annuities and changes in insurance contract liabilities | **2,263** | 2,361 | 1,380 | **7,744** | 4,763 |
| Non-interest expense | **1,608** | 1,816 | 1,598 | **5,082** | 4,794 |
| Income taxes on surplus earnings | **20** | 56 | 68 | **67** | 202 |
| **Surplus earnings after dividends to member caisses** | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 1,122 |
| **Adjusted surplus earnings after dividends to member caisses[2]** | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 993 |
| **Contribution to consolidated surplus earnings by business segment[3]** | | | | | |
| Personal and Business Services | **$ 70** | $ 138 | $ 72 | **$ 287** | $ 249 |
| Wealth Management and Life and Health Insurance | **108** | 183 | 174 | **430** | 711 |
| Property and Casualty Insurance | **34** | 123 | 70 | **76** | 148 |
| Treasury and Other Support to Desjardins Group Entities | **(1)** | (128) | (17) | **(210)** | 14 |
| | **$ 211** | $ 316 | $ 299 | **$ 583** | $ 1,122 |
| **Indicators** | | | | | |
| Return on equity[2] | **5.5%** | 8.4% | 7.1% | **5.3%** | 9.4% |
| Adjusted return on equity[2] | **5.6** | 8.5 | 7.2 | **5.3** | 8.3 |
| Credit loss provisioning rate[2] | **0.81** | (0.04) | 0.47 | **0.44** | 0.50 |

(1) The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, “Leases”, adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”, to the Interim Consolidated Financial Statements.

(2) See “Basis of presentation of financial information”.

(3) The breakdown by line item is presented in Note 12, “Segmented information”, to the Interim Consolidated Financial Statements.

## COMPARISON OF THE THIRD QUARTERS OF 2019 AND 2018

### Surplus earnings

For the third quarter ended September 30, 2019, the Federation posted surplus earnings after dividends to member caisses of $211 million, down $88 million compared to the corresponding quarter of 2018. The lower surplus earnings were due mainly to the less favourable claims experience in certain life and health insurance products and smaller interest margins compared to 2018 for operations in this segment. In the Property and Casualty Insurance segment, the claims experience was slightly more favourable, although still high, and partially offset the reduction in investment income.

**Business segment contributions to surplus earnings**

- Personal and Business Services: **Contribution of $70 million,** down $2 million, or 2.8%, compared to the same period in 2018.
  - Increase in the provision for credit losses.
  - Lower trading income due to capital market volatility in 2019.
  - Offset by a decrease in expense due to the winding down of Zag Bank's operations.
- Wealth Management and Life and Health Insurance: **Contribution of $108 million,** down $66 million, compared to the third quarter of 2018.
  - Less favourable claims experience for certain products.
  - Smaller interest margins compared to the corresponding quarter in 2018.
- Property and Casualty Insurance: **Contribution of $34 million,** down $36 million compared to the third quarter of 2018.
  - Lower investment income.
  - Offset by a lower loss ratio during the quarter, due mainly to the occurrence of a catastrophe in the comparative quarter.

- **Return on equity was 5.5%,** compared to 7.1% for the quarter ended September 30, 2018.
- **Adjusted return on equity was 5.6%,** down compared to 7.2% for the quarter ended September 30, 2018, mainly because of the decrease in surplus earnings, as explained earlier.

### Operating income

Operating income totalled $3,663 million, up $108 million, or 3.0%, compared to the third quarter of 2018.

Net interest income was up $22 million, or 5.8%, to total $404 million, compared to $382 million for the same period in 2018, mainly on account of growth in the entire average portfolio of loans and acceptances outstanding of $2.0 billion, or 3.2%, over the year. This portfolio comprises financing activities in consumer, credit card and other personal loans, as well as loans to business and government.

Net premiums were up $66 million, or 2.9%, compared to the third quarter of 2018, to total $2,354 million as at September 30, 2019.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $1,113 million,** down $96 million, or 7.9%.
  - Net premiums down $96 million, with annuities accounting for $78 million and group insurance for $20 million.

Property and Casualty Insurance segment

- **Net premiums of $1,279 million,** up $159 million, or 14.2%, due to the following:
  - Growth in the average premium as a result of rate increases, reflecting the current trend in the Canadian P&C insurance market.
  - Larger number of policies issued as a result of the growth observed across all market segments and regions.

Other operating income stood at $905 million, which is an increase of $20 million, or 2.3%, compared to the third quarter of 2018, mainly due to the following:

- Growth in business volumes from payment and financing activities.

This increase was partially offset by the following:

- Recognition of one-time remuneration payable by a partner in third quarter 2018 as a result of the termination of a private label partnership.
- Larger increase than in third quarter 2018 in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm) and arising from the favourable developments in claims taken over.

### Investment income

Investment income totalled $568 million, up $705 million compared to the third quarter of 2018, essentially because of the following:

- Increase primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations.
  - Changes for the most part due to fluctuations in the fair value of the bond portfolio mainly as a result of lower interest rates.
  - Increase largely offset by the change in actuarial liabilities leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Increase in the fair value of matched bonds in the Property and Casualty Insurance segment compared to a decrease in the comparative quarter of 2018, mainly on account of lower market interest rates in the third quarter of 2019, whereas rates were higher in the third quarter of 2018. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.

This increase was partially offset by the following:

- Lower dividend income than in the comparative quarter of 2018, especially on account of reinvested income in 2018, which included prior-period adjustments.
- Lower trading income due to capital market volatility in 2019.

### Total income

Total income amounted to $4,231 million, an increase of $813 million, or 23.8%, compared to the same period in 2018.

### Provision for credit losses

The provision for credit losses totalled $129 million, an increase of $56 million compared to the same period in 2018 on account of migration of exposures to higher risk ratings in the consumer loan portfolio for credit cards.

The Federation has continued to present a quality loan portfolio in 2019.
- The credit loss provisioning rate was 0.81% for the third quarter of 2019, compared to 0.47% for the corresponding period of 2018.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.65% compared to 0.36% as at September 30, 2018.

### Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $2,263 million, up $883 million compared to the corresponding quarter of 2018.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $1,331 million,** up $758 million, basically due to the increase of $763 million in actuarial liabilities under “Insurance contract liabilities”, which included the effect of the increase in the fair value of matched investments.

Property and Casualty Insurance segment

- **Cost of claims of $925 million,** up $122 million, or 15.2%, as a result of the following:
  - Growth in business, which led to a higher cost of claims.
  - Unfavourable impact of the decrease in the discount rates used to measure the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in the comparative period of 2018.
  - Offset by loss ratio of 72.2% for the quarter ended September 30, 2019, compared to 75.5% for the corresponding period in 2018:
    - Lower loss ratio related to catastrophes and major events than in the comparative quarter of 2018, i.e. 0.2% vs. 3.5%. The third quarter of 2019 was marked by one major event, while in the corresponding quarter of 2018, a catastrophe was noted.
    - Lower current year loss ratio than in the corresponding period in 2018, namely 78.6% compared to 80.0%, essentially due to a smaller claims experience in property insurance.
    - However, the ratio of favourable changes in prior year claims was lower than in third quarter 2018, i.e. (6.6)% vs. (8.0)%.

### Non-interest expense

- **Non-interest expense totalled $1,608 million**, up $10 million, or 0.6%, compared to the third quarter of 2018, mainly because of:
  - Increase in salaries as a result of indexing and growth in activities.
  - Increase in remuneration and other payments due to growth in sales of various Desjardins Group products by the caisse network.
  - Increase in the provision related to the deferred compensation program for Desjardins property and casualty insurance agents on account of lower interest rates.
  - Growth in payment activities, including expenses related to the rewards program, and growth in financing activities.

  This increase was partially offset by:
  - Lower expense due to the winding down of Zag Bank’s operations.
  - Reduction in commitments made under the *$100 Million Fund*.

### Income taxes

- **Income taxes on surplus earnings after dividends to member caisses of $20 million,** down $48 million compared to the third quarter of 2018.
  - Effective tax rate of 8.7% for the quarter ended September 30, 2019, down compared to 18.5% for the corresponding period in 2018, essentially because of the higher tax recovery related to remuneration on G capital shares and F capital shares.

## COMPARISON OF THE FIRST NINE MONTHS OF 2019 AND 2018

### Surplus earnings

For the nine months ended September 30, 2019, the Federation posted surplus earnings after dividends to member caisses of $583 million, a $539 million decrease compared to the same period in 2018. Surplus earnings adjusted for the specific item at the creation of Aviso Wealth, namely the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, were down $410 million. The reduction in surplus earnings was mainly due to a decrease in the fair value of derivative financial instruments associated with hedging activities, as well as lower gains on the sale of investments than in 2018 for the insurance segments. The decrease in surplus earnings was also due to smaller interest margins and a less favourable overall experience in life and health insurance. It should also be remembered that a profit related to the restructuring of Interac Corp. was recognized in the first quarter of 2018. As for the privacy breach, a total of $70 million in expenses and provisions for the implementation of protections for our members (i.e. the credit monitoring service and Desjardins identity protection) was recognized in the second quarter of 2019.

**Business segment contributions to surplus earnings**

- Personal and Business Services: **Contribution of $287 million,** up $38 million, or 15.3%, compared to the same period in 2018.
  - Decrease in the provision for credit losses.
  - Lower expense due to the winding down of Zag Bank's operations.
  - Growth in payment and financing activities.

  This increase was partially offset by the following:
  - Profit related to the restructuring of Interac Corp., recognized in the first quarter of 2018.
  - Lower trading income due to capital market volatility in 2019.
- Wealth Management and Life and Health Insurance: **Contribution of $430 million,** down $281 million, and surplus earnings adjusted for the specific item down $152 million compared to the corresponding period in 2018.
  - Lower gains on the sale of real estate investments and securities and smaller interest margins than in 2018.
  - Less favourable overall experience.
  - Offset by a reduction in investment portfolio provisions.
- Property and Casualty Insurance: **Contribution of $76 million,** down $72 million compared to the same period in 2018.
  - Smaller net gains on the sale of funds and shares related, in part, to the rebalancing of certain portfolios than those generated during the comparative period.
  - Offset by the lower loss ratio, particularly due to the smaller impact of catastrophes and major events.

- **Return on equity was 5.3%,** compared to 9.4% for the nine months ended September 30, 2018.
- **Adjusted return on equity was 5.3%,** down compared to 8.3% for the first nine months ended September 30, 2018, mainly because of the reduction in adjusted surplus earnings, as explained earlier.

### Operating income

Operating income totalled $10,857 million, up $228 million, or 2.1%, compared to the first nine months of 2018. Excluding the gain before taxes of $132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, operating income would have been up $360 million, or 3.4%, compared to the same period in 2018.

Net interest income was up $38 million, or 3.4%, to total $1,141 million, compared to $1,103 million for the same period in 2018, because of growth in the entire portfolio of loans and acceptances outstanding of $2.0 billion, or 3.2% over the year. This portfolio comprises financing activities in consumer, credit card and other personal loans, as well as loans to business and government. The increase was mitigated by lower interest income from the securities portfolio related to treasury activities.

Net premiums were up $292 million, or 4.4%, compared to the first nine months of 2018, to total $6,969 million as at September 30, 2019.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $3,394 million,** down $148 million, or 4.2%.
  - Annuity premiums down $115 million, and group insurance premiums down $45 million.
  - Offset by a $12 million increase in individual insurance premiums.

Property and Casualty Insurance segment

- **Net premiums of $3,685 million,** up $433 million, or 13.3%, due to the following:
  - Growth in the average premium as a result of rate increases, reflecting the current trend in the Canadian P&C insurance market.
  - Larger number of policies issued as a result of the growth observed across all market segments and regions.

Other operating income stood at $2,747 million, which is a decrease of $102 million, or 3.6%, compared to the first nine months of 2018. Excluding the gain before taxes of $132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, other operating income would have been up $30 million, or 1.1%, compared to the same period in 2018, mainly due to the following:

- Growth in business volumes from payment and financing activities.
- Higher income from growth in assets under management.
- Income from the interest in Aviso Wealth.

This increase was partially offset by the following:

- Lower income following the transaction involving Qtrade Canada Inc.
- Recognition of one-time remuneration payable by a partner in the comparative period in 2018 as a result of the termination of a private label partnership.

### Investment income

Investment income totalled $2,826 million, up $2,349 million compared to the first nine months of 2018, essentially because of the following:

- Increase primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations.
  - Changes for the most part due to fluctuations in the fair value of the bond portfolio mainly as a result of lower interest rates.
  - Increase largely offset by the change in actuarial liabilities leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Increase in the fair value of matched bonds in the Property and Casualty Insurance segment compared to a decrease in the comparative period of 2018, mainly on account of lower market interest rates in the first nine months of 2019, whereas rates were higher in the first nine months of 2018. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.
- Net gains on the sale of bonds whereas a loss was recorded in the first nine months of 2018.

This increase was partially offset by the following:
- Lower gains on the sale of real estate investments and securities than in 2018.
- Decrease in the fair value of derivative financial instruments associated with the Federation's hedging activities.
- Smaller net gains on the sale of funds and shares than those recognized in the first nine months of 2018.
- Lower dividend income than in the comparative period of 2018, especially on account of reinvested income in 2018, which included prior-period adjustments.
- Profit related to the restructuring of Interac Corp., recognized in the first quarter of 2018.
- Lower trading income due to capital market volatility in 2019.

**Total income**

Total income amounted to $13,683 million, an increase of $2,577 million, or 23.2%, compared to the same period in 2018.

**Provision for credit losses**

The provision for credit losses totalled $207 million, a decrease of $18 million compared to the first nine months of 2018, essentially due to the following:
- Refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards.
- Offset by migration of exposures to higher risk ratings in the consumer loan portfolio for credit cards during third quarter 2019.

The Federation has continued to present a quality loan portfolio in 2019.
- The credit loss provisioning rate was 0.44% for the first nine months of 2019, compared to 0.50% for the corresponding period of 2018.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.65% compared to 0.36% as at September 30, 2018.

**Claims, benefits, annuities and changes in insurance contract liabilities**

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $7,744 million, up $2,981 million compared to the corresponding period of 2018.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $4,909 million,** up $2,502 million, basically due to the increase of $2,495 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the increase in the fair value of matched investments.

Property and Casualty Insurance segment

- **Cost of claims of $2,831 million,** up $479 million, or 20.4%, as a result of the following:
  - Growth in business, which led to a higher cost of claims.
  - Unfavourable impact of the decrease in the discount rates used to measure the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in the comparative period of 2018.
  - Offset by loss ratio of 73.8% for the nine months ended September 30, 2019, compared to 75.0% for the corresponding period in 2018:
    - Lower loss ratio related to catastrophes and major events than in the comparative period of 2018, i.e. 1.6% vs. 4.3% because three catastrophes took place in 2018 whereas no catastrophe occurred in the first nine months of 2019.

    This reduction was partially offset by the following:
    - The ratio of favourable changes in prior year claims, which was lower than in the first nine months of 2018, i.e. (9.0)% vs. (9.9)%.
    - Higher current year loss ratio than in the corresponding period in 2018, namely 81.2% vs. 80.6%.

**Non-interest expense**

- Non-interest expense totalled $5,082 million, up $288 million, or 6.0%, compared to the first nine months of 2018, mainly because of:
  - Increase in salaries as a result of indexing and growth in operations.
  - Increase in remuneration and other payments due to growth in sales of various Desjardins Group products by the caisse network.
  - Expenses and provisions totalling $70 million related to the implementation of protection for our members, i.e. the credit monitoring service and Desjardins identity protection.
  - Increase in expense related to business growth and faster recognition of acquisition fees for policy issuance.
  - Growth in payment activities, including expenses related to the rewards program, and growth in financing activities.

  This increase was partially offset by the following:
  - Decrease in expense related to the transaction involving Qtrade Canada Inc.
  - Reduction in investment portfolio provisions.
  - Lower expense as a result of the winding down of Zag Bank's operations.
  - Reduction in commitments made under the *$100 Million Fund*.

**Income taxes**

- **Income taxes on surplus earnings after dividends to member caisses of $67 million,** down $135 million compared to the first nine months of 2018.
  - Effective tax rate of 10.3% for the first nine months of 2019, down compared to 15.3% for the corresponding period in 2018.
  - Excluding the effect of the specific item, the effective tax rate would have been 10.3% for the first nine months of 2019 and 16.7% for the same period in 2018, mainly because of the greater impact of non-taxable items and the recovery of taxes related to remuneration on G capital shares and F capital shares on surplus earnings.

## RESULTS BY BUSINESS SEGMENT

The Federation's financial reporting is organized by business segments, which are defined based on the needs of Desjardins Group's members and clients, the markets in which the Federation operates, and on its internal management structure. The Federation'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 Treasury and Other Support to Desjardins Group Entities 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 financial markets.

Additional information about each business segment, particularly its profile, activities, industry and 2019 strategies and priorities, can be found on pages 29 to 40 of the 2018 annual MD&A.

### Personal and Business Services

The Personal and Business Services segment is central to Desjardins Group's operations. It is responsible for finetuning a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives offered through the Desjardins caisse network, its Desjardins Business centres, and specialized teams. This is what makes Desjardins Group 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, caisse 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 caisse members and clients, the Federation supports the caisse network and its service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks by way of implementing and managing complementary access methods, by phone, online, via applications for mobile devices, and at ATMs.

**Personal and Business Services – Segment results**

| (in millions of dollars and as a percentage) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| Net interest income | **$ 341** | $ 281 | $ 286 | **$ 919** | $ 835 |
| Other operating income[2] | **441** | 446 | 403 | **1,338** | 1,226 |
| **Operating income[2]** | **782** | 727 | 689 | **2,257** | 2,061 |
| Investment income (loss)[2] | **(22)** | - | 8 | **(4)** | 68 |
| **Total income** | **760** | 727 | 697 | **2,253** | 2,129 |
| (Recovery of) provision for credit losses | **128** | (6) | 74 | **205** | 230 |
| Non-interest expense | **533** | 550 | 522 | **1,657** | 1,561 |
| Income taxes on surplus earnings | **29** | 45 | 29 | **104** | 89 |
| **Net surplus earnings for the period** | **$ 70** | $ 138 | $ 72 | **$ 287** | $ 249 |
| Of which: | | | | | |
| Group's share | **$ 70** | $ 138 | $ 72 | **$ 287** | $ 249 |
| **Indicators** | | | | | |
| Average gross loans and acceptances[2] | **$ 33,233** | $ 32,062 | $ 30,225 | **$ 32,422** | $ 29,225 |
| Average deposits[2] | **18,247** | 18,755 | 19,163 | **17,970** | 18,159 |
| Credit loss provisioning rate[2] | **1.53%** | (0.08)% | 0.97% | **0.85%** | 1.05% |
| Gross credit-impaired loans/gross loans and acceptances[2] | **1.23** | 1.15 | 0.72 | **1.23** | 0.72 |

[1] The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

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

### COMPARISON OF THE THIRD QUARTERS OF 2019 AND 2018 – PERSONAL AND BUSINESS SERVICES

- **Net surplus earnings of $70 million,** down $2 million or 2.8%, on the whole comparable to those in the 2018 quarter. This slight decrease was essentially due to:
  - Increase in the provision for credit losses.
  - Lower trading income due to capital market volatility in 2019.
  - Offset by decrease in expense due to the winding down of Zag Bank's operations.

- **Operating income of $782 million,** up $93 million, or 13.5%.
  - Increase of $55 million in net interest income mainly as a result of year-over-year growth of $3.0 billion in the entire average portfolio of loans and acceptances outstanding, particularly consumer loans, credit card products and loans to medium-sized businesses and large corporations.
  - Other operating income of $441 million, up $38 million, or 9.4%, mainly due to:
    - Growth in business volume as a result of payment and financing activities.
    - Increase in income from the caisses as a result of growth in activities aimed at enhancing the service offer to caisse members and clients, including activities related to AccèsD services, the online business centre and the Shared Services Centre.

- **Loss of $22 million, presented under Investment income (loss),** while income of $8 million recognized in the comparative quarter for a difference of $30 million mainly because of lower trading income due to capital market volatility in 2019.

- **Total income of $760 million,** up $63 million, or 9.0%.

- **Provision for credit losses of $128 million,** up $54 million compared to the same period in 2018, on account of migration of exposures to higher risk ratings in the consumer loan portfolio for credit cards.

- **Non-interest expense of $533 million,** up $11 million, or 2.1%, essentially due to:
  - Growth in payment activities, including expenses related to the rewards program, and growth in financing activities.
  - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including activities related to AccèsD services, the online business centre and the Shared Services Centre.
  - Offset by a decrease in expense resulting from the winding down of Zag Bank's operations.

### COMPARISON OF THE FIRST NINE MONTHS OF 2019 AND 2018 – PERSONAL AND BUSINESS SERVICES

- **Net surplus earnings of $287 million,** up $38 million, or 15.3%. This increase was essentially due to:
  - Decrease in the provision for credit losses.
  - Decrease in expense resulting from the winding down of Zag Bank's operations.
  - Growth in payment and financing activities.

  This increase was partially offset by the following:
  - Profit related to the restructuring of Interac Corp., recognized in the first quarter of 2018.
  - Lower trading income due to capital market volatility in 2019.

- **Operating income of $2,257 million,** up $196 million, or 9.5%.
  - Increase of $84 million in net interest income mainly as a result of year-over-year growth of $3.2 billion in the entire average portfolio of loans and acceptances outstanding, particularly consumer loans, credit card products and loans to medium-sized businesses and large corporations.
  - Other operating income of $1,338 million, up $112 million, or 9.1%, mainly due to:
    - Growth in business volume as a result of payment and financing activities.
    - Increase in income from the caisses as a result of growth in activities aimed at enhancing the service offer to caisse members and clients, particularly those related to AccèsD services, the online business centre and the Shared Services Centre.

- **Loss of $4 million, presented under Investment income (loss),** while income of $68 million recognized in the comparative period for a difference of $72 million essentially because of:
  - Profit related to the restructuring of Interac Corp., recognized in the first quarter of 2018.
  - Lower trading income due to capital market volatility in 2019.

- **Total income of $2,253 million,** up $124 million, or 5.8%.

- **Provision for credit losses of $205 million,** down $25 million mainly as a result of:
  - Refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards.
  - Offset by migration of exposures to higher risk ratings in the consumer loan portfolio for credit cards in the third quarter of 2019.

- **Non-interest expense of $1,657 million,** up $96 million, or 6.1%, essentially due to:
  - Growth in payment activities, including expenses related to the rewards program, and growth in financing activities.
  - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including activities related to AccèsD services, the online business centre and the Shared Services Centre.
  - Offset by lower expense as a result of the winding down of Zag Bank's operations.

## Wealth Management and Life and Health Insurance

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.

The greatest strengths of the Wealth Management and Life and Health Insurance segment include its vast and diversified Canada-wide distribution networks, which are mainly comprised of:

- Employees of the caisse network and Desjardins Business centres.
- Financial security advisers dedicated 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 also distributed directly via customer care centres, online or through applications for mobile devices. Online services are constantly being finetuned so that they meet clients' changing requirements.

The 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".

**Wealth Management and Life and Health Insurance – Segment results**

| (in millions of dollars) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| Net interest income | **$ 1** | $ 2 | $ 1 | **$ 4** | $ 3 |
| Net premiums | **1,113** | 1,084 | 1,209 | **3,394** | 3,542 |
| Other operating income[2] | **399** | 397 | 397 | **1,186** | 1,331 |
| **Operating income[2]** | **1,513** | 1,483 | 1,607 | **4,584** | 4,876 |
| Investment income (loss)[2] | **531** | 894 | (240) | **2,596** | 165 |
| **Total income** | **2,044** | 2,377 | 1,367 | **7,180** | 5,041 |
| (Recovery of) provision for credit losses | **1** | - | (1) | **1** | (5) |
| Claims, benefits, annuities and changes in insurance contract liabilities | **1,331** | 1,559 | 573 | **4,909** | 2,407 |
| Non-interest expense | **581** | 590 | 572 | **1,738** | 1,772 |
| Income taxes on surplus earnings | **23** | 45 | 49 | **102** | 156 |
| **Net surplus earnings for the period** | **$ 108** | $ 183 | $ 174 | **$ 430** | $ 711 |
| **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 period[2]** | **$ 108** | $ 183 | $ 174 | **$ 430** | $ 582 |
| Of which: | | | | | |
| Group's share | **$ 108** | $ 183 | $ 174 | **$ 430** | $ 711 |
| **Indicators** | | | | | |
| Net sales of savings products | **$ 1,201** | $ 2,880 | $ 2,146 | **$ 5,608** | $ 6,935 |
| Insurance sales | **82** | 90 | 75 | **374** | 251 |
| Group insurance premiums | **808** | 796 | 828 | **2,434** | 2,479 |
| Individual insurance premiums | **222** | 220 | 220 | **657** | 645 |
| Annuity premiums | **83** | 68 | 161 | **303** | 418 |
| Segregated fund receipts | **532** | 1,872 | 413 | **2,940** | 1,555 |

[1] The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

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

### COMPARISON OF THE THIRD QUARTERS OF 2019 AND 2018 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $108 million,** down $66 million, or 37.9%, primarily as a result of:
  - Less favourable claims experience for certain products.
  - Smaller interest margins compared to the corresponding quarter in 2018.

- **Operating income of $1,513 million,** down $94 million, or 5.8%, essentially due to:
  - Decrease of $96 million in net premiums, with annuities accounting for $78 million, and group insurance for $20 million.
  - Other operating income totalled $399 million, up $2 million, or 0.5%.

- **Investment income of $531 million,** up $771 million.
  - Increase primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations.
    - Changes for the most part due to fluctuations in the fair value of the bond portfolio, mainly as a result of lower interest rates.
    - Increase largely offset by the change in actuarial liabilities leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

- **Total income of $2,044 million,** up $677 million, or 49.5%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $1,331 million,** up $758 million, essentially due to an increase of $763 million in actuarial liabilities under “Insurance contract liabilities”, which includes the effect of an increase in the fair value of matched investments.

- **Non-interest expense of $581 million,** up $9 million, or 1.6%, chiefly as a result of an increase in expense related to assets under management.

### COMPARISON OF THE FIRST NINE MONTHS OF 2019 AND 2018 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $430 million,** down $281 million, and adjusted net surplus earnings down $152 million, or 26.1%, primarily as a result of:
  - Lower gains on the sale of real estate investments and securities and smaller interest margins than in 2018.
  - Less favourable overall experience.
  - Offset by a reduction in investment portfolio provisions.

- **Operating income of $4,584 million,** down $292 million, or 6.0%, essentially due to:
  - Decrease of $148 million in net premiums.
    - Annuities accounted for a decrease of $115 million in premiums, and group insurance for $45 million.
    - Offset by increase of $12 million in premiums from individual insurance.
  - Other operating income totalled $1,186 million, down $145 million, or 10.9%.
    - Gain in 2018 related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
    - Lower income following the transaction involving Qtrade Canada Inc.

    This decrease was partly offset by the following:
    - Higher income from the growth in assets under management.
    - Income from the interest in Aviso Wealth.

- **Investment income of $2,596 million,** up $2,431 million.
  - Increase primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations.
    - Changes for the most part due to fluctuations in the fair value of the bond portfolio, mainly as a result of lower interest rates.
    - Increase largely offset by the change in actuarial liabilities leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Mitigated by the lower gains on the sale of real estate investments and securities than in 2018.

- **Total income of $7,180 million,** up $2,139 million, or 42.4%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $4,909 million,** up $2,502 million, essentially due to an increase of $2,495 million in actuarial liabilities under “Insurance contract liabilities”, which includes the effect of an increase in the fair value of matched investments.

- **Non-interest expense of $1,738 million,** down $34 million, or 1.9%, chiefly as a result of:
  - The transaction involving Qtrade Canada Inc., which led to a decrease in expense.
  - Reduction in investment portfolio provisions.
  - Offset by an increase in expense related to assets under management.

## Property and Casualty Insurance

The Property and Casualty Insurance segment offers insurance products providing coverage for Desjardins Group members and clients against disasters. It includes 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 in Ontario, Alberta and New Brunswick 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.

**Property and Casualty Insurance – Segment results**

| (in millions of dollars and as a percentage) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 | **September 30, 2019** | September 30, 2018 |
| Net premiums | **$ 1,279** | $ 1,222 | $ 1,120 | **$ 3,685** | $ 3,252 |
| Other operating income (loss)[1] | **(59)** | (54) | (34) | **(125)** | (116) |
| **Operating income**[1] | **1,220** | 1,168 | 1,086 | **3,560** | 3,136 |
| Investment income[1] | **47** | 91 | 79 | **273** | 227 |
| **Total income** | **1,267** | 1,259 | 1,165 | **3,833** | 3,363 |
| Claims, benefits, annuities and changes in insurance contract liabilities | **925** | 805 | 803 | **2,831** | 2,352 |
| Non-interest expense | **299** | 303 | 271 | **909** | 828 |
| Income taxes on surplus earnings | **9** | 28 | 21 | **17** | 35 |
| **Net surplus earnings for the period** | **$ 34** | $ 123 | $ 70 | **$ 76** | $ 148 |
| Of which: | | | | | |
| Group's share | **$ 23** | $ 105 | $ 57 | **$ 50** | $ 115 |
| Non-controlling interests' share | **11** | 18 | 13 | **26** | 33 |
| **Indicators** | | | | | |
| Gross written premiums | **$ 1,508** | $ 1,539 | $ 1,363 | **$ 4,220** | $ 3,714 |
| Loss ratio[1] | **72.2%** | 63.2% | 75.5% | **73.8%** | 75.0% |
| Current year loss ratio[1] | **78.6** | 75.7 | 80.0 | **81.2** | 80.6 |
| Loss ratio related to catastrophes and major events[1] | **0.2** | 2.2 | 3.5 | **1.6** | 4.3 |
| Ratio of favourable changes in prior year claims[1] | **(6.6)** | (14.7) | (8.0) | **(9.0)** | (9.9) |
| Expense ratio[1] | **23.3** | 25.3 | 24.0 | **24.8** | 25.1 |
| Combined ratio[1] | **95.5** | 88.5 | 99.5 | **98.6** | 100.1 |

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

### COMPARISON OF THE THIRD QUARTERS OF 2019 AND 2018 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $34 million,** down $36 million compared to the third quarter in 2018, as a result of:
  - Lower investment income.
  - Offset by a lower loss ratio during the quarter, due mainly to the occurrence of a catastrophe in the comparative quarter.

- **Operating income of $1,220 million,** up $134 million, or 12.3%.

- **Net premiums of $1,279 million,** up $159 million, or 14.2%, due to:
  - Growth in the average premium as a result of higher rates, reflecting the current trend in the Canadian P&C market.
  - Larger number of policies issued as a result of growth across all market segments and regions.

- **Loss totalling $59 million, presented under "Other operating income (loss)",** up $25 million, as a result of:
  - Recognition of one-time remuneration payable by a partner in third quarter 2018 as a result of the termination of a private label partnership.
  - Larger increase than in third quarter 2018 in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm and arising from the favourable developments in claims taken over.

- **Investment income of $47 million,** down $32 million, mainly as a result of:
  - Lower dividend income than in the comparative quarter of 2018, particularly on account of reinvested income in 2018, which included prior-period adjustments.
  - Offset by an increase in the fair value of matched bonds compared to a decrease in the comparative quarter of 2018, mainly on account of lower market interest rates in the third quarter of 2019, whereas rates were higher in the third quarter of 2018. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.

- **Total income of $1,267 million,** up $102 million, or 8.8%.

- **Cost of claims totalling $925 million,** up $122 million, or 15.2%, as a result of:
  - Growth in business, which led to a higher cost of claims.
  - Unfavourable impact of the decrease in the discount rates used to measure the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in the comparative period of 2018.
  - However, the loss ratio was 72.2% for the quarter ended September 30, 2019, compared to 75.5% for the corresponding period in 2018.
    - Lower loss ratio related to catastrophes and major events than in the comparative quarter of 2018, i.e. 0.2% vs. 3.5%. The third quarter of 2019 was marked by one major event, while in the corresponding quarter of 2018, one catastrophe was noted.
    - Lower current year loss ratio than in the corresponding period in 2018, namely 78.6% compared to 80.0%, essentially due to a smaller claims experience in property insurance.
    - Offset, but to a smaller degree, by the ratio of favourable changes in prior year claims, which was lower than in third quarter 2018, i.e. (6.6)% vs. (8.0)%.

- **Non-interest expense of $299 million,** up $28 million, or 10.3%, due mainly to:
  - Business growth.
  - Increase in the provision related to the deferred compensation program for Desjardins agents on account of lower interest rates.

### COMPARISON OF THE FIRST NINE MONTHS OF 2019 AND 2018 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $76 million,** down $72 million compared to the first nine months of 2018, as a result of:
  - Smaller net gains on the sale of funds and shares related, in part, to the rebalancing of certain portfolios than those generated during the comparative period.
  - Offset by the lower loss ratio, particularly due to the smaller impact of catastrophes and major events.

- **Operating income of $3,560 million,** up $424 million, or 13.5%.

- **Net premiums of $3,685 million,** up $433 million, or 13.3%, due to:
  - Growth in the average premium as a result of higher rates, reflecting the current trend in the Canadian P&C market.
  - Larger number of policies issued as a result of growth across all market segments and regions.

- **Loss totalling $125 million, presented under "Other operating income (loss)",** up $9 million, as a result of the recognition of one-time remuneration payable by a partner in third quarter 2018 as a result of the termination of a private label partnership.

- **Investment income of $273 million,** up $46 million, or 20.3%, due to:
  - Increase in the fair value of matched bonds compared to a decrease in the comparative period of 2018, mainly on account of lower market interest rates in the first nine months of 2019, whereas rates had been higher in the first nine months of 2018. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.
  - Net gains on the sale of bonds, whereas a loss was recorded in the first nine months of 2018.

  This increase was partially offset by the following:
  - Smaller net gains on the sale of funds and shares than those recognized in the first nine months of 2018.
  - Lower dividend income than in the comparative period of 2018, particularly on account of reinvested income in 2018, which included prior-period adjustments.

- **Total income of $3,833 million,** up $470 million, or 14.0%.

- **Cost of claims totalling $2,831 million,** up $479 million, or 20.4%, as a result of:
  - Growth in business, which led to a higher cost of claims.
  - Unfavourable impact of the decrease in the discount rates used to measure the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in the comparative period of 2018.
  - Offset by a loss ratio of 73.8% for the nine months ended September 30, 2019, compared to 75.0% for the corresponding period in 2018.
    - Lower loss ratio related to catastrophes and major events than in the first nine months of 2018, i.e. 1.6% vs. 4.3% because three catastrophes took place in 2018 whereas no catastrophe occurred in the first nine months of 2019.

    This reduction was partially offset by the following:
    - The ratio of favourable changes in prior year claims, which was lower than in the first nine months of 2018, i.e. (9.0)% vs. (9.9)%.
    - Higher current year loss ratio than in the corresponding period in 2018, namely 81.2% vs. 80.6%.

- **Non-interest expense of $909 million,** up $81 million, or 9.8%, due to:
  - Increase in expense related to business growth and the faster recognition of acquisition fees for policy issuance.
  - Upward revaluation of the deferred compensation plan provision for Desjardins agents because of lower interest rates.

## Treasury and Other Support to Desjardins Group Entities category

The Treasury and Other Support to Desjardins Group Entities category includes financial information that is not specific to a business segment. It mainly includes treasury activities and financial intermediation between the caisses' liquidity surpluses or needs, as well as orientation and organizational activities for Desjardins Group. This category also includes the operations of Desjardins Capital Inc. It further includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Interim Consolidated Financial Statements, intersegment balance eliminations are classified in this category.

The Federation 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, the Federation presents an analysis of these operations based on their contribution to surplus earnings.

**Treasury and Other Support to Desjardins Group Entities**

| (in millions of dollars) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | **September 30, 2019[1]** | June 30, 2019[1] | September 30, 2018 | **September 30, 2019[1]** | September 30, 2018 |
| Treasury activities | **$ 19** | $ 29 | $ 8 | **$ 60** | $ 51 |
| Activities related to derivatives associated with hedging activities | **(3)** | (53) | 25 | **(128)** | 29 |
| Other[2] | **(17)** | (104) | (50) | **(142)** | (66) |
| **Net surplus earnings (deficit) for the period** | **$ (1)** | $ (128) | $ (17) | **$ (210)** | $ 14 |
| Of which: | | | | | |
| Group's share | **$ (1)** | $ (128) | $ (17) | **$ (210)** | $ 14 |

[1] The information presented for the three-month and nine-month periods ended September 30, 2019 and the three-month period ended June 30, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

[2] Includes support function activities, various adjustments required to prepare the Interim Consolidated Financial Statements, and intersegment balance eliminations.

### COMPARISON OF THE THIRD QUARTERS OF 2019 AND 2018 – CONTRIBUTION TO SURPLUS EARNINGS OF TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES CATEGORY

- **Net deficit of $1 million,** compared to a net deficit of $17 million for the third quarter of 2018.

- **Treasury activities of $19 million,** compared to a contribution of $8 million to surplus earnings in 2018.
  - Increase in trading and investment income because of lower interest rates and higher income related to foreign currency trading portfolios.
  - Favourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments used to hedge foreign currency deposits that does not qualify for hedge accounting.

- **Activities related to derivatives associated with hedging activities recorded a deficit of $3 million,** compared to surplus earnings of $25 million for the corresponding period in 2018.
  - Unfavourable fluctuation in the fair value of swaps in 2019 because of the stability of interest rates compared to their slight increase in the same period in 2018.

- **Other activities recorded a $17 million deficit,** compared to a $50 million deficit in 2018.
  - Other activities affected, in 2019 and 2018, 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 shift, thereby enhancing the member and client experience and improving productivity. They also included contributions from the *$100 Million Fund* for regional development, and amounts paid out under the Desjardins Member Advantages program.

### COMPARISON OF THE FIRST NINE MONTHS OF 2019 AND 2018 – CONTRIBUTION TO SURPLUS EARNINGS OF TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES CATEGORY

- **Net deficit of $210 million,** compared to net surplus earnings of $14 million for the first nine months of 2018.

- **Treasury activities of $60 million,** compared to a contribution of $51 million to surplus earnings in 2018.
  - Increase in trading and investment income because of lower interest rates and higher income related to foreign currency trading portfolios.
  - Offset by the unfavourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments used to hedge foreign currency deposits that does not qualify for hedge accounting.

- **Activities related to derivatives associated with hedging activities recorded a deficit of $128 million,** compared to surplus earnings of $29 million for the corresponding period in 2018.
  - Unfavourable change in the fair value of swaps in 2019, as a result of slightly lower interest rates compared to the same period in 2018.

- **Other activities recorded a $142 million deficit,** compared to a $66 million deficit in 2018.
  - Other activities affected, in 2019 and 2018, 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 shift, thereby enhancing the member and client experience and improving productivity. They also included contributions from the *$100 Million Fund* for regional development, and amounts paid out under the Desjardins Member Advantages program.
  - Expenses and provisions totalling $70 million related to the implementation of protections for our members, i.e. the credit monitoring service and Desjardins identity protection.
  - Reduction in investment portfolio provisions mitigated the deficit.

## SUMMARY OF INTERIM RESULTS

The table below presents a summary of data related to the results for the Federation's most recent eight quarters.

**Results of the most recent eight quarters**

| (in millions of dollars) | 2019 | | | 2018 | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| | **Q3[1][2]** | Q2[1][2] | Q1[1][2] | Q4[2] | Q3[2] | Q2[2] | Q1[2] | Q4 |
| Net interest income | **$ 404** | $ 372 | $ 365 | $ 398 | $ 382 | $ 353 | $ 368 | $ 357 |
| Net premiums | **2,354** | 2,270 | 2,345 | 2,246 | 2,288 | 2,225 | 2,164 | 2,034 |
| Other operating income[3] | | | | | | | | |
| Assessments | **99** | 98 | 98 | 97 | 97 | 99 | 99 | 94 |
| Service agreements | **190** | 199 | 186 | 193 | 179 | 186 | 184 | 179 |
| Lending fees and credit card service revenues | **192** | 185 | 210 | 177 | 172 | 164 | 186 | 182 |
| Brokerage and investment fund services | **223** | 223 | 214 | 211 | 216 | 223 | 255 | 245 |
| Management and custodial service fees | **153** | 148 | 147 | 138 | 154 | 144 | 143 | 147 |
| Foreign exchange income | **18** | 19 | 14 | 29 | 15 | 21 | 27 | 22 |
| Other | **30** | 28 | 73 | 11 | 52 | 163 | 70 | (78) |
| **Operating income[3]** | **3,663** | 3,542 | 3,652 | 3,500 | 3,555 | 3,578 | 3,496 | 3,182 |
| Investment income (loss)[3] | | | | | | | | |
| Net investment income (loss) | **581** | 991 | 1,424 | (42) | (213) | 299 | 126 | 924 |
| Overlay approach adjustment for insurance operations financial assets | **(13)** | 10 | (167) | 258 | 76 | 20 | 169 | N/A |
| Investment income (loss)[3] | **568** | 1,001 | 1,257 | 216 | (137) | 319 | 295 | 924 |
| **Total income** | **4,231** | 4,543 | 4,909 | 3,716 | 3,418 | 3,897 | 3,791 | 4,106 |
| (Recovery of) provision for credit losses | **129** | (6) | 84 | 63 | 73 | 63 | 89 | 74 |
| Claims, benefits, annuities and changes in insurance contract liabilities | **2,263** | 2,361 | 3,120 | 1,821 | 1,380 | 1,727 | 1,656 | 2,120 |
| Non-interest expense | **1,608** | 1,816 | 1,658 | 1,598 | 1,598 | 1,568 | 1,628 | 1,651 |
| Income taxes on surplus earnings | **20** | 56 | (9) | 6 | 68 | 75 | 59 | 80 |
| **Surplus earnings before dividends to member caisses** | **211** | 316 | 56 | 228 | 299 | 464 | 359 | 181 |
| Dividends to member caisses, net of income tax recovery | **-** | - | - | 51 | - | - | - | 44 |
| **Net surplus earnings for the period after dividends to member caisses** | **$ 211** | $ 316 | $ 56 | $ 177 | $ 299 | $ 464 | $ 359 | $ 137 |
| Of which: | | | | | | | | |
| Group's share | **$ 200** | $ 298 | $ 59 | $ 169 | $ 286 | $ 453 | $ 350 | $ 128 |
| Non-controlling interests' share | **11** | 18 | (3) | 8 | 13 | 11 | 9 | 9 |

[1] The information presented for the three-month periods ended September 30, 2019, June 30, 2019 and March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

[2] The information presented for the 2019 and 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 Annual Consolidated Financial Statements.

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

Quarterly income, expenses and surplus earnings before dividends to member caisses are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the capital markets. The results of the second quarter of 2018 were affected by the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018. For more information about quarterly trends, see pages 43 to 45 of the 2018 annual MD&A.

# BALANCE SHEET REVIEW

## BALANCE SHEET MANAGEMENT

**Consolidated Balance Sheets**

| (in millions of dollars and as a percentage) | As at September 30, 2019[1] | | As at December 31, 2018 | |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and deposits with financial institutions | **$ 2,768** | **1.7%** | $ 2,738 | 1.7% |
| Securities | **50,660** | **30.5** | 49,666 | 31.5 |
| Securities borrowed or purchased under reverse repurchase agreements | **13,779** | **8.3** | 14,086 | 8.9 |
| Net loans and acceptances | **64,017** | **38.6** | 61,997 | 39.3 |
| Segregated fund net assets | **16,332** | **9.8** | 13,234 | 8.4 |
| Derivative financial instruments | **5,022** | **3.0** | 4,376 | 2.8 |
| Other assets | **13,316** | **8.1** | 11,463 | 7.4 |
| **Total assets** | **$ 165,894** | **100.0%** | $ 157,560 | 100.0% |
| **Liabilities and equity** | | | | |
| Deposits | **$ 59,254** | **35.7%** | $ 58,057 | 36.8% |
| Commitments related to securities sold short | **11,261** | **6.8** | 10,829 | 6.9 |
| Commitments related to securities lent or sold under repurchase agreements | **12,715** | **7.7** | 16,233 | 10.3 |
| Derivative financial instruments | **4,642** | **2.8** | 3,332 | 2.1 |
| Insurance contract liabilities | **31,893** | **19.2** | 28,764 | 18.3 |
| Segregated fund net liabilities | **16,316** | **9.8** | 13,212 | 8.4 |
| Other liabilities | **13,126** | **8.0** | 11,202 | 7.1 |
| Subordinated notes | **1,392** | **0.8** | 1,378 | 0.9 |
| Equity | **15,295** | **9.2** | 14,553 | 9.2 |
| **Total liabilities and equity** | **$ 165,894** | **100.0%** | $ 157,560 | 100.0% |

[1] The information presented as at September 30, 2019 takes into account IFRS 16, “Leases”, adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”, to the Interim Consolidated Financial Statements.

### Total assets

As at September 30, 2019, the Federation’s total assets stood at $165.9 billion, up by $8.3 billion, or 5.3%, since December 31, 2018. This growth was due in part to a $3.1 billion increase in segregated fund net assets and a $2.0 billion increase in loans and acceptances. In addition, securities, including those borrowed or purchased under reverse repurchase agreements, were up by $0.7 billion.

### Cash and deposits with financial institutions, and securities

As at September 30, 2019, the Federation’s cash and deposits with financial institutions amounted to $2.8 billion, an increase of $30 million since December 31, 2018. Securities, including securities borrowed or purchased under reverse repurchase agreements, totalled $64.4 billion at the end of the third quarter of 2019, for an increase of $0.7 billion, or 1.1%, since the end of 2018.

### Loans and clients’ liability under acceptances

As at September 30, 2019, the Federation’s outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was $64.0 billion, an increase of $2.0 billion, or 3.3%, since December 31, 2018. Growth in business and government loans, which accounted for 61.4% of the Federation’s total portfolio, was responsible for the increase.

Business and government loans outstanding, which reached a volume of $39.6 billion as at September 30, 2019, increased by $1.4 billion, or 3.7%, since December 31, 2018. Consumer, credit card and other personal loans outstanding, which totalled $20.4 billion as at September 30, 2019, were up by $0.7 billion, or 3.7%, since December 31, 2018. However, residential mortgages, which totalled $4.5 billion as at September 30, 2019, were down $0.2 billion, or 3.6%, since the end of the prior year.

**Loans and acceptances**

| (in millions of dollars and as a percentage) | As at September 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| Residential mortgages | **$ 4,461** | **6.9%** | $ 4,626 | 7.4% |
| Consumer, credit card and other personal loans | **20,438** | **31.7** | 19,710 | 31.5 |
| Business and government | **39,582** | **61.4** | 38,152 | 61.1 |
| | **64,481** | **100.0%** | 62,488 | 100.0% |
| Allowance for credit losses | **(464)** | | (491) | |
| **Total loans and acceptances by borrower category** | **$ 64,017** | | $ 61,997 | |

**Deposits**

The Federation's outstanding deposits rose to $59.3 billion as at September 30, 2019, up by $1.2 billion, or 2.1%, since December 31, 2018, largely as a result of growth in business and government deposits, which accounted for 81.5% of the total deposit portfolio. In fact, these deposits were up $2.3 billion, or 4.9%, since the end of 2018, to total $48.3 billion as at the end of this quarter. Deposits outstanding from deposit-taking institutions fell by $0.5 billion, or 6.9%, since the end of 2018, to reach $7.4 billion as at September 30, 2019, mainly because of the drop in deposits from member caisses. Lastly, personal deposits decreased by $0.5 billion, or 12.7%, since the end of the previous year, to total $3.6 billion at the end of this quarter.

**Deposits**

| (in millions of dollars and as a percentage) | As at September 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| Individuals | **$ 3,584** | **6.0%** | $ 4,105 | 7.1% |
| Business and government | **48,261** | **81.5** | 45,998 | 79.2 |
| Deposit-taking institutions | **7,409** | **12.5** | 7,954 | 13.7 |
| **Total deposits** | **$ 59,254** | **100.0%** | $ 58,057 | 100.0% |

**Insurance contract liabilities**

The Federation's insurance contract liabilities stood at $31.9 billion as at September 30, 2019, up $3.1 billion, or 10.9%, since December 31, 2018.

Note 15, "Insurance contract liabilities", to the Annual Consolidated Financial Statements provides additional information about the Federation's insurance contract liabilities.

**Equity**

Equity stood at $15.3 billion as at September 30, 2019, up $0.7 billion, or 5.1%, since the prior year-end. Net surplus earnings after dividends to member caisses, totalling $583 million for the first nine months of 2019, and the issue of F capital shares for a cash consideration of $105 million, were a source of this growth.

Note 21, "Capital stock", to the Annual Consolidated Financial Statements provides additional information about the Federation's capital stock.

## CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group as a whole, including the Federation. 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. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of the Federation's 2018 annual MD&A.

**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, including the Federation, 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, including the Federation, has a solid capital base that maintains it among the best-capitalized financial institutions.

The Federation's 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 minimum Tier 1A capital ratio that the Federation must maintain is 8%. In addition, the Tier 1 and total capital ratios must be above 9.5% and 11.5%, respectively. The minimum requirement for the leverage ratio is 3%.

This capital takes into consideration investments made in the Federation's subsidiaries. Some of these subsidiaries are subject to separate requirements regarding regulatory capital, liquidity and financing, which are set by regulatory authorities governing banks, insurers and securities, in particular. The Federation 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 Guideline for federally regulated property and casualty insurance companies.

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.

**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. Additional information in this regard can be found in the Federation's 2018 annual MD&A on pages 48 and 49. The "Changes in the regulatory environment" section also presents additional details on regulation as it affects all Desjardins Group operations. In addition, this section contains information on the internal recapitalization (bail-in) regime applicable to Desjardins Group, including the TLAC guideline.

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. In this regard, the AMF published in July an implementation timeline for these reforms.

On January 14, 2019, the BCBS published the final version of the standard "Minimum capital requirements for market risk", which addresses issues related to the implementation of the market risk standard released in January 2016 and takes into account comments received during the 2018 consultation. The BCBS has postponed implementation until January 1, 2022.

**Compliance with requirements**

As at September 30, 2019, the Tier 1A, Tier 1 and total capital ratios, calculated in accordance with Basel III requirements, all stood at 16.3%. The leverage ratio was 8.2%.

The Federation and its subsidiaries that are subject to minimum regulatory capital requirements were in compliance with said requirements as at September 30, 2019.

**Regulatory capital**

The following tables present the Federation's main capital components, regulatory capital, capital ratios, movements in capital during the period and risk-weighted assets.

**Main capital components**

| | Total capital | | |
|---|---|---|---|
| | Tier 1 capital | | Tier 2 capital |
| | Tier 1A[1] | Tier 1B[1] | |
| **Eligible items** | • Reserves and undistributed surplus earnings<br>• Eligible accumulated other comprehensive income<br>• Capital shares | • Non-controlling interests[2] | • General allowance<br>• Subordinated notes subject to phase-out<br>• Eligible qualifying shares |
| **Regulatory adjustments** | • Goodwill<br>• Software<br>• Other intangible assets<br>• Deferred tax assets essentially resulting from loss carryforwards<br>• Shortfall in allowance<br>• Cross-investments | | |
| **Deductions** | • Mainly significant investments in financial entities[3] | | • Investment in preferred shares of a component deconsolidated for regulatory capital purposes<br>• 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 non-controlling interests balance is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
[3] Represents 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 Tier 1A capital. The net non-deducted balance is subject to risk-weighting at a rate of 250%.

**Regulatory capital and capital ratios**

| (in millions of dollars and as a percentage) | As at September 30, 2019 | As at December 31, 2018 |
|---|---|---|
| **Tier 1A capital** | | |
| Federation's capital shares | **$ 4,872** | $ 4,767 |
| Other capital shares | **4,012** | 4,012 |
| Reserves | **527** | 271 |
| Undistributed surplus earnings | **4,817** | 4,754 |
| Eligible accumulated other comprehensive income | **301** | (1) |
| Deductions[1][2] | **(3,432)** | (3,906) |
| **Total Tier 1A capital** | **11,097** | 9,897 |
| **Total Tier 1 capital** | **11,097** | 9,897 |
| **Tier 2 capital** | | |
| Subordinated notes subject to phase-out | **681** | 844 |
| General allowance | **230** | 271 |
| Deductions[1] | **(911)** | (1,115) |
| **Total Tier 2 capital** | **-** | - |
| **Total regulatory capital (Tiers 1 and 2)** | **$ 11,097** | $ 9,897 |
| **Ratios and leverage ratio exposure** | | |
| Tier 1A capital[3] | **16.3%** | 15.7% |
| Tier 1 capital[3] | **16.3** | 15.7 |
| Total capital[3] | **16.3** | 15.7 |
| Leverage[4] | **8.2** | 7.4 |
| Leverage ratio exposure | **$ 135,288** | $ 134,198 |

[1] As prescribed by the guideline, when an entity is required to make a deduction from a given capital component but is not adequately provisioned, the difference is deducted from the component of the next highest quality. If Tier 2 capital is insufficient to absorb a deduction, the undeducted portion will be deducted from Tier 1B, and then from Tier 1A, if necessary.
[2] Deductions from Tier 1A are comprised of regulatory adjustments ($603 million, $2,279 million in 2018), for which cross-investments ($25 million, $1,816 million in 2018), significant investments ($2,239 million, $3,076 million in 2018), and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers ($590 million, $528 million in 2018).
[3] As prescribed by the guideline, the capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.
[4] The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk and includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet items.

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. The subordinated notes issued by Desjardins Capital Inc. are 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 are still in progress with the AMF.

On December 21, 2018, the Federation filed a new short form prospectus and obtained a receipt to issue, in the 12 months following the date of the receipt, F capital shares for a maximum of $125 million. This new issue started on January 15, 2019 and ended on July 23, 2019. During this period, the Federation issued F capital shares for a cash consideration of $105 million.

As at September 30, 2019, the Tier 1A capital ratio was up 66 basis points compared to December 31, 2018 due to growth in reserves and undistributed surplus earnings, that was offset by an increase in RWA. The change in the ratio was also the result of the introduction of the new capital floor in first quarter 2019, partially offset by the unfavourable impact of the switch to IFRS 16 on January 1, 2019.

**Change in regulatory capital**

For the nine-month period ended

| (in millions of dollars) | September 30, 2019 |
|---|---|
| **Tier 1A capital** | |
| Balance at beginning of period | **$ 9,897** |
| Increase in reserves and undistributed surplus earnings[1] | **319** |
| Eligible accumulated other comprehensive income | **302** |
| Federation's capital shares | **105** |
| Deductions | **474** |
| Balance at end of period | **11,097** |
| **Total Tier 1 capital** | **11,097** |
| **Tier 2 capital** | |
| Balance at beginning of period | **-** |
| Senior notes subject to phase-out | **(163)** |
| General allowance | **(41)** |
| Deductions | **204** |
| Balance at end of period | **-** |
| **Total capital** | **$ 11,097** |

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

**Risk-weighted assets (RWA)**

The Federation calculates the risk-weighted assets for credit risk, market risk and operational risk. It uses 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, the Federation obtained the AMF's authorization to use the Standardized Approach for calculating operational risk as of June 30, 2017. On June 29, 2018, the Federation obtained 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 since September 30, 2018.

As indicated in the table below, risk-weighted assets totalled $67.9 billion as at September 30, 2019. Of this amount, $54.3 billion was for credit risk, $4.9 billion for market risk, and $8.7 billion for operational risk. As at December 31, 2018, risk-weighted assets stood at $63.1 billion.

**Risk-weighted assets**

| (in millions of dollars and as a percentage) | Internal Ratings-Based Approach | | Standardized Approach | | Total as at September 30, 2019 | | | | Total as at December 31, 2018 |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ - | $ - | $ 6,873 | $ - | $ 6,873 | $ - | $ - | -% | $ - |
| Financial institutions | - | - | 40,835 | 8,230 | 40,835 | 8,230 | 657 | 20.2 | 8,210 |
| Businesses | - | - | 17,844 | 17,569 | 17,844 | 17,569 | 1,406 | 98.5 | 15,846 |
| Securitizations | - | - | 5 | 59 | 5 | 59 | 5 | 1,250.0 | 63 |
| Shares | - | - | 208 | 311 | 208 | 311 | 25 | 149.5 | 334 |
| SMEs similar to other retail client exposures | - | - | 1,716 | 1,301 | 1,716 | 1,301 | 104 | 75.8 | 1,686 |
| Mortgages | 1,998 | 260 | 396 | 139 | 2,394 | 399 | 32 | 16.7 | 433 |
| Other retail client exposures (excluding SMEs) | 7,316 | 4,103 | 1,238 | 929 | 8,554 | 5,032 | 403 | 58.8 | 4,595 |
| Qualifying revolving retail client exposures | 32,394 | 9,604 | - | - | 32,394 | 9,604 | 768 | 29.6 | 9,156 |
| **Subtotal - Credit risk other than counterparty risk** | 41,708 | 13,967 | 69,115 | 28,538 | 110,823 | 42,505 | 3,400 | 38.4 | 40,323 |
| **Counterparty risk** | | | | | | | | | |
| Sovereign borrowers | - | - | 19 | - | 19 | - | - | - | - |
| Financial institutions | - | - | 3,046 | 609 | 3,046 | 609 | 49 | 20.0 | 554 |
| Businesses | - | - | 14 | 11 | 14 | 11 | 1 | 78.6 | 12 |
| Trading portfolio | - | - | 1,965 | 681 | 1,965 | 681 | 54 | 34.7 | 543 |
| Credit valuation adjustment (CVA) charge | - | - | - | - | - | 1,713 | 137 | - | 1,459 |
| Additional requirements for banking and trading portfolio | - | - | - | - | 136 | 12 | 1 | 8.8 | 14 |
| **Subtotal - Counterparty risk** | - | - | 5,044 | 1,301 | 5,180 | 3,026 | 242 | 58.4 | 2,582 |
| Other assets [3] | - | - | - | - | 15,821 | 7,902 | 633 | 49.9 | 5,722 |
| Scaling factor [4] | - | 839 | - | - | - | 840 | 67 | - | 794 |
| **Total credit risk** | 41,708 | 14,806 | 74,159 | 29,839 | 131,824 | 54,273 | 4,342 | 41.2 | 49,421 |
| **Market risk** | | | | | | | | | |
| Value at Risk (VaR) | - | 605 | - | - | - | 605 | 48 | - | 575 |
| Stressed VaR (SVaR) | - | 2,385 | - | - | - | 2,385 | 191 | - | 2,335 |
| Incremental risk charge (IRC) [5] | - | 1,425 | - | - | - | 1,425 | 114 | - | 1,732 |
| Other [6] | - | - | - | 472 | - | 472 | 38 | - | 754 |
| **Total market risk [7]** | - | 4,415 | - | 472 | - | 4,887 | 391 | - | 5,396 |
| **Operational risk [8]** | - | - | - | 8,750 | - | 8,750 | 700 | - | 8,581 |
| **Total risk-weighted assets before capital floor** | 41,708 | 19,221 | 74,159 | 39,061 | 131,824 | 67,910 | 5,433 | - | 63,398 |
| **Risk-weighted assets after the transitional provisions for the CVA charge [9]** | | | | | | | | | |
| RWA for Tier 1A capital | - | - | - | - | - | 67,910 | 5,433 | - | 63,106 |
| RWA for Tier 1 capital | - | - | - | - | - | 67,910 | 5,433 | - | 63,150 |
| RWA for total capital | - | - | - | - | - | 67,910 | 5,433 | - | 63,193 |
| **Total risk-weighted assets** | $ 41,708 | $ 19,221 | $ 74,159 | $ 39,061 | $ 131,824 | $ 67,910 | $ 5,433 | -% | $ 63,106 |

[1] Net exposure, after credit risk mitigation (net of loss allowance for expected credit losses on credit-impaired loans other than for retail clients (except for credit card loans) under the Standardized Approach but not under the Internal Ratings-Based Approach in accordance with the AMF guideline).

[2] The capital requirement is 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 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 3 items are weighted at 250% and the deducted portion (namely above a certain threshold) is weighted at 0%. This class does not include the CVA charge and additional requirements related to the banking and trading portfolio, which are disclosed in the counterparty credit risk section.

[4] The scaling factor is a 6.0% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.

[5] Additional requirements representing an estimate of default risk and migration risk of products other than securitization exposed to interest rate risk.

[6] "Other" means capital requirements calculated using the Standardized Approach for foreign exchange risk and commodities risk in banking portfolios. 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 visa (approval). Before that time, the Standardized Approach had been used for all market risk requirements.

[7] Internal models have been used since third quarter 2018 to calculate the market risk of trading portfolios instead of the Standardized Approach used previously for prior periods.

[8] Since second quarter 2017, the Standardized Approach has been used to measure operational risk, replacing the Basic Indicator Approach, which had been used for prior periods.

[9] Scaling factors have been used since January 1, 2014 to account for the CVA charge in calculating the Tier 1A, Tier 1 and total capital ratios. The scaling factors were 80%, 83% and 86%, respectively, in 2018. Pursuant to AMF guidelines, the factor applied for 2019 is 100% for each of the disclosed ratios.

## OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, the Federation enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of caisse members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization. Additional information can be found in the "Off-balance sheet arrangements" section of the Federation's 2018 annual MD&A.

Note 13, "Interests in other entities", and Note 27, "Commitments, guarantees and contingent liabilities", to the Federation's Annual Consolidated Financial Statements contain information about structured entities, credit instruments, guarantees and assets pledged or held as collateral, while Note 8, "Derecognition of financial assets", to the Annual Consolidated Financial Statements provides information about the securitization of the Federation's loans.

### Assets under management and under administration

As at September 30, 2019, the Federation administered, for the account of caisse members and its clients, assets worth $428.6 billion, for an increase of $55.1 billion, or 14.7%. The financial assets entrusted to Desjardins Group as wealth manager totalled $75.8 billion as at September 30, 2019, up $9.4 billion, or 14.2%, since December 31, 2018.

Assets under management and under administration by the Federation 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 the Federation, but to caisse members and clients and, as a result, they are not recognized on the Consolidated Balance Sheets. The Wealth Management segment is primarily responsible for the activities related to assets under management and under administration.

# RISK MANAGEMENT

## RISK MANAGEMENT

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.

The Federation is exposed to different types of risk in its normal course of operations, including credit risk, market risk, liquidity risk, operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental or social risk and risk related to the regulatory and legal environment.

Risk management is a function covering all Desjardins Group operations, including those of the Federation. As a result, the description of risk management that follows is a description for Desjardins Group. 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.

In the first nine months of fiscal 2019, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which the Federation is exposed (including operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental or social risk and risk related to the regulatory and legal environment) did not change significantly from those described on pages 57 to 86 of the Federation's 2018 annual MD&A. In addition to these types of risk, other risk factors, which are not under Desjardins Group's control (including the Federation's control) could have an impact on its future results. These principal risks and emerging risks, as well as other risk factors, did not change significantly from those described on pages 54 to 57 of the Federation's 2018 annual MD&A.

### 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 Consolidated Balance Sheets.*

The Federation is exposed to credit risk first through its direct personal, business and government loans, including through its loans to member caisses. It is also exposed through various other commitments, including letters of credit, transactions involving derivative financial instruments and securities transactions.

#### Quality of loan portfolio

As at September 30, 2019, in accordance with Note 5, "Loans and allowance for credit losses", to the Interim Consolidated Financial Statements, the allowance for credit losses totalled $464 million, down $27 million compared to December 31, 2018. This decrease was mainly due to the refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards, offset by migration of exposures to higher risk ratings in the consumer loan portfolio for credit cards in the third quarter of 2019. For more information, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Consolidated Financial Statements.

Gross credit-impaired loans outstanding are considered Stage 3 loans of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.65% for the third quarter of 2019, compared to 0.56% as at December 31, 2018. The allowance for credit losses on credit-impaired loans totalled $149 million as at September 30, 2019, resulting in a provisioning rate of 35.6% for credit-impaired loans.

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

**Gross loans past due but not credit-impaired**

As at September 30, 2019

| (in millions of dollars) | 1 to 29 days | 30 to 59 days | 60 to 89 days | 90 days or more | Total |
|---|---|---|---|---|---|
| Residential mortgages | **$ 35** | **$ 3** | **$ 1** | **$ 11** | **$ 50** |
| Consumer, credit card and other personal loans | **699** | **169** | **87** | **-** | **955** |
| Business and government | **2** | **1** | **-** | **-** | **3** |
| | **$ 736** | **$ 173** | **$ 88** | **$ 11** | **$ 1,008** |

As at December 31, 2018

| (in millions of dollars) | 1 to 29 days | 30 to 59 days | 60 to 89 days | 90 days or more | Total |
|---|---|---|---|---|---|
| Residential mortgages | $ 43 | $ 3 | $ - | $ 11 | $ 57 |
| Consumer, credit card and other personal loans | 679 | 126 | 57 | - | 862 |
| Business and government | 2 | - | - | - | 2 |
| | $ 724 | $ 129 | $ 57 | $ 11 | $ 921 |

The following tables present gross credit-impaired loans by the Federation's borrower category and the change in the gross credit-impaired loan balance.

**Gross credit-impaired loans by borrower category**

| (in millions of dollars and as a percentage) | As at September 30, 2019 | | | | | As at December 31, 2018 | |
|---|---|---|---|---|---|---|---|
| | Gross carrying amount | | | Allowance for credit losses on credit-impaired loans | Net credit-impaired loans | Gross credit-impaired loans | Net credit-impaired loans |
| | Gross loans and acceptances | Gross credit-impaired loans | | | | | |
| Residential mortgages | **$ 4,461** | **$ 13** | **0.29%** | **$ 5** | **$ 8** | $ 10 | $ 5 |
| Consumer, credit card and other personal loans | **20,438** | **246** | **1.20** | **124** | **122** | 200 | 90 |
| Business and government | **39,582** | **159** | **0.40** | **20** | **139** | 138 | 132 |
| **Total loans** | **$ 64,481** | **$ 418** | **0.65%** | **$ 149** | **$ 269** | $ 348 | $ 227 |

**Change in gross credit-impaired loans**

| (in millions of dollars) | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| | September 30, 2019 | June 30, 2019 | September 30, 2018 | September 30, 2019 | September 30, 2018 |
| **Gross impaired loans at the beginning of the period under IAS 39** | **N/A** | N/A | N/A | **N/A** | $ 84 |
| Impact of adopting IFRS 9 as at January 1, 2018 | **N/A** | N/A | N/A | **N/A** | 125 |
| **Gross credit-impaired loans at the beginning of the last period under IFRS 9** | **$ 380** | $ 394 | $ 208 | **$ 348** | 209 |
| Gross loans that became credit-impaired since the last period | **196** | 478 | 149 | **1,158** | 482 |
| Loans returned to unimpaired status | **(104)** | (392) | (133) | **(855)** | (226) |
| Write-offs and recoveries | **(79)** | (88) | (59) | **(242)** | (208) |
| Other changes | **25** | (12) | 57 | **9** | (35) |
| **Gross credit-impaired loans at the end of the period** | **$ 418** | $ 380 | $ 222 | **$ 418** | $ 222 |

### 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 sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. In addition, limits are set for certain financial instruments. The amounts are then allocated to different components based on their needs.

A large proportion of Desjardins Group's exposure is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. 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 U.S.

## 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.

### Management of market risk related to trading activities – Value at Risk

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

The main tool used to measure this risk is "Value at Risk" (VaR). VaR is an estimate of the potential loss over a certain period of time at a given confidence level. A Monte Carlo VaR is calculated daily on the trading portfolios, using a 99% confidence level and a holding horizon of one day (holding horizon extended up to 10 days for 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 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, 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.

The table below presents the aggregate VaR and the aggregate SVaR of trading activities by risk category, as well as the IRC. Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four risk categories to which the Federation 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.

**Market risk measures for the trading portfolio**

| (in millions of dollars) | For the quarter ended September 30, 2019 | | | | For the quarters ended June 30, 2019 | | September 30, 2018 | |
|---|---|---|---|---|---|---|---|---|
| | As at September 30, 2019 | Average | High | Low | As at June 30, 2019 | Average | As at September 30, 2018 | Average |
| Equities | **$ 1.4** | **$ 1.6** | **$ 2.1** | **$ 1.3** | $ 2.1 | $ 2.0 | $ 0.2 | $ 0.4 |
| Foreign exchange | **0.1** | **0.2** | **0.9** | **0.1** | 0.5 | 0.8 | 0.6 | 0.7 |
| Interest rate | **2.6** | **3.4** | **7.2** | **2.3** | 3.9 | 4.0 | 5.1 | 4.6 |
| Specific interest rate risk[1] | **6.6** | **6.1** | **8.2** | **3.9** | 4.4 | 5.4 | 6.5 | 7.3 |
| Diversification effect[2] | **(7.5)** | **(7.5)** | **N/A[3]** | **N/A[3]** | (6.7) | (7.7) | (7.3) | (8.2) |
| Aggregate VaR | **$ 3.2** | **$ 3.8** | **$ 7.4** | **$ 2.8** | $ 4.2 | $ 4.5 | $ 5.1 | $ 4.8 |
| Aggregate SVaR | **$ 14.8** | **$ 16.8** | **$ 42.6** | **$ 10.1** | $ 17.5 | $ 20.0 | $ 12.1 | $ 14.9 |
| Incremental risk charge (IRC) | **$ 95.0** | **$ 94.3** | **$ 114.3** | **$ 82.0** | $ 82.9 | $ 80.4 | $ 79.2 | $ 79.9 |

(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 specific risk from general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of an 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) Represents the risk reduction related to diversification, namely the difference between the sum of the VaR of the various market risks and the aggregate VaR.

(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 $3.8 million for the quarter ended September 30, 2019, down $0.7 million compared to the quarter ended June 30, 2019. The average of the aggregate SVaR was $16.8 million for the quarter ended September 30, 2019, for a decrease of $3.2 million compared to the prior quarter. The average of the incremental risk charge totalled $94.3 million, up $13.9 million compared to the previous quarter.

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

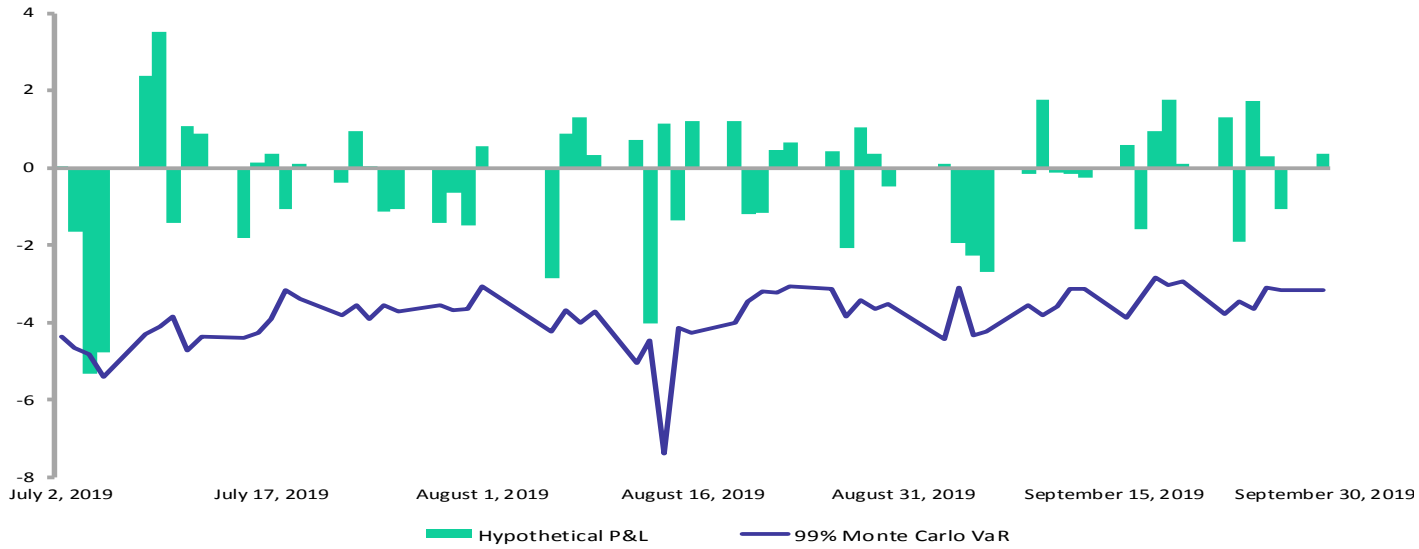
**Back testing**

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 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 the hypothetical P&L related to these activities. During the third quarter of 2019, there were no overages of actual P&L compared to VaR for Desjardins Group. However, a $0.5 million overage was observed in hypothetical P&L on July 4, due to the portfolio's exposure to higher interest rates resulting from the positive results in U.S. employment. This news was perceived negatively by investors given the possible impacts on the U.S. Federal Reserve Board's potential decision to lower its key interest rate. Given the low number of overages in the past year, the performance of the VaR model is considered 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 may have a significant impact on trading portfolios may occur from time to time. These events are at the tail-end of the distribution and are the result of extreme situations. 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 and 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 quarters depending on the preferences of Desjardins Group members and clients, and the application of policies on structural interest rate risk management.

Some Consolidated 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 reducing 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.

The table below 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 the Federation. The impact related to insurance activities is presented in note 1 of this table.

**Interest rate sensitivity (before income taxes)[1]**

| (in millions of dollars) | As at September 30, 2019 | | As at June 30, 2019 | | As at September 30, 2018 | |
|---|---|---|---|---|---|---|
| | **Net interest income[2]** | **Economic value of equity[3]** | 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 | **$ (43)** | **$ (11)** | $ (50) | $ 16 | $ (6) | $ 132 |
| Impact of a 100-basis-point decrease in interest rates[4] | **39** | **13** | 51 | (16) | 4 | (136) |

(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 $244 million decrease in the economic value of equity before taxes as at September 30, 2019, and in a $230 million and $220 million decrease as at June 30, 2019 and September 30, 2018, respectively. A 100-basis-point decrease in interest rates would result in a $258 million increase in the economic value of equity before taxes as at September 30, 2019, and in a $237 million and $236 million increase as at June 30, 2019 and September 30, 2018, respectively.
(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 foreign exchange forward 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.

## 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 Consolidated Balance Sheets.*

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

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group has 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.

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 will be January 1, 2020, and Desjardins Group intends to comply with this ratio once it has 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 125.6% for the quarter ended September 30, 2019, compared to 122.4% 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 acute stress scenarios**.**

### Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which the Federation’s liquidity position depends. The solid base of deposits from member caisses combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows it to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Consolidated Balance Sheets amounted to $59.3 billion as at September 30, 2019, up $1.2 billion since December 31, 2018. Additional information on deposits is presented in the “Balance sheet management” section.

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, and these strategies are regulated by policies. In the first nine months of 2019, 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 as follows:

**Main financing programs**

As at September 30, 2019

| | 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 terms to maturity of wholesale funding.

**Remaining contractual term to maturity of wholesale funding**

| (in millions of dollars) | As at September 30, 2019 | | | | | | | | As at December 31, 2018 |
|---|---|---|---|---|---|---|---|---|---|
| | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Total – Less than 1 year | 1 to 2 years | Over 2 years | Total | Total |
| Bearer discount notes | $ 1,219 | $ 1,718 | $ 17 | $ 31 | $ 2,985 | $ - | $ - | $ 2,985 | $ 2,798 |
| Commercial paper | 4,363 | 3,427 | 2,225 | 3,109 | 13,124 | - | - | 13,124 | 13,174 |
| Medium-term notes | - | 750 | 2,218 | 827 | 3,795 | 3,425 | 2,647 | 9,867 | 10,657 |
| Mortgage loan securitization | - | 524 | 228 | 585 | 1,337 | 1,272 | 7,842 | 10,451 | 9,820 |
| Covered bonds | 1,444 | - | - | - | 1,444 | 1,442 | 3,480 | 6,366 | 5,859 |
| Subordinated notes | - | - | - | 893 | 893 | - | 499 | 1,392 | 1,378 |
| **Total** | $ 7,026 | $ 6,419 | $ 4,688 | $ 5,445 | $ 23,578 | $ 6,139 | $ 14,468 | $ 44,185 | $ 43,686 |
| Including: | | | | | | | | | |
| Secured | $ 1,444 | $ 524 | $ 228 | $ 1,478 | $ 3,674 | $ 2,714 | $ 11,821 | $ 18,209 | $ 17,057 |
| Unsecured | 5,582 | 5,895 | 4,460 | 3,967 | 19,904 | 3,425 | 2,647 | 25,976 | 26,629 |

The total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up $499 million compared to December 31, 2018, mainly because of an increase in the securitization of mortgage loans and covered bonds, partly offset by a decrease in medium-term notes.

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

**Wholesale funding by currency**

| (in millions of dollars and as a percentage) | As at September 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| Canadian dollars | $ 19,615 | 44.4% | $ 19,637 | 45.0% |
| U.S. dollars | 16,672 | 37.7 | 13,824 | 31.6 |
| Other | 7,898 | 17.9 | 10,225 | 23.4 |
| | $ 44,185 | 100.0% | $ 43,686 | 100.0% |

Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $1.7 billion in the first nine months of 2019. During the same period, the Federation also made two issues under its covered bonds program of 750 million euros and of US$1.0 billion. In addition, the Federation made an issue totalling $430 million under its Canadian medium-term notes program. Lastly, it should also be noted that on October 4, 2019, the Federation launched a new issue of $1.0 billion under its Canadian medium-term notes program, the first issue to be subject to the bail-in regime.

Outstanding notes issued under the Federation’s medium-term financing programs amounted to $26.7 billion as at September 30, 2019, compared to $26.3 billion as at December 31, 2018. The outstanding notes for these issues are presented under “Deposits – Business and government” in the Consolidated Balance Sheets. Desjardins Capital Inc.’s senior notes outstanding totalled $1.4 billion as at September 30, 2019, unchanged from December 31, 2018. Furthermore, to round out its financing and increase its capital base, the Federation issued F capital shares for a cash consideration of $105 million. This issue started on January 15, 2019 and was ended on July 23, 2019.

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 and outstanding

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.

After the AMF’s publication, on March 20, 2019, of its regulations implementing the Bank Recapitalization (Bail-in) Regime for certain creditors and bond holders of Desjardins Group, the rating agencies assigned provisional credit ratings for the senior debt securities subject to the internal recapitalization (bail-in) regime. Moody’s, S&P, Fitch and DBRS assigned credit ratings of A2, A-, AA- and AA (low), respectively.

Following the announcements on June 20 and November 1, 2019 concerning the privacy breach affecting its members, the credit ratings assigned to Desjardins Group’s senior securities by the rating agencies Standard & Poor’s (S&P), DBRS, Moody’s and Fitch remained unchanged.

Outlooks for Desjardins Group's ratings assigned by S&P, DBRS and Fitch were stable, while Moody's was negative.

**Credit ratings of securities issued and outstanding**

| | 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, existing senior[1] | **AA** | **A+** | **Aa2** | **AA-** |
| Medium- and long-term, senior[2] | **AA (low)** | **A-** | **A2** | **AA-** |
| Desjardins Capital Inc. | | | | |
| Medium- and long-term, senior | **A (high)** | **A** | **A2** | **A+** |

[1] Includes senior medium- and long-term debt issued before March 31, 2019, as well as senior medium- and long-term debt issued on or after this date and which is excluded from the recapitalization regime applicable to Desjardins Group.
[2] Includes senior medium- and long-term debt issued on or after March 31, 2019, which can be converted under the internal recapitalization regime applicable to Desjardins Group.

Desjardins Group regularly monitors the additional level of obligations that 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 more credit rating agencies.

**Contractual maturities of on-balance sheet items and off-balance sheet commitments**

The following table presents assets and liabilities recorded on the Consolidated 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 for liquidity and financing risk, but it differs from the analysis performed by the Federation 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 the Federation could be required to grant if the commitments were fully used. The value of guarantees and standby letters of credit amounts to the maximum cash outflows that the Federation 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", to the Annual Consolidated Financial Statements provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

**Residual contractual maturities of on-balance sheet items and off-balance sheet commitments**
As at September 30, 2019[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 | $ 2,337 | $ 425 | $ - | $ - | $ - | $ - | $ - | $ - | $ 6 | $ 2,768 |
| **Securities** | | | | | | | | | | |
| Securities at fair value through profit or loss[2] | 160 | 370 | 761 | 1,196 | 531 | 1,976 | 6,965 | 21,239 | 4,640 | 37,838 |
| Securities at fair value through other comprehensive income[2] | 334 | 429 | 322 | 431 | 322 | 1,146 | 5,355 | 2,572 | 48 | 10,959 |
| Securities at amortized cost | 775 | 404 | 242 | 264 | 146 | 1 | 5 | 27 | (1) | 1,863 |
| Securities borrowed or purchased under reverse repurchase agreements | 13,489 | 218 | 66 | - | - | - | - | - | 6 | 13,779 |
| **Loans** | | | | | | | | | | |
| Residential mortgages[3] | 62 | 179 | 87 | 140 | 158 | 553 | 1,996 | 1,280 | 6 | 4,461 |
| Consumer, credit card and other personal loans[3] | 29 | 46 | 115 | 184 | 280 | 1,210 | 5,518 | 5,310 | 7,746 | 20,438 |
| Business and government[3] | 8,127 | 1,879 | 1,367 | 2,286 | 1,102 | 5,371 | 11,050 | 1,761 | 6,455 | 39,398 |
| Allowance for credit losses | - | - | - | - | - | - | - | - | (464) | (464) |
| Segregated fund net assets | - | - | - | - | - | - | - | - | 16,332 | 16,332 |
| Clients' liability under acceptances | 170 | 14 | - | - | - | - | - | - | - | 184 |
| Premiums receivable | 199 | 76 | 15 | 3 | - | - | - | - | 2,426 | 2,719 |
| Derivative financial instruments | 137 | 114 | 145 | 259 | 185 | 1,158 | 2,519 | 505 | - | 5,022 |
| Amounts receivable from clients, brokers and financial institutions | 2,113 | 1 | - | - | - | - | - | - | 53 | 2,167 |
| Reinsurance assets | 39 | 75 | 75 | 70 | 65 | 189 | 383 | 913 | 122 | 1,931 |
| Right-of-use assets | - | - | - | - | - | - | - | - | 306 | 306 |
| Investment property | - | - | - | - | - | - | - | - | 958 | 958 |
| Property, plant and equipment | - | - | - | - | - | - | - | - | 812 | 812 |
| Goodwill | - | - | - | - | - | - | - | - | 121 | 121 |
| Intangible assets | - | - | - | - | - | - | - | - | 381 | 381 |
| Deferred tax assets | - | - | - | - | - | - | - | - | 1,025 | 1,025 |
| Other assets | 422 | 105 | 88 | 7 | 10 | 21 | 66 | 8 | 2,169 | 2,896 |
| **Total assets** | $ 28,393 | $ 4,335 | $ 3,283 | $ 4,840 | $ 2,799 | $ 11,625 | $ 33,857 | $ 33,615 | $ 43,147 | $ 165,894 |

See page 45 for footnotes.

**Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)**
As at September 30, 2019[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] | $ 39 | $ 28 | $ 41 | $ 35 | $ 28 | $ 91 | $ 205 | $ 50 | $ 3,067 | $ 3,584 |
| Business and government[4] | 7,500 | 6,456 | 4,689 | 2,043 | 2,571 | 6,174 | 11,563 | 2,590 | 4,675 | 48,261 |
| Deposit-taking institutions[4] | 137 | 156 | 160 | 209 | 175 | 797 | 2,108 | 5 | 3,662 | 7,409 |
| Acceptances | 170 | 14 | - | - | - | - | - | - | - | 184 |
| Commitments related to securities sold short[5] | 87 | 52 | 241 | 133 | 104 | 808 | 2,388 | 7,445 | 3 | 11,261 |
| Commitments related to securities lent or sold under repurchase agreements | 12,715 | - | - | - | - | - | - | - | - | 12,715 |
| Derivative financial instruments | 152 | 129 | 130 | 267 | 174 | 1,086 | 2,502 | 202 | - | 4,642 |
| Amounts payable to clients, brokers and financial institutions | 3,142 | 2 | - | - | - | - | - | - | 2,815 | 5,959 |
| Lease liabilities | 3 | 4 | 6 | 6 | 6 | 22 | 67 | 198 | 41 | 353 |
| Insurance contract liabilities | 436 | 797 | 947 | 858 | 808 | 1,987 | 4,518 | 18,662 | 2,880 | 31,893 |
| Segregated fund net liabilities | - | - | - | - | - | - | - | - | 16,316 | 16,316 |
| Net defined benefit plan liabilities | - | - | - | - | - | - | - | - | 1,920 | 1,920 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | 233 | 233 |
| Other liabilities | 1,762 | 198 | 265 | 40 | 153 | 66 | 93 | 39 | 1,861 | 4,477 |
| Subordinated notes | - | - | - | 893 | - | - | - | 499 | - | 1,392 |
| Total equity | - | - | - | - | - | - | - | - | 15,295 | 15,295 |
| **Total liabilities and equity** | $ 26,143 | $ 7,836 | $ 6,479 | $ 4,484 | $ 4,019 | $ 11,031 | $ 23,444 | $ 29,690 | $ 52,768 | $ 165,894 |
| **Off-balance sheet commitments** | | | | | | | | | | |
| Credit commitments[6] | $ 3,965 | $ 508 | $ 136 | $ 327 | $ 889 | $ 2,541 | $ 7,928 | $ 657 | $ 93,642 | $ 110,593 |
| Indemnification commitments related to securities lending | - | - | - | - | - | - | - | - | 3,009 | 3,009 |
| Documentary letters of credit | - | - | - | - | - | 1 | - | - | - | 1 |
| Guarantees and standby letters of credit | 13 | 158 | 145 | 57 | 218 | 12 | 7 | 66 | 4 | 680 |
| Credit default swaps | - | - | - | - | - | - | - | 253 | - | 253 |

See page 45 for footnotes.

**Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)**
As at December 31, 2018

| (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 | $ 2,435 | $ 308 | $ - | $ - | $ - | $ - | $ - | $ - | $ (5) | $ 2,738 |
| **Securities** | | | | | | | | | | |
| Securities at fair value through profit or loss[2] | 167 | 718 | 1,409 | 977 | 1,470 | 2,947 | 8,471 | 16,332 | 4,423 | 36,914 |
| Securities at fair value through other comprehensive income[2] | 1,594 | 767 | 755 | 255 | 293 | 1,261 | 3,607 | 2,556 | 43 | 11,131 |
| Securities at amortized cost | 1,124 | 172 | 196 | 89 | 2 | 1 | 5 | 32 | - | 1,621 |
| Securities borrowed or purchased under reverse repurchase agreements | 13,728 | 311 | 47 | - | - | - | - | - | - | 14,086 |
| **Loans** | | | | | | | | | | |
| Residential mortgages[3] | 46 | 19 | 102 | 110 | 274 | 547 | 2,210 | 1,306 | 12 | 4,626 |
| Consumer, credit card and other personal loans[3] | 52 | 65 | 165 | 189 | 279 | 1,061 | 5,229 | 5,298 | 7,372 | 19,710 |
| Business and government[3] | 7,148 | 1,962 | 1,704 | 1,243 | 1,406 | 5,626 | 10,527 | 1,798 | 6,578 | 37,992 |
| Allowance for credit losses | - | - | - | - | - | - | - | - | (491) | (491) |
| Segregated fund net assets | - | - | - | - | - | - | - | - | 13,234 | 13,234 |
| Clients' liability under acceptances | 124 | 36 | - | - | - | - | - | - | - | 160 |
| Premiums receivable | 178 | 64 | 13 | 3 | - | - | - | - | 2,120 | 2,378 |
| Derivative financial instruments | 235 | 391 | 191 | 359 | 215 | 919 | 1,843 | 213 | 10 | 4,376 |
| Amounts receivable from clients, brokers and financial institutions | 1,455 | 1 | - | - | - | - | - | - | 31 | 1,487 |
| Reinsurance assets | 38 | 76 | 77 | 70 | 68 | 198 | 390 | 1,041 | - | 1,958 |
| Investment property | - | - | - | - | - | - | - | - | 943 | 943 |
| Property, plant and equipment | - | - | - | - | - | - | - | - | 811 | 811 |
| Goodwill | - | - | - | - | - | - | - | - | 121 | 121 |
| Intangible assets | - | - | - | - | - | - | - | - | 389 | 389 |
| Deferred tax assets | - | - | - | - | - | - | - | - | 896 | 896 |
| Other assets | 297 | 95 | 75 | 3 | 12 | 9 | 26 | 5 | 1,958 | 2,480 |
| **Total assets** | $ 28,621 | $ 4,985 | $ 4,734 | $ 3,298 | $ 4,019 | $ 12,569 | $ 32,308 | $ 28,581 | $ 38,445 | $ 157,560 |

See page 45 for footnotes.

**Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)**
As at December 31, 2018

| (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] | $ 659 | $ 101 | $ 33 | $ 28 | $ 42 | $ 90 | $ 142 | $ 3 | $ 3,007 | $ 4,105 |
| Business and government[4] | 7,926 | 5,480 | 2,142 | 3,575 | 3,872 | 7,396 | 10,200 | 2,129 | 3,278 | 45,998 |
| Deposit-taking institutions[4] | 149 | 151 | 377 | 105 | 169 | 691 | 1,852 | 13 | 4,447 | 7,954 |
| Acceptances | 124 | 36 | - | - | - | - | - | - | - | 160 |
| Commitments related to securities sold short[5] | 19 | 490 | 136 | 38 | 1 | 780 | 4,316 | 5,049 | - | 10,829 |
| Commitments related to securities lent or sold under repurchase agreements | 16,233 | - | - | - | - | - | - | - | - | 16,233 |
| Derivative financial instruments | 128 | 148 | 163 | 119 | 156 | 656 | 1,704 | 248 | 10 | 3,332 |
| Amounts payable to clients, brokers and financial institutions | 2,078 | 4 | - | - | - | - | - | - | 2,023 | 4,105 |
| Insurance contract liabilities | 430 | 783 | 929 | 847 | 800 | 1,853 | 4,286 | 16,289 | 2,547 | 28,764 |
| Segregated fund net liabilities | - | - | - | - | - | - | - | - | 13,212 | 13,212 |
| Net defined benefit plan liabilities | - | - | - | - | - | - | - | - | 1,578 | 1,578 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | 254 | 254 |
| Other liabilities | 2,298 | 407 | 288 | 30 | 15 | 95 | 102 | 42 | 1,828 | 5,105 |
| Subordinated notes | - | - | - | - | - | 879 | - | 499 | - | 1,378 |
| Total equity | - | - | - | - | - | - | - | - | 14,553 | 14,553 |
| **Total liabilities and equity** | $ 30,044 | $ 7,600 | $ 4,068 | $ 4,742 | $ 5,055 | $ 12,440 | $ 22,602 | $ 24,272 | $ 46,737 | $ 157,560 |
| **Off-balance sheet commitments** | | | | | | | | | | |
| Credit commitments[6] | $ 3,792 | $ 138 | $ 687 | $ 571 | $ 1,052 | $ 2,469 | $ 7,778 | $ 496 | $ 90,432 | $ 107,415 |
| Indemnification commitments related to securities lending | - | - | - | - | - | - | - | - | 2,474 | 2,474 |
| Commitments under lease contracts | 4 | 7 | 11 | 11 | 10 | 38 | 94 | 167 | - | 342 |
| Documentary letters of credit | - | 1 | - | - | - | - | - | - | - | 1 |
| Guarantees and standby letters of credit | 18 | 79 | 78 | 191 | 374 | 12 | 16 | 75 | 4 | 847 |
| Credit default swaps | - | - | - | - | - | - | 537 | - | - | 537 |

(1) The information presented as at September 30, 2019 takes into account IFRS 16, “Leases”, adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”, to the Interim Consolidated 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 the Federation’s discretion.

## ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

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

**Asset-backed securities**

| (in millions of dollars) | As at September 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | **Notional amounts** | **Fair value** | Notional amounts | Fair value |
| Financial asset-backed and mortgage-backed securities[1] | **$ 131** | **$ 133** | $ 138 | $ 140 |

[1] None of the securities held is directly backed by subprime residential mortgage loans. These securities are presented under "Securities at fair value through profit or loss" and "Securities at fair value through other comprehensive income" on the Consolidated Balance Sheets.

**Leveraged finance loans and subprime loans**

| (in millions of dollars) | As at September 30, 2019 | As at December 31, 2018 |
|---|---|---|
| Leveraged finance loans[1] | **$ 313** | $ 81 |
| Alt-A mortgage loans[2] | **17** | 18 |
| Subprime residential mortgage loans[3] | **4** | 2 |

[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 mortgage loans are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.
[3] Subprime residential mortgage loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

# ADDITIONAL INFORMATION

## CONTROLS AND PROCEDURES

During the interim period ended September 30, 2019, the Federation did not make any changes to its internal control over financial reporting that have materially affected, or may materially affect, its operations. The parties involved and their responsibilities regarding internal control are described on page 87 of the 2018 annual MD&A.

## RELATED PARTY DISCLOSURES

In the normal course of operations, the Federation 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. The Federation carries out transactions with other Desjardins Group entities, which are primarily caisses.

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

The Federation 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. These policies and procedures have not changed significantly since December 31, 2018.

Additional information on related party transactions is provided in Note 32, "Related party disclosures", to the Annual Consolidated Financial Statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by the Federation is essential to understanding the Annual and Interim Consolidated Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements on pages 109 to 130 of the 2018 Annual Report, except for the amendments resulting from the adoption, on January 1, 2019, of IFRS 16, "Leases", as described in Note 2, "Basis of presentation and significant accounting policies", to these Interim Consolidated Financial Statements.

Some of these policies are of particular importance in presenting the Federation's financial position and operating results because they require management to make judgments as well as estimates and assumptions that affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 88 to 94 of the 2018 annual MD&A.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first nine months of 2019.

## FUTURE ACCOUNTING CHANGES

**IFRS 9, "Financial Instruments", IAS 39, "Financial Instruments: Recognition and Measurement" and IFRS 7, "Financial Instruments: Disclosures"**

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 as part of "Interest Rate Benchmark Reform". The amendments aim to deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark. Certain hedge accounting requirements have been amended so that entities can assume that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. Disclosures have also been amended to require mandatory information about the uncertainty arising from interest rate benchmark reform. The Federation will have to apply these amendments as of January 1, 2020 and is currently assessing their impact.

For more information about accounting standards that were issued by the IASB but were not yet effective as at December 31, 2018, please refer to Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements, on pages 137 and 138 of the 2018 Annual Report.

# CONSOLIDATED FINANCIAL STATEMENTS

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## Consolidated Balance Sheets

(unaudited)

| (in millions of Canadian dollars) | Notes | As at September 30, 2019[1] | As at December 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash and deposits with financial institutions** | | **$ 2,768** | $ 2,738 |
| **Securities** | | | |
| Securities at fair value through profit or loss | | **37,838** | 36,914 |
| Securities at fair value through other comprehensive income | | **10,959** | 11,131 |
| Securities at amortized cost | | **1,863** | 1,621 |
| | | **50,660** | 49,666 |
| **Securities borrowed or purchased under reverse repurchase agreements** | | **13,779** | 14,086 |
| **Loans** | 5 | | |
| Residential mortgages | | **4,461** | 4,626 |
| Consumer, credit card and other personal loans | | **20,438** | 19,710 |
| Business and government | | **39,398** | 37,992 |
| | | **64,297** | 62,328 |
| Allowance for credit losses | 5 | **(464)** | (491) |
| | | **63,833** | 61,837 |
| **Segregated fund net assets** | | **16,332** | 13,234 |
| **Other assets** | | | |
| Clients' liability under acceptances | | **184** | 160 |
| Premiums receivable | | **2,719** | 2,378 |
| Derivative financial instruments | | **5,022** | 4,376 |
| Amounts receivable from clients, brokers and financial institutions | | **2,167** | 1,487 |
| Reinsurance assets | | **1,931** | 1,958 |
| Right-of-use assets | | **306** | N/A |
| Investment property | | **958** | 943 |
| Property, plant and equipment | | **812** | 811 |
| Goodwill | | **121** | 121 |
| Intangible assets | | **381** | 389 |
| Deferred tax assets | | **1,025** | 896 |
| Other | | **2,896** | 2,480 |
| | | **18,522** | 15,999 |
| **TOTAL ASSETS** | | **$ 165,894** | $ 157,560 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| **Deposits** | 7 | | |
| Individuals | | **$ 3,584** | $ 4,105 |
| Business and government | | **48,261** | 45,998 |
| Deposit-taking institutions | | **7,409** | 7,954 |
| | | **59,254** | 58,057 |
| **Other liabilities** | | | |
| Acceptances | | **184** | 160 |
| Commitments related to securities sold short | | **11,261** | 10,829 |
| Commitments related to securities lent or sold under repurchase agreements | | **12,715** | 16,233 |
| Derivative financial instruments | | **4,642** | 3,332 |
| Amounts payable to clients, brokers and financial institutions | | **5,959** | 4,105 |
| Lease liabilities | | **353** | N/A |
| Insurance contract liabilities | | **31,893** | 28,764 |
| Segregated fund net liabilities | | **16,316** | 13,212 |
| Net defined benefit plan liabilities | | **1,920** | 1,578 |
| Deferred tax liabilities | | **233** | 254 |
| Other | | **4,477** | 5,105 |
| | | **89,953** | 83,572 |
| **Subordinated notes** | | **1,392** | 1,378 |
| **TOTAL LIABILITIES** | | **150,599** | 143,007 |
| **EQUITY** | | | |
| Capital stock | 8 | **8,884** | 8,779 |
| Undistributed surplus earnings | | **4,814** | 4,764 |
| Accumulated other comprehensive income | 9 | **309** | (9) |
| Reserves | | **527** | 271 |
| **Equity – Group's share** | | **14,534** | 13,805 |
| **Non-controlling interests** | | **761** | 748 |
| **TOTAL EQUITY** | | **15,295** | 14,553 |
| **TOTAL LIABILITIES AND EQUITY** | | **$ 165,894** | $ 157,560 |

[1] The information presented as at September 30, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

The accompanying notes are an integral part of the Condensed Interim Consolidated Financial Statements.

## Consolidated Statements of Income

(unaudited)

| (in millions of Canadian dollars) | Notes | For the three-month periods ended September 30 | | For the nine-month periods ended September 30 | |
|---|---|---|---|---|---|
| | | 2019[1] | 2018 | 2019[1] | 2018 |
| **INTEREST INCOME** | | | | | |
| Loans | | **$ 751** | $ 681 | **$ 2,175** | $ 1,874 |
| Securities | | **52** | 59 | **166** | 167 |
| | | **803** | 740 | **2,341** | 2,041 |
| **INTEREST EXPENSE** | | | | | |
| Deposits | | **347** | 335 | **1,052** | 868 |
| Subordinated notes | | **18** | 17 | **54** | 52 |
| Other | | **34** | 6 | **94** | 18 |
| | | **399** | 358 | **1,200** | 938 |
| **NET INTEREST INCOME** | 11 | **404** | 382 | **1,141** | 1,103 |
| **NET PREMIUMS** | | **2,354** | 2,288 | **6,969** | 6,677 |
| **OTHER INCOME** | | | | | |
| Assessments | | **99** | 97 | **295** | 295 |
| Service agreements | | **190** | 179 | **575** | 549 |
| Lending fees and credit card service revenues | | **192** | 172 | **587** | 522 |
| Brokerage and investment fund services | | **223** | 216 | **660** | 694 |
| Management and custodial service fees | | **153** | 154 | **448** | 441 |
| Net investment income (loss) | 11 | **581** | (213) | **2,996** | 212 |
| Overlay approach adjustment for insurance operations financial assets | | **(13)** | 76 | **(170)** | 265 |
| Foreign exchange income | | **18** | 15 | **51** | 63 |
| Other | | **30** | 52 | **131** | 285 |
| | | **1,473** | 748 | **5,573** | 3,326 |
| **TOTAL INCOME** | | **4,231** | 3,418 | **13,683** | 11,106 |
| **PROVISION FOR CREDIT LOSSES** | 5 | **129** | 73 | **207** | 225 |
| **CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES** | | **2,263** | 1,380 | **7,744** | 4,763 |
| **NON-INTEREST EXPENSE** | | | | | |
| Remuneration and other payments | | **164** | 140 | **513** | 423 |
| Salaries and fringe benefits | | **566** | 539 | **1,796** | 1,698 |
| Premises, equipment and furniture, including depreciation | | **140** | 126 | **405** | 361 |
| Service agreements and outsourcing | | **83** | 76 | **264** | 245 |
| Communications | | **45** | 49 | **157** | 163 |
| Other | | **610** | 668 | **1,947** | 1,904 |
| | | **1,608** | 1,598 | **5,082** | 4,794 |
| **OPERATING SURPLUS EARNINGS** | | **231** | 367 | **650** | 1,324 |
| Income taxes on surplus earnings | | **20** | 68 | **67** | 202 |
| **NET SURPLUS EARNINGS FOR THE PERIOD AFTER DIVIDENDS** | | **$ 211** | $ 299 | **$ 583** | $ 1,122 |
| **of which:** | | | | | |
| Group's share | | **$ 200** | $ 286 | **$ 557** | $ 1,089 |
| Non-controlling interests' share | | **11** | 13 | **26** | 33 |

[1] The information presented for the three-month and nine-month periods ended September 30, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

The accompanying notes are an integral part of the Condensed Interim Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

(unaudited)

| (in millions of Canadian dollars) | For the three-month periods ended September 30 | | For the nine-month periods ended September 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Net surplus earnings for the period after dividends to member caisses** | **$ 211** | $ 299 | **$ 583** | $ 1,122 |
| **Other comprehensive income, net of income taxes** | | | | |
| **Items that will not be reclassified subsequently to the Consolidated Statements of Income** | | | | |
| Remeasurement of net defined benefit plan liabilities | **39** | 105 | **(253)** | 297 |
| Share of associates and joint ventures accounted for using the equity method | **-** | 1 | **-** | 2 |
| | **39** | 106 | **(253)** | 299 |
| **Items that will be reclassified subsequently to the Consolidated Statements of Income** | | | | |
| Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income | | | | |
| Net unrealized gains (losses) | **10** | (55) | **201** | (87) |
| Reclassification of net (gains) losses to the Consolidated Statements of Income | **(12)** | 8 | **(27)** | 13 |
| | **(2)** | (47) | **174** | (74) |
| Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets | | | | |
| Net unrealized gains (losses) | **7** | (60) | **155** | (83) |
| Reclassification of net (gains) losses to the Consolidated Statements of Income | **2** | 1 | **(18)** | (131) |
| | **9** | (59) | **137** | (214) |
| Net change in cash flow hedges | | | | |
| Net gains (losses) on derivative financial instruments designated as cash flow hedges | **(2)** | (7) | **13** | (15) |
| Reclassification to the Consolidated Statements of Income of net (gains) losses on derivative financial instruments designated as cash flow hedges | **1** | (1) | **2** | (3) |
| | **(1)** | (8) | **15** | (18) |
| Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions | **2** | - | **-** | - |
| | **8** | (114) | **326** | (306) |
| **Total other comprehensive income, net of income taxes** | **47** | (8) | **73** | (7) |
| **COMPREHENSIVE INCOME FOR THE PERIOD** | **$ 258** | $ 291 | **$ 656** | $ 1,115 |
| **of which:** | | | | |
| Group's share | **$ 246** | $ 282 | **$ 625** | $ 1,091 |
| Non-controlling interests' share | **12** | 9 | **31** | 24 |

The accompanying notes are an integral part of the Condensed Interim Consolidated Financial Statements.

### Income taxes on other comprehensive income

The tax expense (recovery) related to each component of other comprehensive income for the period is presented in the following table.

| (in millions of Canadian dollars) | For the three-month periods ended September 30 | | For the nine-month periods ended September 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Item that will not be reclassified subsequently to the Consolidated Statements of Income** | | | | |
| Remeasurement of net defined benefit plan liabilities | **$ 14** | $ 38 | **$ (90)** | $ 107 |
| | **14** | 38 | **(90)** | 107 |
| **Items that will be reclassified subsequently to the Consolidated Statements of Income** | | | | |
| Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income | | | | |
| Net unrealized gains (losses) | **3** | (20) | **71** | (31) |
| Reclassification of net (gains) losses to the Consolidated Statements of Income | **(4)** | 5 | **(10)** | 6 |
| | **(1)** | (15) | **61** | (25) |
| Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets | | | | |
| Net unrealized gains (losses) | **3** | (20) | **39** | (31) |
| Reclassification of net (gains) losses to the Consolidated Statements of Income | **1** | 3 | **(6)** | (20) |
| | **4** | (17) | **33** | (51) |
| Net change in cash flow hedges | | | | |
| Net gains (losses) on derivative financial instruments designated as cash flow hedges | **(6)** | (2) | **5** | (8) |
| Reclassification to the Consolidated Statements of Income of net (gains) losses on derivative financial instruments designated as cash flow hedges | **-** | (1) | **-** | (1) |
| | **(6)** | (3) | **5** | (9) |
| | **(3)** | (35) | **99** | (85) |
| **Total income tax expense** | **$ 11** | $ 3 | **$ 9** | $ 22 |

## Consolidated Statements of Changes in Equity

For the nine-month periods ended September 30
(unaudited)

| (in millions of Canadian dollars) | Capital stock (Note 8) | Undistributed surplus earnings | Accumulated other comprehensive income (Note 9) | Reserves | | | Equity - Group's share | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Stabilization reserve | General and other reserves | Total reserves | | | |
| **BALANCE AS AT DECEMBER 31, 2018** | **$ 8,779** | **$ 4,764** | **$ (9)** | **$ 417** | **$ (146)** | **$ 271** | **$ 13,805** | **$ 748** | **$ 14,553** |
| Net surplus earnings for the period after dividends to member caisses | **-** | **557** | **-** | **-** | **-** | **-** | **557** | **26** | **583** |
| Other comprehensive income for the period | **-** | **(248)** | **316** | **-** | **-** | **-** | **68** | **5** | **73** |
| Comprehensive income for the period | **-** | **309** | **316** | **-** | **-** | **-** | **625** | **31** | **656** |
| Issuance of F capital shares | **105** | **-** | **-** | **-** | **-** | **-** | **105** | **-** | **105** |
| Issuance of share capital | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **7** | **7** |
| Dividends | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(27)** | **(27)** |
| Transfer from undistributed surplus earnings (to reserves) | **-** | **(256)** | **-** | **-** | **256** | **256** | **-** | **-** | **-** |
| Other | **-** | **(3)** | **2** | **-** | **-** | **-** | **(1)** | **2** | **1** |
| **BALANCE AS AT SEPTEMBER 30, 2019** | **$ 8,884** | **$ 4,814** | **$ 309** | **$ 417** | **$ 110** | **$ 527** | **$ 14,534** | **$ 761** | **$ 15,295** |
| | | | | | | | | | |
| **BALANCE AS AT DECEMBER 31, 2017** | $ 8,537 | $ 5,674 | $ 458 | $ 467 | $ 73 | $ 540 | $ 15,209 | $ 810 | $ 16,019 |
| Impact of changes in accounting policies | - | 34 | (35) | - | (213) | (213) | (214) | - | (214) |
| **OPENING BALANCE AS AT JANUARY 1, 2018** | 8,537 | 5,708 | 423 | 467 | (140) | 327 | 14,995 | 810 | 15,805 |
| Net surplus earnings for the period after dividends to member caisses | - | 1,089 | - | - | - | - | 1,089 | 33 | 1,122 |
| Other comprehensive income for the period | - | 295 | (293) | - | - | - | 2 | (9) | (7) |
| Comprehensive income for the period | - | 1,384 | (293) | - | - | - | 1,091 | 24 | 1,115 |
| Issuance of F capital shares | 267 | - | - | - | - | - | 267 | - | 267 |
| F capital share issuance costs | (1) | - | - | - | - | - | (1) | - | (1) |
| Other net change in capital stock | (5) | 3 | - | - | - | - | (2) | - | (2) |
| Remuneration on capital shares | - | (247) | - | - | - | - | (247) | - | (247) |
| Redemption of share capital | - | - | - | - | - | - | - | (11) | (11) |
| Dividends | - | - | - | - | - | - | - | (28) | (28) |
| Transfer from undistributed surplus earnings (to reserves) | - | (293) | - | 96 | 197 | 293 | - | - | - |
| Transactions related to buy-out options | - | 30 | - | - | - | - | 30 | (19) | 11 |
| Buy-out of non-controlling interests | - | (13) | - | - | - | - | (13) | (15) | (28) |
| Other | - | 2 | - | - | - | - | 2 | - | 2 |
| **BALANCE AS AT SEPTEMBER 30, 2018** | $ 8,798 | $ 6,574 | $ 130 | $ 563 | $ 57 | $ 620 | $ 16,122 | $ 761 | $ 16,883 |

The accompanying notes are an integral part of the Condensed Interim Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

(unaudited)

| (in millions of Canadian dollars) | For the nine-month periods ended September 30 2019[1] | 2018 |
|---|---|---|
| **CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES** | | |
| Operating surplus earnings | **$ 650** | $ 1,324 |
| Non-cash adjustments: | | |
| Depreciation of property, plant and equipment and investment property, and amortization of intangible assets | **165** | 141 |
| Depreciation of right-of-use assets | **21** | N/A |
| Net change in insurance contract liabilities | **3,129** | 381 |
| Provision for credit losses | **207** | 225 |
| Net realized losses on securities classified as at fair value through other comprehensive income | **-** | 19 |
| Overlay approach adjustment for insurance operations financial assets | **170** | (265) |
| Other | **8** | (64) |
| Change in operating assets and liabilities: | | |
| Securities at fair value through profit or loss | **(924)** | (3,911) |
| Securities borrowed or purchased under reverse repurchase agreements | **307** | (2,480) |
| Loans | **(2,203)** | (3,556) |
| Derivative financial instruments, net amount | **678** | 56 |
| Net amounts receivable from and payable to clients, brokers and financial institutions | **1,174** | 772 |
| Deposits | **1,197** | 5,649 |
| Commitments related to securities sold short | **432** | 2,087 |
| Commitments related to securities lent or sold under repurchase agreements | **(3,518)** | 3,119 |
| Other | **(1,124)** | (736) |
| Payment of the contingent consideration | **(209)** | (250) |
| Income taxes paid on surplus earnings | **(118)** | (154) |
| Payment of dividends to member caisses | **(70)** | (60) |
| | **(28)** | 2,297 |
| **CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES** | | |
| Repayment of lease liabilities | **(22)** | N/A |
| Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market | **14** | (46) |
| Issuance of F capital shares | **105** | 124 |
| F capital share issuance costs | **-** | (1) |
| Other net change in capital stock | **-** | (2) |
| Remuneration on capital shares | **-** | (105) |
| Issuance of share capital | **7** | - |
| Redemption of share capital | **-** | (11) |
| Dividends paid | **(27)** | (28) |
| Buy-out of non-controlling interests | **-** | (28) |
| Transactions related to buy-out options | **-** | (63) |
| | **77** | (160) |
| **CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES** | | |
| Purchase of securities at fair value through other comprehensive income and at amortized cost | **(36,209)** | (49,106) |
| Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost | **9,324** | 6,635 |
| Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost | **27,088** | 41,233 |
| Acquisitions of property, plant and equipment, intangible assets and investment property | **(189)** | (141) |
| Proceeds from disposal of property, plant and equipment, intangible assets and investment property | **2** | - |
| Payment of the contingent consideration recognized at acquisition date | **(35)** | (27) |
| | **(19)** | (1,406) |
| **Net increase in cash and cash equivalents** | **30** | 731 |
| Cash and cash equivalents at beginning of period | **2,738** | 1,757 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **$ 2,768** | $ 2,488 |
| **Supplemental information on cash flows from (used in) operating activities** | | |
| Interest paid | **$ 2,349** | $ 890 |
| Interest and dividends received | **6,904** | 2,760 |

[1] The information presented for the nine-month period ended September 30, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

The accompanying notes are an integral part of the Condensed Interim Consolidated Financial Statements.

# Notes to the Condensed Interim Consolidated Financial Statements
(unaudited)

## NOTE 1 – INFORMATION ON THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

**Nature of operations**

The *Fédération des caisses Desjardins du Québec* (the Federation) is the cooperative entity responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. The role of the Federation is also to protect the interests of Desjardins Group members. It provides its member caisses with a variety of services, including certain technical, financial, and administrative services. The member caisses exercise a collective power over the Federation, and each of them has a significant influence on the Federation.

In addition, the Federation is the parent company of several financial services subsidiaries. The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

## NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION

**Statement of compliance**

Pursuant to the *Act Respecting Financial Services Cooperatives*, these unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements) have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), more specifically in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Interim Consolidated Financial Statements for the current period. These reclassifications had no impact on the Federation's profit or loss or total assets and liabilities.

These Interim Consolidated Financial Statements should be read in conjunction with the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements) for the year ended December 31, 2018, and the shaded areas of section 4.0, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Consolidated Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements, except for the changes described in the "Changes in accounting policies" section of this note.

These Interim Consolidated Financial Statements were approved by the Board of Directors of the Federation on November 13, 2019.

**Presentation and functional currency**

These Interim Consolidated Financial Statements are expressed in Canadian dollars, which is also the functional currency of the Federation. Dollar amounts presented in the tables of the Notes to the Interim Consolidated Financial Statements are in millions of dollars, unless otherwise stated.

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

## CHANGES IN ACCOUNTING POLICIES

**IFRS 16, "Leases"**

On January 1, 2019, the Federation adopted IFRS 16, "Leases", which replaces, IAS 17, "Leases", and related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The accounting policies resulting from the adoption of this new standard have been applied as of January 1, 2019 on a retrospective basis without restatement of comparative periods. Consequently, the information for fiscal 2018 is in accordance with IAS 17 as described in the Annual Consolidated Financial Statements for the year ended December 31, 2018. The Federation applied the following transitional expedients as at January 1, 2019:

- Existing contracts at the date of transition were not reassessed to determine whether they are, or contain, a lease under IFRS 16.
- For leases previously classified as operating leases – lessee:
    - Contracts existing as at January 1, 2019 and ending during fiscal 2019 will be recognized as lease expense.
    - The right-of-use asset is equal to the amount of the lease liability, plus or minus certain adjustments, if any.

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. For the lessor, the standard does not provide for any significant changes. For the lessee, the impact of adopting IFRS 16 is described below.

IFRS 16 introduces a single recognition model for the lessee, thereby eliminating the distinction in IAS 17 between operating and finance leases. The lessee must recognize in the Consolidated 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 Consolidated Statements of Income. As permitted by IFRS 16, the Federation elected to apply the exemptions for short-term and low-value leases. As a result, such leases will continue to be recognized as a lease expense in the Consolidated Statements of Income based on the terms of the lease. In addition, the Federation will apply the practical expedient which allows not to separate non-lease components from lease components for a contract.

The following table reconciles operating lease commitments as at December 31, 2018 and the lease liabilities recognized in the Consolidated Balance Sheet as at January 1, 2019.

| | | |
|---|---|---|
| Operating lease commitments reported as at December 31, 2018 | $ | 342 |
| Adjustment related to the weighted average lessee's incremental borrowing rate as at January 1, 2019 (3.81%) | | (117) |
| Finance lease obligations as at December 31, 2018 | | 16 |
| Short-term leases recognized in the Consolidated Statement of Income | | (4) |
| Adjustments related to differences in the treatment of renewal and termination options | | 165 |
| Adjustments related to non-refundable taxes | | (40) |
| Other adjustments | | (1) |
| **Lease liabilities as at January 1, 2019** | **$** | **361** |

## FUTURE ACCOUNTING CHANGES

***IFRS 9, "Financial Instruments", IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures"***

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in connection with the interest rate benchmark reform. The amendments address issues affecting financial reporting in the period before the replacement of the interest rate benchmark. Certain hedge accounting requirements are amended so that entities shall assume that the interest rate benchmark on which the hedged cash flows and the cash flows of the hedging instrument are based will not be altered as a result of the interest rate benchmark reform. Disclosure requirements are also amended to add mandatory disclosures about the uncertainty resulting from the interest rate benchmark reform. The Federation will have to apply these amendments as of January 1, 2020 and is currently assessing the impact of their adoption.

For more information about the other accounting standards issued by the IASB, but not yet effective as at December 31, 2018, see Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.

# NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

## CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

| | At fair value through profit or loss | | At fair value through other comprehensive income | | | |
|---|---|---|---|---|---|---|
| **As at September 30, 2019** | **Classified as at fair value through profit or loss[1]** | **Designated as at fair value through profit or loss** | **Classified as at fair value through other comprehensive income[2]** | **Designated as at fair value through other comprehensive income** | **Amortized cost[2]** | **Total** |
| **Financial assets** | | | | | | |
| Cash and deposits with financial institutions | $ - | $ 202 | $ 1,111 | $ - | $ 1,455 | $ 2,768 |
| Securities | 19,319 | 18,519 | 10,911 | 48 | 1,863 | 50,660 |
| Securities borrowed or purchased under reverse repurchase agreements | - | - | - | - | 13,779 | 13,779 |
| Loans[3] | - | - | - | - | 63,833 | 63,833 |
| Other financial assets | | | | | | |
| Clients' liability under acceptances | - | - | - | - | 184 | 184 |
| Premiums receivable | - | - | - | - | 2,719 | 2,719 |
| Derivative financial instruments[4] | 5,022 | - | - | - | - | 5,022 |
| Amounts receivable from clients, brokers and financial institutions | - | - | - | - | 2,167 | 2,167 |
| Other | - | - | - | - | 1,125 | 1,125 |
| **Total financial assets** | $ 24,341 | $ 18,721 | $ 12,022 | $ 48 | $ 87,125 | $ 142,257 |
| **Financial liabilities** | | | | | | |
| Deposits[5] | $ - | $ 58 | $ - | $ - | $ 59,196 | $ 59,254 |
| Other financial liabilities | | | | | | |
| Acceptances | - | - | - | - | 184 | 184 |
| Commitments related to securities sold short | 11,261 | - | - | - | - | 11,261 |
| Commitments related to securities lent or sold under repurchase agreements | - | - | - | - | 12,715 | 12,715 |
| Derivative financial instruments[4] | 4,642 | - | - | - | - | 4,642 |
| Amounts payable to clients, brokers and financial institutions | - | - | - | - | 5,959 | 5,959 |
| Other | 203 | - | - | - | 2,127 | 2,330 |
| Subordinated notes | - | - | - | - | 1,392 | 1,392 |
| **Total financial liabilities** | $ 16,106 | $ 58 | $ - | $ - | $ 81,573 | $ 97,737 |

(1) An amount of $2,862 million corresponds to financial assets designated for the overlay approach.
(2) As at September 30, 2019, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $3 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".
(3) For more information, see Note 5, "Loans and allowance for credit losses".
(4) Include derivative financial instruments designated as hedging instruments amounting to $375 million in assets and $215 million in liabilities.
(5) The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and could differ from the fair value of such deposits as at the reporting date.

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

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

| | At fair value through profit or loss | | At fair value through other comprehensive income | | | |
|---|---|---|---|---|---|---|
| As at December 31, 2018 | Classified as at fair value through profit or loss[1] | Designated as at fair value through profit or loss | Classified as at fair value through other comprehensive income[2] | Designated as at fair value through other comprehensive income | Amortized cost[2] | Total |
| **Financial assets** | | | | | | |
| Cash and deposits with financial institutions | $ - | $ 291 | $ 1,068 | $ - | $ 1,379 | $ 2,738 |
| Securities | 20,606 | 16,308 | 11,088 | 43 | 1,621 | 49,666 |
| Securities borrowed or purchased under reverse repurchase agreements | - | - | - | - | 14,086 | 14,086 |
| Loans[3] | - | - | - | - | 61,837 | 61,837 |
| Other financial assets | | | | | | |
| Clients' liability under acceptances | - | - | - | - | 160 | 160 |
| Premiums receivable | - | - | - | - | 2,378 | 2,378 |
| Derivative financial instruments[4] | 4,376 | - | - | - | - | 4,376 |
| Amounts receivable from clients, brokers and financial institutions | - | - | - | - | 1,487 | 1,487 |
| Other | 13 | - | - | - | 794 | 807 |
| **Total financial assets** | $ 24,995 | $ 16,599 | $ 12,156 | $ 43 | $ 83,742 | $ 137,535 |
| **Financial liabilities** | | | | | | |
| Deposits | $ - | $ - | $ - | $ - | $ 58,057 | $ 58,057 |
| Other financial liabilities | | | | | | |
| Acceptances | - | - | - | - | 160 | 160 |
| Commitments related to securities sold short | 10,829 | - | - | - | - | 10,829 |
| Commitments related to securities lent or sold under repurchase agreements | - | - | - | - | 16,233 | 16,233 |
| Derivative financial instruments[4] | 3,332 | - | - | - | - | 3,332 |
| Amounts payable to clients, brokers and financial institutions | - | - | - | - | 4,105 | 4,105 |
| Other | 319 | - | - | - | 2,363 | 2,682 |
| Subordinated notes | - | - | - | - | 1,378 | 1,378 |
| **Total financial liabilities** | $ 14,480 | $ - | $ - | $ - | $ 82,296 | $ 96,776 |

(1) An amount of $2,758 million corresponds to financial assets designated for the overlay approach.

(2) As at December 31, 2018, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $2 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".

(3) For more information, see Note 5, "Loans and allowance for credit losses".

(4) Include derivative financial instruments designated as hedging instruments amounting to $783 million in assets and $202 million in liabilities.

During the nine-month period ended September 30, 2019 and the year ended December 31, 2018, no financial instruments have been reclassified.

# NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

## DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

There is little subjectivity in the determination of the fair value of financial instruments, especially securities and commitments related to securities sold short, obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other valuation techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques rely on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is made in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

For more information on the valuation techniques used to determine the fair value of the main financial instruments, refer to Note 2, “Basis of presentation and significant accounting policies”, to the Annual Consolidated Financial Statements.

### Financial instruments whose fair value equals 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”.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of certain financial instruments measured at amortized cost does not equal fair value. These financial instruments are presented in the following table.

| | As at September 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Securities | **$ 1,863** | **$ 1,864** | $ 1,621 | $ 1,621 |
| Loans | **63,833** | **63,836** | 61,837 | 61,610 |
| **Financial liabilities** | | | | |
| Deposits | **59,196** | **58,951** | 58,057 | 57,842 |
| Subordinated notes | **1,392** | **1,437** | 1,378 | 1,433 |

## FAIR VALUE HIERARCHY

The fair value measurement of financial instruments is determined using the following three-level fair value hierarchy:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based primarily on observable market data;
- Level 3 – Valuation techniques not based primarily on observable market data.

### Transfers between levels

Transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

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

## HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following tables present the hierarchy for financial instruments measured at fair value in the Consolidated Balance Sheets.

| As at September 30, 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Cash and deposits with financial institutions | $ 56 | $ 146 | $ - | $ 202 |
| Securities | | | | |
| Debt securities issued or guaranteed by: | | | | |
| Canadian governmental entities | 7,796 | 509 | - | 8,305 |
| Provincial governmental entities and municipal corporations in Canada | 18,359 | 1,036 | - | 19,395 |
| School or public corporations in Canada | 15 | 92 | - | 107 |
| Foreign public administrations | 180 | - | - | 180 |
| Other securities | | | | |
| Financial institutions | 16 | 1,027 | 56 | 1,099 |
| Other issuers | 1 | 3,334 | 779 | 4,114 |
| Equity securities | 3,271 | 620 | 747 | 4,638 |
| | 29,694 | 6,764 | 1,582 | 38,040 |
| Derivative financial instruments | | | | |
| Interest rate contracts | - | 2,008 | - | 2,008 |
| Foreign exchange contracts | - | 313 | - | 313 |
| Other contracts | - | 2,701 | - | 2,701 |
| | - | 5,022 | - | 5,022 |
| **Total financial assets at fair value through profit or loss** | 29,694 | 11,786 | 1,582 | 43,062 |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Cash and deposits with financial institutions | 29 | 1,082 | - | 1,111 |
| Securities | | | | |
| Debt securities issued or guaranteed by: | | | | |
| Canadian governmental entities | 1,894 | 1,013 | - | 2,907 |
| Provincial governmental entities and municipal corporations in Canada | 5,550 | 406 | - | 5,956 |
| Other securities | | | | |
| Financial institutions | 5 | 1,353 | - | 1,358 |
| Other issuers | - | 602 | 88 | 690 |
| Equity securities | - | 48 | - | 48 |
| **Total financial assets at fair value through other comprehensive income** | 7,478 | 4,504 | 88 | 12,070 |
| Financial instruments of segregated funds | 6,075 | 10,183 | 80 | 16,338 |
| **Total financial assets** | $ 43,247 | $ 26,473 | $ 1,750 | $ 71,470 |
| **Financial liabilities** | | | | |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Deposits | $ - | $ 58 | $ - | $ 58 |
| Other liabilities | | | | |
| Commitments related to securities sold short | 10,950 | 311 | - | 11,261 |
| Other | - | - | 203 | 203 |
| | 10,950 | 369 | 203 | 11,522 |
| Derivative financial instruments | | | | |
| Interest rate contracts | - | 1,726 | - | 1,726 |
| Foreign exchange contracts | - | 318 | - | 318 |
| Other contracts | - | 2,598 | - | 2,598 |
| | - | 4,642 | - | 4,642 |
| **Total financial liabilities** | $ 10,950 | $ 5,011 | $ 203 | $ 16,164 |

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

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

| As at December 31, 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Cash and deposits with financial institutions | $ 27 | $ 264 | $ - | $ 291 |
| Securities | | | | |
| Debt securities issued or guaranteed by: | | | | |
| Canadian governmental entities | 10,632 | 994 | - | 11,626 |
| Provincial governmental entities and municipal corporations in Canada | 15,063 | 1,108 | - | 16,171 |
| School or public corporations in Canada | 14 | 85 | - | 99 |
| Foreign public administrations | 191 | - | - | 191 |
| Other securities | | | | |
| Financial institutions | 32 | 800 | 56 | 888 |
| Other issuers | 3 | 2,763 | 742 | 3,508 |
| Equity securities | 3,106 | 627 | 698 | 4,431 |
| | 29,068 | 6,641 | 1,496 | 37,205 |
| Derivative financial instruments | | | | |
| Interest rate contracts | - | 1,707 | - | 1,707 |
| Foreign exchange contracts | - | 1,300 | - | 1,300 |
| Other contracts | - | 1,369 | - | 1,369 |
| | - | 4,376 | - | 4,376 |
| Other assets | - | - | 13 | 13 |
| **Total financial assets at fair value through profit or loss** | 29,068 | 11,017 | 1,509 | 41,594 |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Cash and deposits with financial institutions | 135 | 933 | - | 1,068 |
| Securities | | | | |
| Debt securities issued or guaranteed by: | | | | |
| Canadian governmental entities | 1,950 | 595 | - | 2,545 |
| Provincial governmental entities and municipal corporations in Canada | 4,402 | 641 | - | 5,043 |
| Other securities | | | | |
| Financial institutions | - | 2,810 | - | 2,810 |
| Other issuers | - | 593 | 97 | 690 |
| Equity securities | - | 43 | - | 43 |
| **Total financial assets at fair value through other comprehensive income** | 6,487 | 5,615 | 97 | 12,199 |
| Financial instruments of segregated funds | 5,556 | 7,610 | 72 | 13,238 |
| **Total financial assets** | $ 41,111 | $ 24,242 | $ 1,678 | $ 67,031 |
| **Financial liabilities** | | | | |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Other liabilities | | | | |
| Commitments related to securities sold short | $ 10,535 | $ 294 | $ - | $ 10,829 |
| Other | - | - | 319 | 319 |
| | 10,535 | 294 | 319 | 11,148 |
| Derivative financial instruments | | | | |
| Interest rate contracts | - | 1,726 | - | 1,726 |
| Foreign exchange contracts | - | 278 | - | 278 |
| Other contracts | - | 1,328 | - | 1,328 |
| | - | 3,332 | - | 3,332 |
| **Total financial liabilities** | $ 10,535 | $ 3,626 | $ 319 | $ 14,480 |

During the nine-month period ended September 30, 2019 and the year ended December 31, 2018, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

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

## FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

### Valuation process for financial instruments categorized within Level 3

The Federation has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect. During the nine-month period ended September 30, 2019, no significant changes were made to the key controls and procedures as well as the valuation techniques for financial instruments categorized within Level 3. For more information on the valuation process for financial instruments categorized within Level 3, refer to Note 4, “Fair value of financial instruments”, to the Annual Consolidated Financial Statements.

### Sensitivity of financial instruments categorized within Level 3

The Federation performs sensitivity analyses to measure the fair value of financial instruments categorized within Level 3. Changing unobservable inputs to one or more reasonably possible alternative assumptions does not significantly change the fair value of financial instruments categorized within Level 3.

### Valuation techniques and inputs used to measure the fair value of financial instruments categorized within Level 3

During the nine-month period ended September 30, 2019, no changes were made to valuation techniques. Some changes were made to input value ranges used to determine fair value, but they did not result in material changes to the fair value of financial instruments categorized within Level 3.

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

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

### Changes in fair value of financial instruments categorized within Level 3

The following tables present the changes in fair value of financial instruments categorized within Level 3 of the hierarchy, namely financial instruments whose fair value is determined using valuation techniques not based mainly on observable market data.

| For the nine-month period ended September 30, 2019 | Balance at beginning of period | Realized gains / losses recognized in profit or loss[1] | Unrealized gains / losses recognized in profit or loss[2] | Unrealized gains / losses recognized in other comprehensive income[3] | Transfers of instruments into (out of) Level 3 | Purchases / Issuances / Other | Sales / Settlements / Other | Balance at end of period |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| **Financial assets at fair value through profit or loss** | | | | | | | | |
| Securities | | | | | | | | |
| Other securities | | | | | | | | |
| Financial institutions | | | | | | | | |
| Mortgage bonds | $ 56 | $ - | $ - | $ - | $ - | $ - | $ - | $ 56 |
| Other issuers | | | | | | | | |
| Hedge funds | 1 | - | 1 | - | - | - | - | 2 |
| Asset-backed term notes | 5 | - | - | - | - | - | (1) | 4 |
| Mortgage bonds | 736 | - | 15 | - | - | - | (29) | 722 |
| Other debt securities | - | - | (2) | - | - | 53 | - | 51 |
| Equity securities | 698 | (4) | (23) | - | - | 149 | (73) | 747 |
| Other assets | 13 | - | - | - | - | - | (13) | - |
| **Total financial assets at fair value through profit or loss** | 1,509 | (4) | (9) | - | - | 202 | (116) | 1,582 |
| **Financial assets at fair value through other comprehensive income** | | | | | | | | |
| Securities | | | | | | | | |
| Other securities | | | | | | | | |
| Other issuers | | | | | | | | |
| Mortgage bonds | 89 | - | - | 1 | - | - | (2) | 88 |
| Corporate bonds | 8 | - | - | - | - | - | (8) | - |
| **Total financial assets at fair value through other comprehensive income** | 97 | - | - | 1 | - | - | (10) | 88 |
| Financial instruments of segregated funds | 72 | - | 3 | - | - | 5 | - | 80 |
| **Total financial assets** | $ 1,678 | $ (4) | $ (6) | $ 1 | $ - | $ 207 | $ (126) | $ 1,750 |
| **Financial liabilities** | | | | | | | | |
| **Financial liabilities at fair value through profit or loss** | | | | | | | | |
| Other liabilities – Other | | | | | | | | |
| Financial liability related to the contingent consideration | $ 319 | $ - | $ 128 | $ - | $ - | $ - | $ (244) | $ 203 |
| **Total financial liabilities** | $ 319 | $ - | $ 128 | $ - | $ - | $ - | $ (244) | $ 203 |

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income (loss)".
(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income (loss)".
(3) Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized gains (losses)” on debt securities at fair value through other comprehensive income.

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

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

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

| For the nine-month period ended September 30, 2018 | Balance as at December 31, 2017 | Impact of changes in accounting policies | Balance as at January 1, 2018 | Realized gains / losses recognized in profit or loss[1] | Unrealized gains / losses recognized in profit or loss[2] | Unrealized gains / losses recognized in other comprehensive income[3] | Transfers of instruments into (out of) Level 3 | Purchases / Issuances | Sales / Settlements / Other | Balance at end of period |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | |
| **Financial assets at fair value through profit or loss** | | | | | | | | | | |
| Securities | | | | | | | | | | |
| Other securities | | | | | | | | | | |
| Financial institutions | | | | | | | | | | |
| Mortgage bonds | $ 58 | $ - | $ 58 | $ - | $ (2) | $ - | $ - | $ - | $ - | $ 56 |
| Other issuers | | | | | | | | | | |
| Hedge funds | 4 | - | 4 | 4 | (1) | - | - | - | - | 7 |
| Asset-backed term notes | 6 | - | 6 | - | 2 | - | - | - | (3) | 5 |
| Mortgage bonds | 857 | - | 857 | - | (33) | - | - | - | (74) | 750 |
| Equity securities | 236 | 279 | 515 | - | 9 | - | - | 123 | (9) | 638 |
| Other assets | - | - | - | - | - | - | - | 15 | - | 15 |
| **Total financial assets at fair value through profit or loss** | 1,161 | 279 | 1,440 | 4 | (25) | - | - | 138 | (86) | 1,471 |
| **Available-for-sale financial assets** | | | | | | | | | | |
| Securities – Available-for-sale securities | | | | | | | | | | |
| Other securities | | | | | | | | | | |
| Other issuers | | | | | | | | | | |
| Mortgage bonds | 95 | (95) | - | - | - | - | - | - | - | - |
| Equity securities | 279 | (279) | - | - | - | - | - | - | - | - |
| **Total available-for-sale financial assets** | 374 | (374) | - | - | - | - | - | - | - | - |
| **Financial assets at fair value through other comprehensive income** | | | | | | | | | | |
| Securities | | | | | | | | | | |
| Other securities | | | | | | | | | | |
| Other issuers | | | | | | | | | | |
| Mortgage bonds | - | 95 | 95 | - | - | (4) | - | - | (2) | 89 |
| **Total financial assets at fair value through other comprehensive income** | - | 95 | 95 | - | - | (4) | - | - | (2) | 89 |
| Financial instruments of segregated funds | 60 | - | 60 | (1) | 2 | - | - | 81 | (70) | 72 |
| **Total financial assets** | $ 1,595 | $ - | $ 1,595 | $ 3 | $ (23) | $ (4) | $ - | $ 219 | $ (158) | $ 1,632 |
| **Financial liabilities** | | | | | | | | | | |
| **Financial liabilities at fair value through profit or loss** | | | | | | | | | | |
| Other liabilities – Other | | | | | | | | | | |
| Financial liability related to put options | $ 64 | $ - | $ 64 | $ - | $ - | $ - | $ - | $ - | $ (64) | $ - |
| Financial liability related to the contingent consideration | 388 | - | 388 | - | 133 | - | - | - | (277) | 244 |
| **Total financial liabilities** | $ 452 | $ - | $ 452 | $ - | $ 133 | $ - | $ - | $ - | $ (341) | $ 244 |

[1] Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income (loss)".
[2] Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income (loss)".
[3] Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized gains (losses)" on debt securities at fair value through other comprehensive income.

# NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which the Federation estimates a loss allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. For more information on the classification of loans and off-balance sheet items based on credit quality, see the table presenting probability of default (PD) tranches in relation with risk levels for loans and off-balance sheet items in Note 7, “Loans and allowance for credit losses”, to the Annual Consolidated Financial Statements.

### Loans

| | Non-credit impaired | | Credit-impaired | |
|---|---|---|---|---|
| **As at September 30, 2019** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Residential mortgages** | | | | |
| Excellent | **$ 682** | **$ -** | **$ -** | **$ 682** |
| Very low | **2,092** | **-** | **-** | **2,092** |
| Low | **1,498** | **10** | **-** | **1,508** |
| Moderate | **51** | **86** | **-** | **137** |
| High | **-** | **25** | **-** | **25** |
| Default | **-** | **4** | **13** | **17** |
| **Total gross residential mortgages** | **$ 4,323** | **$ 125** | **$ 13** | **$ 4,461** |
| Allowance for credit losses | **(4)** | **(1)** | **(5)** | **(10)** |
| **Total net residential mortgages** | **$ 4,319** | **$ 124** | **$ 8** | **$ 4,451** |
| **Consumer, credit card and other personal loans** | | | | |
| Excellent | **$ 1,486** | **$ -** | **$ -** | **$ 1,486** |
| Very low | **3,437** | **-** | **-** | **3,437** |
| Low | **8,476** | **111** | **-** | **8,587** |
| Moderate | **3,530** | **1,396** | **-** | **4,926** |
| High | **26** | **1,730** | **-** | **1,756** |
| Default | **-** | **-** | **246** | **246** |
| **Total gross consumer, credit card and other personal loans** | **$ 16,955** | **$ 3,237** | **$ 246** | **$ 20,438** |
| Allowance for credit losses | **(101)** | **(194)** | **(124)** | **(419)** |
| **Total net consumer, credit card and other personal loans** | **$ 16,854** | **$ 3,043** | **$ 122** | **$ 20,019** |
| **Business and government loans**[1] | | | | |
| Acceptable risk: | | | | |
| Investment grade | **$ 33,708** | **$ -** | **$ -** | **$ 33,708** |
| Other than investment grade | **4,806** | **697** | **-** | **5,503** |
| Under watch | **134** | **78** | **-** | **212** |
| Default | **-** | **-** | **159** | **159** |
| **Total gross business and government loans** | **$ 38,648** | **$ 775** | **$ 159** | **$ 39,582** |
| Allowance for credit losses | **(11)** | **(4)** | **(20)** | **(35)** |
| **Total net business and government loans** | **$ 38,637** | **$ 771** | **$ 139** | **$ 39,547** |

(1) Including clients' liability under acceptances.

# NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

### Loans *(continued)*

| | Non-credit impaired | | Credit-impaired | |
|---|---|---|---|---|
| As at December 31, 2018 | Stage 1 | Stage 2 | Stage 3 | Total |
| **Residential mortgages** | | | | |
| Excellent | $ 626 | $ - | $ - | $ 626 |
| Very low | 2,120 | - | - | 2,120 |
| Low | 1,663 | 9 | - | 1,672 |
| Moderate | 82 | 73 | - | 155 |
| High | 8 | 32 | - | 40 |
| Default | - | 3 | 10 | 13 |
| **Total gross residential mortgages** | $ 4,499 | $ 117 | $ 10 | $ 4,626 |
| Allowance for credit losses | (4) | (1) | (5) | (10) |
| **Total net residential mortgages** | $ 4,495 | $ 116 | $ 5 | $ 4,616 |
| **Consumer, credit card and other personal loans** | | | | |
| Excellent | $ 1,529 | $ - | $ - | $ 1,529 |
| Very low | 3,352 | - | - | 3,352 |
| Low | 8,139 | 92 | - | 8,231 |
| Moderate | 3,522 | 1,320 | - | 4,842 |
| High | 33 | 1,523 | - | 1,556 |
| Default | - | - | 200 | 200 |
| **Total gross consumer, credit card and other personal loans** | $ 16,575 | $ 2,935 | $ 200 | $ 19,710 |
| Allowance for credit losses | (102) | (249) | (110) | (461) |
| **Total net consumer, credit card and other personal loans** | $ 16,473 | $ 2,686 | $ 90 | $ 19,249 |
| **Business and government loans**[1] | | | | |
| Acceptable risk: | | | | |
| Investment grade | $ 33,588 | $ - | $ - | $ 33,588 |
| Other than investment grade | 3,753 | 353 | - | 4,106 |
| Under watch | 65 | 255 | - | 320 |
| Default | - | - | 138 | 138 |
| **Total gross business and government loans** | $ 37,406 | $ 608 | $ 138 | $ 38,152 |
| Allowance for credit losses | (9) | (5) | (6) | (20) |
| **Total net business and government loans** | $ 37,397 | $ 603 | $ 132 | $ 38,132 |

(1) Including clients' liability under acceptances.

# NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

**Off-balance sheet items**[1]

| As at September 30, 2019 | Non-credit impaired Stage 1 | Non-credit impaired Stage 2 | Credit-impaired Stage 3 | Total |
|---|---|---|---|---|
| **Residential mortgages, consumer, credit card and other personal loans** | | | | |
| Excellent | **$ 13,094** | **$ 2** | **$ -** | **$ 13,096** |
| Very low | **18,827** | **2** | **-** | **18,829** |
| Low | **7,284** | **119** | **-** | **7,403** |
| Moderate | **3,760** | **1,434** | **-** | **5,194** |
| High | **17** | **752** | **-** | **769** |
| Default | **-** | **-** | **34** | **34** |
| **Total gross off-balance sheet items** | **$ 42,982** | **$ 2,309** | **$ 34** | **$ 45,325** |
| Allowance for credit losses | **(22)** | **(3)** | **-** | **(25)** |
| **Total net off-balance sheet items** | **$ 42,960** | **$ 2,306** | **$ 34** | **$ 45,300** |
| **Business and government** | | | | |
| Acceptable risk: | | | | |
| Investment grade | **$ 59,486** | **$ -** | **$ -** | **$ 59,486** |
| Other than investment grade | **5,915** | **447** | **-** | **6,362** |
| Under watch | **49** | **44** | **-** | **93** |
| Default | **-** | **-** | **8** | **8** |
| **Total gross off-balance sheet items** | **$ 65,450** | **$ 491** | **$ 8** | **$ 65,949** |
| Allowance for credit losses | **(4)** | **-** | **-** | **(4)** |
| **Total net off-balance sheet items** | **$ 65,446** | **$ 491** | **$ 8** | **$ 65,945** |

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

| As at December 31, 2018 | Non-credit impaired Stage 1 | Non-credit impaired Stage 2 | Credit-impaired Stage 3 | Total |
|---|---|---|---|---|
| **Residential mortgages, consumer, credit card and other personal loans** | | | | |
| Excellent | $ 12,121 | $ 5 | $ - | $ 12,126 |
| Very low | 18,338 | 1 | - | 18,339 |
| Low | 7,221 | 121 | - | 7,342 |
| Moderate | 3,318 | 1,362 | - | 4,680 |
| High | 16 | 662 | - | 678 |
| Default | - | - | 23 | 23 |
| **Total gross off-balance sheet items** | $ 41,014 | $ 2,151 | $ 23 | $ 43,188 |
| Allowance for credit losses | (25) | (8) | - | (33) |
| **Total net off-balance sheet items** | $ 40,989 | $ 2,143 | $ 23 | $ 43,155 |
| **Business and government** | | | | |
| Acceptable risk: | | | | |
| Investment grade | $ 61,224 | $ - | $ - | $ 61,224 |
| Other than investment grade | 3,387 | 384 | - | 3,771 |
| Under watch | 18 | 54 | - | 72 |
| Default | - | - | 8 | 8 |
| **Total gross off-balance sheet items** | $ 64,629 | $ 438 | $ 8 | $ 65,075 |
| Allowance for credit losses | (2) | (2) | - | (4) |
| **Total net off-balance sheet items** | $ 64,627 | $ 436 | $ 8 | $ 65,071 |

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

# NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

## ALLOWANCE FOR CREDIT LOSSES

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

| For the nine-month period ended September 30, 2019 | Non-credit impaired Stage 1 | Non-credit impaired Stage 2 | Credit-impaired Stage 3 | Allowance for credit losses |
|---|---|---|---|---|
| **Residential mortgages** | | | | |
| **Balance at beginning of period** | **$ 4** | **$ 1** | **$ 5** | **$ 10** |
| *Provision for credit losses* | | | | |
| Transfers to[1]: | | | | |
| Stage 1 | - | - | - | - |
| Stage 2 | - | - | - | - |
| Stage 3 | - | - | - | - |
| Net remeasurement due to transfers[2] | - | - | - | - |
| Changes in model inputs[3] | - | - | - | - |
| New originations or acquisitions[4] | - | - | - | - |
| Derecognition and maturities[5] | - | - | - | - |
| Net drawdowns (repayments)[6] | - | - | - | - |
| | - | - | - | - |
| Write-offs and recoveries | - | - | - | - |
| **Balance at end of period** | **$ 4** | **$ 1** | **$ 5** | **$ 10** |
| **Consumer, credit card and other personal loans** | | | | |
| **Balance at beginning of period** | **$ 129** | **$ 259** | **$ 110** | **$ 498** |
| *Provision for credit losses* | | | | |
| Transfers to[1]: | | | | |
| Stage 1 | 180 | (168) | (12) | - |
| Stage 2 | (40) | 71 | (31) | - |
| Stage 3 | - | (27) | 27 | - |
| Net remeasurement due to transfers[2] | (50) | 30 | 148 | 128 |
| Changes in model inputs[3] | (120) | 47 | 154 | 81 |
| New originations or acquisitions[4] | 56 | 60 | - | 116 |
| Derecognition and maturities[5] | (25) | (55) | (34) | (114) |
| Net drawdowns (repayments)[6] | (3) | (20) | 4 | (19) |
| | (2) | (62) | 256 | 192 |
| Write-offs and recoveries | - | - | (242) | (242) |
| **Balance at end of period** | **$ 127** | **$ 197** | **$ 124** | **$ 448** |
| **Business and government** | | | | |
| **Balance at beginning of period** | **$ 9** | **$ 5** | **$ 6** | **$ 20** |
| *Provision for credit losses* | | | | |
| Transfers to[1]: | | | | |
| Stage 1 | 3 | (3) | - | - |
| Stage 2 | (1) | 1 | - | - |
| Stage 3 | - | - | - | - |
| Net remeasurement due to transfers[2] | (1) | 1 | 8 | 8 |
| Changes in model inputs[3] | (2) | - | (3) | (5) |
| New originations or acquisitions[4] | 4 | - | - | 4 |
| Derecognition and maturities[5] | (2) | - | (1) | (3) |
| Net drawdowns (repayments)[6] | 1 | - | - | 1 |
| Other | - | - | 10 | 10 |
| | 2 | (1) | 14 | 15 |
| Write-offs and recoveries | - | - | - | - |
| **Balance at end of period** | **$ 11** | **$ 4** | **$ 20** | **$ 35** |
| **Total balances as at September 30, 2019** | **$ 142** | **$ 202** | **$ 149** | **$ 493** |
| **Composed of:** | | | | |
| Loans | **$ 116** | **$ 199** | **$ 149** | **$ 464** |
| Off-balance sheet items[7] | 26 | 3 | - | 29 |

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
(4) Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(7) The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Consolidated Balance Sheets.

# NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

## ALLOWANCE FOR CREDIT LOSSES (*continued*)

| For the nine-month period ended September 30, 2018 | Non-credit impaired Stage 1 | Non-credit impaired Stage 2 | Credit-impaired Stage 3 | Allowance for credit losses |
|---|---|---|---|---|
| **Residential mortgages** | | | | |
| **Balance at beginning of period** | $ 4 | $ 1 | $ 4 | $ 9 |
| *Provision for credit losses* | | | | |
| Transfers to[1]: | | | | |
| Stage 1 | - | - | - | - |
| Stage 2 | - | - | - | - |
| Stage 3 | - | - | - | - |
| Net remeasurement due to transfers[2] | - | - | - | - |
| Changes in model inputs[3] | - | - | (4) | (4) |
| New originations or acquisitions[4] | - | - | - | - |
| Derecognition and maturities[5] | - | - | - | - |
| Net drawdowns (repayments)[6] | - | - | - | - |
| | - | - | (4) | (4) |
| Write-offs and recoveries | - | - | - | - |
| **Balance at end of period** | $ 4 | $ 1 | $ - | $ 5 |
| **Consumer, credit card and other personal loans** | | | | |
| **Balance at beginning of period** | $ 96 | $ 304 | $ 94 | $ 494 |
| *Provision for credit losses* | | | | |
| Transfers to[1]: | | | | |
| Stage 1 | 211 | (201) | (10) | - |
| Stage 2 | (32) | 56 | (24) | - |
| Stage 3 | (1) | (25) | 26 | - |
| Net remeasurement due to transfers[2] | (103) | 51 | 90 | 38 |
| Changes in model inputs[3] | (68) | 138 | 156 | 226 |
| New originations or acquisitions[4] | 62 | 131 | - | 193 |
| Derecognition and maturities[5] | (26) | (141) | (71) | (238) |
| Net drawdowns (repayments)[6] | (18) | (13) | 42 | 11 |
| | 25 | (4) | 209 | 230 |
| Write-offs and recoveries | - | - | (207) | (207) |
| **Balance at end of period** | $ 121 | $ 300 | $ 96 | $ 517 |
| **Business and government** | | | | |
| **Balance at beginning of period** | $ 7 | $ 9 | $ 8 | $ 24 |
| *Provision for credit losses* | | | | |
| Transfers to[1]: | | | | |
| Stage 1 | 6 | (5) | (1) | - |
| Stage 2 | (1) | 2 | (1) | - |
| Stage 3 | - | - | - | - |
| Net remeasurement due to transfers[2] | (3) | 1 | 2 | - |
| Changes in model inputs[3] | (2) | 2 | 1 | 1 |
| New originations or acquisitions[4] | 3 | - | - | 3 |
| Derecognition and maturities[5] | (2) | - | (2) | (4) |
| Net drawdowns (repayments)[6] | - | (1) | (1) | (2) |
| | 1 | (1) | (2) | (2) |
| Write-offs and recoveries | - | - | (1) | (1) |
| **Balance at end of period** | $ 8 | $ 8 | $ 5 | $ 21 |
| **Total balances as at September 30, 2018** | $ 133 | $ 309 | $ 101 | $ 543 |
| **Composed of:** | | | | |
| Loans | $ 112 | $ 294 | $ 101 | $ 507 |
| Off-balance sheet items[7] | 21 | 15 | - | 36 |

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
(4) Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(7) The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Consolidated Balance Sheets.

# NOTE 6 – INTERESTS IN OTHER ENTITIES

### COVERED BONDS

Under its covered bond program, the Federation issues debt securities guaranteed by a pool of mortgage loans. A structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. This entity is controlled by the Federation, and therefore included in its Consolidated Financial Statements. The Federation granted financing to the entity in order to facilitate the acquisition of these assets. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bonds issues. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by this structured entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to $6,366 million as at September 30, 2019 ($5,859 million as at December 31, 2018), are presented under “Deposits – Business and government” in the Consolidated Balance Sheets.

# NOTE 7 – DEPOSITS

Deposits consist of demand deposits (payable on demand), notice deposits (payable upon notice) and term deposits (payable on a fixed date). Demand deposits are interest-bearing or non-interest-bearing deposits, primarily accounts with chequing privileges, for which the Federation does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which the Federation has the legal right to require notice prior to withdrawal. Term deposits are interest-bearing deposits, primarily fixed-term deposit accounts, guaranteed investment certificates or other similar instruments, with a term that generally varies from 1 day to 10 years and mature on a predetermined date.

The following table presents the breakdown of deposits.

| | As at September 30, 2019 | | | | As at December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Payable on demand** | **Payable upon notice** | **Payable on a fixed date** | **Total** | Payable on demand | Payable upon notice | Payable on a fixed date | Total |
| Individuals | **$ 3,028** | **$ 33** | **$ 523** | **$ 3,584** | $ 2,961 | $ 41 | $ 1,103 | $ 4,105 |
| Business and government | **4,674** | **-** | **43,587** | **48,261** | 3,274 | - | 42,724 | 45,998 |
| Deposit-taking institutions | **3,662** | **-** | **3,747** | **7,409** | 4,448 | - | 3,506 | 7,954 |
| | **$ 11,364** | **$ 33** | **$ 47,857** | **$ 59,254** | $ 10,683 | $ 41 | $ 47,333 | $ 58,057 |

# NOTE 8 – CAPITAL STOCK

### ISSUANCE OF SHARES

During the nine-month period ended September 30, 2019, the Federation issued 10,530,473 F capital shares for a cash consideration of $105 million.

# NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

| | As at September 30, 2019 | | As at December 31, 2018 | |
|---|---|---|---|---|
| | **Group's share** | **Non-controlling interests' share** | Group's share | Non-controlling interests' share |
| **Items that will be reclassified subsequently to the Consolidated Statements of Income** | | | | |
| Net unrealized gains (losses) on debt securities classified as at fair value through other comprehensive income[1] | **$ 186** | **$ 1** | $ 14 | $ (1) |
| Net unrealized gains (losses) related to the overlay approach for insurance operations financial assets | **114** | **4** | (17) | (2) |
| Net gains (losses) on derivative financial instruments designated as cash flow hedges | **8** | **-** | (7) | - |
| Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions | **1** | **-** | 1 | - |
| **Accumulated other comprehensive income** | **$ 309** | **$ 5** | $ (9) | $ (3) |

[1] Including an allowance for credit losses of $3 million as at September 30, 2019 ($2 million as at December 31, 2018) on securities classified as at fair value through other comprehensive income.

# NOTE 10 – CAPITAL MANAGEMENT

Capital management is a function covering all Desjardins Group operations, including those of the Federation. Accordingly, the description of the Federation's capital management and the manner in which it meets its capital management objectives are derived from the orientation followed for all Desjardins Group operations. The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained for the following reasons: to have flexibility for its development, to maintain favourable credit ratings and to maintain the confidence of depositors and financial markets.

The Federation's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF.

The minimum Tier 1A capital ratio that the Federation must maintain is 8.0%. In addition, its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. For the leverage ratio, the minimum requirement is 3.0%.

As at September 30, 2019, the Federation was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

The following table presents the Federation's regulatory capital balances, risk-weighted assets and capital ratios.

| (in millions of dollars and as a percentage) | As at September 30, 2019 | As at December 31, 2018 |
|---|---|---|
| **Capital** | | |
| Tier 1A capital | **$ 11,097** | $ 9,897 |
| Tier 1 capital | **11,097** | 9,897 |
| Total capital | **11,097** | 9,897 |
| **Risk-weighted assets for capital ratio calculation purposes[1]** | | |
| For Tier 1A capital | **67,910** | 63,106 |
| For Tier 1 capital | **67,910** | 63,150 |
| For total capital | **67,910** | 63,193 |
| **Risk-weighted assets for total capital calculation purposes[1]** | | |
| Credit risk | **54,273** | 49,216 |
| Market risk | **4,887** | 5,396 |
| Operational risk | **8,750** | 8,581 |
| **Total risk-weighted assets** | **$ 67,910** | $ 63,193 |
| **Ratios and leverage ratio exposure** | | |
| Tier 1A capital | **16.3%** | 15.7% |
| Tier 1 capital | **16.3** | 15.7 |
| Total capital | **16.3** | 15.7 |
| Leverage | **8.2** | 7.4 |
| Leverage ratio exposure | **$ 135,288** | $ 134,198 |

[1] Since January 1, 2014, the requirements of the CVA charge have been phased in to calculate the Tier 1A, Tier 1 and total capital ratios. As at December 31, 2018, the factors applied were 80%, 83% and 86%, respectively, and they are now 100% for each capital category as of the first quarter of 2019.

# NOTE 11 – NET INTEREST INCOME AND NET INVESTMENT INCOME (LOSS)

## NET INTEREST INCOME

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

| | For the three-month periods ended September 30 | | For the nine-month periods ended September 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Interest income on financial assets** | | | | |
| At amortized cost | **$ 760** | $ 688 | **$ 2,201** | $ 1,892 |
| At fair value through other comprehensive income | **37** | 43 | **122** | 122 |
| At fair value through profit or loss | **6** | 9 | **18** | 27 |
| | **803** | 740 | **2,341** | 2,041 |
| **Interest expense on financial liabilities at amortized cost** | **399** | 358 | **1,200** | 938 |
| | **$ 404** | $ 382 | **$ 1,141** | $ 1,103 |

## NET INVESTMENT INCOME (LOSS)

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

| **For the three-month periods ended September 30** | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Interest income and expense** | **Fair value gains (losses) and other** | **Total** | Interest income and expense | Fair value gains (losses) and other | Total |
| **Net investment income (loss) on financial assets and liabilities** | | | | | | |
| Classified as at fair value through profit or loss | **$ 54** | **$ 19** | **$ 73** | $ 158 | $ (122) | $ 36 |
| Designated as at fair value through profit or loss | **136** | **270** | **406** | 129 | (447) | (318) |
| Classified as at fair value through other comprehensive income | **35** | **11** | **46** | 35 | (14) | 21 |
| At amortized cost and other | **35** | **21** | **56** | 37 | 11 | 48 |
| | **$ 260** | **$ 321** | **$ 581** | $ 359 | $ (572) | $ (213) |

| **For the nine-month periods ended September 30** | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Interest income and expense** | **Fair value gains (losses) and other** | **Total** | Interest income and expense | Fair value gains (losses) and other | Total |
| **Net investment income (loss) on financial assets and liabilities** | | | | | | |
| Classified as at fair value through profit or loss | **$ 194** | **$ 357** | **$ 551** | $ 292 | $ (179) | $ 113 |
| Designated as at fair value through profit or loss | **400** | **1,765** | **2,165** | 374 | (559) | (185) |
| Classified as at fair value through other comprehensive income | **105** | **31** | **136** | 101 | (17) | 84 |
| At amortized cost and other | **101** | **43** | **144** | 110 | 90 | 200 |
| | **$ 800** | **$ 2,196** | **$ 2,996** | $ 877 | $ (665) | $ 212 |

# NOTE 12 – SEGMENTED INFORMATION

## RESULTS BY BUSINESS SEGMENT

The following tables provide a summary of the Federation's financial results by business segment.

| For the three-month periods ended September 30 | Personal and Business Services | | Wealth Management and Life and Health Insurance | | Property and Casualty Insurance | | Treasury and Other Support to Desjardins Group Entities | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Net interest income | **$ 341** | $ 286 | **$ 1** | $ 1 | **$ -** | $ - | **$ 62** | $ 95 | **$ 404** | $ 382 |
| Net premiums | **-** | - | **1,113** | 1,209 | **1,279** | 1,120 | **(38)** | (41) | **2,354** | 2,288 |
| Other income | **419** | 411 | **930** | 157 | **(12)** | 45 | **136** | 135 | **1,473** | 748 |
| **Total income** | **760** | 697 | **2,044** | 1,367 | **1,267** | 1,165 | **160** | 189 | **4,231** | 3,418 |
| Provision for credit losses | **128** | 74 | **1** | (1) | **-** | - | **-** | - | **129** | 73 |
| Claims, benefits, annuities and changes in insurance contract liabilities | **-** | - | **1,331** | 573 | **925** | 803 | **7** | 4 | **2,263** | 1,380 |
| Non-interest expense | **533** | 522 | **581** | 572 | **299** | 271 | **195** | 233 | **1,608** | 1,598 |
| **Operating surplus earnings** | **99** | 101 | **131** | 223 | **43** | 91 | **(42)** | (48) | **231** | 367 |
| Income taxes on surplus earnings | **29** | 29 | **23** | 49 | **9** | 21 | **(41)** | (31) | **20** | 68 |
| **Net surplus earnings for the period after dividends to member caisses** | **$ 70** | $ 72 | **$ 108** | $ 174 | **$ 34** | $ 70 | **$ (1)** | $ (17) | **$ 211** | $ 299 |
| **of which:** | | | | | | | | | | |
| Group's share | **$ 70** | $ 72 | **$ 108** | $ 174 | **$ 23** | $ 57 | **$ (1)** | $ (17) | **$ 200** | $ 286 |
| Non-controlling interests' share | **-** | - | **-** | - | **11** | 13 | **-** | - | **11** | 13 |

| For the nine-month periods ended September 30 | Personal and Business Services | | Wealth Management and Life and Health Insurance | | Property and Casualty Insurance | | Treasury and Other Support to Desjardins Group Entities | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Net interest income | **$ 919** | $ 835 | **$ 4** | $ 3 | **$ -** | $ - | **$ 218** | $ 265 | **$ 1,141** | $ 1,103 |
| Net premiums | **-** | - | **3,394** | 3,542 | **3,685** | 3,252 | **(110)** | (117) | **6,969** | 6,677 |
| Other income | **1,334** | 1,294 | **3,782** | 1,496 | **148** | 111 | **309** | 425 | **5,573** | 3,326 |
| **Total income** | **2,253** | 2,129 | **7,180** | 5,041 | **3,833** | 3,363 | **417** | 573 | **13,683** | 11,106 |
| Provision for credit losses | **205** | 230 | **1** | (5) | **-** | - | **1** | - | **207** | 225 |
| Claims, benefits, annuities and changes in insurance contract liabilities | **-** | - | **4,909** | 2,407 | **2,831** | 2,352 | **4** | 4 | **7,744** | 4,763 |
| Non-interest expense | **1,657** | 1,561 | **1,738** | 1,772 | **909** | 828 | **778** | 633 | **5,082** | 4,794 |
| **Operating surplus earnings** | **391** | 338 | **532** | 867 | **93** | 183 | **(366)** | (64) | **650** | 1,324 |
| Income taxes on surplus earnings | **104** | 89 | **102** | 156 | **17** | 35 | **(156)** | (78) | **67** | 202 |
| **Net surplus earnings for the period after dividends to member caisses** | **$ 287** | $ 249 | **$ 430** | $ 711 | **$ 76** | $ 148 | **$ (210)** | $ 14 | **$ 583** | $ 1,122 |
| **of which:** | | | | | | | | | | |
| Group's share | **$ 287** | $ 249 | **$ 430** | $ 711 | **$ 50** | $ 115 | **$ (210)** | $ 14 | **$ 557** | $ 1,089 |
| Non-controlling interests' share | **-** | - | **-** | - | **26** | 33 | **-** | - | **26** | 33 |

## SEGMENT ASSETS

| | Personal and Business Services | Wealth Management and Life and Health Insurance | Property and Casualty Insurance | Treasury and Other Support to Desjardins Group Entities | Consolidated |
|---|---|---|---|---|---|
| **As at September 30, 2019** | **$ 62,723** | **$ 48,360** | **$ 13,754** | **$ 41,057** | **$ 165,894** |
| As at December 31, 2018 | $ 60,982 | $ 41,916 | $ 13,007 | $ 41,655 | $ 157,560 |

## NOTE 13 – SIGNIFICANT EVENT

**Privacy breach**

On June 20, 2019, Desjardins Group announced that some personal information of 2.9 million members had been shared with individuals outside the organization. This situation was caused by an ill-intentioned employee who has since been fired. Desjardins Group was not the victim of a cyberattack and its computer systems were in no way breached. In light of the situation, additional measures were put in place to protect the personal and financial information of all members and clients.

Desjardins Group sent a letter to the members affected by the privacy breach on June 20. It offered them, at its own cost, a credit monitoring service and identity theft insurance with Equifax for five years.

In addition, on July 15, 2019, Desjardins Group announced to all its members, not just those affected by the privacy breach, that they are now automatically protected against identity theft. This protection is available to both personal and business members, and includes the following: the protection of assets and transactions at Desjardins Group, individual support in the identity recovery process in case of identity theft and coverage that will reimburse up to $50,000 for expenses related to identify theft.

Subsequently, on November 1, 2019, Desjardins Group announced it had been informed by the Sûreté du Québec that the privacy breach now appears to have affected all individual caisse members.

On November 4, Desjardins Group informed members that had not received a letter following the June 20 announcement about the matter via their AccèsD inboxes. Members that use AccèsD will receive an activation code enabling them to sign up for a five-year credit monitoring service from Equifax free of charge. Desjardins Group is currently working to find the best possible alternative for caisse members who do not use AccèsD.

The expenses related to costs incurred and the establishment of a provision for the implementation of these protections for our members totalled $70 million for the nine-month period ended September 30, 2019. The announcement on November 1, 2019 did not have a material impact on these expenses. Desjardins Group may periodically reassess this provision based on the circumstances.

## NOTE 14 – SUBSEQUENT EVENT

On October 31, 2019, the Federation announced it had signed a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. Under the new partnership, Global Payments will acquire the Federation's entire merchant portfolio, which is currently housed under the Monetico brand, for a total consideration of $400 million. The transaction is expected to close by April 2020, subject to obtaining the regulatory approvals and satisfying the usual closing conditions. The Federation also announced it would gradually phase out in-store Accord D financing as from May 1, 2020.

## GENERAL INFORMATION

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