Desjardins Group Management's Discussion and Analysis

Desjardins Group (hereinafter also referred to as Desjardins) comprises the Desjardins caisses in Québec and the Caisse Desjardins Ontario Credit Union Inc. (the caisses), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, and the *Fonds de sécurité Desjardins*.

The Management's Discussion and Analysis (MD&A) dated February 26, 2020, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the year ended December 31, 2019, in comparison to previous fiscal years. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this regulation. However, it has chosen to apply the provisions provided in this regulation to demonstrate its willingness to comply with best practices in financial governance. Information on the Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

The MD&A should be read in conjunction with the Combined Financial Statements, including the Notes thereto, as at December 31, 2019.

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

The Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). Desjardins Group modified certain accounting policies following the adoption of IFRS 16, "Leases", on January 1, 2019. For more information about the accounting policies used as well as the accounting policy changes, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements, within the meaning of applicable securities legislation. Such forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Québec, 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 made may be incorrect, or that the predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially.

A number of factors, many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0, "Risk management" of this 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 also include factors related to climate change, household indebtedness and real estate market trends, technological advancement and regulatory developments, interest rate fluctuations and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; cyber threats; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; geographic concentration; acquisitions and joint arrangements; and credit ratings. Other factors include amendments to tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts on operations, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment. Additional information about these factors is found in Section 4.0, "Risk management" of this MD&A.

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

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

The significant economic assumptions underlying the forward-looking statements in this MD&A are described in Section 1.5, "Economic environment and outlook" of this MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section. To develop our economic growth forecasts, in general and for the financial services sector, we mainly use historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies.

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

NON-GAAP MEASURES

To assess its performance, Desjardins Group uses GAAP (IFRS) measures and various non-GAAP financial measures. Non-GAAP 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 GAAP measures. Investors, among others, may find these non-GAAP measures useful in analyzing financial performance. They are defined as follows:

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

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

Growth differential between operating income and non-interest expense and between adjusted operating income and non-interest expense

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

Desjardins Group's operating income is adjusted to exclude the following specific items: the gain related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017, the gain 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, and the gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand to Global Payments, completed on December 31, 2019.

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

Table 1 – Growth differential between operating income and non-interest expense and between adjusted operating income and non-interest expense

(in millions of dollars and as a percentage)	**2019[1]**	2018	2017[2]
Operating income	**$ 17,909**	$ 16,576	$ 15,465
Gain related to the sale of Western Financial Group Inc. and Western Life Assurance Company[3]	**-**	-	(278)
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.[3]	**-**	(132)	-
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand[3]	**(349)**	-	-
Adjusted operating income	**$ 17,560**	$ 16,444	$ 15,187
Growth in operating income	**8.0%**	7.2%	9.5%
Growth in adjusted operating income	**6.8%**	8.3%	7.5%
Non-interest expense	**$ 8,015**	$ 7,485	$ 7,400
Growth in non-interest expense	**7.1%**	1.1%	2.1%
Growth differential between operating income and non-interest expense	**0.9%**	6.1%	7.4%
Growth differential between adjusted operating income and non-interest expense	**(0.3)%**	7.2%	5.4%

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(3) Amounts before income taxes.

Adjusted surplus earnings of Desjardins Group before member dividends

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

Desjardins Group's surplus earnings before member dividends are adjusted to exclude the following specific items: the gain, net of income taxes, related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017, the 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, and the gain, net of income taxes, related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand to Global Payments, completed on December 31, 2019.

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

Table 2 – Adjusted surplus earnings of Desjardins Group before member dividends

(in millions of dollars)	**2019[1]**	2018	2017[2]
Presentation of surplus earnings before member dividends in the Combined Financial Statements	**$ 2,598**	$ 2,326	$ 2,151
Specific items, net of income taxes			
Gain related to the sale of Western Financial Group Inc. and Western Life Assurance Company	**-**	-	(249)
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**-**	(129)	-
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	**(309)**	-	-
Presentation of the adjusted surplus earnings before member dividends	**$ 2,289**	$ 2,197	$ 1,902

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

Adjusted surplus earnings before member dividends – Personal and Business Services segment

The Personal and Business Services segment's surplus earnings before member dividends are adjusted to exclude the following specific item: the gain, net of income taxes, related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand to Global Payments, completed on December 31, 2019.

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

Table 3 – Adjusted surplus earnings before member dividends – Personal and Business Services segment

(in millions of dollars)	**2019[1]**	2018	2017[2]
Presentation of surplus earnings before member dividends of the Personal and Business Services segment in the Combined Financial Statements	**$ 1,881**	$ 1,272	$ 1,108
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	**(309)**	-	-
Presentation of the adjusted surplus earnings before member dividends of the Personal and Business Services segment	**$ 1,572**	$ 1,272	$ 1,108

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

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

Table 4 – Adjusted net surplus earnings – Wealth Management and Life and Health Insurance segment

(in millions of dollars)	**2019[1]**	2018	2017[2]
Presentation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment in the Combined Financial Statements	**$ 729**	$ 894	$ 612
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	**$ 729**	$ 765	$ 612

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

Adjusted net surplus earnings − Property and Casualty Insurance segment

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

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

Table 5 – Adjusted net surplus earnings − Property and Casualty Insurance segment

(in millions of dollars)	**2019**	2018	2017[1]
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Combined Financial Statements	**$ 187**	$ 173	$ 446
Specific item, net of income taxes			
Gain related to the sale of Western Financial Group Inc. and Western Life Assurance Company[2]	**-**	-	(241)
Presentation of the adjusted net surplus earnings of the Property and Casualty segment	**$ 187**	$ 173	$ 205

(1) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(2) The difference with the data presented in Table 2 "Adjusted surplus earnings of Desjardins Group before member dividends" is related to intersegment transaction expenses.

Productivity index and adjusted productivity index

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

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

Table 6 – Productivity index and adjusted productivity index

(in millions of dollars and as a percentage)	**2019[1]**	2018	2017[2]
Non-interest expense	**$ 8,015**	$ 7,485	$ 7,400
Total income	**20,792**	17,310	17,153
Claims, benefits, annuities and changes in insurance contract liabilities	**(9,163)**	(6,579)	(6,717)
Total income excluding claims	**$ 11,629**	$ 10,731	$ 10,436
Productivity index	**68.9%**	69.8%	70.9%
Adjusted productivity index[3]	**71.1%**	70.6%	72.8%

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(3) Takes into account the specific items presented under the "Adjusted surplus earnings of Desjardins Group before member dividends" subsection in this section.

Net interest margin

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

Table 15, "Net interest income on average assets and liabilities", of Desjardins Group's MD&A provides more detailed information on the net interest margin.

Gross credit-impaired loans/gross loans and acceptances

The gross credit-impaired loans/gross loans and acceptances ratio is used to measure loan portfolio quality and is equal to gross credit-impaired loans expressed as a percentage of total gross loans and acceptances. Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

Table 44, "Gross credit-impaired loans by borrower category", of Desjardins Group's MD&A provides more detailed information on this ratio.

Loss ratio – Expense ratio – Combined ratio

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

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

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

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

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

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

Table 7 – Loss ratio – Expense ratio – Combined ratio

(in millions of dollars and as a percentage)	2019	2018	2017
Net premiums	**$ 4,988**	$ 4,402	$ 3,896
Premiums excluded from the loss ratio[1]	**-**	-	(61)
Net premiums considered in the ratio denominators	**$ 4,988**	$ 4,402	$ 3,835
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 3,665**	$ 3,209	$ 2,555
Market yield adjustment (MYA)	**(86)**	45	62
Other items excluded from the loss ratio[1]	**-**	-	(20)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 3,579**	$ 3,254	$ 2,597
Loss ratio	**71.7%**	73.9%	67.7%
Non-interest expense	**$ 1,229**	$ 1,127	$ 1,099
Other expenses excluded from the expense ratio[2]	**6**	(18)	(114)
Operating expenses	**$ 1,235**	$ 1,109	$ 985
Expense ratio	**24.8%**	25.2%	25.7%
Combined ratio	**96.5%**	99.1%	93.4%

[1] Due mainly to the life insurance activities of Western Life Assurance Company, the sale of which was completed on July 1, 2017.
[2] For 2019 and 2018: Due mainly to investment management fees and certain other expenses. For 2017: Due mainly to the life insurance and insurance product distribution activities of Western Life Assurance Company and Western Financial Group Inc., including expenses related to the sale of these two entities on July 1, 2017.

Return on equity and adjusted return on equity

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

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

Table 8 – Return on equity and adjusted return on equity

(in millions of dollars and as a percentage)	2019[1]	2018	2017[2]
Surplus earnings before member dividends	**$ 2,598**	$ 2,326	$ 2,151
Non-controlling interests' share	**(46)**	(41)	(43)
Group's share	**$ 2,552**	$ 2,285	$ 2,108
Average equity before non-controlling interests' share	**$ 25,787**	$ 24,530	$ 23,228
Return on equity	**9.9%**	9.3%	9.1%
Adjusted return on equity[3]	**8.9%**	8.9%	8.0%

[1] The information presented for the year ended December 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 Combined Financial Statements.
[2] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
[3] Takes into account the specific items presented under the "Adjusted surplus earnings of Desjardins Group before member dividends" subsection in this section.

Income

Operating income

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

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

Investment income

Investment income comprises net investment income on securities classified and designated as being at fair value through profit or loss, net investment income on securities classified as being at fair value through other comprehensive income, and net investment income on securities measured at amortized cost and other investment income, which are included under "Net investment income" in the Combined Statements of Income. Investment income also includes the overlay approach adjustment for insurance operations financial assets. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income given that these assets back insurance liabilities, which are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Combined Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss. The presentation of 2017 investment income complies with the standards that were in effect before Desjardins Group's adoption of IFRS 9, "Financial instruments", and the amendments to IFRS 4, "Insurance contracts" on January 1, 2018 on a retrospective basis without restatement of comparative periods.

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

Table 9 - Correspondence of total income between the MD&A and the Combined Financial Statements.

(in millions of dollars)	**2019[1]**	2018	2017[2]
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 5,359**	$ 4,894	$ 4,457
Net premiums	**9,412**	8,823	8,049
Other income			
Deposit and payment service charges	**431**	433	458
Lending fees and credit card service revenues	**774**	697	660
Brokerage and investment fund services	**886**	905	1,030
Management and custodial service fees	**582**	551	485
Net investment income[3]	**3,075**	211	1,688
Overlay approach adjustment for insurance operations financial assets	**(192)**	523	N/A
Foreign exchange income	**64**	91	77
Other	**401**	182	249
Total income	**$ 20,792**	$ 17,310	$ 17,153
Presentation of income in the MD&A			
Net interest income	**$ 5,359**	$ 4,894	$ 4,457
Net premiums	**9,412**	8,823	8,049
Other operating income			
Deposit and payment service charges	**431**	433	458
Lending fees and credit card service revenues	**774**	697	660
Brokerage and investment fund services	**886**	905	1,030
Management and custodial service fees	**582**	551	485
Foreign exchange income	**64**	91	77
Other	**401**	182	249
Operating income	**17,909**	16,576	15,465
Investment income			
Net investment income[3]	**3,075**	211	1,688
Overlay approach adjustment for insurance operations financial assets	**(192)**	523	N/A
Investment income	**2,883**	734	1,688
Total income	**$ 20,792**	$ 17,310	$ 17,153

[1] The information presented for the year ended December 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 Combined Financial Statements.
[2] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
[3] The breakdown of this line item is presented in Note 26, "Net interest income and net investment income", to the Combined Financial Statements.

Credit loss provisioning rate

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

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

Table 10 – Credit loss provisioning rate

(in millions of dollars and as a percentage)	2019	2018	2017[1]
Provision for credit losses	**$ 365**	$ 384	$ 349
Average gross loans	**197,109**	184,382	171,737
Average gross acceptances	**212**	105	69
Average gross loans and acceptances	**$ 197,321**	$ 184,487	$ 171,806
Credit loss provisioning rate	**0.18%**	0.21%	0.20%

[1] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

REGULATORY ENVIRONMENT

Regulatory environment

The Act respecting financial services cooperatives and the Insurers Act

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

Regulatory capital requirements

Desjardins Group complies with the minimum regulatory capital requirements issued by the AMF, which reflect the provisions of the Basel III Accord. As mentioned on page 1, although Desjardins Group is not a reporting issuer under AMF *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, it has chosen to apply the provisions in the regulation to demonstrate its willingness to comply with sound practices in financial governance. Desjardins Group's financial and corporate governance are discussed on pages 95 and 96 of this MD&A and in the "Corporate governance" section of the 2019 Desjardins Group Annual Report.

Domestic systemically important financial institution

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

U.S. regulations

Desjardins Bank, National Association, a wholly owned subsidiary of Desjardins FSB Holdings, Inc., is authorized to carry on banking operations as a national banking organization under the charter issued to it by the Office of the Comptroller of the Currency of the United States (OCC), an independent office of the United States Department of the Treasury and the regulator that oversees it. Desjardins FSB Holdings, Inc., as a bank holding company and wholly owned subsidiary of the Federation, is subject to the supervisory and regulatory authority of the Federal Reserve Bank of Atlanta. The Federation also operates a branch in Florida, namely Desjardins Florida Branch (DFLB), that has been given the status of a Limited Federal Branch of a Foreign Banking Organization by the OCC. DFLB is subject to regulation by the International Banking Supervision division of the OCC's Large Banks Supervision department. Desjardins Group is governed by the U.S. *Bank Holding Company Act,* as amended by the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act), and the U.S. Federal Reserve regulations. On October 22, 2015, the Board of Governors of the U.S. Federal Reserve System determined that Desjardins Group could be treated as a Financial Holding Company (FHC).

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

On June 13, 2018, the Québec 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 Québec's financial sector. The main goal of the Act is to update and modernize the legislative framework for Québec'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 *Insurers Act* (which replaced the *Act respecting insurance*), the *Act respecting financial services cooperatives*, the *Act respecting the distribution of financial products and services* and the *Deposit Insurance Act* (now the *Deposit Institutions and Deposit Protection Act)*. The *Act respecting financial service cooperatives* was 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 added a chapter concerning the *Groupe coopératif Desjardins* (the Cooperative Group), which comprises the Desjardins caisses in Québec, the Federation and the *Fonds de sécurité Desjardins*. The chapter aims to strengthen financial solidarity mechanisms within the Cooperative Group, among other things. In this way, the Act affirms the Federation's mission to look after Desjardins Group's risk management and see to the financial health of the Cooperative Group and its sustainability. The Federation and the *Fonds de sécurité Desjardins* have additional special powers of supervision and intervention regarding the protection of creditors, including depositors. As well, the Federation may, in accordance with its mission and when it considers that the financial position of the Cooperative Group so warrants, give written instructions to any caisse or order it to adopt and apply a recovery plan. For its part, the *Fonds de sécurité Desjardins* is required to ensure the distribution of capital and other assets among the components of the Cooperative Group so that each one can perform its obligations to its depositors and other creditors in full, correctly and without delay. It is required to intervene with a component of the Cooperative Group each time it appears necessary to do so in order to protect the component's creditors. The *Fonds de sécurité Desjardins* may, in such circumstances, order the assignment of any part of the business of a caisse, order the amalgamation or dissolution of caisses or establish a legal entity to facilitate the liquidation of a caisse's bad assets. Furthermore, the *Fonds de sécurité Desjardins* mutualizes the cost of its interventions between the components belonging to the Cooperative Group. In addition, if it considers that its financial resources are inadequate to carry out its mission, it may set a special assessment and require any component of the Cooperative Group to pay it. The Act also provides that all the Québec 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. For more details, see "Internal recapitalization (bail-in) regime and total loss absorbing capacity" below. Furthermore, the Act introduces a new *Insurers Act* that provides for revised supervision for Québec insurers. A significant change in this new legislation is to allow insurers to sell insurance over the Internet. A few changes aimed at modernizing the *Act respecting the distribution of financial products and services* were also introduced, such as rules for insurance brokers in offering products and new rules applicable to distributing products without a representative. In addition, in property and casualty insurance, the Act makes it mandatory for divided co-owners to have co-ownership insurance.

Generally speaking, the provisions of the Act applicable to financial services cooperatives came into force on July 13, 2018, one month after assent, but there are several exceptions. Among these, the chapter concerning the Cooperative Group came into force when the first internal by-law of the Cooperative Group was adopted on December 7, 2018. The new provisions of the *Insurers Act*, for their part, 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*.

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 Québec 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 debt securities 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 such purpose 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 Québec 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 does 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 Desjardins Group. Under the TLAC Guideline, beginning April 1, 2022, Desjardins Group 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. Additional information can be found in Section 3.2, "Capital management", on page 52.

Changes in the regulatory environment

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

Rules concerning capital instruments

Desjardins Group, under the AMF's guideline on adequacy of capital base standards for financial services cooperatives, is subject to rules applicable to non-viability contingent capital (NVCC) in its regulatory capital. These rules are similar to the ones set out by the OSFI applicable to Canadian financial institutions. Although Desjardins Group has not yet issued any instrument subject to these rules, the Federation is able to issue NVCC on Canadian, U.S. and European markets.

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

The final version of the amendments to the PCMLTFA and its regulations, tabled in June 2018, was published in the Canada Gazette by the Department of Finance Canada on July 10, 2019. Some of the amendments took effect upon official publication and the rest will take effect in June 2020 and June 2021. 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.

The Income Tax Act – Part XVIII (Enhanced International Information Reporting) and Part XIX (Common Reporting Standard)

In November 2019, the Canada Revenue Agency (CRA) announced regulatory changes taking effect on January 1, 2020. The changes were made to the guidance on the Canada-U.S. Enhanced Tax Information Exchange Agreement and the Common Reporting Standard (CRS). Although these changes have technically already taken effect, they have not been officially published. An impact analysis is under way and work sessions are continuing with the CLHIA, the Investment Industry Association of Canada, the Canadian Bankers Association, the Investment Funds Institute of Canada and the CRA.

Financial reforms in the U.S.

Should reform initiatives in the U.S. pertaining to financial regulation become a reality, they may affect non-U.S. financial institutions operating in the U.S., including Desjardins Group. The deregulation bill of U.S. Congress and the American regulators has been set in motion, in particular with the enactment of a statute providing some relief concerning certain rules prescribed by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and a proposal for a draft regulation simplifying the Volcker rule which deals with proprietary trading and hedge fund ownership interests. 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 finally by the U.S. Federal Reserve in October 2019. The changes took effect on January 1, 2020 and financial institutions will have until January 1, 2021 to comply. Desjardins Group is assessing the impact of these changes on its operations.

Data confidentiality and security

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. In May 2019, the Government of Canada issued its Digital Charter, which provides 10 principles to guide the government's action in terms of information technology, big data and artificial intelligence. The Canadian and Québec governments also announced that they intended to update their respective protection of personal information laws. In Europe, the control authorities in charge of applying the *General Data Protection Regulation* imposed harsh penalties in 2019 on organizations that had failed to respect the regulation. In the U.S., the State of California passed a restrictive law on protection of personal information that took effect on January 1, 2020. Desjardins Group expects that stricter rules will be adopted by the Canadian and Québec governments for the protection of personal information, particularly enhanced powers for privacy commissioners, and it is keeping a close watch in order to assess the potential impacts on its operations.

Pillar 3 disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). 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 October 2019, as part of a public consultation by the AMF, Pillar 3 financial disclosure requirements were removed from the *Capital Adequacy Guideline*. These requirements are now covered in a separate document entitled *Pillar 3 Disclosure Requirements Guideline*. This guideline took effect on January 1, 2020 and features new requirements extending until January 1, 2022 that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. Desjardins Group is continuing to work toward compliance with these new requirements.

Report on Ontario's auto insurance plan

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.

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

Client focused reforms

In October 2019, the Canadian Securities Administrators (CSA) adopted new obligations for brokerage firms and investment dealers, called the Client Focused Reforms. The new obligations have to do in particular with "know your client" and "know your product", the suitability of recommendations and dealing with conflicts of interest. The CSA also developed a new fundamental requirement for registrants, namely that clients' interests come first in terms of suitability of investments. Desjardins Group is continuing its analysis to determine the impact on its operations and to comply within the time limit provided. The Client Focused Reforms have been in effect since December 31, 2019 and their application is expected to extend over a period of two years.

Interest rate benchmark reform

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. The objective is to improve benchmark indexes by making sure they comply with robust international standards. The gradual withdrawal of certain interest rate benchmarks by the end of 2021 will have an impact on transactions in over-the-counter derivative financial instruments, securities, loans and other variable-rate instruments. Desjardins Group has set up a program to ensure a smooth transition from benchmark interest rates to risk-free rates.

Guideline on Information and Communications Technology Risk Management

In November 2019, the AMF issued for consultation a revised draft of the Guideline on Information and Communications Technology Risk Management (ICT), applying, in particular, to insurers and financial services cooperatives. The AMF is expected to issue the final version of the text during first quarter 2020 and the financial institutions targeted by the guideline are expected to implement its expectations by January 23, 2021. Desjardins Group continues to keep a close watch on developments in the draft guideline so that it can assess its impact on Desjardins's operations, including, in particular, any necessary adjustments in ICT-risk related procedures.

1.0 Desjardins Group

1.1 Profile and structure

WHO WE ARE

Desjardins Group is the largest financial cooperative in Canada, with assets of $313.0 billion as at December 31, 2019. The organization brings together 227 caisses in Québec and the Caisse Desjardins Ontario Credit Union Inc., the *Fédération des caisses Desjardins du Québec* and its subsidiaries and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association. The Caisse Desjardins Ontario Credit Union Inc. is the product of a merger between the *Fédération des caisses populaires de l'Ontario Inc.* and its 11 member caisses populaires. The merger took effect on January 1, 2020.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 47,800 employees and the commitment of over 2,900 directors.

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

WHAT MAKES US DIFFERENT

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

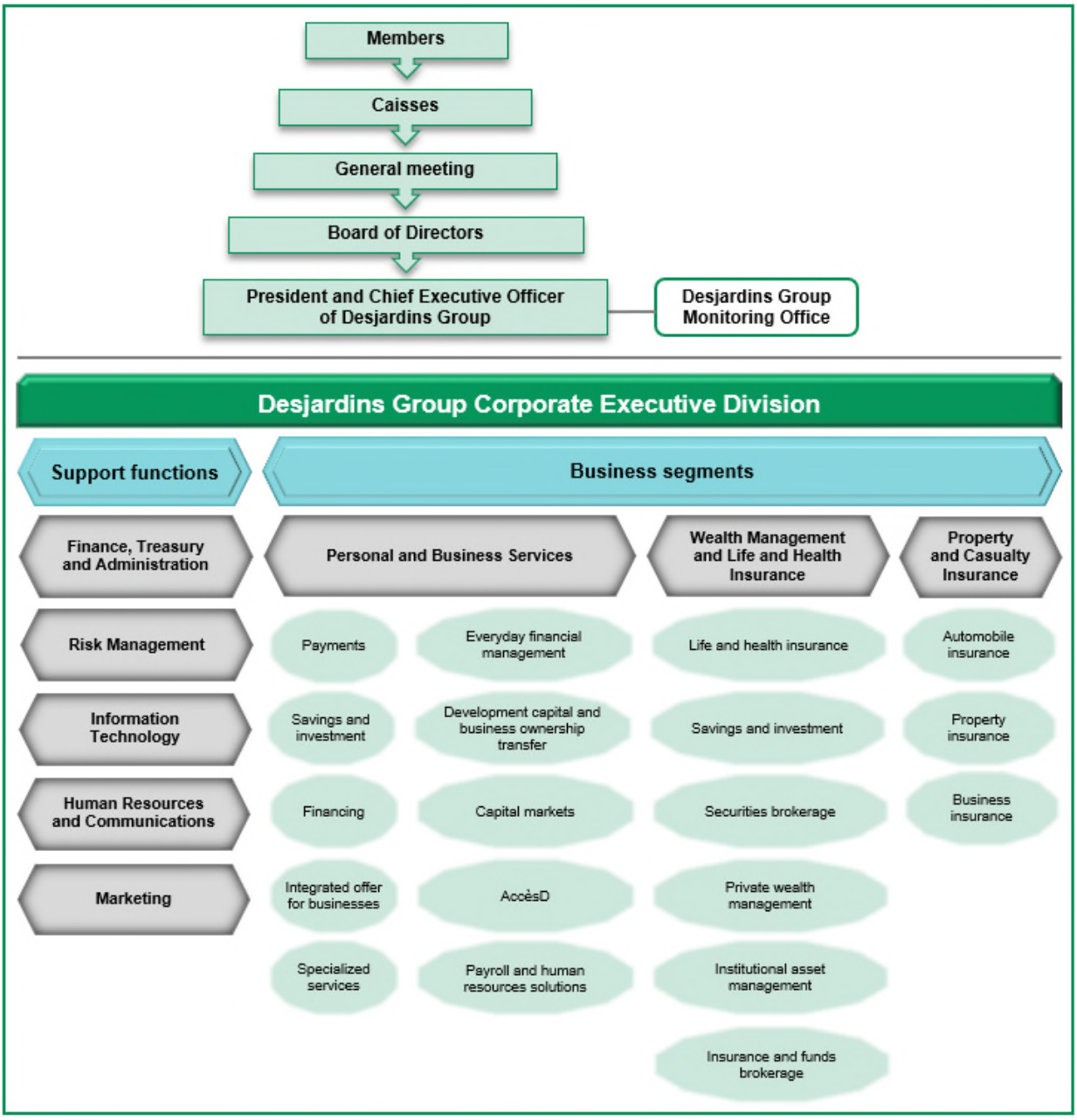
Desjardins Group's ambition is to be first in people's hearts. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best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

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

STRUCTURE OF DESJARDINS GROUP

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

Additional information on the business segments, particularly their profile, operations, the industry in which they operate, their strategies and their priorities for 2020, may be found in Section 2.3 "Analysis of business segment results".



1.2 Financial highlights

Table 11 – Financial highlights
As at and for the years ended December 31

(in millions of dollars and as a percentage)	2019[1]	2018	2017[2]
Results			
Net interest income	**$ 5,359**	$ 4,894	$ 4,457
Net premiums	**9,412**	8,823	8,049
Other operating income[3]	**3,138**	2,859	2,959
Operating income[3]	**17,909**	16,576	15,465
Investment income[3]	**2,883**	734	1,688
Total income	**20,792**	17,310	17,153
Provision for credit losses	**365**	384	349
Claims, benefits, annuities and changes in insurance contract liabilities	**9,163**	6,579	6,717
Non-interest expense	**8,015**	7,485	7,400
Income taxes on surplus earnings	**651**	536	536
Surplus earnings before member dividends	**$ 2,598**	$ 2,326	$ 2,151
Adjusted surplus earnings before member dividends[3]	**$ 2,289**	$ 2,197	$ 1,902
Contribution to combined surplus earnings by business segment[4]			
Personal and Business Services	**$ 1,881**	$ 1,272	$ 1,108
Wealth Management and Life and Health Insurance	**729**	894	612
Property and Casualty Insurance	**187**	173	446
Other	**(199)**	(13)	(15)
	$ 2,598	$ 2,326	$ 2,151
Amount returned to members and the community			
Member dividends	**$ 317**	$ 253	$ 202
Sponsorships, donations and bursaries	**87**	94	82
Desjardins Member Advantages program	**41**	42	36
	$ 445	$ 389	$ 320
Indicators			
Net interest margin[3]	**2.45%**	2.39%	2.34%
Return on equity[3]	**9.9**	9.3	9.1
Adjusted return on equity[3]	**8.9**	8.9	8.0
Productivity index[3]	**68.9**	69.8	70.9
Adjusted productivity index[3]	**71.1**	70.6	72.8
Credit loss provisioning rate[3]	**0.18**	0.21	0.20
Gross credit-impaired loans[5] / gross loans and acceptances[3]	**0.56**	0.54	0.25
Liquidity coverage ratio[6]	**130.2**	122.1	121.4
On-balance sheet and off-balance sheet			
Assets	**$ 312,996**	$ 295,465	$ 275,095
Net loans and acceptances	**203,462**	190,670	177,521
Deposits	**193,918**	183,158	171,586
Equity	**27,429**	25,649	24,773
Assets under administration	**426,870**	373,558	411,548
Assets under management[7]	**67,553**	57,448	58,220
Capital ratios and leverage ratio			
Tier 1A capital ratio	**21.6%**	17.3%	18.0%
Tier 1 capital ratio	**21.6**	17.3	18.0
Total capital ratio	**21.6**	17.6	18.4
Leverage ratio	**8.8**	8.3	8.5
Other information			
Number of employees	**47,849**	46,216	45,547

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(3) See "Non-GAAP measures".
(4) The breakdown by line item is presented in Note 31, "Segmented information", to the Combined Financial Statements.
(5) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.
(6) Average for the quarters ended December 31 of each year indicated.
(7) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.

Desjardins Group's 2019 highlights

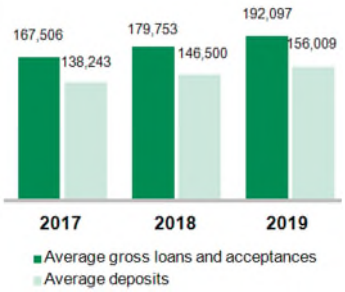
Surplus earnings before member dividends	Loans and acceptances outstanding	Assets under management	Tier 1A capital ratio	Member dividends
$2,598 million +11.7%	**$203.5 billion +6.7%**	**$67.6 billion +17.6%**	**21.6%**	**$317 million +25.3%**

- Surplus earnings before member dividends up $272 million, or 11.7%, compared to 2018.
- Increase of $92 million, or 4.2%, in adjusted surplus earnings[1] before member dividends compared to 2018.
- A total of $445 million returned to members and the community, up 14.4% compared to 2018.
- Operating income[1] of $17,909 million, up 8.0% compared to 2018.
- Adjusted operating income[1] of $17,560 million, up 6.8% compared to 2018.
- Assets surpassed the $300 billion mark in 2019, to total $313.0 billion as at December 31, 2019.
- Total capital ratio of 21.6%, compared to 17.6% as at December 31, 2018.

2019 segment highlights

PERSONAL AND BUSINESS SERVICES

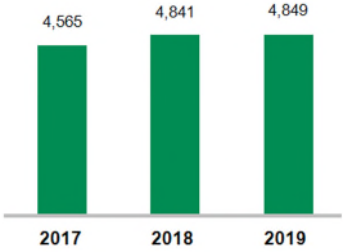
Average gross loans and acceptances and average deposits[1]
(in millions of dollars)



- Québec's leader in residential mortgages and a leading player in consumer loans, including financing, with estimated market shares of 38% and 23%, respectively.
- Leading credit card issuer in Québec and No. 4 in Canada (based on 2018 outstandings), the segment has issued more than 7.0 million credit cards in Canada.
- Leader in agricultural credit in Québec, with a market share of 41%.
- Estimated market share in commercial and industrial niche activities in Québec totalled 20%.
- Surplus earnings before member dividends totalled $1,881 million, up 47.9% compared to 2018.
- Adjusted surplus earnings[1] before member dividends of $1,572 million, up 23.6%, mainly due to higher net interest income as a result of growth in outstandings and higher interest rates.
- Leader in on-balance sheet savings in Québec with growth of 6.0% in 2019 for an estimated market share of 41%.
- Growth of 6.8% compared to 2018 in business volume related to credit card products, and auto and durables financing.
- Growth of $12.3 billion compared to 2018 in the entire average portfolio of loans and acceptances.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

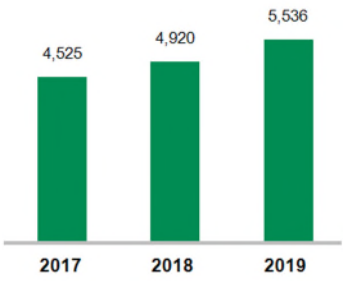
Gross written premiums
(in millions of dollars)



- No. 5 life and health insurer in Canada and No. 2 in Québec (based on gross written premiums in 2018).
- No. 1 in Canada and in Québec for market-linked guaranteed investments (based on 2018 assets under management).
- "Deal of the Year, Americas" award, for a second consecutive year, for its principal protected products, including Market-Linked Guaranteed Investments and Desjardins Structured Notes.
- Net surplus earnings of $729 million, down 18.5%, compared to 2018.
- Adjusted net surplus earnings[1] down 4.7% compared to 2018, related to lower gains on the disposal of securities and real estate investments, and smaller interest margins than in 2018, as well as a higher level of expenses, offset by favourable adjustments to actuarial assumptions.
- Gross insurance premiums of $4.3 billion, comparable to 2018.

PROPERTY AND CASUALTY INSURANCE

Gross written premiums
(in millions of dollars)



- Canada No. 3 property and casualty insurer and Québec's No. 2 (based on gross direct premiums written in 2018).
- Gross written premiums of $5.5 billion, up $616 million, or 12.5%, compared to 2018.
- Underwriting profits for a 27th consecutive year, in spite of automobile insurance material damage coverage under pressure in all geographic markets in 2019.
- Net surplus earnings of $187 million for the year, up $14 million, or 8.1%, compared to 2018.
- Improvement in the loss ratio[1] to 71.7% in 2019, compared to 73.9% in 2018.
- Improvement in the expense ratio[1] to 24.8% in 2019, compared to 25.2% in 2018.

[1] See "Non-GAAP measures".

1.3 Significant events

Significant events in 2019

Privacy breach

In June 2019, Desjardins Group announced that the personal information of 2.7 million personal members and 173,000 business members had been shared with individuals outside the organization. From the start, Desjardins's priority was to protect its members and clients and identify the source of the breach. The ill-intentioned employee who caused the situation was quickly identified and then fired. Desjardins Group was not the victim of a cyberattack and its computer systems were in no way breached.

In the following months, developments in the file gradually led Desjardins Group to revise the scope of the situation. Thus, on November 1, 2019, Desjardins announced that the privacy breach affected the data of all its members. Our internal review and analysis also allowed us to clarify the scope and the scale of the information the ex-employee responsible for the breach had in his possession, or to which he had access. Given that as part of his job he had access to personal information about caisse members as well as credit cardholders and clients with in-store financing (former and existing), and because he was clearly acting with ill intent, Desjardins decided to extend the scope of its privacy protection measures and made an announcement to this effect on December 10, 2019.

With the interests of its members and clients at heart, Desjardins Group developed new protections unequalled anywhere in Canada in record time. Desjardins Identity Protection, which evolved throughout the year, is the product of this. Offered at Desjardins's expense to all members and clients who do business with Desjardins, this identity theft protection has four components: the protection of assets and transactions at Desjardins Group, individual support in the event of fraudulent use of personal information, reimbursement of up to $50,000 for certain expenses incurred in the identity recovery process, and Equifax credit monitoring service for five years.

In addition, in the beginning of 2020, Desjardins set up a Security Office to coordinate organizational initiatives and institute cross-sector security strategies, protect Desjardins members and clients, their assets and their personal information, and implement an industry-standard security reporting process.

In relation to the privacy breach, Desjardins was invited to speak before two levels of government, namely the working session of the Standing Committee on Public Safety and National Security in Ottawa in July, as well as the *Commission des finances publiques* in Québec City in November. Desjardins reiterated its commitment to protect and support its members and clients, particularly by creating a working group mandated to draw up a guide to best practices in order to increase awareness among personal and business members and educate them about fraud prevention. This group is also tasked with opening a dialogue on the concept of digital identity, in which we will be forming a French-speaking branch of the DIACC (Digital ID & Authentication Council of Canada) as co-founder. Desjardins intends to participate actively in setting up government solutions aimed at evolving practices in personal information protection and implementing digital identity for Canadians.

The credit ratings assigned by the ratings agencies DBRS, Fitch, Moody's and Standard & Poor's to Desjardins Group's senior securities remained unchanged following Desjardins's privacy breach announcements. The expenses to cover the costs incurred and the taking of a provision for the implementation of Desjardins Identity Protection totalled $108 million for the year ended December 31, 2019.

Senior management changes at Desjardins Group

On December 3, 2019, Guy Cormier, President and Chief Executive Officer of Desjardins Group, announced important changes to the organization's structure. Denis Berthiaume, who held the position of Senior Executive Vice-President and Chief Operating Officer of Desjardins Group, was replaced by Réal Bellemare, formerly Executive Vice-President of Finance, Treasury, Administration and Chief Financial Officer. Mr. Bellemare is also serving as interim Executive Vice-President of Information Technology following the departure of Chadi Habib. A recruitment process is underway to fill the position permanently. Furthermore, Alain Leprohon was appointed Executive Vice-President of Finance, Treasury, Administration and Chief Financial Officer. Sylvain Perreault, previously Chief of the Desjardins Group Compliance Office, is responsible for the Desjardins Group Security Office.

Re-election of the President and Chief Executive Officer, Desjardins Group

On December 16, 2019, the Election Committee announced that as part of the election process for the presidency of Desjardins Group and following the end of the nomination period, Guy Cormier had been elected by acclamation for a second four-year term as the head of Desjardins Group. Mr. Cormier's second term of office will officially begin on March 28, 2020, following Desjardins Group's Annual General Meetings.

Changes to merchant payment and financing activities

On December 31, 2019, Desjardins Group, through the Federation, completed the sale to Global Payments of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. On October 31, 2019, Desjardins Group announced it would gradually phase out in-store Accord D financing as of May 1, 2020. These activities were presented in the Personal and Business Services segment.

A $309 million gain, net of income taxes, related to the sale of the merchant portfolio was recognized in the Combined Statements of Income for the year ended December 31, 2019. Additional financial information on this transaction is presented in the section "Impact of significant transactions in 2019 and 2018".

Subsequent event

Purchase of a home mortgage portfolio

On February 1, 2020, Desjardins Group, through the Federation, acquired a portfolio of quality home mortgages from La Capitale, for a total consideration of $474 million. This acquisition consolidates Desjardins Group's leadership position in Québec's residential mortgage market.

1.4 Strategic orientations and financial objectives

STRATEGIC ORIENTATIONS AND PRIORITIES

Fiscal 2019 marked the third year of the 2020 strategic framework. The organization continued to align itself with the three main strategic orientations of the framework:

- "Accelerate the shift to a member and client culture" focuses on significantly enhancing the quality of the Desjardins member and client experience. In 2019, the organization continued to move forward with initiatives in the best interests of members and clients.
- "Affirm our cooperative nature" allows Desjardins to bring the cooperative difference up to date and live it out, as well as to strengthen its fundamental purpose, which is to enrich the lives of people and communities.
- "Capitalize on the strengths of our expansive cooperative group" by leveraging new growth opportunities to optimize group synergies.

These three orientations are based on attributes that present Desjardins as a simple, human, modern and efficient cooperative for its members and clients, as well as its directors, managers and employees. The 2020 strategic priorities for Desjardins Group's business segments derived from these orientations may be found in Section 2.3 "Analysis of business segment results" of this MD&A.

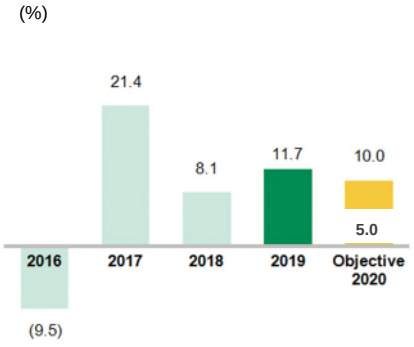
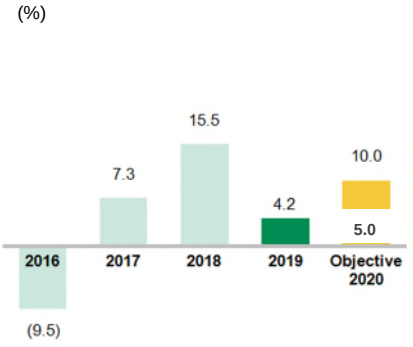
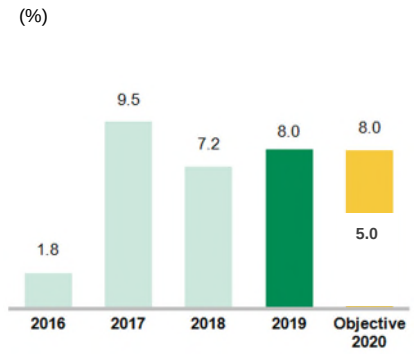
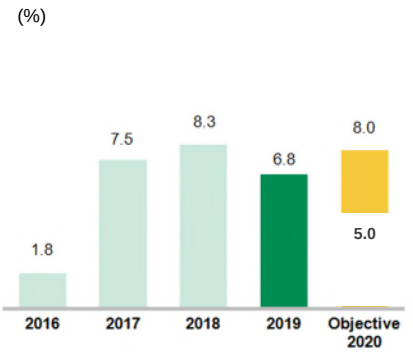
FINANCIAL OBJECTIVES

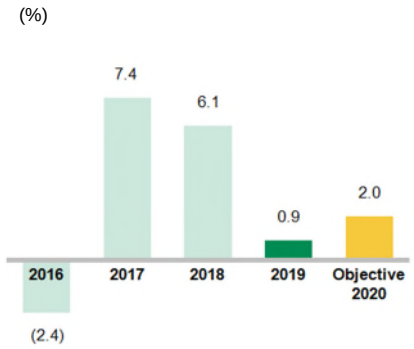
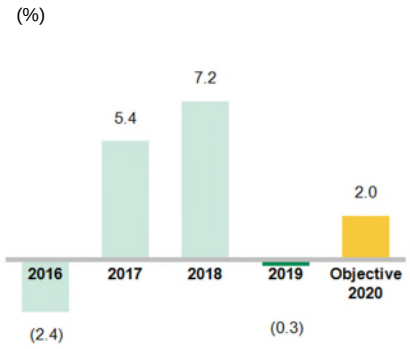
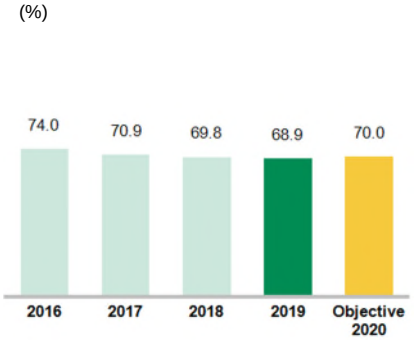
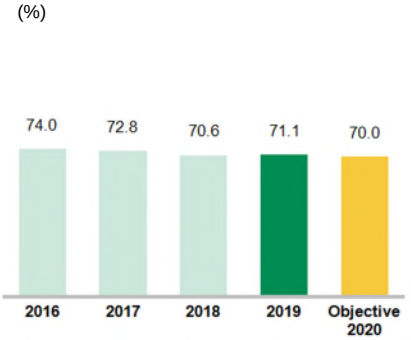
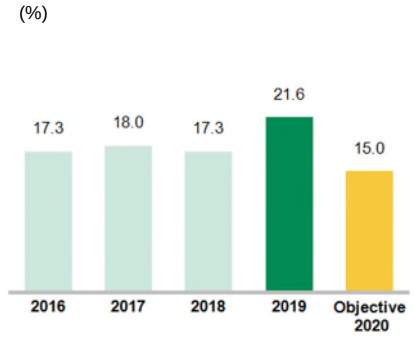
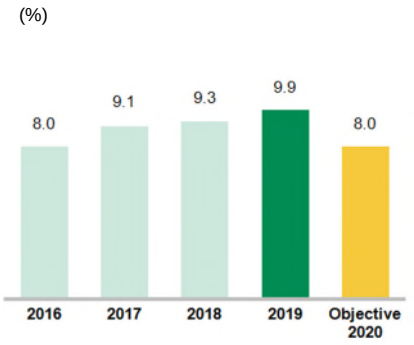
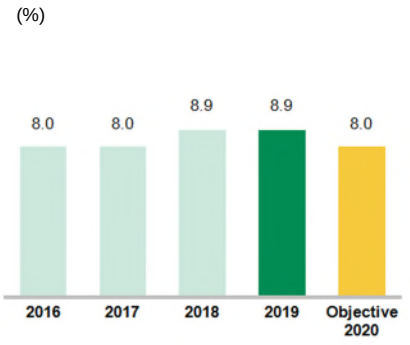
Desjardins Group sets medium-term financial objectives that provide it with the means of realizing its ambitions for members and clients by seeking new ways to increase its return to the community, ensure its sustainability and support its growth.

This section shows the progress made toward the objectives stated in 2019 and shows them in relation to the results achieved. Performance in 2020 will be measured using key indicators aligned with Desjardins's new ambitions according to the strategic orientations and priorities. Desjardins Group, through its members and clients, enriches the lives of people and communities in order to be first in people's hearts. Creating wealth and redistributing it to its members and their communities, constantly working in the best interests of members and clients, involves Desjardins Group's financial performance, as well as other factors.

Overall performance

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

Key indicators[1]	Trend[2][3]	Adjusted trend[2][3]
Growth in surplus earnings before member dividends: A measure of value creation for members and clients. **Results achieved in 2019:** This indicator and the adjusted indicator were 11.7% and 4.2%, respectively. **2020 objective:** The objective is to achieve growth of between 5% and 10%.		
Growth in operating income: A measure of growth in Desjardins Group's operations. **Results achieved in 2019:** Growth and adjusted growth were 8.0% and 6.8%, respectively. **2020 objective:** The objective is to achieve growth of between 5% and 8%.		

Key indicators[1]	Trend[2][3]	Adjusted trend[2][3]
Growth differential between operating income and non-interest expense: A measure of sustainability and profitability. **Results achieved in 2019:** The growth differential and the adjusted growth differential were 0.9% and (0.3)%, respectively. **2020 objective:** The objective is to achieve a differential of 2%.		
Productivity index: A measure of efficiency. **Results achieved in 2019:** The index and the adjusted index were 68.9% and 71.1%, respectively. **2020 objective:** Desjardins Group has again set its objective at a productivity index of below 70%.		
Tier 1A capital ratio: A measure of Desjardins Group's financial strength. **Results achieved in 2019:** As at December 31, 2019, this ratio was 21.6%. **2020 objective:** The objective remains a ratio exceeding 15%.		
Return on equity: A measure of profitability resulting in value creation for members and clients. **Results achieved in 2019:** This indicator and the adjusted indicator were 9.9% and 8.9%, respectively. **2020 objective:** The objective is to reach a level exceeding 8%.		

[1] See "Non-GAAP measures".
[2] The information presented for the year ended December 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 Combined Financial Statements.
[3] The information for 2017 and 2016 is based on the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

FINANCIAL OUTLOOK

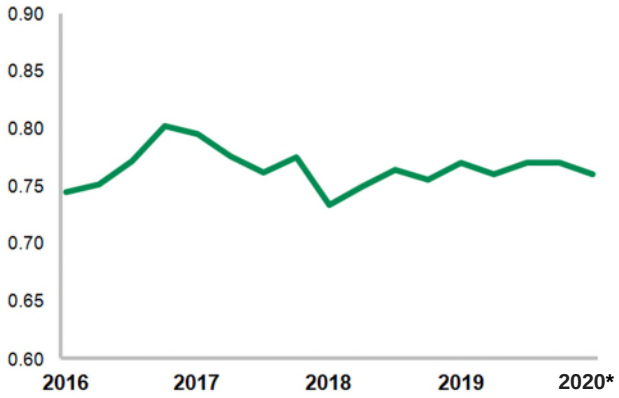
Desjardins Group should continue 2020 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry as well as increasing profitability in a favourable economic environment despite global uncertainty. Stiff competition in the banking sector will place sustained pressure on net interest income, although the positive effect of the rise in interest rates that began in mid-2017 should continue as long as the Bank of Canada maintains the status quo in 2020 for its key interest rate. Rigorous cost control and strict capital management will enable Desjardins Group to make significant investments for the benefit of members and communities and adopt innovative concepts to enhance service delivery, with the constant aim of being first in people's hearts and making it easier to do business with Desjardins.

To finish up the last year of the 2017-2020 Strategic Framework, the focus will be on the following six priorities:

- Change in culture.
- Information security (including protection of personal information).
- Member/client shift (including digital transformation).
- Modernization of systems.
- Non-organic growth and cross-Canada development.
- Strict cost management.

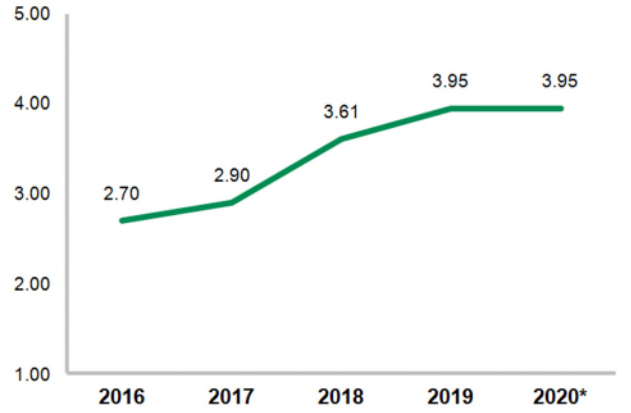
1.5 Economic environment and outlook

Changes in the Canadian dollar vs. the U.S. dollar (at quarter end)
(in U.S. dollars / Canadian dollars)



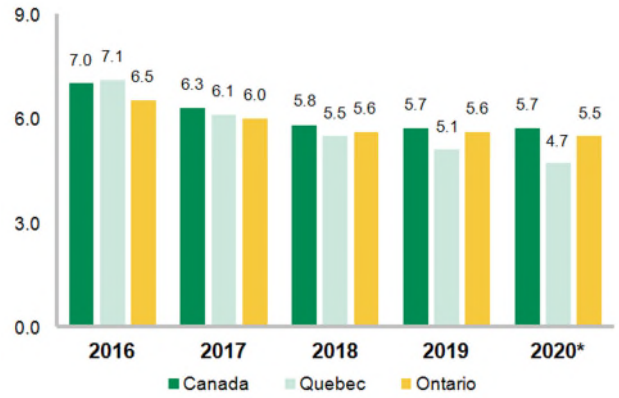
***Forecast**

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



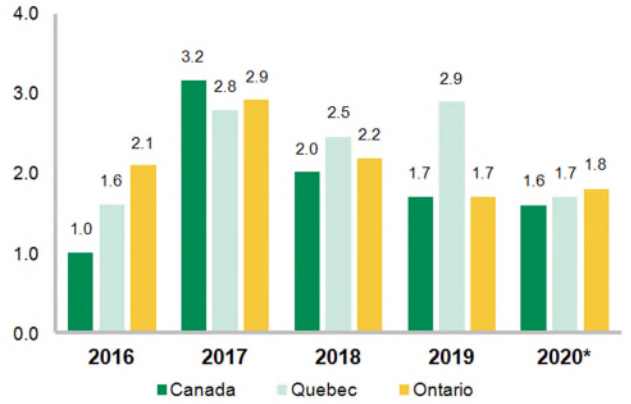
***Forecast**

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



***Forecast**

Annual growth in GDP
(as a percentage)



***Forecast**

Global economy

The global economy slowed considerably in 2019. This slowdown stemmed in part from the uncertainties surrounding trade tensions. As a result, world trade stagnated or declined for much of the year. The deterioration was particularly marked in the eurozone, where the main economy, Germany, almost fell into recession. The eurozone's real GDP growth in 2019 is estimated at 1.2%, following a 1.9% gain in 2018, and in Germany, real GDP slipped from 1.5% to 0.6%. In the United Kingdom, the Brexit issue monopolized the news throughout 2019, creating uncertainty that weighed heavily on the British economy. Real GDP growth in the U.K. increased 1.4% in 2019. In China, the economy continued to slow due to both structural factors and economic problems, such as U.S. tariffs. China's real GDP growth went from 6.7% in 2018 to 6.1% in 2019.

Despite the slowdown in the global economy and many uncertainties, 2019 was a very good year for investors: bond yields fell sharply and stock markets rallied, erasing the downturn of the last few months of 2018, and even setting new records. It should be noted that the less favourable economic environment led several central banks, including the U.S. Federal Reserve (the Fed) and the European Central Bank (ECB), to resume monetary easing programs. Although the Canadian economy was resilient, benefiting from the sharp decline in bond rates, among other things, the Bank of Canada nevertheless kept its monetary policy unchanged throughout 2019. That helped the Canadian dollar appreciate against the U.S. dollar, and spurred renewed investor confidence at the end of the year.

The world economy is expected to continue growing rather slowly in 2020. Global GDP growth is expected to slip from 3.6% in 2018 to 2.9% in 2019 and 2.9% in 2020. The trade tensions will not be fully resolved, and uncertainty over trade issues will continue to hinder business investment and undermine the manufacturing sector. There are likely to be negative, but probably temporary, economic effects associated with the emergence of the coronavirus in China and elsewhere. So the financial markets are likely to remain highly volatile as investors continue to be concerned over the political situation in the U.S. Bond rates should remain low and monetary policies are expected to remain unchanged throughout 2020. The Canadian dollar is expected to remain relatively stable.

United States

The United States began 2019 on the right foot, posting a 3.1% annualized gain in real GDP. The situation then calmed, with a marked slowdown in exports and business investment. This was a direct result of the Sino-American trade war, which escalated for much of the year. Moreover, the positive effects of the 2018 tax cuts were short-lived. Consumption was less affected and, despite some ups and downs, household confidence remained fairly good, aided by the strong labour market. The U.S. unemployment rate fell to 3.5%, its lowest level since 1969. Interest rate cuts helped the housing market recover after several difficult quarters. Real GDP growth in 2019 is estimated at 2.3%, following a gain of 2.9% in 2018.

The U.S. economy is expected to grow rather slowly in 2020 as it continues to be affected by the tariffs introduced in 2018, despite the trade agreement reached between China and the United States. Real GDP is expected to grow by 1.8% in 2020. In 2020, the media's attention may be highly focused on the federal election campaign.

Canada

The Canadian economy experienced some major upheavals in 2019. The year got off to a bad start when the Alberta government imposed a reduction in oil production in response to transportation constraints, but the subsequent return to normal in the energy sector boosted real GDP growth in the spring. The Canadian economy then began to grow at a more moderate pace starting in the second half of 2019 as various factors influenced real GDP. Consumer spending and residential investment continued to expand on the strength of a robust labour market, high household confidence and low interest rates. On the other hand, global trade tensions curbed exports and eroded business confidence. However, there were encouraging developments in late 2019 due to the trade agreement between China and the United States as well as the imminent ratification of the Canada-U.S.-Mexico Agreement (CUMA). Real GDP is expected to have grown approximately 1.7% in 2019. This forecast suggests a continued decline, as real GDP grew 3.2% in 2017 and 2.0% in 2018.

Economic growth in 2020 is expected to remain moderate, at close to 1.6%. Even though trade tensions will ease, they will continue to have adverse effects. The housing market is nevertheless expected to continue to trend upward, which could rekindle concerns about overheated markets in some regions. By holding steady on its key interest rates, the Bank of Canada should continue to support household consumer spending, especially since the unemployment rate will likely remain close to its all-time low.

Québec

In 2019, Québec's international exports suffered from the slowdown in the global economy as well as trade disputes. The U.S. tariffs on Canadian steel and aluminum imposed from May 2018 to May 2019 dealt a severe blow to the industry. The ban on Canadian meat exports to China from late June 2019 to early November also had an adverse effect on Québec producers. Exporters faced many problems over the past year, but the province's economy continued to expand rapidly. In 2019, Québec posted the strongest rate of real GDP growth of all the provinces. For the third year in a row, in 2019 the Québec economy grew at a rate of 2.5% to 3.0%, a particularly strong result given the turbulence in the global economy. Households continued to underpin the economy. They are benefiting from an improved labour market, which can be seen in accelerating wage growth. Strong job creation drove the unemployment rate down to 5.1% in 2019, below the national rate and that of almost all the other provinces. The Québec housing market continues to grow, and has been spared the correction that affected some Canadian markets two years ago. Sales of existing properties peaked in 2019, with the average price rising by about 5%. So the year ended on a high note for the residential sector. In sum, the Québec economy continues to post excellent results in several respects. However, a slower pace of growth is expected in 2020, given the slowdown underway in the world's major economies and the negative impacts this will have on foreign trade.

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

2.0 Review of financial results

In the charts in this section, the information presented for fiscal 2017 was established in accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

2.1 Impact of significant transactions in 2019 and 2018

CHANGES RELATED TO MERCHANT PAYMENT AND FINANCING ACTIVITIES IN 2019

On December 31, 2019, Desjardins Group, through the Federation, completed the sale to Global Payments of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand, and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. On October 31, 2019, Desjardins Group also announced it would gradually phase out in-store Accord D financing as of May 1, 2020. These activities were presented in the Personal and Business Services segment.

A $309 million gain, net of income taxes, related to the sale of the merchant portfolio was recognized in the Combined Statements of Income for the year ended December 31, 2019.

CREATION OF AVISO WEALTH IN 2018

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and the partnership between the Centrals and The CUMIS Group. For Desjardins Group, the interest in Aviso Wealth represents an investment in a joint venture and is recognized using the equity method of accounting in the Wealth Management and Life and Health Insurance segment. A $21 million share in Aviso Wealth was recognized in the Combined Statements of Income for the year ended December 31, 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 Desjardins Group's financial results for the Wealth Management and Life and Health Insurance segment.

Table 12 – Impact of the creation of Aviso Wealth
For the years ended December 31

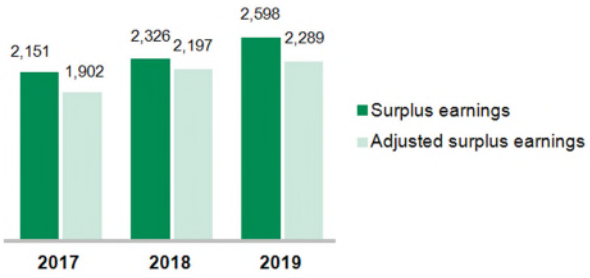
(in millions of dollars)

	2019	2018	2017
Other operating income[1]	**$ -**	$ 49	$ 125
Operating income[1]	**-**	49	125
Investment income (loss)[1]	**-**	-	(6)
Total income	**-**	49	119
Non-interest expense	**-**	49	114
Income taxes on surplus earnings	**-**	-	1
Surplus earnings before member dividends	**$ -**	$ -	$ 4

[1] See "Non-GAAP measures".

2.2 Analysis of 2019 results

Surplus earnings before member dividends
(in millions of dollars)



Segment contributions to surplus earnings before member dividends in 2019
(as a percentage)



Table 13 – Financial results and indicators
For the years ended December 31

(in millions of dollars)	2019[1]	2018	2017[2]
Results			
Net interest income	**$ 5,359**	$ 4,894	$ 4,457
Net premiums	**9,412**	8,823	8,049
Other operating income[3]	**3,138**	2,859	2,959
Operating income[3]	**17,909**	16,576	15,465
Investment income[3]	**2,883**	734	1,688
Total income	**20,792**	17,310	17,153
Provision for credit losses	**365**	384	349
Claims, benefits, annuities and changes in insurance contract liabilities	**9,163**	6,579	6,717
Non-interest expense	**8,015**	7,485	7,400
Income taxes on surplus earnings	**651**	536	536
Surplus earnings before member dividends	**$ 2,598**	$ 2,326	$ 2,151
Adjusted surplus earnings before member dividends[3]	**$ 2,289**	$ 2,197	$ 1,902
Contribution to combined surplus earnings by business segment[4]			
Personal and Business Services	**$ 1,881**	$ 1,272	$ 1,108
Wealth Management and Life and Health Insurance	**729**	894	612
Property and Casualty Insurance	**187**	173	446
Other	**(199)**	(13)	(15)
	$ 2,598	$ 2,326	$ 2,151
Amount returned to members and the community			
Member dividends	**$ 317**	$ 253	$ 202
Sponsorships, donations and bursaries	**87**	94	82
Desjardins Member Advantages program	**41**	42	36
	$ 445	$ 389	$ 320
Indicators			
Net interest margin[3]	**2.45%**	2.39%	2.34%
Return on equity[3]	**9.9**	9.3	9.1
Adjusted return on equity[3]	**8.9**	8.9	8.0
Productivity index[3]	**68.9**	69.8	70.9
Adjusted productivity index[3]	**71.1**	70.6	72.8
Credit loss provisioning rate[3]	**0.18**	0.21	0.20

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(3) See "Non-GAAP measures".
(4) The breakdown by line item is presented in Note 31, "Segmented information", to the Combined Financial Statements.

2019 SURPLUS EARNINGS

For 2019, Desjardins Group reported surplus earnings before member dividends of $2,598 million, a year-over-year increase of $272 million, or 11.7%. Surplus earnings adjusted for specific items, namely the gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand recognized in 2019 and the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018 were up $92 million, or 4.2%. This increase was due to continued growth in caisse network activities as well as in payment and financing activities, mitigated by lower gains on investments than in 2018 in the Wealth Management and Life and Health Insurance segment. In the Property and Casualty Insurance segment, the slightly more favourable claims experience, which nonetheless remains high, partially offset the reduction in investment income. It should also be mentioned that in 2018, the reduction in investment portfolio provisions and the change in the post-retirement benefit plan had a positive effect on non-interest expense. In addition, a profit related to the restructuring of Interac Corp. was recognized in the first quarter of 2018. Regarding the privacy breach, expenses to cover the costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection totalled $108 million in 2019.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in 2019.

- A total of $445 million returned to the community, compared to $389 million in 2018.
  - Member dividends of $317 million for the year ended December 31, 2019, a $64 million increase compared to 2018.
  - An amount of $87 million was given in the form of sponsorships, donations and bursaries, compared to $94 million in 2018.
  - Through the Desjardins Member Advantages program, $41 million was paid out, compared to $42 million in 2018.
- Commitments made under the *$100 Million Fund* regional development program totalled $40 million, compared to $53 million for 2018. Since 2017, Desjardins Group has made total commitments of $94 million under this fund.

Contribution of business segments to surplus earnings

- Personal and Business Services: **Contribution of $1,881 million,** up $609 million, and surplus earnings adjusted for the specific item before member dividends up $300 million, or 23.6% compared to 2018.
  - Solid performance from the caisse network, related especially to growth in net interest income.
  - Reduction in the provision for credit losses.
  - Decrease in expenses as a result of the winding-up of Zag Bank's operations.
  - Growth in payment and financing activities.
  - Offset by the profit related to the restructuring of Interac Corp. recognized in first quarter 2018.
- Wealth Management and Life and Health Insurance: **Contribution of $729 million,** down $165 million, and net surplus earnings adjusted for the specific item down $36 million, or 4.7%, compared to 2018.
  - Lower gains on the disposal of securities and real estate investments and smaller interest margins than in 2018.
  - Higher levels of expenses than in 2018.
  - Offset by favourable adjustments to actuarial assumptions in the normal course of business.
- Property and Casualty Insurance: **Contribution of $187 million,** up $14 million, or 8.1%, compared to 2018.
  - Lower loss ratio, mainly because of the smaller impact of catastrophes and major events and lower current-year claims experience compared to 2018.
  - Offset by lower dividend income than in 2018.

- **Return on equity was 9.9%,** compared to 9.3% for 2018.
- **Adjusted return on equity was 8.9%,** the same as for 2018.

OPERATING INCOME

Table 14 – Operating income
For the years ended December 31

(in millions of dollars)	2019[1]	2018	2017[2]
Net interest income	**$ 5,359**	$ 4,894	$ 4,457
Net premiums	**9,412**	8,823	8,049
Other operating income[3] (see Table 17)	**3,138**	2,859	2,959
Total operating income[3]	**$ 17,909**	$ 16,576	$ 15,465

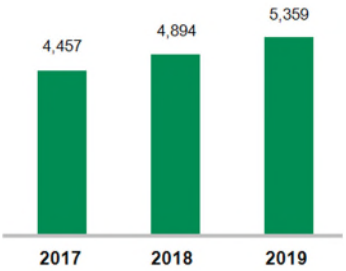
(1) The information presented for the year ended December 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(3) See "Non-GAAP measures".

Operating income totalled $17,909 million, up $1,333 million, or 8.0%, compared to 2018. Excluding the gain of $349 million before income taxes related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand recognized in 2019 and the gain before income 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 $1,116 million, or 6.8%, compared to 2018.

Net interest income

Net interest income is the difference between interest income earned on assets, such as loans and securities, and the interest expense related to liabilities, such as deposits and subordinated notes. It is affected by interest rate fluctuations, funding and matching strategies, as well as the composition of both interest-bearing and non-interest-bearing financial instruments. For analysis purposes, Table 15 shows the changes in net interest income for the main asset and liability classes. Table 16 details how net interest income was affected by changes in volume and interest rates for the different assets and liabilities.

Net interest income
(in millions of dollars)



- **Net interest income of $5,359 million,** up $465 million, or 9.5%, mainly because of growth in the entire average portfolio of loans and acceptances outstanding, particularly residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and higher interest rates.

- **Net interest margin of 2.45%** in 2019, as a percentage of average interest-bearing assets, up 6 basis points compared to 2018.

- **Interest income of $8,237 million,** up $916 million, or 12.5%, essentially due to the following items:
  - Growth in average return on total interest-bearing assets, mainly loans, which added $503 million to interest income.
  - An increase in the average return on total interest-bearing assets, mainly loans, which added $413 million to interest income.

- **Interest expense of $2,878 million,** up $451 million, or 18.6%, primarily as a result of the following:
  - An increase in the average cost of funding, mainly from deposits, raised this expense by $294 million.
  - Growth in the average volume of total interest-bearing liabilities, mainly from deposits, leading to a $157 million increase in interest expense.

Table 15 – Net interest income on average assets and liabilities
For the years ended December 31

(in millions of dollars and as a percentage)	2019[1]			2018[2]			2017[2]		
	Average balance	**Interest**	**Average rate**	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets									
Interest-bearing assets									
Securities, cash and deposits with financial institutions	**$ 25,210**	**$ 412**	**1.63%**	$ 24,305	$ 390	1.60%	$ 22,932	$ 323	1.41%
Loans	**193,245**	**7,825**	**4.05**	180,542	6,931	3.84	167,944	5,923	3.53
Total interest-bearing assets	**218,455**	**8,237**	**3.77**	204,847	7,321	3.57	190,876	6,246	3.27
Other assets	**7,266**	**-**	**-**	6,536	-	-	6,126	-	-
Total assets	**$ 225,721**	**$ 8,237**	**3.65%**	$ 211,383	$ 7,321	3.46%	$ 197,002	$ 6,246	3.17%
Liabilities and equity									
Interest-bearing liabilities									
Deposits	**$ 188,591**	**$ 2,648**	**1.40%**	$ 177,490	$ 2,235	1.26%	$ 168,098	$ 1,711	1.02%
Subordinated notes	**1,390**	**72**	**5.18**	1,368	70	5.12	1,377	71	5.16
Other liabilities	**1,089**	**158**	**14.51**	964	122	12.66	899	7	0.78
Total interest-bearing liabilities	**191,070**	**2,878**	**1.51**	179,822	2,427	1.35	170,374	1,789	1.05
Other liabilities	**14,763**	**-**	**-**	13,717	-	-	9,817	-	-
Equity	**19,888**	**-**	**-**	17,844	-	-	16,811	-	-
Total liabilities and equity	**$ 225,721**	**$ 2,878**	**1.28%**	$ 211,383	$ 2,427	1.15%	$ 197,002	$ 1,789	0.91%
Net interest income		**$ 5,359**			$ 4,894			$ 4,457	
As a percentage of average interest-bearing assets			**2.45%**			2.39%			2.34%

[1] The information presented for the year ended December 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 Combined Financial Statements.
[2] Data for 2018 and 2017 have been reclassified to conform to the current year's presentation notwithstanding the adoption of IFRS 16 on January 1, 2019.

Table 16 – Impact of changes in volumes and rates on net interest income
For the years ended December 31

(in millions of dollars and as a percentage)	2019[1]/2018 Increase (decrease)					2018/2017[2] Increase (decrease)				
	Change in average volume	Change in average rate	Interest	Average volume	Average rate	Change in average volume	Change in average rate	Interest	Average volume	Average rate
Assets										
Securities, cash and deposits with financial institutions	**$ 905**	**0.03%**	**$ 22**	**$ 15**	**$ 7**	$ 1,373	0.19%	$ 67	$ 19	$ 48
Loans	**12,703**	**0.21**	**894**	**488**	**406**	12,598	0.31	1,008	444	564
Change in interest income			**916**	**503**	**413**			1,075	463	612
Liabilities										
Deposits	**11,101**	**0.14**	**413**	**140**	**273**	9,392	0.24	524	96	428
Subordinated notes	**22**	**0.06**	**2**	**1**	**1**	(9)	(0.04)	(1)	-	(1)
Other liabilities	**125**	**1.85**	**36**	**16**	**20**	65	11.88	115	1	114
Change in interest expense			**451**	**157**	**294**			638	97	541
Change in net interest income			**$ 465**	**$ 346**	**$ 119**			$ 437	$ 366	$ 71

[1] The information presented for the year ended December 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 Combined Financial Statements.
[2] The 2018/2017 changes have been reclassified to conform to the current year's presentation, notwithstanding the adoption of IFRS 16 on January 1, 2019.

Net premiums

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, rose by $589 million, or 6.7%, to total $9,412 million as at December 31, 2019.

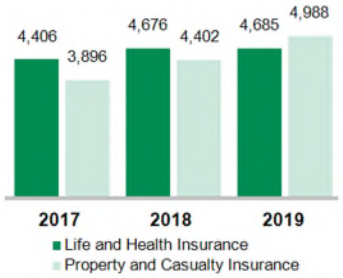
Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $4,685 million,** up $9 million.
  - Annuity premiums up $44 million, and individual insurance premiums up $21 million.
  - Offset by a $56 million decrease in group insurance premiums.

Property and Casualty Insurance segment

- **Net premiums of $4,988 million,** up $586 million, or 13.3%, as a result of the following:
  - Growth in the average premium due to rate increases, reflecting the current trend in the Canadian property and casualty insurance industry.
  - Larger number of policies issued as a result of growth across all market segments and regions.

Net premiums[1]
(in millions of dollars)



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

Other operating income

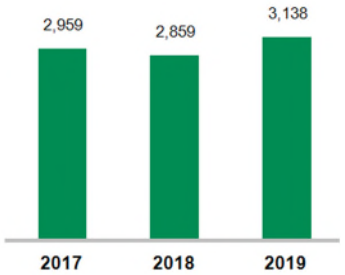
Table 17 – Other operating income
For the years ended December 31

(in millions of dollars)	2019[1]	2018	2017[2]
Deposit and payment service charges	**$ 431**	$ 433	$ 458
Lending fees and credit card service revenues	**774**	697	660
Brokerage and investment fund services	**886**	905	1,030
Management and custodial service fees	**582**	551	485
Foreign exchange income	**64**	91	77
Other	**401**	182	249
Total other operating income[3]	**$ 3,138**	$ 2,859	$ 2,959

[1] The information presented for the year ended December 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 Combined Financial Statements.
[2] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
[3] See "Non-GAAP measures".

Other operating income stood at $3,138 million, which is an increase of $279 million, or 9.8%, compared to the previous year.

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



[1] See "Non-GAAP measures".

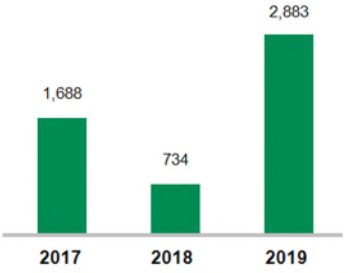
Excluding the gain of $349 million before taxes related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand recognized in 2019 and the gain of $132 million before taxes on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, other operating income would have been up $62 million, or 2.3%, compared to 2018.

- Deposit and payment service charges of $431 million, similar to the amount in 2018.
- Lending fees and credit card service revenues of $774 million, up $77 million, or 11.0%.
  - Growth in business volume from payment and financing activities.
- Income from brokerage and investment fund services of $886 million, down $19 million, or 2.1%.
  - Decrease in income following the transaction involving Qtrade Canada Inc.
  - Offset by growth in income from assets under management.
- Management and custodial service fees of $582 million, up $31 million, or 5.6%.
  - Growth in fees related to assets under management.
- Other operating income of $401 million, up $219 million.
  - Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
  - Income from the interest in Aviso Wealth.
  - Offset by the gain in 2018 related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.

INVESTMENT INCOME

Investment income totalled $2,883 million, an increase of $2,149 million compared to the previous year, essentially due to the following items:

Investment income[1]
(in millions of dollars)



[1] See "Non-GAAP measures".

- Increase primarily due to fluctuations in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to fluctuations in the fair value of the bond portfolio related to lower interest rates.
  - Increase largely offset by the change in actuarial liabilities that in turn led to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Positive change in the fair value of matched bonds in the Property and Casualty Insurance segment, whereas there had been a negative change in 2018, chiefly because of lower market interest rates in 2019, whereas they had risen during 2018. It should be remembered that this increase in bond value was offset by a similar increase in the cost of claims due to a matching strategy.
- Higher income from trading activities.

This increase was partially offset by the following items:

- Overall, lower net gains on the disposal of real estate investments and securities compared to 2018.
- Lower dividend income than in 2018, particularly because of 2018 reinvested income, which included prior-period adjustments.

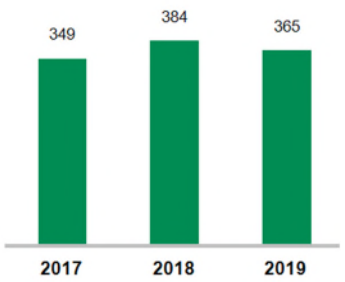
TOTAL INCOME

Total income, comprising net interest income, net premiums, other operating income and investment income, amounted to $20,792 million, an increase of $3,482 million, or 20.1%, compared to 2018.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $365 million, down $19 million, or 4.9%. This decrease was mainly the result of the following items:

Provision for credit losses
(in millions of dollars)



- Refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards and lines of credit in second quarter 2019.
- Offset by the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.

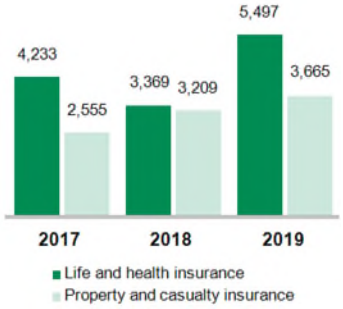
Desjardins Group continued to present a quality loan portfolio in 2019.

- The credit loss provisioning rate was 0.18% for 2019, compared to 0.21% in 2018.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56% as at December 31, 2019, compared to 0.54% a year earlier.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $9,163 million, up $2,584 million, or 39.3%, compared to 2018.

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



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

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $5,497 million,** up $2,128 million. This decrease was basically the result of the increase of $2,176 million in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of the increase in the fair value of matched investments and the favourable adjustments to actuarial assumptions made in the normal course of business.

Property and Casualty Insurance segment

- **Cost of claims of $3,665 million,** up $456 million, or 14.2%, mainly due to the following items:
  - Business growth, which led to a higher cost of claims.
  - Unfavourable impact of lower discount rates used to measure the provision for claims, offset by a similar increase in matched bonds, whereas higher discount rates had a favourable impact in 2018.
  - The P&C insurers' loss ratio was 71.7% for 2019, compared to 73.9% in 2018.
    - Lower loss ratio related to catastrophes and major events compared to 2018: 2.3% vs. 3.1%, because there had been three catastrophes in 2018, compared to one in 2019.
    - Lower loss ratio for the current year than for 2018: 79.9% vs. 80.7%, particularly in property insurance.
    - More positive developments in the loss ratio for prior-year claims than in 2018: (10.5)% vs. (9.9)%, essentially for automobile insurance claims.

NON-INTEREST EXPENSE AND PRODUCTIVITY INDEX

Table 18 – Non-interest expense
For the years ended December 31

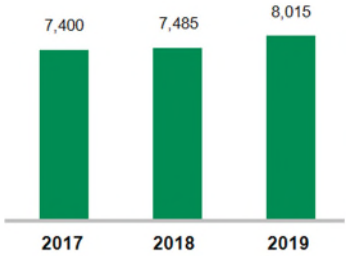
(in millions of dollars and as a percentage)	2019[1]	2018	2017[2]
Salaries and fringe benefits			
Salaries	**$ 2,970**	$ 2,836	$ 2,808
Fringe benefits	**712**	571	644
	3,682	3,407	3,452
Premises, equipment and furniture, including depreciation	**772**	701	727
Service agreements and outsourcing	**361**	338	319
Communications	**288**	261	284
Other	**2,912**	2,778	2,618
Total non-interest expense	**$ 8,015**	$ 7,485	$ 7,400
Desjardins Group productivity index[3]	**68.9%**	69.8%	70.9%
Desjardins Group adjusted productivity index[3]	**71.1**	70.6	72.8

[1] The information presented for the year ended December 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 Combined Financial Statements.
[2] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
[3] See "Non-GAAP measures".

Non-interest expense totalled $8,015 million for 2019, up by $530 million, or 7.1%, compared to 2018. This increase was basically the result of:
- Higher salaries due to indexing and growth in operations.
- Expenses of $108 million to cover the costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection.

This increase was also the result of the following items from 2018:
- Favourable impact of the change in the post-retirement benefit plan made during 2018.
- Reduction in investment portfolio provisions in 2018.

Non-interest expense
(in millions of dollars)



- **Salaries and fringe benefits of $3,682 million,** up $275 million, or 8.1%, compared to 2018, mainly because of the following:
  - Increase due to the favourable impact of the change in the post-retirement benefit plan made during 2018.
  - Higher salaries due to indexing and growth in operations.
  - This expense item represented 45.9% of total non-interest expense, slightly higher than the 45.5% recorded in 2018.
  - The ratio of fringe benefits to total base compensation was 24.0% in 2019, up compared to 20.1% in 2018, primarily because of the impact of the change in the post-retirement benefit plan made during 2018.

- **Expenses related to premises, equipment and furniture (including depreciation) of $772 million,** up $71 million, or 10.1%, compared to 2018.
  - Increase in the purchase of computer hardware.

- **Service agreements and outsourcing of $361 million,** up $23 million, or 6.8%, compared to 2018.
  - Increase in data processing service expenses.

- **Communication expenses of $288 million,** up $27 million, or 10.3%, compared to 2018.
  - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including activities related to *AccèsD* services.

- **Other expenses of $2,912 million,** up $134 million, or 4.8%, compared to 2018, essentially because of the following:
  - Expenses to cover the costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection.
  - Reduction in investment portfolio provisions in 2018.
  - Higher expenses related to business growth and accelerated recognition of acquisition fees related to policy issuance.
  - Growth in payment activities, including expenses related to the rewards program, and in financing activities.
  - Increase in expenses related to assets under management.

  This increase was partially offset by the following:
  - Decrease in expenses as a result of the winding-up of Zag Bank's operations.
  - Decrease in expenses due to the transaction involving Qtrade Canada Inc.
  - Reduction in commitments made under the *$100 Million Fund* program.

- **Productivity index at 68.9% for 2019,** compared to 69.8% in 2018.
- **Adjusted productivity index at 71.1% for 2019,** up slightly compared to compared to 2018.

INCOME TAXES AND INDIRECT TAXES

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

- **Income taxes on surplus earnings before member dividends of $651 million,** up $115 million compared to 2018.
  - Effective tax rate of 20.0% for the year ended December 31, 2019, up compared to 18.7% for 2018.
  - If specific items are excluded, the effective tax rate would have been 21.1% for 2019, compared to 19.5% in 2018. The increase in the rate results mainly from the tax recovery related to higher remuneration on F capital shares in 2018.

Note 28, "Income taxes on surplus earnings", to the Combined Financial Statements presents, among other things, a reconciliation of the statutory tax rate and the effective tax rate, expressed in dollars.

Indirect taxes consist of property and business taxes, payroll and social security taxes, the goods and services tax, and sales taxes. Indirect taxes are included in non-interest expense. For 2019, Desjardins entities paid $1,434 million in indirect taxes, compared to $1,383 million in 2018.

2.3 Analysis of business segment results

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

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

2.3.1 Personal and Business Services

PROFILE

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

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

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

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

On December 31, 2019, Desjardins Group, through the Federation, completed the sale to Global Payments of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. On October 31, 2019, Desjardins Group announced it would gradually phase out in-store Accord D financing as of May 1, 2020.

SERVICES

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

2019 ACHIEVEMENTS

- **User fees for personal services:** Reduction in the number of packages from 7 to 4 and enhanced student offer. In addition, personalized advice (Desjardins assistant) supports the member by suggesting a different package, as applicable.
- **Cancel bill payment:** Members can now cancel, when allowed by the supplier, all payments other than on credit card accounts, in independent mode online or using mobile devices.
- **Simplified contracts:** Introduction of new simplified contracts for mortgage renewals, the Versatile Line of Credit and its related loans.
- **New authentication method at the Client Relation Centre (CRC) and in case of fraud:** In addition to the usual authentication procedures, CRC representatives are now able to send members and clients, by e-mail or text, a single-use password to confirm their identify. In addition, members and clients can confirm a suspicious transaction by text message, thereby preventing their credit card from being blocked.
- **Enhanced offers for the commercial real estate rental sector and SMEs:** Offers that will better meet companies' expansion needs.
- **Partnership between Desjardins Group and Export Development Canada (EDC):** Desjardins is the 1st financial institution to formalize an agreement with the EDC to offer its members tools to support them as they take their first steps outside the country.
- Opening of two **Signature Service centres** (group caisses and Haut Richelieu Yamaska) in 2019**,** bringing the total to 17; 16 in Québec and one in Ontario.
- Launch of the **"Tous engagés pour la jeunesse"** youth-centred program that conveys our commitment to young people. More than $50 million will be invested annually in the coming years to support youth and put them in the spotlight.
- Highlighting **social entrepreneurship with the Dragons of "Dragons' Den"** in Toronto. Segments of the GoodSpark program focus on Canadian social entrepreneurs who work with young people in various areas, such as education, employment, health and social engagement. The participants may receive financial support from the Dragons and Desjardins Group also contributes by giving money, materials or other resources to the social enterprises whose projects are selected.
- First Canadian financial institution to sign the **Principles for Responsible Banking (PRB)** of the United Nations Environment Programme – Finance Initiative (UNEP FI), to accelerate the integration of environmental, social and governance criteria in Desjardins Group's operations.
- The Personal and Business Services segment is continuing its digital transformation with the following:
  - **"OK, Google! I want to talk to Desjardins!":** Google now responds to requests from Desjardins members who want to know their account balance, their credit card balance and the amount of certain transactions.
  - **Functionalities added to *AccèsD Particuliers* online and on mobile devices:**
    - Delivery of the new product dividend and a detailed outline of the amount of the dividend.
    - Enhanced client experience related to the credit card: redeem BONUSDOLLARS, balance of access to the Salon Odyssée airport lounge and recent list of rewards received, paid for or redeemed.
    - Pay down the principal in part or in full, on certain eligible loans.
    - Financings with co-signers and loans with insurance now qualify for digital mortgage renewal, bringing the rate of eligible financings to 50%.
    - "My first house", a tool designed to let Desjardins members obtain mortgage financing and insurance 100% digitally, is gradually being offered on *AccèsD*; digital preapproval has been available since November 2019.
    - Credit ratings: a link that allows all members to access TransUnion to consult their credit rating.
  - **Functionalities added to *AccèsD Affaires*:**
    - Receipt of Interac transfers now available for all businesses of any size.
    - Stop payment function and cheque imaging for the large corporation clientele.
    - Bank confirmations for the very small, small and medium-sized enterprise clientele.

INDUSTRY

- **Canadian market**
  - In 2019, the Canadian financial industry comprised some 86 domestic and foreign banking institutions, as well as 478 savings and loan cooperatives, almost half of which belonged to Desjardins Group.
  - In the Canadian banking services industry, on-balance sheet and off-balance sheet personal savings outstanding was estimated at $4,670 billion as at December 31, 2019, for a year-over-year increase of 11.6%, compared to a 0.2% decrease a year earlier. This increase is due to the rebound in North American stock market indexes (the S&P/TSX gained 19.1% and the New York Stock Exchange's S&P 500 gained 28.9% in 2019), which enhanced the value of off-balance sheet savings products, such as investment funds and securities in custody with securities brokers.
  - Outstanding volume of loans to individuals estimated at $2,269 billion as at December 31, 2019, a year-over-year increase of 4.5%, compared to an increase of 3.6% at year-end 2018.
  - Business financing outstanding estimated at $981 billion as at December 31, 2019, a year-over-year increase of 8.4%, compared to an increase of 12.5% as at December 31, 2018.

- **Québec market**
  - On-balance sheet and off-balance sheet personal savings outstanding estimated at $880 billion as at December 31, 2019, a year-over-year increase of 12.1%, compared to nil growth at year-end 2018 due to the same factors as mentioned for the Canadian market.
  - Outstanding volume of loans to individuals estimated at $402 billion as at the same date, for a year-over-year increase of 4.7%, compared to a 3.1% increase recorded a year earlier.
  - Business financing outstanding estimated at $197 billion as at December 31, 2019, for a year-over-year increase of 10.7%, compared to a 13.6% upsurge observed at year-end 2018.
    - Agricultural loans, included in business financing, estimated at $21.0 billion as at December 31, 2019, a year-over-year increase of 8.8%, compared to a 9.1% increase recorded a year earlier.

- **Competition in Québec for financial services to individuals and businesses**
  - Desjardins Group is a leader in many of the segments in which it operates.
  - Its market share of residential mortgages was estimated at 38% as at December 31, 2019, and at approximately 23% in consumer credit.
  - Desjardins Group is a leader in personal savings in Québec, especially in on-balance sheet personal savings products, with a market share of this industry estimated at approximately 41% as at December 31, 2019.
  - In commercial and industrial loans, Desjardins Group is well positioned in Québec, with an estimated market share of approximately 20% as at December 31, 2019.
  - Desjardins Group is a leader in agricultural financing, with a loan portfolio totaling $8.6 billion and an estimated market share of 41% as at December 31, 2019.
  - The major industry players are focusing primarily on client experience, access to services and proactive advice.
  - The fight for market share is therefore very fierce, since all players are adopting strategies aimed at intensifying business relations with their clients and getting to know them better.

Additional information about the economic environment can be found in Section 1.5 "Economic environment and outlook" of this MD&A.

2020 STRATEGIES AND PRIORITIES

The 2020 strategies and priorities of the Personal and Business Services segment are incorporated into Desjardins Group's strategic priorities and are aimed at helping Desjardins to achieve its ambition of being first in people's hearts, while working in the best interests of members and clients. The Personal and Business Services segment intends to enhance its leadership position in financing, savings and, through its distribution network and life and health and P&C insurance products. The segment will also work to strengthen information security and protection.

The segment will therefore focus its efforts on the following five priorities in 2020:

- **Capitalizing on Desjardins Group's strengths as an expansive Cooperative Group in serving members and clients and increasing their satisfaction.**
  - To do so, facilitate interactions with members and clients across all its channels, in particular by streamlining its offers and processes.

- **Further affirm the cooperative difference by having its members' and clients' financial independence at heart.**
  - By contributing to lasting prosperity in businesses and communities.
  - Its strategy is based on establishing enduring relationships of closeness and trust with members, clients and partners, and on sustainable growth.
  - Its implementation is supported by strong foundations and Desjardins's long-standing commitments in the regions and in various socio-economic communities.

- **Continue to implement its plan to achieve profitable growth.**
  - In order to remain a major industry player in Québec while enhancing its productivity by maximizing its synergies with other Desjardins entities.

- **Continue the digital transformation in line with members' and clients' priority life events.**
  - The Personal and Business Services segment will accelerate its initiatives to strengthen its relational presence across all channels and spark members' and clients' interest in proactive, value-added advice.
  - The segment also seeks to make members and clients more independent for regular interactions and to continue to simplify products, services and processes from end to end.

- **Set up the Desjardins Group Security Office, whose priorities will be to:**
  - Ensure the adoption of best practices in information security.
  - Reinforce our personal information protection strategy.
  - Create a unit to fight financial crime.

Reaching objectives requires the commitment of every director, manager and employee, as well as a high-calibre, comprehensive and integrated offer that is innovative and easy to access.

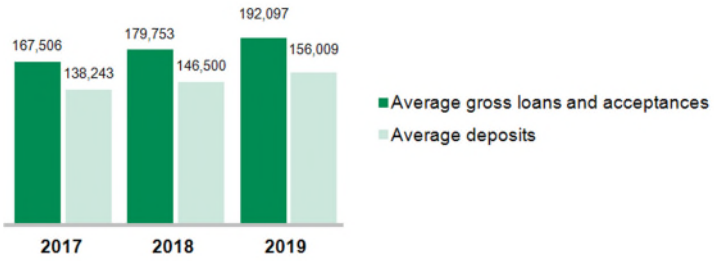
ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

Table 19 – Personal and Business Services – Segment results
For the years ended December 31

(in millions of dollars and as a percentage)	2019[1]	2018	2017[2]
Net interest income	**$ 4,862**	$ 4,374	$ 3,916
Other operating income[3]	**2,495**	2,007	1,975
Operating income[3]	**7,357**	6,381	5,891
Investment income[3]	**63**	100	230
Total income	**7,420**	6,481	6,121
Provision for credit losses	**368**	385	345
Non-interest expense	**4,586**	4,406	4,305
Income taxes on surplus earnings	**585**	418	363
Surplus earnings before member dividends	**1,881**	1,272	1,108
Member dividends, net of tax recovery	**232**	185	148
Net surplus earnings for the year after member dividends	**$ 1,649**	$ 1,087	$ 960
Surplus earnings before member dividends	**1,881**	1,272	1,108
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	**(309)**	-	-
Adjusted surplus earnings before member dividends[3]	**$ 1,572**	$ 1,272	$ 1,108
Indicators			
Average gross loans and acceptances[3]	**$ 192,097**	$ 179,753	$ 167,506
Average deposits[3]	**156,009**	146,500	138,243
Credit loss provisioning rate[3]	**0.19%**	0.21%	0.21%
Gross credit-impaired loans[4] / gross loans and acceptances ratio[3]	**0.57**	0.56	0.25

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(3) See "Non-GAAP measures".
(4) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

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



COMPARISON OF 2019 AND 2018 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $1,881 million,** up $609 million, and adjusted surplus earnings before member dividends up $300 million, or 23.6%. This increase is essentially due to the following:
  - Solid performance from the caisse network, related especially to growth in net interest income.
  - Reduction in the provision for credit losses.
  - Decrease in expenses as a result of the winding-up of Zag Bank's operations.
  - Growth in payment and financing activities.
  - Offset by the profit related to the restructuring of Interac Corp. recognized in first quarter 2018.

- **Operating income of $7,357 million,** up $976 million, or 15.3%.
  - Increase of $488 million in net interest income mainly as a result of year-over-year growth of $12.3 billion in the entire average portfolio of loans and acceptances outstanding, including residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and as a result of higher interest rates.
  - Other operating income of $2,495 million, up $488 million, or 24.3%, mainly due to the following:
    - Gain before taxes of $349 million related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
    - Growth in business volumes of payment and financing activities.
    - Increase in income from new capital market issues.

- **Investment income of $63 million,** down $37 million, basically as a result of the profit related to the restructuring of Interac Corp. recognized in first quarter 2018.

- **Total income of $7,420 million,** up $939 million, or 14.5%.

- **Provision for credit losses of $368 million,** down $17 million, chiefly because of the following:
  - Refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards and lines of credit in second quarter 2019.
  - Offset by the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.

- **Non-interest expense of $4,586 million,** up $180 million, or 4.1%, mainly because of:
  - Growth in payment activities, including expenses related to the rewards program, and in financing activities.
  - Business growth, especially growth in activities to enhance the service offer to caisse members and clients, including offers related to *AccèsD* services, the online business centre and the shared services centre.
  - In 2018, expenses included the favourable impact of the change in the post-retirement benefit plan made during the year.
  - Offset by a decrease in expenses as a result of the winding-up of Zag Bank's operations.

2.3.2 Wealth Management and Life and Health Insurance

PROFILE

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

The segment designs several lines of individual insurance (life and health) coverage as well as savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private wealth management services. The segment also includes asset management for institutional clients.

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

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

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

This segment includes the interest in Aviso Wealth effective April 1, 2018, as well as the operations of Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. until that same date, as mentioned in "Impact of significant transactions in 2019 and 2018".

SERVICES

- **Insurance for individuals:**
  - Includes products and services offered on an individual basis, or to businesses or groups by way of group plans.
  - These life and health insurance coverages provide peace of mind by reducing the financial impacts that could occur due to illness, disability, accident or death.

Wealth Management

- **Savings and investment services:**
  - Include the various investment solutions for individuals and businesses, as well as group retirement savings plans for company employees, or individuals who are part of any other group.
  - The wide array of investment solutions offered, which includes market-linked guaranteed investments (MLGI), mutual funds, guaranteed investment funds, notes and exchange traded funds (ETF) with a number of responsible investment products, allow individuals and businesses to find the one best suited to their needs, whether for preparing for retirement, planning a trip or any other financial goal.
- **Institutional asset management services:**
  - Investment solutions are proposed by a group of investment experts specializing in asset management for institutional clients in order to obtain competitive returns and an attractive risk-return trade-off for them.

Distribution

- **Insurance and funds brokerage services:**
  - Provide diversified access to a line of individual insurance products and investment solutions through representatives who operate under the SFL banner in Québec, and as part of the Desjardins Financial Security Independent Network outside Québec.
- **Securities brokerage services:**
  - Include the distribution of all types of investments, including stock market securities.
  - There are two separate distribution models: the customized services of an investment adviser (full-service brokerage) or online brokerage services for savvy investors who want to trade on their own.
- **Private wealth management services:**
  - Are set out in a constantly updated and integrated offer intended for wealthy clients.
  - The personalized support of private managers includes a number of aspects, such as financial planning, tax and philanthropy optimization as well as portfolio management.

2019 ACHIEVEMENTS

Life and Health Insurance

- **Digital shift for individual insurance:** Launch of a digital sign-up solution, where a decision is made immediately at the point of sale and tools are available to raise members' and clients' awareness of their needs for coverage and protection.
- A number of initiatives concerning the member and client experience in **group insurance,** including improvements to the time it takes for disability benefits to be paid.
- Desjardins Group is a member of a select group of insurers under the United Nations Environment Programme – Finance Initiative (UNEP FI), committed to implementing the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD) and adheres to the **Principles for Sustainable Insurance (PSI)** of the UNEP FI.

Wealth Management

- **Investment solutions:**
  - **Three awards for market-linked guaranteed investments** (MLGIs) from Americas Structured Products & Derivatives Awards. Having received awards for the eighth straight year, Desjardins Group is becoming the most recognized financial institution for this type of investment in Canada.
  - **Launch of new offers,** such as Desjardins Structured Notes, Wise ETF Portfolios, available to brokerage clients, and the new SocieTerra funds to enhance the responsible investment line and to respond to members' concerns.
- In **group retirement savings**, the secure website for members has been optimized for mobile devices. Members can now do their transactions in real time using their smart phone or tablet, print up statements, join a plan and change their beneficiaries.
- Disnat, Desjardins Online Brokerage, ranks highest in self-directed investor satisfaction in Canada among discount brokers according to the satisfaction study of **J.D. Power and Associates.**
- In securities, new initiatives are being deployed to enhance support for **financial and tax planning** as well as new **digital functionalities** in order to meet customer needs.
- In **asset management,** Desjardins has been the first to launch an *Equity Market Neutral ETF*, which has been well received by the market.

INDUSTRY

The wealth management industry and the life and health insurance industry are complementary because their aim is to provide products and services that will increase the net worth of Canadian households and give them the coverage they need.

- **Canadian market:**
  - Wealth Management: At the end of 2018, financial assets of $4,426 billion were held by Canadian households in various savings and investment products. Assets were down by a historic 1.0%, compared to 2017, growing annually at 6.1% on a compound basis, and at a slow pace over the past five years.
  - Life and Health Insurance: Premium income totalled $117 billion in life and health insurance and in annuities according to 2018 figures, growing by 4.8% over the last five years. About 29 million Canadians have individual or group life insurance for a total of $4.8 trillion in insurance in force.
- **Competition in Canada:**
  - Wealth Management: A division of all major banking groups, life and health insurance companies and investment funds. Competition is fierce, and players try to outdo one another in terms of ingenuity in order to win over clients and build their loyalty.
  - Life and Health Insurance: Based on 2018 statistics, there are more than 160 insurers doing business in Canada. Five insurers monopolize 77.8% of the market. Desjardins Financial Security Life Assurance Company is still a leader in Québec and ranks fifth in Canada, with written premiums of $4.8 billion in 2018.
- **Developments and expectations of members and clients:**
  - Members' and clients' expectations are constantly changing. They want customized offers suited to their goals, as well as fast service while using the channel of their choice. The industry is increasingly adjusting and positioning itself to meet these expectations.

2020 STRATEGIES AND PRIORITIES

The 2020 strategies and priorities of the Wealth Management and Life and Health Insurance segment form part of Desjardins Group's strategic priorities that aim to help Desjardins Group to achieve its ambition of being first in people's hearts. Just like the other Desjardins Group business segments, the Wealth Management and Life and Health Insurance segment works in the interests of its members and clients. This segment also works to reinforce information security and protection.

Wealth Management and Life and Health Insurance will therefore continue to focus on the following three orientations in 2020:

- **Accelerate the shift to a member- and client-focused culture.**
  - To achieve this goal, Wealth Management and Life and Health Insurance intends to continue its work to enhance relationships, optimize its product lines, further automate its processes and accelerate its digital, omnichannel transformation in order to constantly provide better service to members and clients, which is its raison d'être.

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

- **Capitalize on Desjardins Group's strengths as an expansive Cooperative Group.**
  - Action will therefore be taken to maximize Desjardins' strengths as an expansive Cooperative Group, especially with regard to group insurance and group retirement savings, caissassurance (credit union insurance) and other Desjardins distribution networks. Initiatives also aim to maximize the interest in Aviso Wealth.

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

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

Table 20 – Wealth Management and Life and Health Insurance – Segment results
For the years ended December 31

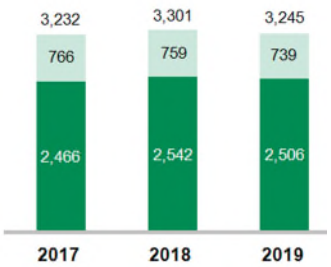
(in millions of dollars)	2019[1]	2018	2017[2]
Net interest income	**$ 5**	$ 4	$ 1
Net premiums	**4,685**	4,676	4,406
Other operating income[3]	**1,596**	1,716	1,514
Operating income[3]	**6,286**	6,396	5,921
Investment income[3]	**2,442**	387	1,406
Total income	**8,728**	6,783	7,327
Provision for (recovery of) credit losses	**1**	(1)	4
Claims, benefits, annuities and changes in insurance contract liabilities	**5,497**	3,369	4,233
Non-interest expense	**2,348**	2,296	2,329
Income taxes on surplus earnings	**153**	225	149
Net surplus earnings for the year	**$ 729**	$ 894	$ 612
Specific item, net of income taxes			
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**-**	(129)	-
Adjusted net surplus earnings for the year[3]	**$ 729**	$ 765	$ 612
Of which:			
Group's share	**$ 729**	$ 894	$ 610
Non-controlling interests' share	**-**	-	2
Indicators			
Net sales of savings products	**$ 6,461**	$ 7,908	$ 8,577
Insurance sales	**467**	342	523
Group insurance premiums	**3,245**	3,301	3,232
Individual insurance premiums	**893**	872	836
Annuity premiums	**547**	503	338
Receipts related to segregated funds	**3,557**	2,026	1,840

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(3) See "Non-GAAP measures".

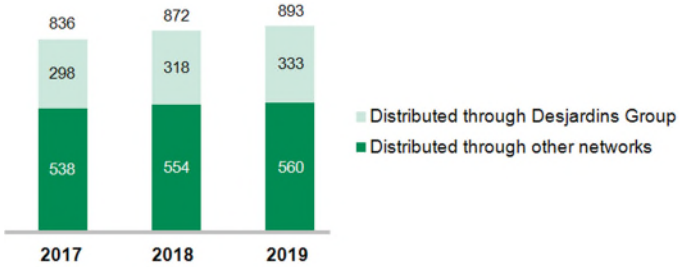
Table 21 – Expenses attributable to policyholders
For the years ended December 31

(in millions of dollars)	2019	2018	2017
Insurance and annuity benefits	**$ 3,138**	$ 3,126	$ 3,037
Change in actuarial liabilities	**2,287**	111	984
Policyholder dividends, experience refunds and other	**72**	132	212
Total	**$ 5,497**	$ 3,369	$ 4,233

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



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



COMPARISON OF 2019 AND 2018 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $729 million,** down $165 million, and adjusted net surplus earnings down $36 million, or 4.7%, mainly as a result of:
  - Lower gains on the disposal of securities and real estate investments, and smaller interest margins than in 2018.
  - Higher levels of expenses than in 2018.
  - Offset by favourable adjustments to actuarial assumptions made in the normal course of business.

- **Operating income of $6,286 million,** down $110 million, or 1.7%.

- **Net premiums of $4,685 million,** up $9 million due to the following:
  - Increase of $44 million in annuity premiums and of $21 million in individual insurance.
  - Offset by a decrease of $56 million in group insurance premiums.

- **Other operating income of $1,596 million,** down $120 million, or 7.0%, due to:
  - Gain in 2018 on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
  - Decrease in income following the transaction involving Qtrade Canada Inc.

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

- **Investment income of $2,442 million,** up $2,055 million.
  - Increase primarily due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to differences 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 smaller gains on the disposal of securities and real estate investments in 2018.

- **Total income of $8,728 million,** up $1,945 million, or 28.7%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $5,497 million,** up $2,128 million, essentially as a result of an increase of $2,176 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the increase in the fair value of matched investments as well as favourable adjustments related to actuarial assumptions made in the normal course of business.

- **Non-interest expense of $2,348 million,** up $52 million, or 2.3%, mainly because of the following:
  - Higher administration expenses, in particular due to an increase in the workforce to improve services to members and clients.
  - Higher expenses for assets under management.
  - Offset by the transaction involving Qtrade Canada Inc. that led to a decrease in expenses.

2.3.3 Property and Casualty Insurance

PROFILE

The Property and Casualty (P&C) Insurance segment offers insurance products providing coverage for Desjardins Group members and clients against disasters. It includes the operations of Desjardins General Insurance Group Inc. and its subsidiaries, offering a personal line of automobile and property insurance products across Canada and also providing businesses with insurance products. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network in Québec, a number of client care centres (call centres) and Desjardins Business centres, and 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 banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner. Desjardins Group has completed the integration of State Farm's Canadian operations and now offers its products under the Desjardins Insurance banner through the exclusive agent network.

SERVICES

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

2019 ACHIEVEMENTS

- Continued streamlining, modernizing and enhancing of the member and client experience:
  - **Improvement of the member and client experience,** in particular by simplifying the process of taking out insurance through proactive communication, explaining any increase in property or auto insurance premiums, which reflects the norm in the industry today.
  - Continuation of the **digital transformation,** in particular by:
    - Activating the zero paper solution for the exclusive agent network.
    - Enhancing its **mobile offer** in a number of ways:
      - Setting up a new simplified home page for members and clients using online services.
      - Overview of P&C insurance products now available in the Mobile Device Insurance app.
      - Continue to focus on prevention with Ajusto (telematics program providing personalized feedback on driving), Alert (program to prevent damage caused by water or the risk of freezing in home insurance by using a detector placed close to a potential source of leaks), and Radar (functionality providing severe weather warnings so steps can be taken to prevent certain damage to a client's home, auto or other property).
- Continuation of the **program to modernize IT systems** with the new solution Perception, allowing clients to manage the payment of their insurance policy.
- Desjardins Group is a member of a select group of insurers under the United Nations Environment Programme – Finance Initiative (UNEP FI), committed to implementing the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD) and adheres to the **Principles for Sustainable Insurance (PSI)** of the UNEP FI.
- **Third largest P&C insurer in Canada and second largest in Québec,** based on gross direct premiums written in 2018.

INDUSTRY

- **Canadian market:**
  - The P&C insurance industry offers insurance coverage for motor vehicles, personal and commercial property, and public liability.
  - A mature market, with an average annual growth rate of 4.1% over the past five years.
  - Direct premiums written on the Canadian market totalled $53.0 billion in 2018, up 6.6% since 2017.
  - Individual insurance accounts for 62.9% of the market, and business insurance, for 37.1%.

- **Competition in Canada:**
  - Challenges associated with profitability resulting from a rise in the frequency and severity of claims for the entire auto insurance industry in Canada.
  - This rise in claims reflects in particular the increase in distracted driving and the cost of repairs for new technologies in motor vehicles.
  - The Desjardins Group P&C Insurance segment is proactive regarding these challenges and has implemented an action plan to optimize its profitability in a changing world given the difficult situation.

- **State of the industry in 2019:**
  - Growth in the average premium as a result of rate increases in home and auto insurance on the Canadian P&C market.
  - Winter 2019 was affected by heavy snowfalls, thaw periods and spring flooding.
  - Numerous snowfalls cause a great deal of problems for motorists and a number of residents in Québec and Ontario. For Québec, this translated into an 8.3% and 23.8% increase, respectively, in the number of auto and home claims compared to the previous year.
  - According to the Insurance Bureau of Canada, the spring flooding in Québec cost $127 million, while abundant precipitation, high winds, melting snow and flooding between January and March came to a total of $165 million.
    - For instance, the dike breached at Ste-Marthe-sur-le-Lac in Québec last April and caused major flooding. The claims team reacted proactively to this industry event. Calls were placed to more than 600 clients, mobilizing various resources in the field.

- **Industry trends:**
  - Insurers' proposals are being increasingly developed through digital channels.
  - The Canadian market will continue to develop quickly as it has in recent years, driven by technological innovations, changes in expectations and consumer behaviour as well as the advent of new business models. These insurers are starting to position themselves in response to new trends such as InsurTech or the sharing economy.
  - The impact of climate change is a major factor affecting the P&C insurance industry.
  - The Desjardins Group P&C Insurance segment is proactive vis-à-vis these new trends.

2020 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's 2020 strategies and priorities fall within the scope of Desjardins Group's strategic priorities, and aim to help Desjardins Group attain its goal of being number one in people's hearts. This segment also works to reinforce information security and protection.

The Property and Casualty Insurance segment will therefore focus its efforts on the following four priorities in 2020:

- **Enhance the member and client experience.**
  - By adapting its business practices in the interests of its members and clients.
  - By optimizing the performance of its value chain.
  - By modernizing the business line systems.
  - By modernizing the insurance model to enhance added value interactions by capitalizing on analytics and the digital transformation.

- **Improve the profitability of the auto product.**

- **Accelerate the digital transformation for all products and services.**
  - By accelerating the shift toward Desjardins Mobile Services.
  - By developing the full potential of the acquisition of State Farm's Canadian operations.

- **Acquire, assess, develop and mobilize talent.**

To achieve these priorities, various initiatives will be deployed in order to offer members and clients the best possible experience and to provide them with products and services that are in their best interests and tailored to their needs.

ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

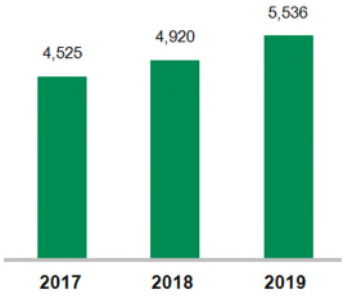
Table 22 – Property and Casualty Insurance – Segment results

For the years ended December 31

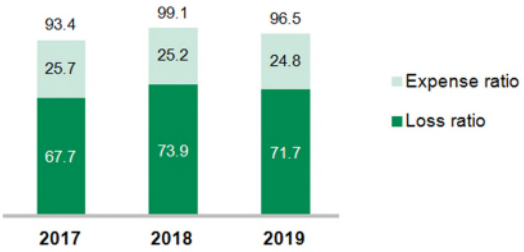
(in millions of dollars and as a percentage)	2019	2018	2017[1]
Net interest income	**$ -**	$ -	$ 1
Net premiums	**4,988**	4,402	3,896
Other operating income (loss)[2]	**(188)**	(188)	78
Operating income[2]	**4,800**	4,214	3,975
Investment income[2]	**341**	336	214
Total income	**5,141**	4,550	4,189
Claims, benefits, annuities and changes in insurance contract liabilities	**3,665**	3,209	2,555
Non-interest expense	**1,229**	1,127	1,099
Income taxes on surplus earnings	**60**	41	89
Net surplus earnings for the year	**$ 187**	$ 173	$ 446
Specific item, net of income taxes			
Gain related to the sale of Western Financial Group Inc. and Western Life Assurance Company[3]	**-**	-	(241)
Adjusted net surplus earnings for the year[2]	**$ 187**	$ 173	$ 205
Of which:			
Group's share	**$ 141**	$ 132	$ 405
Non-controlling interests' share	**46**	41	41
Indicators			
Gross written premiums	**$ 5,536**	$ 4,920	$ 4,525
Loss ratio[2]	**71.7%**	73.9%	67.7%
Current year loss ratio[2]	**79.9**	80.7	80.1
Loss ratio related to catastrophes and major events[2]	**2.3**	3.1	2.6
Ratio of favourable changes in prior year claims[2]	**(10.5)**	(9.9)	(15.0)
Expense ratio[2]	**24.8**	25.2	25.7
Combined ratio[2]	**96.5**	99.1	93.4

(1) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(2) See "Non-GAAP measures".
(3) The difference between the data presented in Table 2, "Adjusted surplus earnings of Desjardins Group before member dividends", is due to intersegment transaction expenses.

Gross written premiums
(in millions of dollars)



Combined ratio
(as a percentage of net premiums earned)



COMPARISON OF 2019 AND 2018 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $187 million,** up $14 million, or 8.1%, due to the following:
  - Lower loss ratio mainly because of the smaller impact of catastrophes and major events and due to the lower claims experience than in 2018.
  - Offset by lower dividend income than in 2018.

- **Operating income of $4,800 million,** up $586 million, or 13.9%.

- **Net premiums of $4,988 million,** up $586 million, or 13.3%, as a result of:
  - Growth in the average premium due to rate increases, reflecting the current trend in the Canadian P&C insurance market.
  - Larger number of policies issued as a result of growth across all market segments and regions.

- **Loss of $188 million, presented under Other operating income (loss),** comparable to 2018.
  - Smaller increase than in 2018 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, and arising from the favourable developments in claims taken over.
  - Offset by the recognition, in 2018, of one-time remuneration payable by a partner as the result of the termination of a private label partnership.

- **Investment income of $341 million,** up $5 million, or 1.5%, primarily as a result of the following:
  - Increase in the fair value of matched bonds compared to a decrease in 2018, mainly on account of lower market interest rates in 2019, whereas rates had been higher in 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 2018.

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

- **Total income of $5,141 million,** up $591 million, or 13.0%.

- **Cost of claims totalling $3,665 million,** up $456 million, or 14.2%, as a result of the following:
  - Business growth, 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 2018.
  - Offset by a loss ratio of 71.7% for 2019, compared to 73.9% in 2018.
    - Lower loss ratio related to catastrophes and major events than in 2018, i.e. 2.3% vs. 3.1% because three catastrophes took place in 2018 whereas only one catastrophe occurred in 2019.
    - Lower claims experience for the current year than in 2018; namely 79.9% vs. 80.7%.
    - Higher ratio of favourable changes in prior year claims than in 2018, i.e. (10.5)%, compared to (9.9)%, essentially in automobile insurance.

- **Non-interest expense of $1,229 million,** up $102 million, or 9.1%, essentially as a result of:
  - Increase in expense due to business growth and faster recognition of acquisition fees for policy issuance.
  - Upward revaluation of the deferred compensation plan provision for Desjardins agents.

2.3.4 Other category

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities and those related to financial intermediation between liquidity surpluses and needs of the caisses. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole, including finances, administration, risk management, human resources, communications and marketing. It also includes the operations of Desjardins Capital Inc. and Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Combined Financial Statements, intersegment balance eliminations are classified in this category.

Table 23 – Other category
For the years ended December 31

(in millions of dollars)	**2019[1]**	2018	2017[2]
Net interest income	**$ 492**	$ 516	$ 539
Net premiums	**(261)**	(255)	(253)
Other operating income (loss)[3]	**(765)**	(676)	(608)
Operating income (loss)[3]	**(534)**	(415)	(322)
Investment income (loss)[3]	**37**	(89)	(162)
Total income (loss)	**(497)**	(504)	(484)
Provision for (recovery of) credit losses	**(4)**	-	-
Claims, benefits, annuities and changes in insurance contract liabilities	**1**	1	(71)
Non-interest expense	**(148)**	(344)	(333)
Income taxes on surplus earnings	**(147)**	(148)	(65)
Net deficit for the year	**$ (199)**	$ (13)	$ (15)

[1] The information presented for the year ended December 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 Combined Financial Statements.
[2] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
[3] See "Non-GAAP measures".

COMPARISON OF 2019 AND 2018 – CONTRIBUTION BY OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $199 million,** compared to a net deficit of $13 million in 2018. The change in the net deficit is mainly due to the following:
  - Expenses of $108 million to cover the costs incurred and the taking of a provision for the implementation of Desjardins Identity Protection.
  - In relation to treasury activities:
    - Increase in investment income from trading activities, due to the narrowing of credit spreads.
    - Improved performance of the investment portfolio and increase in financing activities having had a positive effect on net interest income.
    - Market rate fluctuations as well as changes in hedging positions for matching activities had an unfavourable effect on net interest income and a favourable effect on investment income.
  - Non-interest expense includes expenses related to the continued implementation of Desjardins-wide strategic projects (in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital transformation and information security), thereby enhancing the member and client experience and improving productivity. Other activities also included contributions from the *$100 Million Fund* regional development program as well as payments under the Desjardins Member Advantages program.
  - In 2018, the decrease in investment portfolio provisions had a mitigating effect on the deficit.

2.4 Analysis of fourth quarter results and quarterly trends

Table 24 – Results for the previous eight quarters

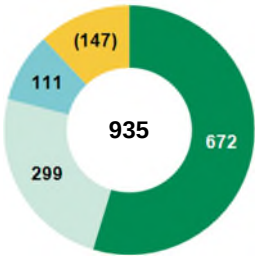
(unaudited, in millions of dollars and as a percentage)	2019				2018			
	Q4[1]	Q3[1]	Q2[1]	Q1[1]	Q4	Q3	Q2	Q1
Net interest income	**$ 1,424**	$ 1,372	$ 1,299	$ 1,264	$ 1,284	$ 1,286	$ 1,175	$ 1,149
Net premiums	**2,527**	2,326	2,242	2,317	2,221	2,263	2,200	2,139
Other operating income[2]								
Deposit and payment service charges	**109**	116	103	103	114	110	106	103
Lending fees and credit card service revenues	**185**	193	186	210	177	171	163	186
Brokerage and investment fund services	**226**	223	223	214	211	216	223	255
Management and custodial service fees	**155**	146	141	140	130	147	138	136
Foreign exchange income	**12**	11	27	14	29	14	21	27
Other	**338**	7	6	50	(21)	36	130	37
Operating income[2]	**4,976**	4,394	4,227	4,312	4,145	4,243	4,156	4,032
Investment income (loss)[2]								
Net investment income (loss)	**(94)**	605	1,045	1,519	45	(253)	308	111
Overlay approach adjustment for insurance operations financial assets	**(22)**	(13)	10	(167)	258	76	20	169
Investment income (loss)[2]	**(116)**	592	1,055	1,352	303	(177)	328	280
Total income	**4,860**	4,986	5,282	5,664	4,448	4,066	4,484	4,312
Provision for (recovery of) credit losses	**113**	154	(11)	109	89	100	80	115
Claims, benefits, annuities and changes in insurance contract liabilities	**1,426**	2,258	2,361	3,118	1,821	1,375	1,727	1,656
Non-interest expense	**2,194**	1,849	2,053	1,919	1,846	1,859	1,853	1,927
Income taxes on surplus earnings	**192**	155	187	117	114	162	147	113
Surplus earnings before member dividends	**935**	570	692	401	578	570	677	501
Member dividends, net of tax recovery	**57**	60	58	57	43	53	53	36
Net surplus earnings for the period after member dividends	**$ 878**	$ 510	$ 634	$ 344	$ 535	$ 517	$ 624	$ 465
Of which:								
Group's share	**$ 858**	$ 499	$ 616	$ 347	$ 527	$ 504	$ 613	$ 456
Non-controlling interests' share	**20**	11	18	(3)	8	13	11	9
Contribution to combined surplus earnings by business segment								
Personal and Business Services	**$ 672**	$ 413	$ 461	$ 335	$ 329	$ 369	$ 299	$ 275
Wealth Management and Life and Health Insurance	**299**	108	183	139	183	174	331	206
Property and Casualty Insurance	**111**	34	123	(81)	25	70	52	26
Other	**(147)**	15	(75)	8	41	(43)	(5)	(6)
	$ 935	$ 570	$ 692	$ 401	$ 578	$ 570	$ 677	$ 501
Total assets	**$ 312,996**	$ 312,731	$ 310,906	$ 304,002	$ 295,465	$ 295,265	$ 290,073	$ 282,065
Indicators								
Return on equity[2]	**13.7%**	8.5%	10.6%	6.5%	9.0%	8.8%	11.0%	8.3%
Tier 1A capital ratio	**21.6**	17.9	17.7	18.1	17.3	17.7	17.5	17.4
Total capital ratio	**21.6**	18.1	17.8	18.3	17.6	18.0	17.8	17.7

[1] The information presented for the 2019 quarters 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 Combined Financial Statements.
[2] See "Non-GAAP measures".

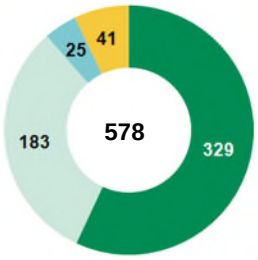
FOURTH QUARTER COMBINED RESULTS

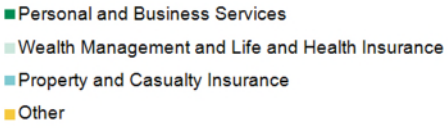
For the fourth quarter of 2019, Desjardins Group posted surplus earnings before member dividends of $935 million, up $357 million, compared to the same period in 2018. Surplus earnings adjusted for the specific item, namely, the gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand recognized in fourth quarter 2019, were up $48 million, or 8.3%.

2019 surplus earnings before member dividends
(in millions of dollars)



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





Contribution of business segments to surplus earnings

- Personal and Business Services: **Contribution of $672 million,** up $343 million compared to the same period in 2018, essentially as a result of:
  - Gain of $309 million, net of income taxes, related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
  - Solid performance of the caisse network, related in particular to net interest income growth.
  - Increase in income from trading and capital market activities.
  - Offset by an increase in the provision for credit losses.
- Wealth Management and Life and Health Insurance: **Contribution of $299 million,** up $116 million compared to the same period in 2018, primarily due to favourable adjustments to actuarial assumptions made in the normal course of business.
- Property and Casualty Insurance: **Contribution of $111 million,** up $86 million compared to the same period in 2018, mainly as a result of:
  - Lower loss ratio than in the previous period, particularly as a result of the higher favourable change in prior-year claims than in the comparative period in 2018.
  - Favourable impact of investment income.

- **Return on equity of 13.7%,** compared to 9.0% for the fourth quarter of 2018.
- **Adjusted return on equity of 9.3%,** compared to 9.2% for the fourth quarter of 2018.

- **Operating income of $4,976 million,** up $831 million, or 20.0%.

- **Net interest income of $1,424 million,** up $140 million, or 10.9%, chiefly as a result of the growth in the entire average portfolio of loans and acceptances outstanding, including residential mortgages and loans to medium-sized businesses and large corporations.

- **Net premiums of $2,527 million,** up $306 million, or 13.8%.
  - **Wealth Management and Life and Health Insurance:** Net insurance and annuity premiums of $1,291 million, up $157 million, or 13.8%, compared to the same period in 2018.
    - Increase of $159 million in annuity premiums, and of $9 million in individual insurance premiums.
    - Offset by the decrease of $11 million in group insurance premiums.

  - **Property and Casualty Insurance:** Net premiums of $1,303 million, up $153 million, or 13.3%, compared to the same period in 2018.
    - Growth in the average premium due to rate increases, reflecting the current trend in the Canadian P&C insurance market.
    - Larger number of policies issued as a result of growth across all market segments and regions.

- **Other operating income of $1,025 million,** up $385 million, mainly due to:
  - Gain of $349 million, before income taxes, related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
  - Growth in business volume of payment and financing activities.
  - Increase in income from growth in assets under management.

- **Loss of $116 million, presented under Investment income (loss),** compared to income of $303 million in the fourth quarter of 2018.
  - Decrease mainly due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Difference mostly due to changes in the fair value of the bond portfolio as a result of higher interest rates.
    - Decrease largely offset by the change in actuarial liabilities that in turn led to a decrease in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Decrease in the fair value of matched bonds in the Property and Casualty Insurance segment versus an increase in the corresponding quarter of 2018, mainly due to higher market interest rates during the fourth quarter of 2019 versus lower interest rates in the fourth quarter of 2018. It should be remembered that this decrease in bond value was offset by a similar decrease in the cost of claims due to a matching strategy.
  - Decrease in the fair value of derivative financial instruments associated with Desjardins Group's hedging operations.

  This decrease was partially offset by:
  - Overall, higher net gains on disposals of investments and dividend income compared to 2018.
  - Increase in trading income.

- **Total income of $4,860 million,** up $412 million, or 9.3%.

- **Provision for credit losses of $113 million,** up $24 million, or 27.0%, essentially as a result of the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards.
  - Desjardins Group continued to have a quality loan portfolio.
  - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56%, compared to 0.54% as at December 31, 2018.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $1,426 million,** down $395 million, or 21.7%.
  - **Wealth Management and Life and Health Insurance segment:** Cost of claims totalling $588 million, down $374 million, or 38.9%, compared to the same period in 2018, essentially as a result of a decrease of $319 million in actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of a decrease in the fair value of matched investments and favourable adjustments to actuarial assumptions made in the normal course of business.

  - **Property and Casualty Insurance segment:** Cost of claims totalling $834 million, down $23 million, or 2.7%, compared to the same period in 2018, mainly due to the following:
    - Loss ratio of 65.9% for the fourth quarter of 2019, compared to 70.8% for the corresponding quarter of 2018.
      - More positive developments in the loss ratio for prior-year claims than in the fourth quarter of 2018: (14.7)% compared to (10.1)%, for automobile insurance claims.
      - Lower loss ratio for the current year than for 2018: 76.4% vs. 80.8%, particularly in property insurance.
      - Offset by a higher loss ratio related to catastrophes and major events than for the corresponding quarter of 2018: 4.2% vs. 0.1% because there had been one catastrophe in fourth quarter 2019, compared to none in the corresponding period of 2018.
    - Favourable impact of the higher discount rates used to measure the provision for claims, offset by a similar decrease in matched bonds, whereas lower discount rates had an unfavourable impact on the corresponding period of 2018.
    - Offset by business growth leading to an increase in the cost of claims.

- **Non-interest expense of $2,194 million,** up $348 million, or 18.9%, compared to 2018.
  - Expenses and provisions of $38 million related to the implementation of Desjardins Identity Protection.
  - Increase in salaries related to indexing and growth in operations.
  - Growth in payment activities, including expenses related to the rewards program, and in financing activities.

  This growth was also due to the following in 2018:
  - Reduction in investment portfolio provisions in 2018.
  - Favourable impact of the change in the post-retirement benefit plan in fiscal 2018.

  This increase was partly offset by:
  - Write-off of certain technology assets in 2018.
  - Decrease in expenses resulting from the winding-up of Zag Bank's operations.

- **Productivity index at 63.9% for the fourth quarter of 2019,** compared to 70.3% for the same period in 2018. The improvement in the productivity index for the fourth quarter of 2019 was due to the previously mentioned items.

- **Income taxes on surplus earnings before member dividends of $192 million,** up $78 million compared to 2018.
  - Effective tax rate of 17.0% for the fourth quarter of 2019, up slightly from 16.5% for the corresponding period of 2018.
  - If the specific item is excluded, the effective tax rate would have been 19.5% for the fourth quarter of 2019, compared to 16.5% for the corresponding quarter of 2018. This increase in the rate results mainly from the tax recovery related to higher remuneration of F capital shares in 2018.

QUARTERLY TRENDS

Quarterly income, expenses and surplus earnings before member dividends are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the capital markets. Desjardins Group's results for the most recent eight quarters were therefore affected by developments in the global, U.S., Canadian and Québec economies. With expected growth of 1.7% in Canadian real GDP in 2019, compared to 2.0% in 2018, and 2.9% versus 2.5% for Québec, Desjardins Group's results for the past eight quarters benefited from a steadily growing GDP. Lastly, the past eight quarters were affected by three increases in Canadian key interest rates as a result of monetary tightening. However, since the third quarter of 2018, there has been no rate hike. In addition, changes in actuarial assumptions as well as claims experience and weather conditions may also cause significant variations from quarter to quarter. In 2019, there was one catastrophe, while three were recorded in 2018.

Combined surplus earnings

- Trend in surplus earnings before member dividends was chiefly affected by the change in claims experience from one quarter to the next and by the contribution of the caisse network, which continues to grow.
- Regarding the privacy breach, expenses to cover the costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection were recognized for $70 million in the second quarter of 2019, and for $38 million in the fourth quarter.
- Surplus earnings before member dividends were affected by:
  - Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand recognized in fourth quarter 2019.
  - Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., completed on April 1, 2018, while income from brokerage and investment fund services was down following this transaction recognized in the second quarter of 2018.

Combined results

- **Operating income – Upward trend for 2019 quarters, compared to 2018 quarters.**
  - Higher net interest income, chiefly as a result of the growth in the entire average portfolio of loans and acceptances outstanding, including residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations recognized over the quarters, and as a result of higher interest rates in 2018.
  - Operations growth allowed Desjardins Group to grow operating income, in particular premium income.
  - Increase in the average premium due to rate increases, reflecting the current trend in the Canadian property and casualty insurance market.
  - Growth in business volume of payment and financing activities, as well as in assets under management.
  - Increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations in the fourth quarter of 2018, which reduced operating income.
  - Operating income was affected by specific items:
    - Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand recognized in fourth quarter 2019.
    - Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., completed on April 1, 2018, while income from brokerage and investment fund services was down following this transaction recognized in the second quarter of 2018.

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

- **Provision for credit losses – Quarterly fluctuations.**
  - Migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.
  - Refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards and lines of credit in the second quarter of 2019.
  - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, slightly up for the 2019 quarters compared to the 2018 quarters. Desjardins Group has continued to have a quality loan portfolio.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
  - Growth in business leading to an increase in claims expenses.
  - Expenses mainly affected by a change in the fair value of investments associated with life and health insurance activities and property and casualty insurance activities.
  - Expenses affected by the change in P&C loss ratios:
    - Difficult weather conditions in the first quarter of 2019 contributed to the higher frequency of claims for the current year.
    - The fourth quarter of 2019 was affected by one catastrophe, while there were three catastrophes in 2018, namely two in the second quarter and one in the third quarter of 2018.
    - Fiscal 2019 was affected by nine major events compared to four in 2018.

- **Non-interest expense – Relatively stable when 2019 and 2018 quarters are compared, except for the second and fourth quarters of 2019.**
  - Increase in salaries related to indexing and growth in operations.
  - Growth in payment and financing activities and in assets under management.
  - Expenses to cover costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection were recognized for $70 million in the second quarter of 2019, and for $38 million in the fourth quarter.
  - Reduction in investment portfolio provisions in the first quarter of 2019 and the fourth quarter of 2018.
  - Gain arising from the positive effect of the change in the post-retirement benefit plan made in the fourth quarter of 2018.
  - Transaction involving Qtrade Canada Inc. was completed on April 1, 2018, reducing non-interest expense starting in the second quarter of 2018.
  - Decrease in expenses as a result of the winding-up of Zag Bank's operations.

Surplus earnings from business segments

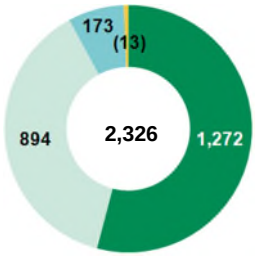
- **Surplus earnings before member dividends of the Personal and Business Services segment trending up when 2019 and 2018 quarters compared.**
  - Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand recognized in the fourth quarter of 2019.
  - Solid performance of caisse network, particularly on account of growth in net interest income.
  - Net interest income up because of growth in the entire average portfolio of loans and acceptances outstanding over the quarters, and because of higher interest rates in 2018.
  - Growth in payment and financing activities.
  - Increase in income from trading activities in fourth quarter 2019.
  - Decline in trading income due to volatile capital markets in third quarter 2019.
  - Profit on the restructuring of Interac Corp. in first quarter 2018.
  - Higher expenses related to business growth, especially payment activities and activities to enhance the service offer to caisse members and clients, including offers related to *AccèsD* services, the online business centre and the shared services centre.
  - Offset by a decrease in expenses in the third quarter 2019 as a result of the winding-up of Zag Bank's operations.

- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the past eight quarters.**
  - Higher surplus earnings for fourth quarter 2019, mainly due to favourable adjustments to the actuarial assumptions and more favourable interest margins, partly offset by higher expenses.
  - Solid investment performance, which also contributed to higher surplus earnings in fourth quarter 2019 and first quarter 2018.
  - Income growth related to assets under management during 2019.
  - More favourable claims experience for almost all business lines, which affected net surplus earnings positively in 2019 and 2018, except for third quarter 2019.
  - 2018 second quarter results were affected by the $129 million gain on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., which was completed on April 1, 2018.

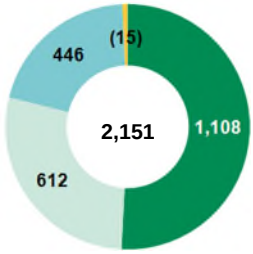
- **Net surplus earnings of the Property and Casualty Insurance segment fluctuating over the past eight quarters.**
  - Strong growth in net premiums over the past eight quarters.
  - Impact of catastrophes:
    - The fourth quarter of 2019 was affected by one catastrophe, namely major wind events and water damage, essentially in Québec.
    - The third quarter of 2018 was affected by one catastrophe, with damage caused by tornadoes and strong winds in September.
    - The second quarter of 2018 was affected by two catastrophes, namely wind damage in May and damage caused by water and winds in April.
  - Impact of claims experience for the current year:
    - Harsh weather conditions in first quarter 2019 helped to increase the frequency of claims for the current year.
  - Positive impact of investment income on fourth quarter 2019.
  - Increase in dividend income in third quarter of 2018, particularly on account of reinvested income, which included prior-year adjustments.

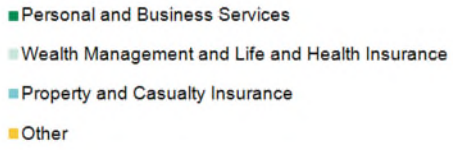
2.5 Comparison of 2018 and 2017

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



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





For 2018, Desjardins Group posted surplus earnings before member dividends of $2,326 million, compared to $2,151 million for 2017. Surplus earnings adjusted[1] for specific items totalled $2,197 million, for an increase of $295 million. Return on equity was 9.3%, compared to 9.1% in 2017, while adjusted return on equity was 8.9%, compared to 8.0% in 2017.

[1] See "Non-GAAP measures".

Segment results

- **Personal and Business Services: Surplus earnings before member dividends of $1,272 million in 2018,** up $164 million compared to 2017, essentially due to the following:
  - Solid performance of the caisse network, related in particular to net interest income growth and strict cost control.
  - Profit related to the restructuring of Interac Corp.
  - Growth in financing activities in the area of consumer loans on credit cards and other personal loans.

  This increase was partly offset by:
  - Decrease in income from trading and new capital market issues.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Expenses related to the winding-up of Zag Bank's operations.

- **Wealth Management and Life and Health Insurance: Net surplus earnings of $894 million in 2018,** up $282 million compared to 2017, essentially due to the following:
  - Larger gains on disposal of real estate investments in 2018.
  - More favourable claims experience.
  - Higher income from growth in assets under management.
  - Offset by less favourable adjustments to actuarial assumptions made in the normal course of business.

- **Property and Casualty Insurance: Net surplus earnings of $173 million in 2018,** was down $273 million, and net surplus earnings, adjusted for specific items, was down $32 million compared to 2017.
  - Higher claims experience than in the previous period.
  - Affected by the sale of Western Financial Group Inc. and Western Life Assurance Company, completed July 1, 2017.
  - Offset by higher investment income.

Combined results

- **Operating income of $16,576 million in 2018,** up $1,111 million compared to 2017.
  - Net interest income of $4,894 million in 2018, an increase of $437 million compared to 2017, mainly on account of growth in the entire average portfolio of loans and acceptances outstanding.
  - Net premiums up $774 million in 2018.
    - Wealth Management and Life and Health Insurance: Net insurance and annuity premiums up $270 million in 2018 because of business growth.
      - Increase of $270 million in premiums, of which $165 million is from annuities, $69 million is from group insurance and $36 million, from individual insurance.
    - Property and Casualty Insurance: Net premiums up $506 million, essentially due to:
      - Increase in net premiums under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly attributable to the change in the cession rate provided in the treaty. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
      - Increase due to growth in the average premium reflecting the current trend in the Canadian property and casualty insurance industry, as well as to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
      - Offset by a decrease in net premiums following the sale of Western Life Assurance Company on July 1, 2017.
  - Other operating income of $2,859 million, down $100 million in 2018, essentially due to the following:
    - Gain of $278 million before income taxes on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company in 2017.
    - Decline in commission income following the sale of Western Financial Group Inc. and the transaction involving Qtrade Canada Inc.
    - Decrease in income from deposit service charges on account of changes in pricing and lower volume.

    This decrease was partly offset by the following:
    - Gain of $132 million before income taxes related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., recognized in 2018.
    - Decrease in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
    - Growth in income from assets under management.
    - Business volume growth in payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.

- **Investment income of $734 million in 2018,** down $954 million compared to 2017.
  - Decrease mainly due to fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly attributable to the decrease in the fair value of the bond portfolio related to fluctuating interest rates.
    - Decrease largely offset by the change in actuarial liabilities that in turn led to a reduction in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Decline in trading income.

  This decrease was partly offset by:
  - Higher dividend income than in 2017, particularly because of reinvested income including prior-year adjustments.
  - Larger gains on disposal of real estate investments in 2018.
  - Smaller decrease in the fair value of matched bonds in the Property and Casualty Insurance segment than in 2017, primarily on account of an interest rate hike on the market in 2018 that was lower than in 2017.
  - Profit related to the restructuring of Interac Corp.

- **Provision for credit losses of $384 million in 2018,** up $35 million compared to 2017, mainly as a result of growth in outstandings and the adoption of IFRS 9 on January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and of the migration of borrower ratings. Despite this increase, Desjardins continued to have a quality loan portfolio in 2018.
  - Credit loss provisioning rate of 0.21% in 2018, comparable to 0.20% in 2017.
  - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, of 0.54%, compared to 0.25% as at December 31, 2017. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $6,579 million,** down $138 million in 2018.
  - Wealth Management and Life and Health Insurance segment: Expenses down $864 million in 2018.
    - Decrease of $873 million in the actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of a decrease in the fair value of matched investments.
    - More favourable claims experience for products was offset by less favourable adjustments related to changes in actuarial assumptions made in the normal course of business.
  - Property and Casualty Insurance segment: Expenses up $654 million in 2018.
    - Business growth led to a higher cost of claims.
    - Increase due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
    - Less favourable developments in prior-year automobile insurance claims than in 2017.
    - Loss ratio for P&C insurers of 73.9% in 2018, compared to 67.7% in 2017.
      - Higher loss ratio primarily due to a less favourable change than in 2017 concerning prior-year claims: (9.9)% vs. (15.0)%, mainly in automobile insurance.
      - Higher claims experience for the current year than in 2017: 80.7% vs. 80.1%.
      - Impact of catastrophes and major events was more significant than in 2017, namely 3.1% vs. 2.6%.

- **Non-interest expense totalling $7,485 million,** up slightly by $85 million in 2018. This increase was mitigated by the following:
  - Reduction in investment portfolio provisions.
  - Gain arising from the impact of the change in the post-retirement benefit plan.

  Apart from these favourable items, non-interest expense rose because of:
  - Increased expenses arising from the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Business growth, particularly in assets under management.

- **Income taxes on surplus earnings before member dividends of $536 million,** unchanged from 2017.
  - Effective tax rate of 18.7% for the year ended December 31, 2018, down compared to 19.9% for 2017.
  - If the specific items are excluded, the effective tax rate would have been 19.5% for 2018, slightly down from 21.0% for 2017. This rate decrease results mainly from the tax recovery on the remuneration of F capital shares.

3.0 Balance sheet review

3.1 Balance sheet management

Table 25 – Combined Balance Sheets

As at December 31

(in millions of dollars and as a percentage)	2019[1]		2018		2017[2]	
Assets						
Cash and deposits with financial institutions	**$ 3,709**	**1.2%**	$ 3,384	1.1%	$ 2,435	0.9%
Securities	**59,693**	**19.1**	59,932	20.3	56,588	20.6
Securities borrowed or purchased under reverse repurchase agreements	**10,032**	**3.2**	11,934	4.0	8,674	3.2
Net loans and acceptances	**203,462**	**65.0**	190,670	64.5	177,521	64.4
Segregated fund net assets	**17,026**	**5.4**	13,234	4.5	13,379	4.9
Derivative financial instruments	**4,246**	**1.4**	3,743	1.3	3,206	1.2
Other assets	**14,828**	**4.7**	12,568	4.3	13,292	4.8
Total assets	**$ 312,996**	**100.0%**	$ 295,465	100.0%	$ 275,095	100.0%
Liabilities and equity						
Deposits	**$ 193,918**	**61.9%**	$ 183,158	61.9%	$ 171,586	62.4%
Commitments related to securities sold short	**10,615**	**3.4**	10,829	3.7	9,112	3.3
Commitments related to securities lent or sold under repurchase agreements	**10,562**	**3.4**	16,845	5.7	10,229	3.7
Derivative financial instruments	**4,278**	**1.4**	2,816	1.0	3,094	1.1
Insurance contract liabilities	**31,595**	**10.1**	28,740	9.7	28,272	10.3
Segregated fund net liabilities	**17,002**	**5.4**	13,212	4.5	13,354	4.9
Other liabilities	**16,199**	**5.2**	12,838	4.3	13,287	4.8
Subordinated notes	**1,398**	**0.4**	1,378	0.5	1,388	0.5
Equity	**27,429**	**8.8**	25,649	8.7	24,773	9.0
Total liabilities and equity	**$ 312,996**	**100.0%**	$ 295,465	100.0%	$ 275,095	100.0%

(1) The information presented as at December 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 Combined Financial Statements.

(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

ASSETS

As at December 31, 2019, Desjardins Group's total assets stood at $313.0 billion, up by $17.5 billion, or 5.9%, over the year. This growth was largely due to an increase in net loans and acceptances as well as in segregated fund net assets, which were up by $12.8 billion and $3.8 billion, respectively.

Desjardins Group's cash and deposits with financial institutions increased by $325 million, or 9.6%. Securities, including those borrowed or purchased under reverse repurchase agreements, were down by $2.1 billion, or 3.0%, on account of market conditions in fourth quarter 2019, for a total volume of $69.7 billion.

Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, increased by $12.8 billion, or 6.7%. Residential mortgages, which have a very important place in Desjardins Group's financing activities, were largely responsible for the growth observed in 2019 and accounted for 62.1% of its portfolio as at December 31, 2019.

Table 26 – Loans and acceptances
As at December 31

(in millions of dollars and as a percentage)	2019		2018		2017[1]	
Residential mortgages	**$ 126,757**	**62.1%**	$ 120,113	62.8%	$ 113,146	63.6%
Consumer, credit card and other personal loans	**27,022**	**13.2**	26,210	13.7	24,044	13.5
Business and government	**50,368**	**24.7**	45,066	23.5	40,769	22.9
	204,147	**100.0%**	191,389	100.0%	177,959	100.0%
Provision for credit losses	**(685)**		(719)		(438)	
Total loans and acceptances by borrower category	**$ 203,462**		$ 190,670		$ 177,521	

[1] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

Desjardins Group's outstanding residential mortgages increased by $6.6 billion, or 5.5%. Desjardins Group capitalized on growth in the housing sector, particularly in Québec. Business and government loans, including acceptances, grew by $5.3 billion, or 11.8%. Consumer, credit card and other personal loans outstanding were up $812 million, or 3.1% since the end of 2018.

Segregated fund net assets were up $3.8 billion, or 28.7%, on account of growth in the number of segregated fund investors.

Derivative financial instrument assets grew by $503 million, or 13.4%, because of the increase in stock index options, partly offset by a decrease in swaps following a drop in interest rates.

Other assets increased by $2.3 billion, or 18.0%, as a result of the higher amounts receivable from clients, brokers and financial institutions and the recognition as at January 1, 2019 of right-of-use assets following the change-over to IFRS 16.

LIABILITIES

Desjardins Group's total liabilities amounted to $285.6 billion as at December 31, 2019, up $15.8 billion, or 5.8%, since December 31, 2018, mainly due to the increase in deposits.

Outstanding deposits grew by $10.8 billion, or 5.9%. The increase in deposits from individuals, which accounted for 57.5% of its total deposit portfolio as at the same date, was largely responsible for this growth. In fact, outstanding deposits were up $6.4 billion, or 6.0%.

Table 27 – Deposits
As at December 31

(in millions of dollars and as a percentage)	2019		2018[1]		2017[1]	
Individuals	**$ 111,665**	**57.5%**	$ 105,298	57.4%	$ 100,578	58.6%
Business and government	**81,556**	**42.1**	77,574	42.4	70,737	41.2
Deposit-taking institutions	**697**	**0.4**	286	0.2	271	0.2
Total deposits	**$ 193,918**	**100.0%**	$ 183,158	100.0%	$ 171,586	100.0%

[1] Data for 2018 and 2017 have been reclassified to conform to the current year's presentation.

Business and government deposits outstanding increased by $4.0 billion, or 5.1%, particularly as a result of the growth of these deposits at the caisses. It should be pointed out that this deposit category accounted for 42.1% of Desjardins Group's total deposit portfolio as at the same date. Various securities, including commercial paper and covered bonds, issued on U.S., Canadian and European markets, which made it possible to support the growth of Desjardins Group's funding requirements, partly accounted for this increase. Deposits from deposit-taking institutions grew by $411 million.

Commitments related to securities sold short and lent or sold under repurchase agreements decreased by $6.5 billion, or 23.5%, to reach a volume of $21.2 billion.

Derivative financial instrument liabilities grew by $1.5 billion because of the increase in stock index options sold.

Desjardins Group's insurance contract liabilities increased by $2.9 billion, or 9.9%, largely due to the actuarial liabilities attributable to life and health insurance activities, which grew by $2.4 billion.

Segregated fund net liabilities were up by $3.8 billion, or 28.7%, as a result of growth in the number of segregated fund investors.

Other liabilities grew by $3.4 billion, or 26.2%, due to the increase in amounts payable to clients, brokers and financial institutions, and to the recognition of lease liabilities as at January 1, 2019 following the change-over to IFRS 16.

EQUITY

Equity was up $1.8 billion, or 6.9%, since December 31, 2018. Net surplus earnings after member dividends totalling $2.4 billion accounted for this growth.

Information about member dividends, remuneration and dividends before taxes is presented in the table below.

Table 28 – Information about member dividends, remuneration and dividends
For the years ended December 31

(in millions of dollars)	2019	2018	2017
Member dividends	**$ 317**	$ 253	$ 202
Remuneration on F capital shares	**207**	388	167
Remuneration on permanent shares	**4**	37	45
Dividends	**35**	41	46
	$ 563	$ 719	$ 460

Note 22, "Capital stock", and Note 23, "Share capital", to the Combined Financial Statements provides additional information about Desjardins Group's capital stock and share capital.

3.2 Capital management

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

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

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

Desjardins Group's Integrated Capital Management Framework

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

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

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

Regulatory framework and internal policies

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

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

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

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

In this regard, it should be mentioned that the life and health insurance subsidiaries under provincial jurisdiction are subject to the Capital Adequacy Requirements Guideline (CARLI) issued by the AMF. The property and casualty insurance subsidiaries under provincial jurisdiction must comply with the Guideline on Capital Adequacy Requirements issued by the AMF. The property and casualty insurance subsidiaries under federal jurisdiction must comply with the OSFI's Minimum Capital Test 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.

In addition, the Total Loss Absorbing Capacity Guideline (TLAC Guideline) issued by the AMF took effect on March 31, 2019. As of April 1, 2022, Desjardins Group will be required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the target criteria, or regulatory capital instruments to support its recapitalization in the event of a failure.

Under the TLAC Guideline, the AMF expects Desjardins Group to maintain a risk-based TLAC ratio of at least 21.5% of risk-weighted assets as well as a TLAC leverage ratio of at least 6.75% as of the second quarter of 2022.

Desjardins Group started issuing TLAC-eligible debt on October 1, 2019 and expects to be able to meet the minimum requirements when they take effect.

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

Table 29 – Summary of ratios regulated by the AMF under Basel III[(1)(2)]

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[(3)(4)]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at December 31, 2019
Tier 1A capital ratio	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**21.6%**
Tier 1 capital ratio	> 6.0	2.5	> 8.5	1.0	> 9.5	**21.6**
Total capital ratio	> 8.0	2.5	> 10.5	1.0	> 11.5	**21.6**
Leverage ratio	> 3.5	N/A	> 3.5	N/A	> 3.5	**8.8**

(1) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets in accordance with the guideline.
(2) The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk that includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet items.
(3) In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios.
(4) The AMF may also, at its discretion, set higher target ratios when circumstances warrant. In this regard, since March 31, 2019, the AMF has been able to activate the countercyclical buffer if it considers that excessive credit growth is associated with a systemic build-up of risk. In this assessment, a countercyclical buffer requirement of between 0% and 2.5% of total risk-weighted assets (RWA) would be imposed if the situation justified it. The requirement would be lifted when the risk either materialized or dissipated.

Regulatory developments

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

On December 7, 2017, the BCBS 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, market risk and operational risk;
- constraining the use of the Internal Ratings-Based Approach, by placing limits on certain variables used to calculate capital requirements, and by removing the use of the Internal Ratings-Based Approach for 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.

Implementation of these reforms is required on January 1, 2021 for operational risk and on January 1, 2022 for credit risk and market risk. Transitional provisions are specified for applying the output floor based on the revised Basel III standardized approach. In this regard, the AMF published in July 2019 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.

The "Regulatory environment" section presents additional details on regulation as it affects all Desjardins Group operations. In addition, this section contains information on the internal recapitalization (bail-in) file applicable to Desjardins.

Compliance with requirements

As at December 31, 2019, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were all 21.6%. The leverage ratio was 8.8%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

As at December 31, 2019, the Tier 1A capital ratio was up 425 basis points compared to December 31, 2018, mainly due to the decrease in RWA following receipt of the AMF's approval to use internal models to calculate credit risk for certain asset classes effective December 31, 2019.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at December 31, 2019.

Regulatory capital

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

Table 30 – Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A[1]	Tier 1B[1]	
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • Federation capital shares • Permanent shares and surplus shares subject to phase-out	• Non-controlling interests[2]	• General allowance • Subordinated notes subject to phase-out • NVCC subordinated notes[3] • Eligible qualifying shares
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance		
Deductions	• Mainly significant investments in financial institutions[4]		• Investment in preferred shares of a component deconsolidated for regulatory capital purposes • Subordinated financial instrument

[1] The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios, for financial services cooperatives regulated by the AMF.
[2] The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
[3] These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the guideline. No security of this type was issued as at December 31, 2019.
[4] Represent the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from this capital. The net non-deducted balance will be subject to risk-weighting at a rate of 250%.

Table 31 – Regulatory capital
As at December 31

(in millions of dollars and as a percentage)	2019	2018
Tier 1A capital		
Federation capital shares[1]	**$ 4,889**	$ 4,784
Permanent shares and surplus shares subject to phase-out	**238**	532
Reserves	**18,959**	15,921
Undistributed surplus earnings	**2,263**	3,634
Eligible accumulated other comprehensive income	**223**	(13)
Deductions[2]	**(2,023)**	(2,446)
Total Tier 1A capital	**24,549**	22,412
Non-controlling interests	**-**	-
Total Tier 1B capital	**-**	-
Total Tier 1 capital	**24,549**	22,412
Tier 2 capital		
Subordinated notes subject to phase-out	**687**	844
General allowance	**77**	377
Other eligible instruments	**25**	25
Deductions	**(789)**	(820)
Total Tier 2 capital	**-**	426
Total regulatory capital (Tiers 1 and 2)	**$ 24,549**	$ 22,838
Ratios and leverage ratio exposure		
Tier 1A capital ratio	**21.6%**	17.3%
Tier 1 capital ratio	**21.6**	17.3
Total capital ratio	**21.6**	17.6
Leverage ratio	**8.8**	8.3
Leverage ratio exposure	**$ 280,322**	$ 271,359

(1) Including capital shares held in segregated funds.
(2) Deductions from Tier 1A are comprised of regulatory adjustments and significant investments of $770 million and $1,253 million, respectively, as at December 31, 2019, and of $676 million and $1,770 million as at December 31, 2018.

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

In addition, the subordinated notes issued by Desjardins Capital Inc. are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Although Desjardins Group has not yet issued any securities of this type, the Federation is able to issue NVCC instruments on Canadian, U.S. and European markets.

On December 6, 2019, the Board of Directors approved an interest payment to holders of F capital shares of $207 million.

On December 21, 2018, the Federation filed a new short-form prospectus and obtained a receipt allowing it to issue, in the 12 months following the date of the receipt, F capital shares for a maximum amount of $125 million. This new issue started on January 15, 2019 and ended on July 23, 2019. During this period, the Federation issued F capital shares for a cash consideration of $92 million, corresponding to the gross proceeds from the issuance, namely $105 million, less certain items totalling $13 million. The Federation did not issue any F capital shares to pay interest in 2019.

Table 32 – Change in regulatory capital
For the years ended December 31

(in millions of dollars)	2019	2018
Tier 1A capital		
Balance at beginning of year	**$ 22,412**	$ 20,985
Increase in reserves and undistributed surplus earnings[1]	**1,667**	1,512
Eligible accumulated other comprehensive income	**236**	(438)
Federation's capital shares[2]	**105**	266
Permanent shares and surplus shares subject to phase-out	**(294)**	(262)
Deductions	**423**	349
Balance at end of year	**24,549**	22,412
Tier 1B capital		
Balance at beginning of year	**-**	13
Non-controlling interests	**-**	(13)
Balance at end of year	**-**	-
Total Tier 1 capital	**24,549**	22,412
Tier 2 capital		
Balance at beginning of year	**426**	438
Senior notes subject to phase-out	**(157)**	(188)
General allowance	**(300)**	120
Deductions	**31**	56
Balance at end of year	**-**	426
Total capital	**$ 24,549**	$ 22,838

[1] Amount including the change in defined benefit pension plan liabilities.
[2] Amount net of issuance expenses.

Risk-weighted assets (RWA)

Desjardins Group calculates risk-weighted assets for credit risk, market risk and operational risk.

Credit risk

- Desjardins uses the Internal Ratings-Based Approach for credit risk.
- Since March 2009, the Internal Ratings-Based Approach has been used for credit risk related to retail loan portfolios − Personal.
- On December 5, 2019, Desjardins Group received the AMF's approval to use internal models to calculate credit risk for most exposures in the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures, effective December 31, 2019.
- The Standardized Approach is used to measure the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are not significant in terms of amount and perceived risk profile.

Market risk

- Since September 2018, Desjardins Group has been using market risk internal models for trading portfolios.
- The Standardized Approach is used for foreign exchange risk and commodity risk in the banking portfolio.

Operational risk

- Since June 2017, Desjardins Group has been using the Standardized Approach to calculate operational risk.

Desjardins is also subject to an RWA floor. When the RWA modelled are lower than the RWA calculated using the Standardized Approach multiplied by a factor set by the AMF, the difference is added to the denominator of the regulatory capital, as specified in the guideline on adequacy of capital base standards for financial services cooperatives issued by the AMF.

As indicated in the table below, risk-weighted assets totalled $113.9 billion as at December 31, 2019. Of this amount, $94.8 billion was for credit risk, $3.1 billion for market risk, $13.0 billion for operational risk, and $3.0 billion for the RWA floor adjustment. As at December 31, 2018, risk-weighted assets stood at $129.5 billion.

Table 33 – Risk-weighted assets

	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2019[1]				Total as at December 31, 2018
(in millions of dollars and as a percentage)	Exposure[2]	Risk-weighted assets	Exposure[2]	Risk-weighted assets	Exposure[2]	Risk-weighted assets	Capital requirement[3]	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	$ 52,256	$ 4,233	$ 103	$ -	$ 52,359	$ 4,233	$ 339	8.1%	$ 102
Financial institutions	3,016	608	7,823	1,587	10,839	2,195	176	20.2	2,106
Businesses	57,279	26,418	9,887	9,512	67,166	35,930	2,874	53.5	56,333
Securitizations	-	-	12	151	12	151	12	1,250.0	63
Equities	-	-	222	325	222	325	26	146.5	334
SMEs similar to other retail client exposures	9,942	4,821	302	311	10,244	5,132	410	50.1	5,394
Mortgages	88,846	9,158	391	137	89,237	9,295	744	10.4	11,643
Other retail client exposures (excluding SMEs)	10,850	5,441	1,335	1,002	12,185	6,443	515	52.9	5,534
Qualifying revolving retail client exposures	32,916	9,436	-	-	32,916	9,436	755	28.7	10,159
Subtotal - Credit risk other than counterparty risk	255,105	60,115	20,075	13,025	275,180	73,140	5,851	26.6	91,668
Counterparty risk									
Sovereign borrowers	45	1	-	-	45	1	-	2.6	-
Financial institutions	2,745	1,714	188	38	2,933	1,752	140	59.7	551
Businesses	-	-	7	7	7	7	1	100.0	12
Trading portfolio	894	387	519	401	1,413	788	63	55.8	533
Credit valuation adjustment (CVA) charge	-	-	-	-	-	1,612	129	-	1,452
Additional requirements for banking and trading portfolio	-	-	-	-	358	23	2	-	14
Subtotal - Counterparty risk	3,684	2,102	714	446	4,756	4,183	335	87.9	2,562
Other assets[4]	-	-	-	-	17,954	13,743	1,099	76.5	11,268
Scaling factor[5]	-	3,733	-	-	-	3,733	299	-	1,584
Total credit risk	258,789	65,950	20,789	13,471	297,890	94,799	7,584	31.8	107,082
Market risk									
Value at Risk (VaR)	-	406	-	-	-	406	32	-	575
Stressed Value at Risk (SVaR)	-	1,394	-	-	-	1,394	112	-	2,335
Incremental risk charge (IRC)[6]	-	819	-	-	-	819	66	-	1,732
Other[7]	-	54	-	422	-	476	38	-	754
Total market risk	-	2,673	-	422	-	3,095	248	-	5,396
Operational risk	-	-	-	13,021	-	13,021	1,041	-	12,232
Total risk-weighted assets before the RWA floor	258,789	68,623	20,789	26,914	297,890	110,915	8,873	-	124,710
Risk-weighted assets after the transitional provisions for the credit valuation adjustment charge[8]									
RWA for Tier 1A capital	-	-	-	-	-	N/A	N/A	-	124,419
RWA for Tier 1 capital	-	-	-	-	-	N/A	N/A	-	124,463
RWA for total capital	-	-	-	-	-	N/A	N/A	-	124,506
APR floor adjustment[9][10]	-	-	-	-	-	2,946	236	-	5,055
Total risk-weighted assets	$ 258,789	$ 68,623	$ 20,789	$ 26,914	$ 297,890	$ 113,861	$ 9,109	- %	$ 129,474

(1) The information presented as at December 31, 2019 takes into account the use of internal models to calculate risk for most exposures in the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures, after receiving the AMF's approval on December 5, 2019. As at December 31, 2018, these exposures were measured using the Standardized Approach.
(2) Net exposure after credit risk mitigation (net of allowance for expected credit losses on credit-impaired loans other than retail (except for credit card loans) using the Standardized Approach, excluding those using the Internal Ratings-Based Approach, according to the AMF guideline).
(3) The capital requirement represents 8% of risk-weighted assets.
(4) Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain threshold in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.), the investments portion below a certain threshold in associates as well as the portion of other deferred tax assets above a certain threshold. These three items are weighted at 250% and the deducted portion (namely above a certain threshold) is weighted at 0%. This class does not include the CVA charge and additional requirements for the banking and trading portfolios, which are disclosed in the counterparty credit risk section.
(5) The scaling factor is a 6% 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.
(6) Additional requirements representing an estimate of default and migration risks of unsecuritized products exposed to interest rate risk.
(7) Represents mainly capital requirements calculated using the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio.
(8) In order to take the CVA charge into account, scaling factors have been used since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios. They were 80%, 83% and 86%, respectively, in 2018. For 2019, in accordance with directives from the AMF, the CVA charge will be entirely included in credit risk.
(9) In accordance with the guideline updated in first quarter 2019, the RWA floor is now defined based on the Standardized Approaches presented in the guideline.
(10) As at December 31, 2018, as prescribed in Section 1.6 of the AMF guideline, the RWA floor was presented to take into account risk-weighted assets after the transitional provisions for the CVA charge for Tier 1A capital.

Movements in risk-weighted assets

For credit risk, fluctuations in RWA during 2019 are segmented into two items, namely credit risk other than counterparty risk, and counterparty risk. In credit risk other than counterparty risk, the sharp drop is chiefly due to changes in procedures and policies, particularly those related to the use of internal models for calculating credit risk on the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures effective December 31, 2019, which resulted in a $25.7 billion decrease in RWA, offset by changes in the portfolio's size, which generated a $9.4 billion increase in RWA, and the updating of models, which resulted in a $2.7 billion increase. In counterparty risk, changes in the calculation method for regulatory capital and a deterioration in portfolio quality, offset by lower transaction volume, caused an increase of $2.0 billion.

In market risk, a $2.3 billion decrease in RWA was observed due to a fluctuation in risk levels and changes in procedures and policies.

In operational risk, a $789 million increase in RWA was also observed, on account of the fluctuation in revenue generated and the gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand recognized in 2019.

The RWA floor adjustment as previously defined caused RWA to decrease by $2.1 billion in 2019, basically as a result of changes in procedures and policies.

Table 34 – Change in risk-weighted assets
As at December 31

(in millions of dollars)	2019			2018		
	Credit risk other than counterparty risk	**Counterparty and issuer risk**	**Total**	Credit risk other than counterparty risk	Counterparty and issuer risk	Total
Credit risk						
Risk-weighted assets at beginning of year	**$ 104,520**	**$ 2,271**	**$ 106,791**	$ 86,448	$ 1,366	$ 87,814
Size of portfolio[1]	**9,365**	**(1,747)**	**7,618**	8,526	693	9,219
Quality of portfolio[2]	**(140)**	**1,657**	**1,517**	1,481	111	1,592
Updating of models[3]	**2,703**	**-**	**2,703**	939	-	939
Procedures and policies[4]	**(25,728)**	**2,144**	**(23,584)**	7,697	82	7,779
Acquisitions and transfers	**-**	**-**	**-**	(892)	-	(892)
Change in exchange rates	**(229)**	**(17)**	**(246)**	321	19	340
Other	**-**	**-**	**-**	-	-	-
Total changes in risk-weighted assets	**(14,029)**	**2,037**	**(11,992)**	18,072	905	18,977
Risk-weighted assets at end of year	**$ 90,491**	**$ 4,308**	**$ 94,799**	$ 104,520	$ 2,271	$ 106,791

(in millions of dollars)	2019	2018
Market risk		
Risk-weighted assets at beginning of year	**$ 5,396**	$ 1,965
Change in risk levels[5]	**(969)**	393
Updating of models[3]	**-**	-
Procedures and policies[4]	**(1,332)**	3,038
Acquisitions and transfers	**-**	-
Change in exchange rates	**-**	-
Other	**-**	-
Total changes in risk-weighted assets	**(2,301)**	3,431
Risk-weighted assets at end of year	**$ 3,095**	$ 5,396
Operational risk		
Risk-weighted assets at beginning of year	**$ 12,232**	$ 11,850
Revenue generated	**601**	394
Procedures and policies[4]	**-**	-
Acquisitions and transfers	**188**	(12)
Total changes in risk-weighted assets	**789**	382
Risk-weighted assets at end of year	**$ 13,021**	$ 12,232
RWA floor adjustment		
Risk-weighted assets at beginning of year	**$ 5,055**	$ 14,858
Size of portfolio[1]	**1,089**	3,231
Quality of portfolio[2]	**1,673**	(531)
Updating of models[3]	**-**	(916)
Procedures and policies[4]	**(4,969)**	(10,709)
Acquisitions and transfers	**(28)**	(867)
Change in exchange rates	**17**	(11)
Other	**109**	-
Total changes in risk-weighted assets	**(2,109)**	(9,803)
Risk-weighted assets at end of year	**$ 2,946**	$ 5,055

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

3.3 Off-balance sheet arrangements

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, guarantees and structured entities, including securitization.

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

As at December 31, 2019, Desjardins Group administered, for the account of its members and clients, assets totalling $426.9 billion, for an annual increase of $53.3 billion, or 14.3%. Financial assets placed with Desjardins Group as wealth manager amounted to $67.6 billion at the close of 2019, representing an increase of $10.1 billion, or 17.6% on an annual basis.

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

Table 35 – Assets under management and under administration
As at December 31

(in millions of dollars)	2019	2018	2017
Assets under management			
Institutions and individuals	**$ 17,325**	$ 13,902	$ 15,263
Investment funds[1]	**50,228**	43,546	42,957
Total assets under management	**$ 67,553**	$ 57,448	$ 58,220
Assets under administration			
Individual and institutional trust and custodial services	**$ 324,879**	$ 280,378	$ 313,517
Investment funds[1]	**101,991**	93,180	98,031
Total assets under administration	**$ 426,870**	$ 373,558	$ 411,548

(1) Including Desjardins Funds and Northwest and Ethical Funds until April 1, 2018.

CREDIT INSTRUMENTS

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

Note 29, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides more detailed information about these credit instruments.

GUARANTEES

Desjardins Group also enters into various guarantee and indemnification agreements with its members and clients in the normal course of operations. These agreements remain off-balance sheet arrangements and include guarantees, standby letters of credit and credit default swaps. Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements provides information about these off-balance sheet arrangements.

STRUCTURED ENTITIES

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

Securitization of Desjardins Group's financial assets

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

4.0 Risk management

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

4.1 Risk factors that could impact future results

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

Principal emerging risks

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

Principal emerging risks	Description
Climate change	Climate change is an external risk factor that is part of environmental risk. It is defined as an entity's vulnerability to the negative effects of climate change, which could lead to financial losses. It includes: • physical risks, namely the risks resulting from damage caused by extreme weather events; • transition risks, namely the risks related to implementation of measures to ensure environmental transition. Catastrophes resulting from extreme weather events are unforeseeable and their frequency seems to be growing. The severity of their effects means that they could have a material impact on Desjardins Group's results. Given the nature of their operations, Desjardins's property and casualty insurance subsidiaries are particularly affected by climate change, especially through catastrophe risk that is an integral part of insurance risk.
Household indebtedness and changes in the housing market	An economic slowdown, accentuated by the climate of uncertainty, could substantially affect households, particularly through a higher unemployment rate. Given that household debt levels are still high, this could lead to a decline in the housing market, which has experienced solid growth in recent years, despite tighter mortgage granting rules. Nonetheless, Desjardins remains proactive in assisting members and clients who could be affected in the event of such a situation. Desjardins has sound practices in granting and managing mortgage financing, including a stress test involving interest rates for mortgage financing, which should allow it to circumvent this risk.
Technological developments	Innovative technologies are being increasingly taken into consideration and adopted by financial institutions. These innovative technologies represent a crucial vector for transforming business processes and models. In addition to cyber threat risks, use of these technologies exposes financial institutions to other risks relating to system stability, the modernizing of infrastructure, complex environments and system interdependence. Regulators' expectations and the regulatory environment will be increasingly demanding, and financial sector requirements will continue to grow in terms of managing technology risk. The growing presence of FinTech and InsurTech, which offer simple, innovative technology solutions that meet the expectations of members and clients, puts more pressure on traditional financial institutions to adapt. Desjardins Group has been no exception and remains active in managing this operational and strategic risk, among others, by investing in technology and by reviewing and diversifying its products, services and distribution channels to meet the needs of its members and clients.
Regulatory developments	The financial services industry is one of the most tightly monitored and regulated, and industry regulation has been expanding for many years now. This trend is in response to a number of socio-economic phenomena such as the development of new, increasingly complex financial products, ongoing volatility in the securities market, financial fraud, the fight against money laundering and terrorist financing, the fight against tax evasion, compliance with economic sanctions and the protection of personal information. Although Desjardins Group actively monitors and manages regulatory risk, changes in regulation, its complexity and its uncertainty could have an impact on the performance of its operations, its reputation, its strategies and its financial objectives. As an independent supervisory function, the Office of the Chief Compliance Officer, Desjardins Group promotes a proactive approach to compliance by fully integrating it into the organization's regular operations. Maintaining an effective compliance management framework mobilizes significant amounts of technical, human and financial resources.

Principal emerging risks	Description
Interest rate developments	Global interest rates fell quickly at the beginning of 2019 as a result of recession fears and a change in tone at several central banks. In the U.S., the Federal Reserve made three interest rate cuts during the second half of the year. The Bank of Canada opted instead for the status quo, but Canadian bond rates nonetheless followed the global trend. The BoC is now wondering about cutting its key rate for 2020, whereas the Canadian economy is showing signs of weakness. The interventions by the Federal Reserve and other central banks helped to reduce risk premiums, which had risen at the end of 2018. The increase in trade tensions did not have any major effects on risk premiums in 2019. Bond rates should remain low in 2020 because of several risks hanging over the global economy and the prudent bias being maintained by most of the central banks. This rate environment puts pressure on financial intermediation margins, where interest income falls or competition increases, particularly for deposits.
Geopolitical uncertainties	Trade tensions remained high in 2019, resulting, among other things, in a definite slowdown in global trade. However, the U.S. and China recently reached a trade agreement, which should allay some of the concerns, even though implementing it will not be easy. In addition, the ratification of the Canada-United States-Mexico Agreement (CUSMA) should be concluded in the next few months, which will greatly ease uncertainties over North American trade. That said, the harmful effects of the trade tensions in recent years will leave a mark and will still be felt for some time. In Europe, the election of a Conservative government with a large majority in the U.K. at the end of 2019 means that Brexit went ahead on January 31, 2020. Some uncertainty will be present during the transition period. The social climate also raises some uncertainty, particularly in France with pension plan reform. In addition, the threat of international conflict remains present, as seen in the recent events involving Iran.

Other risk factors that could impact future results

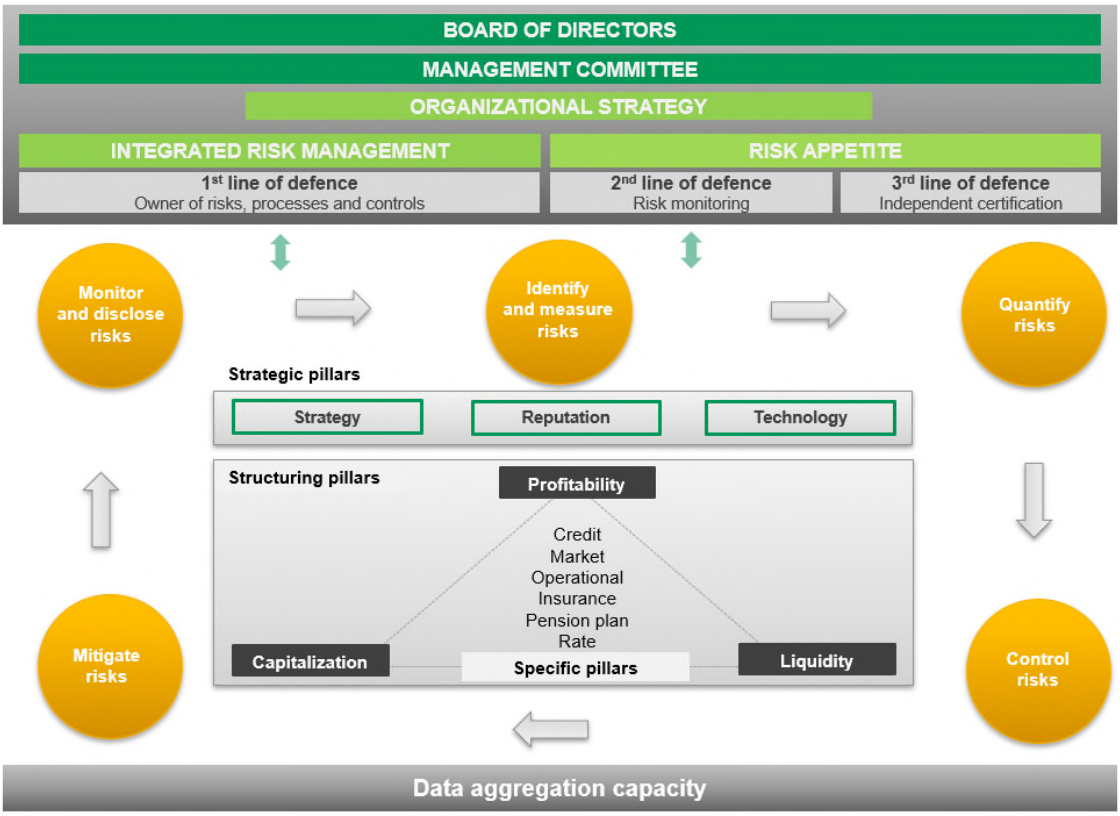
Risk factors	Description
General economic and business conditions in regions in which Desjardins Group operates	General economic and business conditions in the regions in which Desjardins Group operates may significantly affect its income and surplus earnings. These conditions include short- and long-term interest rates, inflation, debt securities market fluctuations, foreign exchange rates, the volatility of capital markets, tighter liquidity conditions in certain markets, the level of indebtedness, the strength of the economy, consumer spending and saving habits, and the volume of business conducted by Desjardins Group in a given region.
Cyber threats	Risks related to cyber threats have been on the rise for a number of years. Both the aggregation of new services for members and clients and the exposure of online services are becoming increasingly complex and gradually extending to more and more areas and products. In addition, the perpetrators of cyber threats are using increasingly sophisticated methods and strategies for criminal purposes. Consequently, Desjardins Group has been investing for many years in technology to strengthen its cyber defence capabilities in order to detect cyber security incidents as quickly as possible; in its processes, by optimizing them to respond efficiently to incidents; and in its employees, by attracting and training them in order to continue developing its defence methods. Desjardins Group has also optimized its cyber risk transfer strategies by refining its own assurance policies during 2019. The organization remains proactive by creating on January 23, 2020 the Desjardins Group Security Office and reinforcing its cyber defence investments to protect its members and clients, their assets and their personal information.
Monetary policies	The monetary policies of the Bank of Canada and the U.S. Federal Reserve (the Fed), as well as interventions in capital markets, have an impact on Desjardins Group's income. The general level of interest rates may impact Desjardins Group's profitability because interest rate fluctuations affect the spread between interest paid on deposits and interest earned on loans, thereby affecting Desjardins Group's net interest income. Furthermore, considering the current level of indebtedness of Canadian households, higher interest rates could have an adverse effect on consumers' ability to service their debt, leading to an increased risk of loan losses for financial institutions. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.
Accuracy and completeness of information concerning clients and counterparties	Desjardins Group relies on the accuracy and completeness of the information it has concerning its clients and counterparties. When deciding to authorize a loan or other transactions with clients or counterparties, Desjardins Group may use information provided by them, including financial statements and other financial information. It may also rely on representations made by clients and counterparties regarding the completeness and accuracy of such information, and on auditors' reports regarding the financial statements. The financial position and income of Desjardins Group could be adversely affected if the financial statements on which it relies fail to comply with accounting standards, are misleading or do not present fairly, in all material respects, the financial position, performance and cash flows of its members, clients and counterparties. Desjardins Group trains its employees and implements procedures to mitigate the risks related to the use of inaccurate, incomplete or fraudulent information from its members, clients or counterparties.

Risk factors	Description
Critical accounting estimates and accounting standards	The Combined Financial Statements are prepared in accordance with the IFRS. The accounting policies used by Desjardins Group determine how it reports its financial position and results of operations, and management may be required to make estimates or rely on assumptions about matters that are inherently uncertain. Any change in these estimates and assumptions, as well as in accounting standards and policies, may have a significant impact on Desjardins Group's financial position and results of operations. Significant accounting policies and future accounting changes are described in Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
New products and services to maintain or increase market share	Strong competitive pressures from Canadian financial institutions and the emergence of new competitors have led Desjardins Group to develop new products and services at a faster pace to maintain or increase its attractiveness as a financial institution with its clients. Developing these new products and services could require large investments by Desjardins or involve risks not identified at the time of their development. Desjardins cannot be certain that the new products and services it offers will result in the anticipated financial benefits.
Geographic concentration	Desjardins Group's operations are heavily concentrated in Québec. As at December 31, 2019, its loans to Québec members and clients therefore accounted for 90.2% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results largely depend on economic conditions in Québec. Any deterioration in these conditions could adversely impact: • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; • the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in the approval of transactions by regulators or their imposing of additional conditions, the inability to apply the strategic plan in its original form, difficulties in integrating or retaining clients, an increase in regulatory costs, unexpected expenses, or changes in the economic and competitive environment. As a result, synergies, higher income, cost savings, increased market share and other expected benefits may not materialize or may be delayed, thereby impacting Desjardins Group's future surplus earnings.
Credit ratings	The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. These ratings may be revised or withdrawn at any time by the agencies. In addition, a significant downgrade to various ratings could raise Desjardins Group's cost of funding, reduce its access to capital markets, and increase additional obligations required by its counterparties.
Other factors	Other factors that may have an impact on Desjardins Group's future results include changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact of international conflicts on operations, and Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment. Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

4.2 Risk management

Integrated Risk Management Framework

Desjardins Group's objective in risk management is to optimize the risk-return trade-off by developing and applying integrated risk management strategies, frameworks, practices and procedures to all of the organization's business segments and support functions. To this end, Desjardins developed an Integrated Risk Management Framework reflective of its business strategies and organizational risk-taking philosophy 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 risks associated with the achievement of its objectives.



RISK IDENTIFICATION

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

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

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

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

RISK MEASUREMENT

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

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

Desjardins-wide integrated stress testing

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

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

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

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

During Desjardins-wide stress testing in 2019, the scenarios developed separately considered the possibility of a long recession in the U.S. combined with a significant real estate correction in Canada, a serious global recession affecting all capital market activities, and a global trade war. The results obtained from the assessment of these scenarios show that Desjardins Group's current capitalization levels would be enough to withstand the economic deterioration considered and that its capital ratios would still exceed regulatory limits and its own risk appetite limits.

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

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

Governance and model validation

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

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

RISK DISCLOSURE

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

RISK APPETITE

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

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

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

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

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

PROACTIVE RISK MANAGEMENT APPROACH

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

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

Other methods used to support the proactive risk management approach and to promote accountability for risk include:

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

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

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

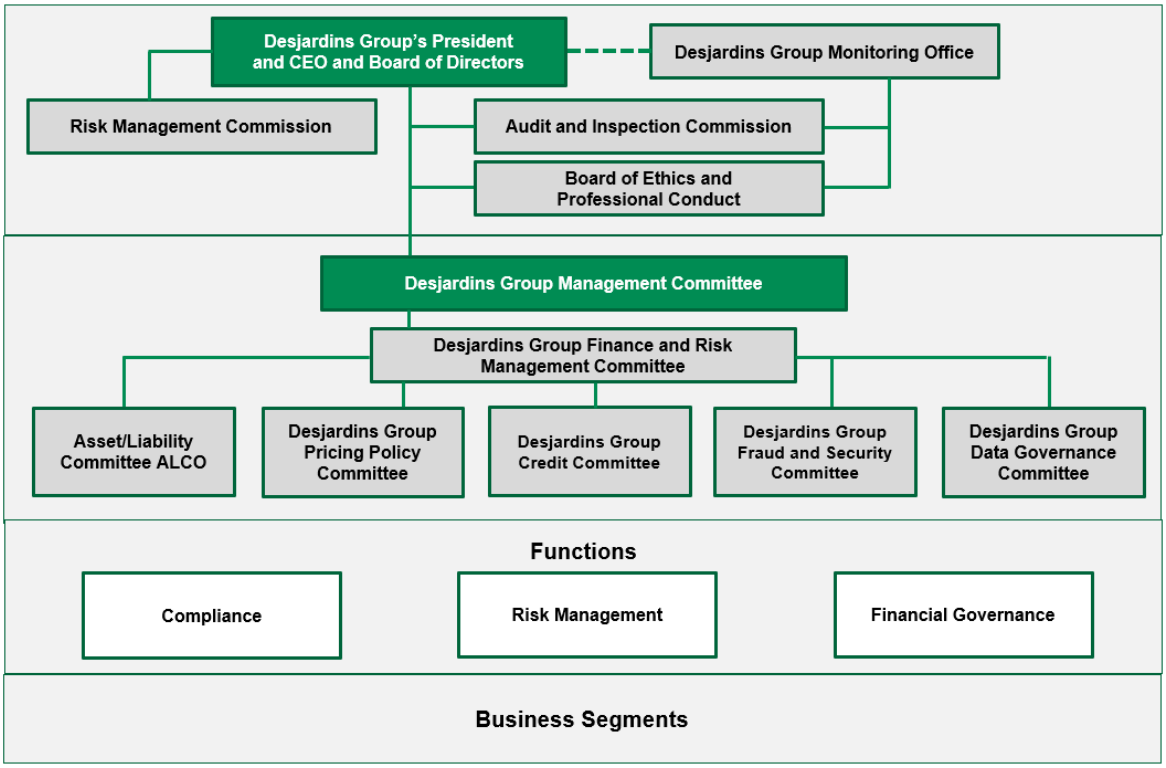
Compensation in relation to risk management

Desjardins Group has established strict governance with regard to total compensation. The Board of Directors is responsible for the annual changes in the total compensation of all employees and managers. In this regard, it establishes an annual salary review, sets the objectives and measures the results of the general incentive plan. It also establishes a framework for all individual incentive plans that apply to Desjardins Group's sales and investment teams. Acting as a subcommittee of the Board of Directors, the Human Resources Commission is responsible for making recommendations to the Board of Directors with respect to all aspects of total compensation for all Desjardins Group employees and managers other than the President and Chief Executive Officer. The Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group is responsible for defining the compensation, working conditions, annual objectives and review of the President and Chief Executive Officer and recommends them to the Board of Directors.

Incentive plans for senior executives, other than the President and Chief Executive Officer, which are consistent with the aim to promote sound risk management over a time horizon of more than one year, provide for the medium to long-term deferral of a significant portion of members' annual bonus. The amounts thus deferred can vary annually depending on Desjardins Group's overall performance. This formula encourages key stakeholders to have a long-term vision of Desjardins Group's development, always in the best interests of members and clients, for whom the organization's longevity is an important and reassuring factor.

RISK MANAGEMENT GOVERNANCE

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



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

The Board is supported in this regard by the Risk Management Commission, the Audit and Inspection Commission, the Board of Ethics and Professional Conduct and the Desjardins Group Management Committee. Further information about these bodies is found in the Corporate Governance section of the 2019 Desjardins Group Annual Report.

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

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

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

This committee is supported by the Desjardins Group Credit Committee, the Desjardins Group Fraud and Security Committee and the Desjardins Group Data Governance Committee:

- **The Desjardins Group Credit Committee** approves large credit commitments and monitors activities related to assessing and quantifying credit risk. In its monitoring role, the committee is supported by the risk model and strategy monitoring unit and by the collective allowance governance committee.
- **The Desjardins Group Fraud and Security Committee** monitors fraud risks, security and compliance with regulatory requirements related to such risks.
- **The Desjardins Group Data Governance Committee** monitors data quality and compliance with regulatory requirements related to data.

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

In addition, on January 23, 2020, Desjardins Group commissioned the Desjardins Group Security Office with the appointment of a Chief Security Officer reporting to the Senior Executive Vice-President of the Federation. The Security Office will coordinate organizational initiatives and institute cross-sector security strategies in order to continue to reinforce its practices aimed at protecting Desjardins members and clients, their assets and their personal information.

Operations management approach based on the Three Lines of Defence model

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

THREE LINES OF DEFENCE MODEL	
First line	
Owner of risks, processes and controls	• Identifies, assesses, controls and mitigates process-related risks while respecting risk appetite • Designs, implements and maintains effective internal controls and shows that risks are being managed • Produces its risk profile and reports on management of its risks • Identifies potential conflict of interest situations and remedies them by adequate segregation of tasks
Second line	
Framework and monitoring	• Supports the first line in design and implementation of risk management procedures and reviews its work • Establishes the risk management framework, particularly risk appetite • Identifies methodologies and analyzes risks (present and emerging) • Monitors compliance with risk frameworks and exposures • Reports on significant risks to the Management Committee and the Board of Directors
Third line	
Independent certification	• Gives an independent and objective opinion on the effectiveness of governance, risk management and internal controls • Provides objective certification to the Management Committee and the Board of Directors as to the overall effectiveness of governance, risk management and internal controls

1st Line of Defence

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

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

2nd Line of Defence

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

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

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

3rd Line of Defence

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

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

Basel capital accord

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

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

Credit risk

- In compliance with the guideline on adequacy of capital base standards, which was adapted to reflect the provisions of Basel III, Desjardins Group uses the Internal Ratings-Based Approach for credit risk.
- Since March 2009, the Internal Ratings-Based Approach has been used for the retail loan portfolios − Personal.
- On December 5, 2019, Desjardins Group received the AMF's approval to use internal models to calculate credit risk for most exposures in the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures, effective December 31, 2019.
- The Standardized Approach is used to assess the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are not significant in terms of amount and perceived risk profile.

Market risk

- Since September 2018, Desjardins Group has been using market risk internal models for trading portfolios.
- The Standardized Approach is used for foreign exchange risk and commodity risk in the banking portfolio.

Operational risk

- Since June 2017, Desjardins Group has been using the Standardized Approach to calculate operational risk.

These provisions are used to calculate Desjardins Group's capital ratios, among other things.

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

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

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

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

Table 36 – Economic capital and risk-weighted assets by business segment and by risk type
As at December 31, 2019

(in millions of dollars and as a percentage)

Desjardins Group

Economic capital	
Banking activities	
Credit risk	41.5%
Market risk	2.9
Operational risk	6.3
Other risks[1]	(3.1)
Total banking activities	47.6
Insurance activities	45.1
Risk related to goodwill and other intangible assets[2]	7.3

Risk-weighted assets	
Credit risk	$ 94,799
Market risk	3,095
Operational risk	13,021
RWA floor adjustment	2,946

Business segment	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other
Balance sheet[3]	Assets $ 244,021	Assets $ 48,329	Assets $ 13,860	Assets $ 6,786
Economic capital				
Proportion of total for				
Desjardins Group	43.0%	27.4%	16.3%	13.3%
Banking activities				
Credit risk	66.6	0.8	-	32.4
Market risk	2.2	-	-	11.9
Operational risk	11.4	1.8	-	-
Other risks[4]	19.7	3.0	-	50.4
Total banking activities	99.9	5.6	-	94.7
Insurance activities[5]	-	88.6	89.8	-
Risk related to goodwill and other intangible assets[2]	0.1	5.8	10.2	5.3
Risk-weighted assets				
Credit risk	$ 79,622	$ 4,375	$ 2,904	$ 7,898
Market risk	1,585	62	-	1,448
Operational risk	10,067	713	-	2,241
Risk profile	Desjardins Group is exposed to credit risk, market risk, operational risk and other risks, including in particular liquidity risk, interest rate risk, strategic risk, reputation risk and insurance risk.			

(1) Includes defined benefit plan risk, liquidity risk, interest rate risk, strategic risk, reputation risk and the diversification effect.
(2) The economic capital amount for the risk related to goodwill and other intangible assets is the carrying amount of these assets. It is considered that in a worst-case scenario for economic capital, the value of these assets would become nil.
(3) The different adjustments required to prepare the Combined Financial Statements as well as intersegment balance eliminations are classified in the asset amount of the Other category.
(4) Includes liquidity risk, interest rate risk, strategic risk and reputation risk. The risk related to other credit assets and deferred tax assets, defined benefit plan risk and the diversification effect are not allocated to business segments.
(5) For insurance operations, economic capital is the total amount of economic capital calculated for life and health and P&C insurance activities.

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

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

Credit risk

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

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans, which accounted for 64.9% of assets on the Combined Balance Sheets as at December 31, 2019, compared to 64.5% at the end of 2018. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as securities transactions.

CREDIT RISK MANAGEMENT

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

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

Framework

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

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

Assessment of regulatory capital

The AMF has authorized two credit risk assessment approaches to be included in calculating regulatory capital, namely the Standardized Approach and the Internal Ratings-Based Approach. RWA calculations are used to measure Desjardins Group's credit risk, as well as market risk and operational risk. Desjardins has adopted the Internal Ratings-Based Approach for credit risk. In order to apply this method, Desjardins Group had to make internal estimates to calculate the probability of default (PD), loss given default (LGD) and exposure at default (EAD). It uses the Standardized Approach to measure the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are less significant in terms of amount and perceived risk profile.

PD is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. Internal rating models, estimated using logistic regressions, produce risk levels monthly for retail personal and business clients as well as for some non-retail client portfolios. For retail clientele, behavioural scoring models are used, with predictive features related, in particular, to borrower and account-specific features such as account age, loan size and delinquency. These models allow proactive management of the portfolio credit risk. However, for regulatory purposes, the PD from rating models is:

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

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

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

Differences between the parameters used for accounting and regulatory capital purposes

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

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

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

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

As at December 31, 2019, the EAD was $298.4 billion before using CRM techniques, and $279.6 billion after using CRM techniques. The complete results of the credit risk assessment, depending on the type of risk exposure, asset class and the calculation method used (the Standardized Approach or the Internal Ratings-Based Approach (Basel III), as required by the AMF), are found in Table 37 – Risk exposure by asset class.

Desjardins Group uses the Internal-Ratings Based approach for 89.5% of exposure at default. Thus 10.5% of EAD is for the moment measured using the Standardized Approach. On December 5, 2019, Desjardins Group obtained the AMF's approval to use internal models to calculate credit risk for asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures, effective December 31, 2019. It periodically reviews portfolios to which the Standardized Approach is applied to determine whether the Advanced Internal Ratings-Based Approach should be used.

Table 37 – Risk exposure by asset class (Exposure at default [EAD])[1][2]*
As at December 31

(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[3]	EAD as a % of total
	2019							
Standardized Approach								
Sovereign borrowers	$ 103	$ -	$ -	$ -	$ -	$ 103	$ 103	-%
Financial institutions	7,552	480	406	169	17	8,624	8,011	2.9
Businesses	8,047	1,646	1	6	321	10,021	9,894	3.4
SMEs similar to other retail client exposures	296	8	-	-	6	310	302	0.1
Mortgages	385	6	-	-	-	391	391	0.1
Other retail client exposures (excluding SMEs)	1,513	629	-	-	-	2,142	1,335	0.7
Securitization	12	-	-	-	-	12	12	-
Equities	222	-	-	-	-	222	222	0.1
Trading portfolio	-	-	9,423	125	-	9,548	519	3.2
Subtotal – Standardized Approach	18,130	2,769	9,830	300	344	31,373	20,789	10.5
Internal Ratings-Based Approach								
Sovereign borrowers	15,659	1,497	2	45	180	17,383	52,301	5.8
Financial institutions	2,466	546	549	2,735	285	6,581	5,761	2.2
Businesses	59,456	7,826	-	-	893	68,175	57,279	22.8
SMEs similar to other retail client exposures	7,791	2,796	-	-	77	10,664	9,942	3.6
Mortgages	96,178	15,033	-	-	-	111,211	88,846	37.4
Revolving retail client exposures	12,264	20,652	-	-	-	32,916	32,916	11.0
Other retail client exposures (excluding SMEs)	11,092	478	-	-	42	11,612	10,850	3.9
Trading portfolio	-	-	7,950	514	-	8,464	894	2.8
Subtotal – Internal Ratings-Based Approach	204,906	48,828	8,501	3,294	1,477	267,006	258,789	89.5
Total	$ 223,036	$ 51,597	$ 18,331	$ 3,594	$ 1,821	$ 298,379	$ 279,578	100.0%

(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[3]	EAD as a % of total
	2018							
Standardized Approach								
Sovereign borrowers	$ 14,493	$ 669	$ 30	$ 8	$ 184	$ 15,384	$ 15,354	5.3%
Financial institutions	8,052	2,581	2,069	4,593	390	17,685	13,498	6.1
Businesses	60,191	6,090	147	17	1,397	67,842	67,220	23.6
SMEs similar to other retail client exposures	8,151	129	-	-	103	8,383	8,294	2.9
Mortgages	435	-	-	-	-	435	435	0.2
Other retail client exposures (excluding SMEs)	1,541	406	-	-	-	1,947	1,057	0.7
Securitization	5	-	-	-	-	5	5	-
Equities	250	-	-	-	-	250	250	0.1
Trading portfolio	-	-	20,375	828	-	21,203	1,234	7.4
Subtotal – Standardized Approach	93,118	9,875	22,621	5,446	2,074	133,134	107,347	46.3
Internal Ratings-Based Approach								
Mortgages	92,158	11,735	-	-	-	103,893	103,893	36.2
Revolving retail client exposures	11,879	27,298	-	-	-	39,177	39,177	13.6
Other retail client exposures (excluding SMEs)	10,785	443	-	-	43	11,271	11,271	3.9
Subtotal – Internal Ratings-Based Approach	114,822	39,476	-	-	43	154,341	154,341	53.7
Total	$ 207,940	$ 49,351	$ 22,621	$ 5,446	$ 2,117	$ 287,475	$ 261,688	100.0%

(1) The definition of exposure classes related to regulatory capital requirements differs from the accounting classification.
(2) The information presented as at December 31, 2019 takes into account the use of internal models to calculate risk for the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures, after receiving the AMF's approval on December 5, 2019. As at December 31, 2018, these exposures were measured using the Standardized Approach.
(3) After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

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

Table 38 – Exposure at default - Businesses, sovereign borrowers and financial institutions by industry[1]*
As at December 31

	2019						
(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[2]
Agriculture	$ 7,456	$ 523	$ -	$ -	$ 26	$ 8,005	$ 8,636
Mining, oil and gas	344	480	-	-	105	929	929
Utilities	16,020	2,082	2	-	231	18,335	46,851
Construction	3,093	1,560	-	-	190	4,843	4,845
Manufacturing	3,905	1,210	-	-	206	5,321	5,335
Wholesale trade	1,598	343	-	-	75	2,016	2,021
Retail trade	2,681	750	-	-	23	3,454	3,460
Transportation	1,191	739	-	-	106	2,036	2,038
Information industry	353	596	-	-	44	993	994
Finance and insurance	9,152	832	956	2,955	394	14,289	13,013
Real estate	36,314	1,638	-	-	98	38,050	31,892
Professional services	687	367	-	-	64	1,118	1,125
Management of companies	930	26	-	-	33	989	917
Administrative services	272	39	-	-	31	342	342
Education	1,743	137	-	-	7	1,887	1,888
Health care	3,899	297	-	-	15	4,211	4,229
Arts and entertainment	686	113	-	-	8	807	809
Accommodation	1,288	68	-	-	2	1,358	1,359
Other services	689	93	-	-	31	813	813
Other businesses	982	102	-	-	7	1,091	1,853
Total business loans	$ 93,283	$11,995	$ 958	$ 2,955	$ 1,696	$ 110,887	$ 133,349

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

[1] The information presented as at December 31, 2019 takes into account the use of internal models to calculate risk for the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures, after receiving the AMF's approval on December 5, 2019. As at December 31, 2018, these exposures were measured using the Standardized Approach.
[2] After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

Credit granting

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

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

Retail loans

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

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

Table 39 presents PD tranches in relation to risk levels.

Table 39 – Probabilities of default of retail clients by risk level*

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

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

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

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

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

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

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

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

Loans to businesses, sovereign borrowers and financial institutions

These loans include retail loans, loans to sovereign borrowers and public bodies, loans to the housing sector and loans to other businesses.

The following table presents the internal rating scale and the corresponding ratings of external agencies.

Table 40 – Probabilities of default of businesses, financial institutions and sovereign borrowers by risk level*

Risk level	Desjardins ratings	PD tranches			S&P ratings	Moody's ratings
		Businesses	Financial institutions	Sovereign borrowers		
Acceptable risk						
Investment grade	[1 - 4]	**0.00% - 0.49%**	**0.00% - 0.26%**	**0.00% - 0.14%**	AAA - BBB-	Aaa - Baa3
Non-investment grade	[4.5 - 7]	**0.50% - 6.18%**	**0.27% - 5.47%**	**0.15% - 2.06%**	BB+ - B-	Ba1 - B3
Under watch	[7.5 - 9.75]	**6.19% - 99.99%**	**5.48% - 99.99%**	**2.07% - 99.99%**	CCC+ - CC	Caa1 - Ca
Default	10	**100.00%**	**100.00%**	**100.00%**	D	C

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

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

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

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

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

Other segments

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

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

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

Credit risk mitigation

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

For some portfolios, programs offered by various organizations, in particular Canada Mortgage and Housing Corporation (CMHC) and *La Financière agricole du Québec*, are used in addition to customary collateral. As at December 31, 2019, guaranteed or insured loans represented 23.5% of Desjardins Group's total gross loans, compared to 24.6% at the end of 2018. As a result of these additional measures, the residual credit risk is minimal for loan portfolios with such collateral. In order for enhanced credit offered by a guarantor to be considered a credit risk mitigation technique, the guarantor must meet certain specific criteria to allow this.

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

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

During the year ended December 31, 2019, no major change was made to the credit risk mitigation policies, and the quality of assets held as collateral did not change significantly.

Loan debt relief

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

Loans with debt relief totalled $142 million as at December 31, 2019, compared to $155 million at the end of 2018. Of these loans, $92 million were classified as gross credit-impaired loans as at December 31, 2019, compared to $91 million as at December 31, 2018.

File monitoring and management of higher risk files

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

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

Default situations

Identification of default

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

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

These criteria are applicable to all clients.

Impact of default

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

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

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

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

Removing default

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

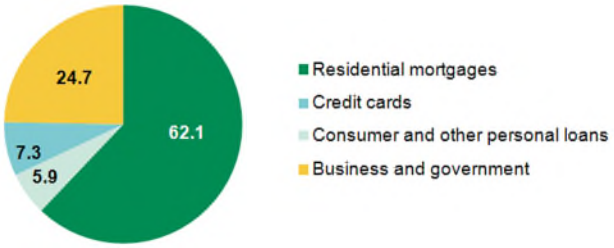
Monitoring of portfolio and reporting

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

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

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

Breakdown of loans and acceptances
As at December 31, 2019
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2019, the main sectors of the business loan portfolio were agriculture, real estate and manufacturing, which accounted for 49.5% of the business loan portfolio amounting to $46.7 billion. The main industries are the same as they were as at December 31, 2018.

Table 41 – Loans by borrower category and by industry
As at December 31

(in millions of dollars)	2019		2018		2017[1]	
	Gross loans	**Gross credit-impaired[2] loans**	Gross loans	Gross credit-impaired[2] loans	Gross loans	Gross credit-impaired[2] loans
Residential mortgages	**$ 126,757**	**$ 326**	$ 120,113	$ 320	$ 113,146	$ 141
Consumer, credit card and other personal loans	**27,022**	**276**	26,210	221	24,044	89
Public bodies[3]	**3,319**	**-**	3,326	-	3,621	-
Business						
Agriculture	**9,971**	**147**	9,191	115	7,988	24
Mining, oil and gas	**358**	**2**	336	1	306	1
Utilities	**676**	**-**	751	-	410	6
Construction	**3,485**	**134**	2,857	154	2,168	35
Manufacturing	**4,257**	**61**	3,892	36	2,750	38
Wholesale trade	**1,663**	**11**	1,455	12	1,261	5
Retail trade	**3,274**	**36**	3,046	37	2,933	22
Transportation	**1,531**	**22**	1,475	19	1,277	9
Information industry	**388**	**2**	519	6	344	6
Finance and insurance	**1,723**	**-**	651	-	753	-
Real estate	**8,862**	**19**	7,849	34	8,099	10
Professional services	**964**	**4**	788	4	614	4
Management of companies	**976**	**6**	945	5	927	1
Administrative services	**354**	**16**	311	4	255	4
Education	**287**	**2**	232	2	183	-
Health care	**3,719**	**22**	3,140	22	2,511	17
Arts and entertainment	**822**	**14**	809	12	722	4
Accommodation	**1,755**	**31**	1,545	29	1,267	16
Other services	**1,112**	**10**	1,046	9	803	8
Other businesses	**492**	**1**	742	-	1,546	2
Total business loans	**$ 46,669**	**$ 540**	$ 41,580	$ 501	$ 37,117	$ 212
Total loans	**$ 203,767**	**$ 1,142**	$ 191,229	$ 1,042	$ 177,928	$ 442

[1] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
[2] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.
[3] Including loans to governments.

Loans by geographic distribution are presented in the table below. Desjardins Group's operations are highly concentrated in Québec. Therefore, as at December 31, 2019, the loans granted by Desjardins to members and clients in Québec accounted for 90.2% of the total loan portfolio, compared to 90.9% as at December 31, 2018.

Table 42 – Loans by geographic distribution

As at December 31

(in millions of dollars)	2019		2018		2017[1]	
	Gross loans	**Gross credit-impaired[2] loans**	Gross loans	Gross credit-impaired[2] loans	Gross loans	Gross credit-impaired[2] loans
Canada						
Québec	**$ 183,835**	**$ 947**	$ 173,788	$ 830	$ 163,921	$ 389
Other Canadian provinces	**19,024**	**192**	16,752	209	13,667	50
Total - Canada	**$ 202,859**	**$ 1,139**	$ 190,540	$ 1,039	$ 177,588	$ 439
Other countries	**908**	**3**	689	3	340	3
Total	**$ 203,767**	**$ 1,142**	$ 191,229	$ 1,042	$ 177,928	$ 442

[1] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
[2] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

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

Table 43 – Gross loans past due but not credit-impaired

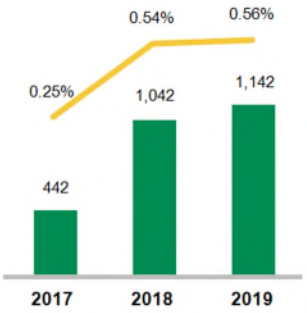
As at December 31, 2019	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 1,850**	**$ 145**	**$ 41**	**$ 3**	**$ 2,039**
Consumer, credit card and other personal loans	**965**	**181**	**88**	**12**	**1,246**
Business and government	**349**	**32**	**15**	**1**	**397**
	$ 3,164	**$ 358**	**$ 144**	**$ 16**	**$ 3,682**

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

According to Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements, the allowance for credit losses as at December 31, 2019 stood at $685 million, down $34 million compared to December 31, 2018. This decrease was mainly the result of refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards and lines of credit in second quarter 2019, offset by the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.

Gross credit-impaired loans outstanding are the loans included in stage 3 of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56% as at December 31, 2019, contrary to 0.54% as at December 31, 2018. The allowance for credit losses on credit-impaired loans totalled $271 million as at December 31, 2019, for a provisioning rate on credit-impaired loans of 23.7%.

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



[1] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

Tables 44 and 45 present the gross credit-impaired loans by Desjardins Group borrower category and the change in the gross credit-impaired loan balance.

Table 44 – Gross credit-impaired[1] loans by borrower category
As at December 31

(in millions of dollars and as a percentage)	2019					2018		2017[2]	
	Gross carrying amount			Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross 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	**$ 126,757**	**$ 326**	**0.26%**	**$ 24**	**$ 302**	$ 320	$ 295	$ 141	$ 122
Consumer, credit card and other personal loans	**27,022**	**276**	**1.02**	**143**	**133**	221	99	89	54
Business and government	**50,368**	**540**	**1.07**	**104**	**436**	501	424	212	139
Total	**$ 204,147**	**$ 1,142**	**0.56%**	**$ 271**	**$ 871**	$ 1,042	$ 818	$ 442	$ 315

[1] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.
[2] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

Table 45 – Change in gross credit-impaired loans[1]
As at December 31

(in millions of dollars)	2019	2018	2017[2]
Gross impaired loans at the beginning of the year under IAS 39	**N/A**	$ 442	$ 532
Impact of adopting IFRS 9 as at January 1, 2018	**N/A**	492	N/A
Gross credit-impaired loans at the beginning of the year under IFRS 9	**$ 1,042**	934	N/A
Gross credit-impaired loans during the year	**2,326**	1,619	901
Reinstatement to non-credit-impaired status	**(1,851)**	(1,115)	(668)
Write-offs and recoveries	**(401)**	(353)	(374)
Other changes	**26**	(43)	51
Gross credit-impaired loans at the end of the year	**$ 1,142**	$ 1,042	$ 442

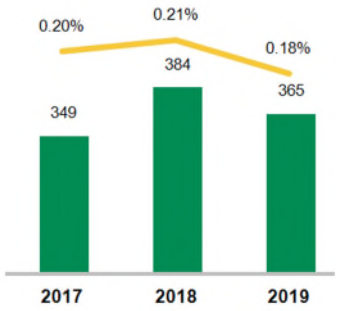
[1] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.
[2] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

Provision for credit losses

Desjardins Group's provision for credit losses totalled $365 million for 2019, down $19 million compared to 2018. This decrease was mainly the result of refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards and lines of credit in second quarter 2019, offset by the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019. The credit loss provisioning rate was 0.18% at the end of 2019, compared to a ratio of 0.21% recorded as at December 31, 2018.

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

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



Counterparty and issuer risk

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

Desjardins Group is exposed to counterparty and issuer risk through the matching transactions of its traditional banking activities, its trading activities and the investment portfolios of its insurance companies. According to its classification, each counterparty or issuer is assigned a risk rating based on internal models or the ratings issued by rating agencies (DBRS, Fitch, Moody's and Standard & Poor's) recognized by the AMF and the OSFI. The Risk Management Executive Division establishes an exposure limit for a counterparty or issuer after measuring its risk rating. Desjardins Group's exposure limits are established on the basis of its risk appetite framework and its Tier 1A capital. These amounts are then allocated to various components based on their needs. Limits may also apply to certain financial instruments, if considered relevant.

A large proportion of Desjardins Group's risk exposure is to the different levels of government in Canada, Québec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. Apart from its U.S. sovereign debt holdings and its commitments to major international banks, Desjardins Group's exposure to foreign entities is low.

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

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

The credit risk associated with derivative financial instruments traded over the counter refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins. This risk normally represents a small fraction of the notional amount. It is quantified using two measurements, namely replacement cost and the credit risk equivalent. Replacement cost refers to the current replacement cost of all contracts with a positive fair value. Credit risk equivalent is equal to the sum of this replacement cost and the potential credit exposure. Desjardins Group also limits counterparty risk exposure by entering into master agreements called International Swaps and Derivatives Association (ISDA) agreements, which define the terms and conditions for the transactions. These agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreement in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold, which has been set at zero for its main counterparties. The value of these different measures and the impact of the master netting agreements is presented in Note 20, "Derivative financial instruments and hedging activities", to the Combined Financial Statements.

Desjardins Group also limits its risk by doing business with counterparties that have a high credit rating. Note 20, "Derivative financial instruments and hedging activities", to the Combined Financial Statements presents derivative financial instruments by credit risk rating and type of counterparty. Based on replacement cost, this note indicates that substantially all of Desjardins Group's counterparties have credit ratings ranging from AAA to A-.

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

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

Additional information about credit risk is presented in Note 5, "Offsetting financial assets and liabilities", Note 20, "Derivative financial instruments and hedging activities", and Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

Market risk

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

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

GOVERNANCE

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

Link between market risk and the Combined Balance Sheets

Table 46 presents the link between the main Combined Balance Sheet data and the positions included in its trading activities and non-trading activities. The principal market risks associated with non-trading activities are also indicated in the table.

Table 46 – Link between market risk and the Combined Balance Sheets
As at December 31, 2019[1]

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[2]	Exposed to market risk: Non-trading activities[3]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 3,709	$ -	$ 3,709	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	35,168	11,468	23,700	-	Interest rate
Securities at fair value through other comprehensive income	22,909	-	22,909	-	Interest rate, FX, price
Securities at amortized cost	1,616	-	1,616	-	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	10,032	9,369	663	-	Interest rate
Net loans and acceptances	203,462	-	203,462	-	Interest rate
Segregated fund net assets	17,026	-	17,026	-	Interest rate, price
Derivative financial instruments	4,246	224	4,022	-	Interest rate, FX, price
Other assets	14,828	-	-	14,828	
Total assets	$ 312,996	$ 21,061	$ 277,107	$ 14,828	
Liabilities and equity					
Deposits	$ 193,918	$ -	$ 193,918	$ -	Interest rate
Commitments related to securities sold short	10,615	10,613	2	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	10,562	9,946	616	-	Interest rate
Derivative financial instruments	4,278	329	3,949	-	Interest rate, FX, price
Insurance contract liabilities	31,595	-	31,595	-	Interest rate
Segregated fund net liabilities	17,002	-	17,002	-	Interest rate, price
Other liabilities	16,199	-	3,068	13,131	Interest rate
Subordinated notes	1,398	-	1,398	-	Interest rate
Total equity	27,429	-	-	27,429	
Total liabilities and equity	$ 312,996	$ 20,888	$ 251,548	$ 40,560	

See next page for footnotes.

Table 46 – Link between market risk and the Combined Balance Sheets (continued)
As at December 31, 2018

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

(1) The information presented as at December 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 Combined Financial Statements.
(2) Trading activity positions for which the risk measure is VaR and SVaR.
(3) Positions mainly related to non-trading banking activities and insurance activities.

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

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

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

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

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

Table 47 presents the aggregate VaR and the aggregate SVaR for Desjardins Group's trading activities by risk category as well as the incremental risk charge (IRC). Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four risk categories to which Desjardins Group is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

Table 47 – Market risk measures for the trading portfolio*

(in millions of dollars)	As at December 31, 2019	For the year ended December 31, 2019			As at December 31, 2018	For the year ended December 31, 2018		
		Average	High	Low		Average	High	Low
Equities	**$ 0.5**	**$ 1.4**	**$ 3.3**	**$ 0.5**	$ 1.0	$ 0.4	$ 1.0	$ 0.2
Foreign exchange	**0.2**	**0.6**	**2.0**	**-**	0.5	0.5	1.2	0.1
Interest rate	**4.2**	**3.7**	**7.2**	**1.6**	2.4	4.1	6.0	2.0
Specific interest rate risk[1]	**1.8**	**5.5**	**8.2**	**0.9**	5.9	7.1	9.7	3.6
Diversification effect[2]	**(2.5)**	**(7.2)**	**N/A[3]**	**N/A[3]**	(6.9)	(7.8)	N/A[3]	N/A[3]
Aggregate VaR	**$ 4.2**	**$ 4.0**	**$ 7.4**	**$ 2.1**	$ 2.9	$ 4.3	$ 6.1	$ 2.1
Aggregate SVaR	**$ 9.7**	**$ 16.2**	**$ 42.6**	**$ 7.4**	$ 16.0	$ 16.0	$ 26.1	$ 8.8
Incremental risk charge (IRC)	**$ 30.9**	**$ 76.4**	**$ 114.3**	**$ 26.3**	$ 75.2	$ 76.9	$ 98.7	$ 43.0

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

The average of the trading portfolio's aggregate VaR was $4.0 million for 2019, down $0.3 million compared to 2018, mainly as a result of a decrease in the average of the interest rate VaR. As for the average of the aggregate SVaR, it was $16.2 million for 2019, up $0.2 million compared to 2018. The average of the incremental risk charge was $76.4 million, down $0.5 million compared to 2018.

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

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

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

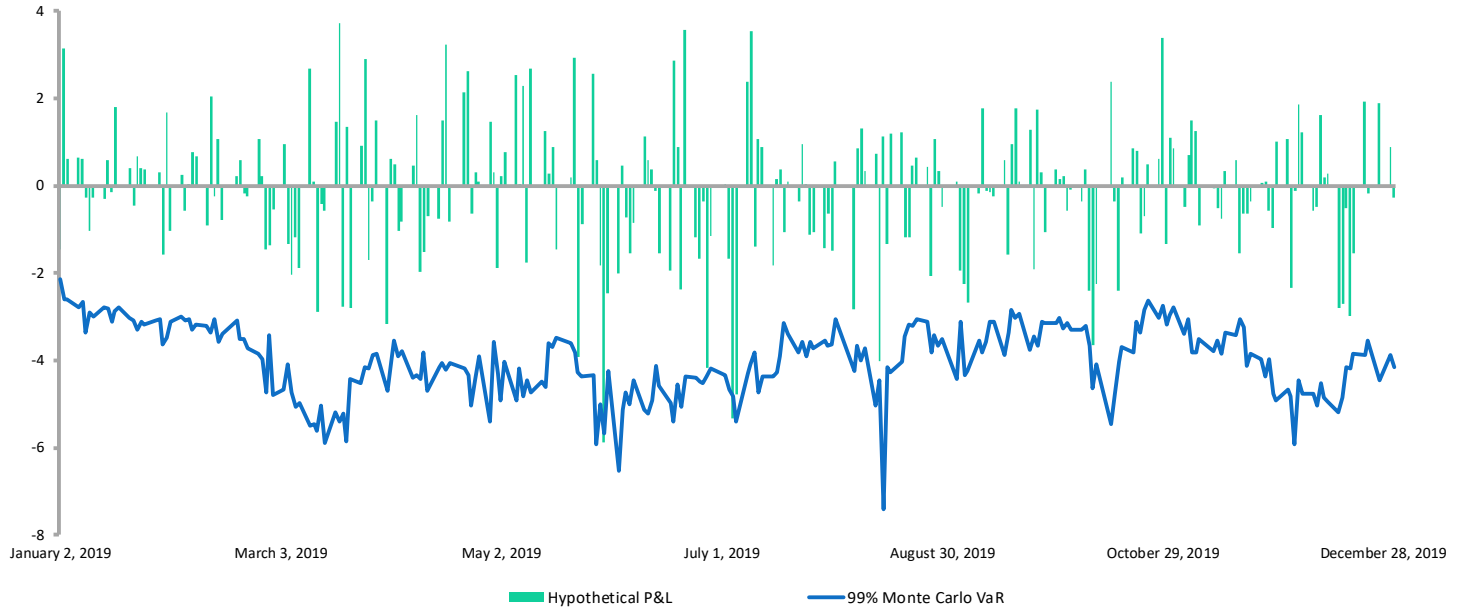
Back testing

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

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

The following chart presents changes in VaR for trading activities as well as hypothetical P&L related to these activities for 2019. Hypothetical P&L was exceeded twice during the year on May 30 and July 4, respectively. As for actual P&L compared to VaR, no overage was observed for Desjardins Group. Given the small number of overages during the year, the performance of the model is deemed adequate.

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



Stress testing

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

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

STRUCTURAL INTEREST RATE RISK MANAGEMENT

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

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

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

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

In order to mitigate risk factors, sound and prudent management is applied to optimize net interest income while 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.

Table 48 presents the potential impact before income taxes, with regard to structural interest rate risk management associated with banking activities, of a sudden and sustained 100 basis point increase or decrease in interest rates on net interest income and the economic value of equity for Desjardins Group. The impact related to insurance activities is presented in Note 1 of this table.

Table 48 – Interest rate sensitivity (before income taxes)[(1)]*
As at December 31

(in millions of dollars)	2019		2018	
	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	**$ (148)**	**$ (35)**	$ (42)	$ 29
Impact of a 100-basis-point decrease in interest rates[(4)]	**147**	**(1)**	2	(90)

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a $215 million decrease in the economic value of equity before taxes as at December 31, 2019, and a $215 million decrease as at December 31, 2018. A 100-basis-point decrease in interest rates would result in an increase of $228 million in the economic value of equity before taxes as at December 31, 2019, and of $222 million as at December 31, 2018. Additional information is provided in the "Interest rate risk management" section of Note 16, "Insurance contract liabilities", to the Combined Financial Statements.
(2) Represents the interest rate sensitivity of net interest income for the next 12 months.
(3) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.
(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

PRICE RISK MANAGEMENT

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

Management of price risk related to real estate activities

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

Management of price risk related to stock markets

The insurance components may also be exposed to price risk related to stock markets, particularly through the equity securities and derivative financial instruments they hold as well as the minimum guarantees provided under segregated fund contracts, whose value is affected by market fluctuations. They manage this risk using the different limits set in policies and a hedging program to mitigate the effect of market volatility. For additional information, see Note 16, "Insurance contract liabilities", to the Combined Financial Statements.

Liquidity risk

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

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

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

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 NSFR regulatory requirements is January 1, 2020, and Desjardins Group intends to comply with this ratio.

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 130.2% for the quarter ended December 31, 2019, compared to 125.6% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

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

Liquid assets

Table 49 presents a summary of Desjardins Group's liquid assets, which do not include assets held by the insurance subsidiaries because these assets are committed to covering insurance liabilities and not the liquidity needs of Desjardins Group's other components. Liquid assets constitute Desjardins Group's primary liquidity reserve for all its operations. Encumbered liquid assets mainly include liquid assets that are pledged as collateral or cannot be used as a result of regulatory requirements or internal policies.

Table 49 – Liquid assets[1]
As at December 31, 2019

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	**$ 2,124**	**$ -**	**$ 2,124**	**$ -**	**$ 2,124**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**28,743**	**10,537**	**39,280**	**21,178**	**18,102**
Other securities in Canada	**2,625**	**235**	**2,860**	**412**	**2,448**
Issued or guaranteed by foreign issuers	**70**	**1**	**71**	**5**	**66**
Loans					
Insured residential mortgage-backed securities	**7,993**	**-**	**7,993**	**573**	**7,420**
Total	**$ 41,555**	**$ 10,773**	**$ 52,328**	**$ 22,168**	**$ 30,160**

As at December 31, 2018

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

[1] Excluding assets held by insurance subsidiaries.

Table 50 – Unencumbered liquid assets by entity[1]
As at December 31

(in millions of dollars)	2019	2018
Federation	**$ 10,072**	$ 7,459
Caisse network	**16,912**	14,762
Other entities	**3,176**	3,450
Total	**$ 30,160**	$ 25,671

[1] Excluding assets held by insurance subsidiaries. Substantially all unencumbered liquid assets presented in this table are issued in Canadian dollars.

Liquidity risk indicators

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

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

Encumbered assets

In the normal course of its operations, Desjardins Group pledges securities, loans and other assets as collateral, mainly with regard to financing operations, participation in clearing and payments systems and operations related to provisions for claims and adjustment expenses. Table 51 presents, for all assets on the Combined Balance Sheets and securities held as collateral, those that are encumbered as well as those that may be pledged as collateral as part of financing or other transactions.

Table 51 – Encumbered assets

As at December 31, 2019[1]

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[2]	Available as collateral	Other[3]
Cash and deposits with financial institutions	$ 3,709	$ -	$ 3,709	$ -	$ 318	$ 1,806	$ 1,585
Securities	59,693	5,427	65,120	26,052	1,483	9,332	28,253
Securities borrowed or purchased under reverse repurchase agreements	10,032	-	10,032	-	-	9,959	73
Net loans and acceptances	203,462	-	203,462	21,654	-	73,569	108,239
Segregated fund net assets	17,026	-	17,026	-	-	-	17,026
Other assets	19,074	-	19,074	-	-	-	19,074
Total	$ 312,996	$ 5,427	$ 318,423	$ 47,706	$ 1,801	$ 94,666	$ 174,250

As at December 31, 2018

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

(1) The information presented as at December 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 Combined Financial Statements.
(2) Assets that cannot be used for legal or other reasons.
(3) "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.

Liquidity coverage ratio

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

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

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

Table 52 – Liquidity coverage ratio[1]

(in millions of dollars and as a percentage)	For the quarter ended December 31, 2019		For the quarter ended September 30, 2019
	Total non-weighted value[2] (average[4])	Total weighted value[3] (average[4])	Total weighted value[3] (average[4])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 27,247**	$ 26,923
Cash outflows			
Retail deposits and small business deposits, including:	**$ 73,955**	**$ 4,877**	$ 4,929
Stable deposits	**35,978**	**1,079**	1,074
Less stable deposits	**37,977**	**3,798**	3,855
Unsecured wholesale funding, including:	**24,530**	**11,963**	13,174
Operational deposits (all counterparties) and deposits in cooperative bank networks	**7,476**	**1,787**	1,709
Non-operational deposits (all counterparties)	**11,785**	**4,907**	4,679
Unsecured debt	**5,269**	**5,269**	6,786
Secured wholesale funding	**N/A**	**9**	45
Additional requirements, including:	**13,694**	**3,253**	3,000
Outflows related to exposures on derivatives and other collateral required	**1,255**	**1,137**	1,120
Outflows related to funding loss on debt products	**506**	**506**	223
Credit and liquidity facilities	**11,933**	**1,610**	1,657
Other contractual funding liabilities	**2,790**	**927**	902
Other contingent funding liabilities	**81,834**	**2,158**	1,950
Total cash outflows	**N/A**	**$ 23,187**	$ 24,000
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 8,409**	**$ 126**	$ 210
Inflows related to completely effective exposures	**3,788**	**1,925**	1,893
Other cash inflows	**212**	**212**	456
Total cash inflows	**$ 12,409**	**$ 2,263**	$ 2,559
		Total adjusted value[5]	Total adjusted value[5]
Total high-quality liquid assets		**$ 27,247**	$ 26,923
Total net cash outflows		**$ 20,924**	$ 21,441
Liquidity coverage ratio		**130.2%**	125.6%

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

SOURCES OF FINANCING

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. For more information about contractual maturities, please refer to the "Residual contractual maturities of on-balance sheet items and off-balance sheet commitments" table in Note 30, "Financial instrument risk management" to the Combined Financial Statements. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $193.9 billion as at December 31, 2019, up $10.8 billion since December 31, 2018. Additional information on deposits is found in Section 3.1 "Balance sheet management" of this MD&A.

Financing programs and strategies

As Desjardins Group's treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, which strategies are regulated by policies. In 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:

Table 53 – Main financing programs

Financing program	Maximum authorized amount
Medium-term notes (Canadian)	**$10 billion**
Covered bonds (multi-currency)	**$14 billion**
Short-term notes (European)	**€3 billion**
Short-term notes (U.S.)	**US$15 billion**
Medium-term and subordinated notes (multi-currency)	**€7 billion**
NVCC subordinated notes (Canadian)	**$3 billion**

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

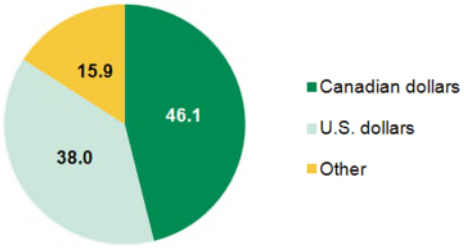
Table 54 – Remaining contractual term to maturity of wholesale funding
As at December 31

(in millions of dollars)	2019								2018
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total – Less than one year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	$ 1,740	$ 541	$ 22	$ (53)	$ 2,250	$ -	$ -	$ 2,250	$ 2,798
Commercial paper	4,344	3,403	2,808	2,503	13,058	-	-	13,058	13,174
Medium-term notes	728	1,480	389	3,476	6,073	1,453	3,645	11,171	10,657
Mortgage securitization	-	229	369	569	1,167	1,265	7,958	10,390	9,778
Covered bonds	-	-	-	1,456	1,456	-	4,199	5,655	5,859
Subordinated notes	-	-	899	-	899	-	499	1,398	1,378
Total	$ 6,812	$ 5,653	$ 4,487	$ 7,951	$ 24,903	$ 2,718	$ 16,301	$ 43,922	$ 43,644
Including:									
Secured	$ -	$ 229	$ 1,268	$ 2,025	$ 3,522	$ 1,265	$ 12,656	$ 17,443	$ 17,015
Unsecured	6,812	5,424	3,219	5,926	21,381	1,453	3,645	26,479	26,629

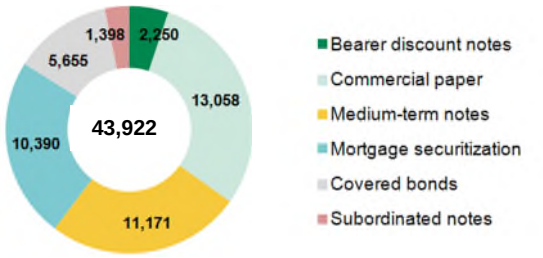
Desjardins Group's total wholesale funding presented in the preceding table was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up $278 million compared to December 31, 2018, mainly because of an increase in securitization of mortgage loans and medium-term notes partly offset by a decrease in bearer discount notes and covered bonds. Desjardins Group does not foresee any event, commitment or requirement that could have a major impact on its ability to mobilize funds through wholesale funding or its members' deposits.

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

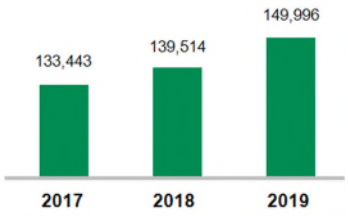
Wholesale funding by currency
As at December 31, 2019
(as a percentage)



Wholesale funding by category
As at December 31, 2019
(in millions of dollars)



Member deposits
As at December 31, 2019
(in millions of dollars)



Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $2.2 billion for the year. During the same period, it also completed three issues under its legislative covered bond program for 750 million euros, US$1.0 billion and 500 million euros. In addition, the Federation launched two issues for $430 million and $1.1 billion under its Canadian medium-term note program, under whose terms and conditions are not subject to the bail-in regime applicable to Desjardins Group. In addition, the Federation floated a new issue totalling $1.0 billion, the first issue subject to the bail-in regime, under its Canadian medium-term note program. Finally, it should also be pointed out that on February 10, 2020, the Federation launched a new issue in the amount of US$1.0 billion, subject to the bail-in regime, under its multi-currency medium-term note program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $27.2 billion as at December 31, 2019, compared to $26.3 billion a year earlier. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Combined Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled $1.4 billion as at December 31, 2019, unchanged from a year earlier. Furthermore, to round out its financing and increase its capital base, in 2019, Desjardins Group, through the Federation, issued F capital shares for a cash consideration of $92 million, which is equal to the gross proceeds from this issue, namely $105 million, less certain items totalling $13 million. Finally, the Federation did not issue any F capital shares for interest payments in 2019. This issue started on January 15, 2019 and 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 Québec and the quality of its assets. Consequently, the credit ratings of the Federation, a reporting issuer, and of Desjardins Capital Inc., a venture issuer, are backed by Desjardins Group's financial strength.

During 2019, the credit ratings and outlooks for the securities issued by the Federation remained unchanged and were affirmed by the rating agencies DBRS, Fitch, Moody's and Standard & Poor's (S&P).

Following the AMF's publication, on March 20, 2019, of its regulations to implement the internal recapitalization (bail-in) regime, which applies to some of Desjardins Group's creditors and security holders, the rating agencies assigned credit ratings to the senior debt instruments subject to the bail-in regime. DBRS, Fitch, Moody's and S&P assigned credit ratings of AA (low), AA-, A2 and A-, respectively. Moreover, following the implementation of Desjardins Group's bail-in regime, DBRS downgraded the credit rating for Desjardins Capital Inc. from AA (low) to A (high), considering that Desjardins Capital Inc.'s assets, consisting mainly of subordinated securities of the caisses, are not guaranteed by any caisse or by any other Desjardins Group entity.

Following the announcements on June 20 and subsequently on November 1, 2019 and December 10, 2019 concerning the privacy breach affecting Desjardins Group's members, the credit ratings assigned by the ratings agencies DBRS, Fitch, Moody's and S&P to the Federation's senior securities remained unchanged.

The ratings outlooks for Desjardins Group from DBRS, Fitch and S&P are stable, while the outlook assigned by Moody's is negative.

Furthermore, Fitch and Moody's confirmed the ratings for the legislative covered bond program. During 2019, Fitch confirmed the AAA rating, together with a "stable" outlook, while Moody's confirmed the Aaa rating.

In January 2020, the rating agencies assigned provisional credit ratings to the Federation's new NVCC subordinated notes. DBRS, Fitch, Moody's and S&P assigned provisional credit ratings of A (low), A+, A2 and BBB+, respectively.

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

Table 55 – Credit ratings of securities issued and outstanding

	DBRS	FITCH	MOODY'S	STANDARD & POOR'S
Fédération des caisses Desjardins du Québec				
Short-term	**R-1 (high)**	**F1+**	**P-1**	**A-1**
Medium- and long-term, existing senior[1]	**AA**	**AA-**	**Aa2**	**A+**
Medium- and long-term, senior[2]	**AA (low)**	**AA-**	**A2**	**A-**
NVCC subordinated notes[3]	**A (low)**	**A+**	**A2**	**BBB+**
Covered bonds	**-**	**AAA**	**Aaa**	**-**
Desjardins Capital Inc.				
Medium- and long-term, senior	**A (high)**	**A+**	**A2**	**A**

(1) Includes medium- and long-term senior debt issued before March 31, 2019, as well as that issued on or after that date and excluded from the bail-in regime applicable to Desjardins Group.
(2) Includes medium- and long-term senior debt issued on or after March 31, 2019, which can be converted under the bail-in regime applicable to Desjardins Group.
(3) No such securities were issued as at December 31, 2019.

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

Operational risk

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

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

OPERATIONAL RISK MANAGEMENT FRAMEWORK

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

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

GOVERNANCE

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

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

Approaches to identifying, measuring and monitoring operational risk

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

	Description
Risk and control identification and measurement	A standard inventory of operational risks to which Desjardins Group is exposed has been prepared and is used as the basis for determining the most significant operational risks and evaluating the effectiveness of the mitigation measures in place to reduce them. The risk and control assessments, carried out on a periodic basis, can be related to projects, products, systems, processes and activities, as well as to strategic initiatives and important new products. Consideration of various internal and external factors (losses, audit findings, etc.) is an integral part of these assessments. When the results indicate operational risk exposures that exceed the established tolerance level, action plans are prepared to reduce exposure to an acceptable level.
Collection and analysis of internal and external events	The collection of internal event data is carried out to list and quantify events according to predetermined levels. Internal events are indexed in a database. Through analysis, causes are better understood, trends are determined, and corrective measures are taken when necessary. The main trends identified through analysis of internal events are reported to the various committees on a regular basis. In addition, external operational risk events in the industry are monitored to detect potential or emerging risks and increase risk management at Desjardins Group, if need be. Contingent liabilities, including the impact of litigation, are presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.
Risk indicators	To monitor their risk profile and track developments in it, the business segments and support functions establish operational risk indicators to help them proactively monitor any increase in their exposure to the most significant risks and act accordingly when the tolerance level is reached.
Scenario analysis	Scenario analysis consists of assessing events that could lead to a major operational risk, but have little likelihood of occurring (e.g. earthquake). The analysis makes it possible to identify vulnerabilities to such "extreme risks" within the organization in order to apply the required mitigation measures.

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

Insurance risk

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

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

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

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

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

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

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

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

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

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

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

The activities specific to the insurance subsidiaries expose them, in addition to insurance risk, to other types of risk, notably the risks identified in Note 16, "Insurance contract liabilities", to the Combined Financial Statements, as well as other risk factors identified in Section 4.1 "Risk factors that could impact future results".

Strategic risk

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

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

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

Reputation risk

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

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

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

Pension plan risk

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

The organization's main pension plan is the Desjardins Group Pension Plan (DGPP). The Federation, through its Board of Directors, is the sponsor of the DGPP and, as such, acts as the representative for all Desjardins Group employers. The Desjardins Group Retirement Committee, which is composed of members designated by the Board of Directors of the Federation, active members and a group made up of non-active members and beneficiaries, is the administrator of the DGPP and the sole and exclusive trustee for the pension fund. It is responsible for managing pension fund assets and administering the benefits promised by the plan. It sees to it that the DGPP By-law is applied and ensures compliance with the legislation and regulations in force. In particular, it must see to the sound governance of the plan. In this regard, it has developed policies and an internal by-law as required under the *Supplemental Pension Plans Act*.

In order to properly manage DGPP risks, the Desjardins Group Retirement Committee has delegated certain powers and responsibilities to its Investment Management Committee. In particular, the Investment Management Committee is tasked with reviewing the investment policy and recommending any amendments in this regard to the Desjardins Group Retirement Committee, as well as with adopting any special investment framework. It ensures that such frameworks are adhered to. Every year, it recommends an asset allocation strategy, adopts the resulting investment plan and monitors it. It also analyzes investment opportunities that are submitted to it, as well as the associated risks. The Investment Management Committee annually reviews the content and accuracy of the DGPP risk register and recommends any amendments, where applicable, to the Desjardins Group Retirement Committee, ensuring that risks are effectively managed and controlled. In addition, a risk management dashboard for the DGPP, made up of risk indicators identified in the profile, is updated quarterly.

Environmental or social risk

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

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

In addition, business relations with entities whose operations could involve Environmental, Social or Governance (ESG) issues could lead to reputation risk.

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

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

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

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

Legal and regulatory risk

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

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

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

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

4.3 Additional information related to certain risk exposures

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

Table 56 – Asset-backed securities
As at December 31

(in millions of dollars)	2019		2018	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities[1]	**$ 135**	**$ 135**	$ 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 Combined Balance Sheets.

Table 57 – Leveraged finance loans and subprime loans
As at December 31

(in millions of dollars)	2019	2018
Leveraged finance loans[1]	**$ 370**	$ 81
Alt-A mortgage loans[2]	**15**	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 mortgages are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.
(3) These loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

5.0 Additional information

5.1 Controls and procedures

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

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the CSA guidance in National Instrument 52-109, the President and CEO as well as the Executive Vice-President, Finance, Treasury and Administration and Chief Financial Officer (CFO) caused to be designed disclosure controls and procedures (DCPs). These controls and procedures are designed to provide reasonable assurance that the information presented in annual, interim or other reports filed or transmitted under securities legislation is recorded, processed, summarized and reported within the time periods prescribed by such legislation. These controls and procedures are also designed to warrant that such information is assembled and disclosed to the management of Desjardins Group, including its signing officers, in accordance with what is appropriate to make timely decisions regarding disclosure.

As at December 31, 2019, Desjardins Group management, in cooperation with the President and CEO, and the CFO, assessed the design and effectiveness of its DCPs. Based on the results of this assessment, the President and CEO, and the CFO concluded that the DCPs were adequately designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Desjardins Group management caused an adequate internal control over financial reporting process to be designed and has maintained it. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Combined Financial Statements for external purposes in accordance with IFRS. Internal control over financial reporting (ICFR) includes, in particular, those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Combined Financial Statements in accordance with IFRS, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors;
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets that could have a material effect on the Annual Combined Financial Statements or Interim Financial Reports.

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

Desjardins Group management, in cooperation with the President and CEO, and the CFO, have assessed the design and effectiveness of ICFR. This assessment was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control − Integrated Framework (2013) for financial controls and in accordance with the Control Objectives for Information and Related Technologies (COBIT) framework for IT general controls.

Based on the results of this assessment, the President and CEO, and the CFO, concluded that as at December 31, 2019, ICFR was adequately designed and effective.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2019, Desjardins Group did not make any changes to its policies, procedures and other processes with regard to internal control that had materially affected, or may materially affect, ICFR.

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the 2019 Desjardins Group Annual Report.

5.2 Related party disclosures

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

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

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

Additional information about related party transactions is presented in Note 32, "Related party disclosures", to the Combined Financial Statements.

5.3 Critical accounting policies and estimates

A description of the accounting policies used by Desjardins Group is essential to understanding the Combined Financial Statements as at December 31, 2019. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

STRUCTURED ENTITIES

A structured entity is consolidated when it is controlled by a Desjardins Group entity. Management must make significant judgments when it assesses the various elements and all related facts and circumstances as a whole to determine whether control exists, especially in the case of structured entities.

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: restricted activities, a narrow and well-defined objective, insufficient equity to permit it to finance its activities without subordinated financial support, or financing in the form of multiple contractually linked instruments issued to investors.

Additional information about structured entities is presented in Note 13, "Interests in other entities", to the Combined Financial Statements.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of financial instruments is determined using a three-level hierarchy, reflecting the importance of the inputs used for the measurements. Level 1 denotes measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities, while level 2 designates valuation techniques based primarily on observable market data. Level 3 concerns valuation techniques not based primarily on observable market data.

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

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

Loans

The fair value of performing loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date, and takes estimated prepayments into account, adjusted to take into account credit losses on the loan portfolio. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount.

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 20, "Derivative financial instruments and hedging activities" describes the type of derivative financial instruments held by Desjardins Group.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements", "Clients' liability under acceptances", "Premiums receivable", "Amounts receivable from clients, brokers and financial institutions", some items included in "Other assets – Other", "Acceptances", "Commitments related to securities lent or sold under repurchase agreements", "Amounts payable to clients, brokers and financial institutions" and some items included in "Other liabilities – Other".

Additional information on the fair value of financial instruments is presented in Note 4, "Fair value of financial instruments", to the Combined Financial Statements. Note 2, "Basis of presentation and significant accounting policies", provides information on the classification and measurement of financial assets and financial liabilities.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized from the Combined Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but Desjardins Group has the obligation to pay them to a third party under certain conditions, or when Desjardins Group transfers the contractual rights to receive the cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by Desjardins Group, such asset is not derecognized from the Combined Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, Desjardins Group derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Balance Sheets to the extent of its continuing involvement in said asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates Desjardins Group's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

Additional information about the derecognition of financial assets is presented in Note 8, "Derecognition of financial assets", to the Combined Financial Statements.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

Determination of significant increases in credit risk

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

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

Definition of default and credit-impaired financial asset

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

Measurement of the loss allowance for expected credit losses

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

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

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. It may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters.

For credit-impaired financial assets that are individually material, measuring the loss allowance for expected credit losses does not require using credit risk parameters. It is instead based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions.

Key data and assumptions

Determining the loss allowance for expected credit losses under IFRS 9 is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions. Significant judgment must therefore be exercised to determine the loss allowance for expected credit losses. The main items affecting its measurement are the following:

- changes in the borrowers' credit risk rating or probability of default;
- incorporation of forward-looking information;
- estimated life of revolving credit facilities.

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the loss allowance for expected credit losses. Changes in the credit risk rating may increase or decrease the loss allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the allowance, while an improvement results in a decrease in the allowance.

Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine the loss allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios are reviewed quarterly.

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

Estimated life of revolving credit facilities

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

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

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

Additional information about loans and the allowance for credit losses, in particular a sensitivity analysis of the allowance for credit losses, is presented in Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements.

IMPAIRMENT OF "AVAILABLE-FOR-SALE" SECURITIES UNDER IAS 39 CONSIDERED FOR THE OVERLAY APPROACH

Desjardins Group elected to designate certain eligible insurance operations financial assets for the overlay approach permitted by IFRS 4, "Insurance Contracts", to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, "Financial Instruments", and IFRS 17, "Insurance Contracts".

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported if Desjardins Group had continued to apply IAS 39. As a result, net surplus earnings related to designated financial assets reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39.

In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers, in particular, the impairment of "Available-for-sale" securities under IAS 39, which requires the significant use of judgment.

Under IAS 39, "Available-for-sale" securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, major financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring and the disappearance of an active market for the asset in question. Debt securities are assessed individually to determine whether there is any objective evidence of impairment. For equity securities, objective evidence of impairment would also include a significant or prolonged decline in fair value below cost.

LEASES

From a lessee's perspective, a right-of-use asset and a lease liability are recognized in the Combined Balance Sheets at the commencement date of the lease. Management must therefore use its judgment in determining the term of the lease and the discount date. The lease liability is initially measured at the present value of the lease payments for the leased asset over the lease term that have not yet been paid, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Desjardins Group uses its incremental borrowing rate as the discount rate. The lease term is the non-cancellable period and includes any renewal option if Desjardins Group is reasonably certain to exercise that option or any termination option if Desjardins Group is reasonably certain not to exercise that option. Right-of-use assets are measured at cost, which is the amount of the lease liability, increased or reduced by certain adjustments.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires that management make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

Goodwill

Goodwill is tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill is performed based on the recoverable amount of each cash-generating unit (CGU) (or each group of CGUs) to which goodwill applies. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each CGU.

When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statements of Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of an impairment loss to the assets of a CGU (or group of CGUs) must however not result in their carrying amount being lower than the highest of the following amounts: fair value of the assets less costs to sell, their value in use, and zero. Goodwill impairment losses cannot be reversed.

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provisions for dividends and experience refunds as well as policyholder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, policyholder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM), in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums, provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Combined Statements of Income for the year in which the revision occurs. The provision for claims and adjustment expenses is reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Note 16, "Insurance contract liabilities", to the Combined Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. A provision is recognized when Desjardins Group has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant risks and uncertainties. Management must use significant judgment in determining whether a current obligation exists and in estimating the likelihood, timing and amount of any outflow of resources. Desjardins Group regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ significantly from forecasts.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Desjardins Group or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably. In the normal course of its business, Desjardins Group is involved in various litigation and legal proceedings.

Additional information is presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of these income taxes, management must make judgments to establish assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond to the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Note 28, "Income taxes on surplus earnings", to the Combined Financial Statements provides additional information on income taxes on surplus earnings.

MEMBER DIVIDENDS

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends take into consideration the financial framework for the appropriation of surplus earnings related to the Desjardins Group Integrated Financial Plan, which provides for member dividends based on Desjardins Group's financial capacity and capitalization. The difference between the amount of member dividends actually paid following the general meetings held by the caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

Member dividends are calculated on the basis of average balances maintained in the following product families: Accounts, Loans and lines of credit, Savings and investments, and Funds. For the insurance product family, dividends are calculated on the premium paid covering the year concerned. The provision for member dividends is mainly allocated to the Personal and Business Services segment.

EMPLOYEE BENEFITS

Desjardins Group offers the majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. For employees meeting certain criteria based on age and the number of years of participation in the plan, it also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents. During the fourth quarter of 2018, Desjardins Group notified its employees of amendments to this plan that would come into effect on January 1, 2019. As at that date, Desjardins Group stopped funding the post-retirement benefit plan for retired employees, except for those employees who met, as at January 1, 2019, certain criteria that allowed them to keep their rights. For fiscal 2018, this amendment resulted in a gain, which was recognized as a deduction to the past service cost expense under "Salaries and fringe benefits" in the Combined Statements of Income, with a corresponding amount reducing "Net defined benefit plan liabilities" in the Combined Balance Sheets.

Group pension plans are plans whose risks are shared by entities under common control. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a pro rata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the Consumer Price Index, up to a maximum of 3% for years of service accumulated before 2013, and of 1% for a period of 10 years starting at age 65 for years of service accumulated after 2013.

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are in general actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to differ materially from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the participants' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit reduce the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over a part of the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

Note 17, "Net defined benefit plan liabilities", to the Combined Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2019 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, "INSURANCE CONTRACTS"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", to supersede the existing standard, IFRS 4, "Insurance Contracts". IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 proposes a general model for the measurement of insurance contracts, as well as a simplified approach for contracts of one year or less, and a specific method for insurance contracts with direct participation features. The general model is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows, and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

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

The provisions of IFRS 17 will apply retrospectively to each group of insurance contracts. When retrospective application is impracticable, the modified retrospective approach or the fair value approach may be used for annual reporting periods beginning on or after January 1, 2021.

In June 2019, the IASB issued Exposure Draft Amendments to IFRS 17, for which the effective date was deferred by one year to January 1, 2022. The Exposure Draft comment deadline was in September 2019, and the final IFRS 17 amendments should be issued in mid-2020. Desjardins Group is currently assessing the impact on its financial statements of adopting IFRS 17 and the Exposure Draft Amendments.

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

In March 2018, the IASB issued the "Conceptual Framework for Financial Reporting", which replaces the current version of the conceptual framework. The "Conceptual Framework for Financial Reporting" includes new concepts, updates the definitions and recognition criteria for assets and liabilities and clarifies some key concepts. Desjardins Group is required to adopt this new framework prospectively as of January 1, 2020. The new framework will have no impact on Desjardins Group's financial position and results of operations.

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 from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. Disclosure requirements have also been amended to add mandatory disclosures. The amendments to these standards, which are effective for all annual reporting periods beginning on or after January 1, 2020, will not have any significant impact on Desjardins Group's financial position or results of operation.

5.5 Five-year statistical review

Table 58 – Combined Balance Sheets
For the years ended December 31

(in millions of dollars)	2019[1]	2018	2017[2]	2016[2]	2015[2]
ASSETS					
Cash and deposits with financial institutions	**$ 3,709**	$ 3,384	$ 2,435	$ 1,876	$ 1,716
Securities					
Securities at fair value through profit or loss	**35,168**	36,916	31,654	31,005	28,715
Available-for-sale securities	**N/A**	N/A	24,934	22,280	23,272
Securities at fair value through other comprehensive income	**22,909**	21,395	N/A	N/A	N/A
Securities at amortized cost	**1,616**	1,621	N/A	N/A	N/A
	59,693	59,932	56,588	53,285	51,987
Securities borrowed or purchased under reverse repurchase agreements	**10,032**	11,934	8,674	7,690	7,881
Loans					
Residential mortgages	**126,757**	120,113	113,146	106,695	102,323
Consumer, credit card and other personal loans	**27,022**	26,210	24,044	22,150	21,204
Business and government	**49,988**	44,906	40,738	37,626	36,433
	203,767	191,229	177,928	166,471	159,960
Allowance for credit losses	**(685)**	(719)	(438)	(456)	(455)
	203,082	190,510	177,490	166,015	159,505
Segregated fund net assets	**17,026**	13,234	13,379	11,965	9,781
Other assets					
Clients' liability under acceptances	**380**	160	31	11	376
Premiums receivable	**2,686**	2,376	2,095	1,957	1,662
Derivative financial instruments	**4,246**	3,743	3,206	3,572	4,818
Amounts receivable from clients, brokers and financial institutions	**2,229**	1,315	1,554	2,532	2,033
Reinsurance assets	**2,001**	1,958	2,202	2,582	1,964
Right-of-use assets	**566**	N/A	N/A	N/A	N/A
Investment property	**957**	958	832	823	683
Property, plant and equipment	**1,471**	1,424	1,411	1,435	1,451
Goodwill	**121**	121	121	471	472
Intangible assets	**381**	389	466	690	661
Investments in companies accounted for using the equity method	**1,034**	907	515	567	417
Deferred tax assets	**1,292**	1,174	992	874	784
Other	**2,090**	1,946	2,223	2,022	1,937
Assets of the disposal group held to be transferred	**-**	-	881	-	-
	19,454	16,471	16,529	17,536	17,258
TOTAL ASSETS	**$ 312,996**	$ 295,465	$ 275,095	$ 258,367	$ 248,128

See the next page for footnotes.

Table 58 – Combined Balance Sheets (continued)
For the years ended December 31

(in millions of dollars)	2019[1]	2018	2017[2]	2016[2]	2015[2]
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 111,665**	$ 105,298	$ 100,578	$ 96,278	$ 91,243
Business and government[3]	**81,556**	77,574	70,737	64,018	64,962
Deposit-taking institutions[3]	**697**	286	271	250	369
	193,918	183,158	171,586	160,546	156,574
Other liabilities					
Acceptances	**380**	160	31	11	376
Commitments related to securities sold short	**10,615**	10,829	9,112	8,196	5,464
Commitments related to securities lent or sold under repurchase agreements	**10,562**	16,845	10,229	10,323	10,383
Derivative financial instruments	**4,278**	2,816	3,094	2,057	1,689
Amounts payable to clients, brokers and financial institutions	**5,552**	4,105	4,247	4,659	4,713
Lease liabilities	**624**	N/A	N/A	N/A	N/A
Insurance contract liabilities	**31,595**	28,740	28,272	27,493	26,734
Segregated fund net liabilities	**17,002**	13,212	13,354	11,957	9,776
Net defined benefit plan liabilities	**3,068**	2,537	2,624	2,256	2,428
Deferred tax liabilities	**281**	214	155	179	163
Other	**6,294**	5,822	5,568	6,019	6,219
Liabilities of the disposal group held to be transferred	**-**	-	662	-	-
	90,251	85,280	77,348	73,150	67,945
Subordinated notes	**1,398**	1,378	1,388	1,378	1,884
TOTAL LIABILITIES	**285,567**	269,816	250,322	235,074	226,403
EQUITY					
Capital stock	**5,134**	5,350	5,361	5,292	5,158
Share capital	**-**	5	90	88	86
Undistributed surplus earnings	**2,352**	3,649	1,360	1,529	1,793
Accumulated other comprehensive income	**211**	(23)	445	514	589
Reserves	**18,959**	15,920	16,707	15,052	12,864
Equity – Group's share	**26,656**	24,901	23,963	22,475	20,490
Non-controlling interests	**773**	748	810	818	1,235
TOTAL EQUITY	**27,429**	25,649	24,773	23,293	21,725
TOTAL LIABILITIES AND EQUITY	**$ 312,996**	$ 295,465	$ 275,095	$ 258,367	$ 248,128

[1] The information presented as at December 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 Combined Financial Statements.
[2] In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
[3] Prior-period data have been reclassified to conform to the current year's presentation.

Table 59 – Combined Statements of Income
For the years ended December 31

(in millions of dollars)	2019[1]	2018	2017[2]	2016[2]	2015[2]
Interest income					
Loans	**$ 7,825**	$ 6,931	$ 5,923	$ 5,686	$ 5,765
Securities	**412**	390	323	315	308
	8,237	7,321	6,246	6,001	6,073
Interest expense					
Deposits	**2,648**	2,235	1,711	1,596	1,665
Subordinated notes and other	**230**	192	78	85	129
	2,878	2,427	1,789	1,681	1,794
Net interest income	**5,359**	4,894	4,457	4,320	4,279
Net premiums	**9,412**	8,823	8,049	7,168	6,907
Other income					
Deposit and payment service charges	**431**	433	458	488	489
Lending fees and credit card service revenues	**774**	697	660	574	550
Brokerage and investment fund services	**886**	905	1,030	1,060	1,037
Management and custodial service fees	**582**	551	485	422	365
Net investment income	**3,075**	211	1,688	1,119	1,362
Overlay approach adjustment for insurance operations financial assets	**(192)**	523	N/A	N/A	N/A
Foreign exchange income	**64**	91	77	70	88
Other	**401**	182	249	27	165
	6,021	3,593	4,647	3,760	4,056
Total income	**20,792**	17,310	17,153	15,248	15,242
Provision for credit losses	**365**	384	349	319	377
Claims, benefits, annuities and changes in insurance contract liabilities	**9,163**	6,579	6,717	5,446	5,431
Non-interest expense					
Salaries and fringe benefits	**3,682**	3,407	3,452	3,548	3,475
Premises, equipment and furniture, including depreciation	**772**	701	727	667	613
Service agreements and outsourcing	**361**	338	319	306	331
Communications	**288**	261	284	307	299
Other	**2,912**	2,778	2,618	2,423	2,241
	8,015	7,485	7,400	7,251	6,959
Operating surplus earnings	**3,249**	2,862	2,687	2,232	2,475
Income taxes on surplus earnings	**651**	536	536	460	516
Surplus earnings before member dividends	**2,598**	2,326	2,151	1,772	1,959
Member dividends	**317**	253	202	144	154
Tax recovery on member dividends	**(85)**	(68)	(54)	(39)	(41)
Net surplus earnings for the year after member dividends	**$ 2,366**	$ 2,141	$ 2,003	$ 1,667	$ 1,846
Of which:					
Group's share	**$ 2,320**	$ 2,100	$ 1,960	$ 1,591	$ 1,674
Non-controlling interests' share	**46**	41	43	76	172

(1) The information presented for the year ended December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.

Table 60 – Selected financial measures
For the years ended December 31

(in millions of dollars and as a percentage)	**2019[1]**	2018	2017[2]	2016[2]	2015[2]
Tier 1A capital ratio	**21.6%**	17.3%	18.0%	17.3%	16.0%
Tier 1 capital ratio	**21.6**	17.3	18.0	17.3	16.0
Total capital ratio	**21.6**	17.6	18.4	17.9	17.2
Leverage ratio	**8.8**	8.3	8.5	8.1	7.8
Liquidity coverage ratio[3]	**130.2**	122.1	121.4	121.1	119.4
Net interest margin[4]	**2.45**	2.39	2.34	2.41	2.50
Return on equity[4]	**9.9**	9.3	9.1	8.0	9.1
Productivity index[4]	**68.9**	69.8	70.9	74.0	70.9
Credit loss provisioning rate[4]	**0.18**	0.21	0.20	0.20	0.24
Gross credit-impaired loans[5] / gross loans and acceptances ratio[4]	**0.56**	0.54	0.25	0.32	0.34
Assets under administration	**$ 426,870**	$ 373,558	$ 411,548	$ 420,166	$ 403,350
Assets under management[6]	**67,553**	57,448	58,220	51,550	46,053
Average assets[4]	**307,220**	287,593	269,938	256,500	246,694
Average net loans and acceptances[4]	**196,628**	183,822	171,361	162,630	155,449
Average deposits[4]	**189,889**	178,658	169,219	160,176	152,140

(1) The information presented as at December 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 Combined Financial Statements.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods, as applicable.
(3) Average for the quarters ended December 31 of each year indicated.
(4) See "Non-GAAP measures".
(5) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.
(6) Assets under management may also be administered by Desjardins Group. If applicable, they are included in assets under administration.