

Results for the first quarter of 2019



AN ACTIVE AND INVOLVED GROUP. First-quarter achievements included changes to the member dividends, the fundraising campaign for Saint Joseph's Oratory and the *Semaine des régions*.

Desjardins Group records surplus earnings of \$401 million for the first quarter

Assets surpass \$300 billion

\$105 million returned to members and the community, an increase of \$23 million

Lévis, May 14, 2019 – For the first quarter ended March 31, 2019, [Desjardins Group](#), the leading financial cooperative group in Canada, recorded surplus earnings before member dividends of \$401 million, down \$100 million compared to the same quarter of 2018. Sustained growth in caisse network activities was offset by the performance of the property and casualty insurance segment, whose surplus earnings were down \$107 million compared to the same period one year earlier. The segment's higher claims experience, essentially due to difficult weather conditions, contributed to a higher claims frequency compared to the same period of 2018. Furthermore, gains on disposal of securities and real estate investments were less pronounced than in 2018. A profit related to the restructuring of Interac Corp. was also recognized in the first quarter of 2018.

The amount returned to members and the community was \$105 million (Q1 2018: \$82 million), including a \$77 million provision for member dividends (Q1 2018: \$50 million), \$18 million in sponsorships, donations and scholarships (Q1 2018: \$20 million), and \$10 million in Desjardins Member Advantages (Q1 2018: \$12 million). There was also another \$10 million in commitments made in the first quarter of 2019 related to the \$100 million regional development fund.

“Difficult weather conditions this winter and spring had a major impact on the performance of our property and casualty insurer, due to an important jump in home insurance claims compared to 2018,” said President and CEO Guy Cormier. “These difficult conditions are ongoing, and Desjardins is wholeheartedly committed to those affected by the floodings. We are empathetic and attentive to our members and clients in these difficult times and are offering them relief. Despite the impact of weather conditions on our results in property and casualty insurance, Desjardins performed well in the first quarter due to its highly diversified activities and the good results posted by the other business segments. I’m also proud of the growth in member dividends. Our member dividends are now more accessible and consistent, and more effectively recognize member loyalty. Starting this year, 840,000 more members will receive a member dividend.”

Giving back to the community

In addition to the sustained commitment of the caisses in the communities they serve, here are some of the other ways that Desjardins is making a positive difference in people's lives.

- *We launched the new [member dividend](#) to better recognize member loyalty.*
- *As part of our sustainable development initiatives, Desjardins Group has stopped using plastic [water bottles](#), representing a reduction of over 100,000 bottles per year.*
- *Guy Cormier has been appointed chair of the fundraising campaign for [Saint Joseph’s Oratory](#), whose funds will help preserve this heritage building and improve the visitor experience.*
- *Once again, Guy Cormier was [Honorary Chair](#) of Semaine des régions, an event organized by Place aux jeunes en région. Young people and the regions are priorities for Desjardins Group.*
- *In addition to making a donation to the Red Cross, Desjardins has implemented [tailored solutions to provide financial relief to members and clients](#) affected by the spring floodings. Also, 500 employees have offered to be ready to support Red Cross efforts on the ground.*

Innovating

At Desjardins, we are constantly innovating to meet the needs of our members and clients. Here are just a few examples of our recent initiatives and the recognition we’ve received for our expertise.

- *Desjardins is now available on [Google Assistant](#). This is a new way for members to quickly get reliable information, wherever they are and whenever they want.*
- *Partnership with [Polytechnique Montréal](#) for a research program in cybersecurity.*
- *Renewal and improvement of the [Startup in residence](#) program. Desjardins will concentrate on the FinTech world in order to support young businesses in this industry.*
- *According to a recent survey by Brendan Wood International, [Desjardins Global Asset Management](#) is one of Canada’s 10 best equity managers (eighth place) due to its expertise in Canadian equities.*
- *[Launch of the Carrefour d’entrepreneuriat et d’innovation Desjardins](#) so that students and new graduates of Université du Québec à Trois-Rivières (UQTR) can count on a major ally for carrying out their business projects.*

Q1 financial results

- *Surplus earnings of \$401 million, down \$100 million from 2018.*
- *Increase in operating income⁽¹⁾ of \$280 million or 6.9%.*
- *Provision for member dividends of \$77 million, up \$27 million compared to the same period in 2018.*
- *Outstanding residential mortgages up \$631 million since December 31, 2018.*
- *Total capital ratio of 18.3% as at March 31, 2019.*
- *Issues of covered bonds in the amount of €750 million on the European market.*
- *Total assets of \$304.0 billion as at March 31, 2019.*

Net interest income was \$1,264 million, up \$115 million from the same period in 2018. This increase was due to growth across the average outstanding amount across the loan and acceptance portfolio and, to a lesser extent, to higher interest rates.

Net premiums were \$2,317 million (Q1 2018: \$2,139 million), up 8.3%. This increase stemmed from growth in the activities of both life and health insurance and property and casualty insurance.

Other operating income⁽¹⁾ was \$731 million, down \$13 million from the corresponding period in 2018. This drop was essentially due to the decline in revenues that followed the transaction involving Qtrade Canada Inc., offset by growth in business volume from payment and financing activities. In 2018, Qtrade Canada Inc. participated in the transaction that led to the creation of Aviso Wealth, a wealth management company.

The provision for credit losses was down \$6 million compared to the same period in 2018, to a total of \$109 million. This decrease was primarily due to a favourable update of risk parameters, despite the increase in outstandings. The gross credit-impaired loans ratio, expressed as a percentage of the total gross loans and acceptances portfolio, was 0.58% as at March 31, 2019, up from what was recorded in 2018. Despite this increase, Desjardins Group has continued to present a quality loan portfolio in 2019.

Non-interest expense was \$1,919 million (Q1 2018: \$1,927 million). This decrease was mainly due to the drop in expenses that followed the transaction involving Qtrade Canada Inc., as explained above, and to a reduction in investment portfolio provisions, offset by business growth, including payment and P&C insurance activities.

Assets of \$304.0 billion, an increase of \$8.5 billion

As at March 31, 2019, Desjardins Group's assets surpassed the \$300.0 billion mark, reaching \$304.0 billion, up \$8.5 billion or 2.9% since December 31, 2018. This growth stemmed partly from a \$3.5 billion increase in securities, including securities borrowed or purchased under reverse repurchase agreements. The growth was also due to the increase in amounts receivable from clients, brokers and financial institutions included in other assets and net loans and acceptances.

¹ See "Basis of presentation of financial information."

Strong capital base

Desjardins Group maintains very good capitalization levels in compliance with Basel III rules. Its Tier 1A and total capital ratios were 18.1% and 18.3%, respectively, as at March 31, 2019, compared to 17.3% and 17.6%, respectively, as at December 31, 2018.

Segment results for the first quarter of 2019

Personal and Business Services

For the first quarter of fiscal 2019, the Personal and Business Services segment reported surplus earnings before member dividends of \$335 million (Q1 2018: \$275 million). This increase was largely due to good results posted by the caisse network, related in particular to the growth in net interest income and in payment and financing activities, offset by the profit related to the restructuring of Interac Corp. recognized in the first quarter of 2018.

Wealth Management and Life and Health Insurance

Net surplus earnings generated by the Wealth Management and Life and Health Insurance segment were \$139 million at the end of the quarter (Q1 2018: \$206 million). This decline was due to gains on disposal of securities and real estate investments, which were lower than in 2018, and was offset by a reduction in investment portfolio provisions.

Property and Casualty Insurance

The Property and Casualty Insurance segment recorded a net deficit of \$81 million in the first quarter of 2019 (Q1 2018: net surplus of \$26 million). This \$107 million decrease in surplus earnings was the result of a higher claims experience for the current year compared to the same quarter of 2018, essentially due to difficult weather conditions that contributed to more frequent claims compared to the same period of 2018. This decline was offset by higher net premiums.

Flooding in Quebec, eastern Ontario and New Brunswick

Just like its peers in the insurance industry, Desjardins Group is closely monitoring the flooding in Quebec, eastern Ontario and New Brunswick. Based on the information available to date and the fact that this is an ongoing situation, the floods themselves will not have a significant impact on Desjardins Group's financial results.

Key financial data

FINANCIAL POSITION AND INDICATORS

<i>(in millions of dollars and as a percentage)</i>	As at March 31, 2019 ⁽¹⁾	As at December 31, 2018
Balance Sheet		
Assets	\$ 304,002	\$ 295,465
Residential mortgage loans	\$ 120,744	\$ 120,113
Consumer, credit card and other personal loans	\$ 26,031	\$ 26,210
Business and government loans ⁽²⁾	\$ 46,091	\$ 45,066
Total gross loans ⁽²⁾	\$ 192,866	\$ 191,389
Equity	\$ 26,126	\$ 25,649
Indicators		
Assets under administration	\$ 405,297	\$ 373,558
Assets under management ⁽³⁾	\$ 61,794	\$ 57,448
Tier 1A capital ratio	18.1%	17.3%
Tier 1 capital ratio	18.1%	17.3%
Total capital ratio	18.3%	17.6%
Leverage ratio	8.4%	8.3%
Liquidity coverage ratio ⁽⁴⁾	122.5%	122.1%
Gross credit-impaired loans/gross loans and acceptances ratio ⁽⁵⁾	0.58%	0.54%

⁽¹⁾ The information presented as at March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

⁽²⁾ Includes acceptances.

⁽³⁾ Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.

⁽⁴⁾ The ratio result is presented based on the average of daily data for the quarter.

⁽⁵⁾ See "Basis of presentation of financial information."

COMBINED INCOME

<i>(in millions of dollars and as a percentage)</i>	For the three-month periods ended		
	March 31, 2019 ⁽¹⁾	December 31, 2018	March 31, 2018
Operating income ⁽²⁾	\$ 4,312	\$ 4,145	\$ 4,032
Surplus earnings before member dividends	\$ 401	\$ 578	\$ 501
Return on equity ⁽²⁾	6.5%	9.0%	8.3%
Credit loss provisioning rate ⁽²⁾	0.23%	0.19%	0.26%

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

⁽²⁾ See "Basis of presentation of financial information."

CONTRIBUTION TO COMBINED SURPLUS EARNINGS BY BUSINESS SEGMENT

	For the three-month periods ended		
	March 31, 2019 ⁽¹⁾	December 31, 2018	March 31, 2018
<i>(in millions of dollars)</i>			
Personal and Business Services	\$ 335	\$ 329	\$ 275
Wealth Management and Life and Health Insurance	139	183	206
Property and Casualty Insurance	(81)	25	26
Other	8	41	(6)
Desjardins Group	\$ 401	\$ 578	\$ 501

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

Credit ratings of securities issued

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
<i>Fédération des caisses Desjardins du Québec</i>				
Short-term	R-1 (high)	A-1	P-1	F1+
Existing senior medium and long-term ⁽¹⁾	AA	A+	Aa2	AA-
Senior medium and long-term ⁽²⁾	AA (low)	A-	A2	AA-
<i>Desjardins Capital Inc.</i>				
Senior medium and long-term	A (high)	A	A2	A+

⁽¹⁾ Includes the senior medium and long-term debt issued before March 31, 2019, as well as that which was issued from this date and has been excluded from the recapitalization regime applicable to Desjardins Group.

⁽²⁾ Includes the senior medium and long-term debt issued from March 31, 2019, which may be converted under the terms and conditions of the recapitalization (bail-in) regime applicable to Desjardins Group.

More detailed financial information can be found in Desjardins Group's interim Management's Discussion and Analysis (MD&A), which is available on the SEDAR website, under the Desjardins Capital inc. profile.

About Desjardins Group

[Desjardins Group](#) is the leading cooperative financial group in Canada and the fifth largest cooperative financial group in the world, with assets of \$304.0 billion. It has been rated one of Canada's Top 100 Employers by Mediacorp. To meet the diverse needs of its members and clients, Desjardins offers a full range of products and services to individuals and businesses through its extensive distribution network, online platforms and subsidiaries across Canada. Ranked among the world's strongest banks according to *The Banker* magazine, Desjardins has some of the highest capital ratios and [credit ratings](#) in the industry.

Caution concerning forward-looking statements

Certain statements made in this press release may be forward-looking. By their very nature, forward-looking statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, these assumptions, 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. Various factors that are beyond Desjardins Group's control and whose impacts on Desjardins are therefore difficult to predict could influence the accuracy of the forward-looking statements in this press release. Additional information on these and other factors are available under the risk management section of Desjardins Group's 2018 MD&A. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on these forward-looking statements when making decisions since actual results, conditions, actions and future events could differ significantly from targets, expectations, estimates or intents in the forward-looking statements, either explicitly or implicitly. Desjardins Group does not undertake to update any verbal or written forward-looking statements that may be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

Basis of presentation of financial information

The financial information in this document comes primarily from the 2019 quarterly financial statements. Those 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, and the accounting requirements of the Autorité des marchés financiers (AMF) in Quebec, which do not differ from IFRS. The Group's Interim Combined Financial Statements are prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements, except for the amendments described in Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements as a result of the adoption of IFRS 16, "Leases", on January 1, 2019. For more information about the accounting policies applied, see the Annual and Interim Combined Financial Statements. Unless otherwise indicated, all amounts are in Canadian dollars (\$) and come mainly from the Annual and Interim Combined Financial Statements of Desjardins Group.

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

Gross credit-impaired loans/gross loans and acceptances

The gross credit-impaired loans/gross loans and acceptances indicator 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.

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.

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 includes net investment income on securities classified and designated as being at fair value through profit or loss, net investment income on securities classified as being at fair value through other comprehensive income, and net investment income on securities measured at amortized cost and other included in the Combined Statement of Income under "Net investment income." It 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.

	For the three-month periods ended		
	March 31, 2019 ⁽¹⁾	December 31, 2018	March 31, 2018
<i>(in millions of dollars)</i>			
Presentation of income in the Combined Financial Statements			
Net interest income	\$ 1,264	\$ 1,284	\$ 1,149
Net premiums	2,317	2,221	2,139
Other income			
Deposit and payment service charges	103	114	103
Lending fees and credit card service revenues	210	177	186
Brokerage and investment fund services	214	211	255
Management and custodial service fees	140	130	136
Net investment income ⁽²⁾	1,519	45	111
Overlay approach adjustment for insurance operations financial assets	(167)	258	169
Foreign exchange income	14	29	27
Other	50	(21)	37
Total income	\$ 5,664	\$ 4,448	\$ 4,312
Presentation of income in the MD&A			
Net interest income	\$ 1,264	\$ 1,284	\$ 1,149
Net premiums	2,317	2,221	2,139
Other operating income			
Deposit and payment service charges	103	114	103
Lending fees and credit card service revenues	210	177	186
Brokerage and investment fund services	214	211	255
Management and custodial service fees	140	130	136
Foreign exchange income	14	29	27
Other	50	(21)	37
Operating income	4,312	4,145	4,032
Investment income			
Net investment income ⁽²⁾	1,519	45	111
Overlay approach adjustment for insurance operations financial assets	(167)	258	169
	1,352	303	280
Total income	\$ 5,664	\$ 4,448	\$ 4,312

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

⁽²⁾ The breakdown of this line item is presented in Note 11, "Net interest income and net investment income", to the Interim 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.

<i>(in millions of dollars and as a percentage)</i>	For the three-month periods ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Provision for credit losses	\$ 109	\$ 89	\$ 115
Average gross loans	191,976	189,557	178,749
Average gross acceptances	152	206	37
Average gross loans and acceptances	\$ 192,128	\$ 189,763	\$ 178,786
Credit loss provisioning rate⁽¹⁾	0.23%	0.19%	0.26%

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

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