

# CONSOLIDATED FINANCIAL STATEMENTS

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## Annual Report by the Audit and Inspection Commission

The role of the Audit and Inspection Commission (AIC) is to support the Board of Directors of the *Fédération des caisses Desjardins du Québec* (the Federation) in its oversight responsibilities for Desjardins Group. Its mandate consists primarily of:

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

The AIC reviews the Federation's interim and annual financial statements and Management's Discussion and Analysis, its prospectuses, and its annual information form. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, safeguarding of assets, fraud detection and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the Federation. The AIC analyzes the information resulting from this financial governance process every quarter.

The independent auditor is under the authority of the AIC. To fulfill its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence and objectivity by authorizing all of its non-audit services, by recommending its appointment or reappointment to the Federation's Board of Directors, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the AIC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual audit plan, its reports, its letter to management and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates can be awarded, and (c) responsibilities of key stakeholders. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Federation's entities.

The AIC ensures the independence and objectivity of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC analyzes the annual internal audit plan as well as the internal audit team's responsibilities and objectivity. It ensures the plan is carried out, reviews the internal audit results and, if necessary, takes appropriate follow-up action. As part of these duties, the AIC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management.

With respect to the Federation's relations with the *Autorité des marchés financiers* (AMF) in Québec, the AIC reviews and follows up on the inspection reports issued by the AMF and reviews the financial reports that are submitted each quarter to the AMF.

The AIC meets privately with: the independent auditor; the Senior Executive Vice-President and Chief Operating Officer of Desjardins Group; the Executive Vice-President of Finance, Treasury and Administration and Chief Financial Officer of Desjardins Group; and the Chief Monitoring Officer of Desjardins Group. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, once a year the AIC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

The AIC is made up of six independent directors, including one external director appointed on May 14, 2019, and four observers. These observers are: the chairs of the audit and risk management committees of Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc., the chair of the Federation's Risk Management Commission, and a caisse general manager who sits on the Federation's Board of Directors. Except for this general manager, none of the AIC members receives direct or indirect compensation from Desjardins Group for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entities, including their committees and commissions.

In light of the significant changes made to accounting and financial reporting requirements, the AIC members attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards, the impact of changes to corporate governance standards and regulations, anti-money laundering measures and sound commercial practices. All AIC members possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AIC's charter.

The AIC held six meetings and one training session for its members in fiscal 2019. As at December 31, 2019, the six independent directors who are members of the AIC are: Johanne Charbonneau, FCPA, FCGA; Lisa Baillargeon, CPA, CMA; Louis Babineau; Stéphane Corbeil; Jean-François Laporte and Pierre Perras. The four observers are: Michel Magnan, FCPA, FCA; Robert St-Aubin, FCPA, FCA; Benoit Bélanger and Michel Doré. During fiscal 2019, Mario Simard and Michel Tourangeau also participated in the AIC's activities.

**Johanne Charbonneau, FCPA, FCGA**

Chair

Montréal, Québec  
February 24, 2020

## Management's Responsibility for Financial Reporting

The Consolidated Financial Statements of the *Fédération des caisses Desjardins du Québec* (the Federation) and all information included in its annual Management's Discussion and Analysis are the responsibility of management, which is responsible for ensuring reporting integrity and accuracy.

These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and the accounting requirements of the Autorité des marchés financiers (AMF) in Québec, which do not differ from IFRS. The IFRS represents Canada's generally accepted accounting principles. These Consolidated Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include valuations of insurance contract liabilities performed by the actuaries of the relevant segments. All financial information in the annual Management's Discussion and Analysis is consistent with these audited Consolidated Financial Statements.

Management is responsible for the accuracy of the Federation's Consolidated Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. These controls are designed to provide reasonable assurance that the financial accounts are complete and accurate, assets are protected and records are kept appropriately. Such controls include an organizational structure that ensures effective segregation of duties, a code of professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices. In our capacities as Chief Executive Officer and Chief Financial Officer of the Federation, we have overseen the process to assess financial information communication procedures and controls as well as internal control over financial reporting. As at December 31, 2019, we concluded that information communication procedures and controls and internal control over financial reporting were effective.

The AMF examines the affairs of the Federation on a regular basis.

For the purposes of approving the financial information contained in the annual report, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The Audit and Inspection Commission is mandated by the Board of Directors to review the Federation's Consolidated Financial Statements and its Management's Discussion and Analysis. In addition, the Audit and Inspection Commission, comprising independent directors including an external director appointed on May 14, 2019, and 4 observers who are neither management nor staff of the Federation, exercises an oversight role to ensure that management has developed and implemented adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The Consolidated Financial Statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the Federation's General Meeting, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any related issues, including the integrity of the financial information provided and the quality of internal control systems.

**Guy Cormier**  
President and Chief Executive Officer  
Desjardins Group

**Alain Leprohon, CPA, CA**  
Executive Vice-President, Finance, Treasury, Administration and  
Chief Financial Officer  
Desjardins Group

Lévis, Québec  
February 26, 2020

## Independent auditor's report

### To the members of the *Fédération des caisses Desjardins du Québec*

#### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the *Fédération des caisses Desjardins du Québec* and its subsidiaries (together, the Federation) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Federation's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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

#### *Basis for opinion*

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

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

#### **Independence**

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

#### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

#### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Federation's financial reporting process.

*Auditor's responsibilities for the audit of the consolidated financial statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Federation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Federation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Federation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Federation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michel Larouche.

**PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.<sup>(1)</sup>**

<sup>(1)</sup>CPA auditor, CA, public accountancy permit No. A111799

Montréal, Québec  
February 26, 2020

## Consolidated Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2019 <sup>(1)</sup>	As at December 31, 2018
<b>ASSETS</b>			
<b>Cash and deposits with financial institutions</b>		<b>\$ 3,084</b>	<b>\$ 2,738</b>
<b>Securities</b>	6		
Securities at fair value through profit or loss		35,167	36,914
Securities at fair value through other comprehensive income		12,650	11,131
Securities at amortized cost		1,616	1,621
		49,433	49,666
<b>Securities borrowed or purchased under reverse repurchase agreements</b>		<b>11,352</b>	<b>14,086</b>
<b>Loans</b>	7 and 8		
Residential mortgages		4,183	4,626
Consumer, credit card and other personal loans		20,567	19,710
Business and government		40,827	37,992
		65,577	62,328
Allowance for credit losses	7	(464)	(491)
		65,113	61,837
<b>Segregated fund net assets</b>	9	<b>17,026</b>	<b>13,234</b>
<b>Other assets</b>			
Clients' liability under acceptances		380	160
Premiums receivable		2,689	2,378
Derivative financial instruments	20	4,795	4,376
Amounts receivable from clients, brokers and financial institutions		2,239	1,487
Reinsurance assets		2,001	1,958
Right-of-use assets	10	298	N/A
Investment property	11	944	943
Property, plant and equipment	11	840	811
Goodwill		121	121
Intangible assets	12	381	389
Investments in companies accounted for using the equity method	13	1,034	907
Deferred tax assets	27	1,015	896
Other	14	1,668	1,573
		18,405	15,999
<b>TOTAL ASSETS</b>		<b>\$ 164,413</b>	<b>\$ 157,560</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Deposits</b>	15		
Individuals		\$ 3,715	\$ 4,105
Business and government		48,924	47,398
Deposit-taking institutions		6,333	6,554
		58,972	58,057
<b>Other liabilities</b>			
Acceptances		380	160
Commitments related to securities sold short		10,615	10,829
Commitments related to securities lent or sold under repurchase agreements		10,562	16,233
Derivative financial instruments	20	4,827	3,332
Amounts payable to clients, brokers and financial institutions		5,552	4,105
Lease liabilities	10	350	N/A
Insurance contract liabilities	16	31,637	28,764
Segregated fund net liabilities	9	17,002	13,212
Net defined benefit plan liabilities	17	1,956	1,578
Deferred tax liabilities	27	277	254
Other	18	5,373	5,105
		88,531	83,572
<b>Subordinated notes</b>	19	<b>1,398</b>	<b>1,378</b>
<b>TOTAL LIABILITIES</b>		<b>148,901</b>	<b>143,007</b>
<b>EQUITY</b>			
Capital stock	22	8,884	8,779
Undistributed surplus earnings		5,276	4,764
Accumulated other comprehensive income	23	249	(9)
Reserves		330	271
<b>Equity – Group's share</b>		<b>14,739</b>	<b>13,805</b>
<b>Non-controlling interests</b>	13 and 16	<b>773</b>	<b>748</b>
<b>TOTAL EQUITY</b>		<b>15,512</b>	<b>14,553</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 164,413</b>	<b>\$ 157,560</b>

<sup>(1)</sup> The information presented as at December 31, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

On behalf of the Board of Directors of the *Fédération des caisses Desjardins du Québec*,

**Guy Cormier**  
Chair of the Board

**Serge Rousseau**  
Vice-Chair of the Board

**Consolidated Statements of Income**

For the years ended December 31

(in millions of Canadian dollars)	Notes	2019 <sup>(1)</sup>	2018
<b>INTEREST INCOME</b>			
Loans		\$ 2,913	\$ 2,597
Securities		216	230
		<b>3,129</b>	<b>2,827</b>
<b>INTEREST EXPENSE</b>			
Deposits		1,393	1,159
Subordinated notes		72	70
Other		125	97
		<b>1,590</b>	<b>1,326</b>
<b>NET INTEREST INCOME</b>	25	<b>1,539</b>	<b>1,501</b>
<b>NET PREMIUMS</b>	16	<b>9,525</b>	<b>8,923</b>
<b>OTHER INCOME</b>			
Assessments		393	392
Service agreements		773	742
Lending fees and credit card service revenues		782	699
Brokerage and investment fund services		886	905
Management and custodial service fees		610	579
Net investment income	25	2,945	170
Overlay approach adjustment for insurance operations financial assets		(192)	523
Foreign exchange income		70	92
Other	21	532	296
		<b>6,799</b>	<b>4,398</b>
<b>TOTAL INCOME</b>		<b>17,863</b>	<b>14,822</b>
<b>PROVISION FOR CREDIT LOSSES</b>	7	<b>310</b>	<b>288</b>
<b>CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE</b>			
<b>CONTRACT LIABILITIES</b>	16	<b>9,172</b>	<b>6,584</b>
<b>NON-INTEREST EXPENSE</b>			
Remuneration and other payments		660	563
Salaries and fringe benefits		2,443	2,239
Premises, equipment and furniture, including depreciation		556	496
Service agreements and outsourcing		359	341
Communications		221	219
Other	26	2,699	2,534
		<b>6,938</b>	<b>6,392</b>
<b>OPERATING SURPLUS EARNINGS</b>		<b>1,443</b>	<b>1,558</b>
Income taxes on surplus earnings	27	212	208
<b>SURPLUS EARNINGS BEFORE DIVIDENDS TO MEMBER CAISSES<sup>(2)</sup></b>		<b>1,231</b>	<b>1,350</b>
Dividends to member caisses		115	70
Tax recovery on dividends to member caisses	27	(31)	(19)
<b>NET SURPLUS EARNINGS FOR THE YEAR AFTER DIVIDENDS TO MEMBER CAISSES</b>		<b>\$ 1,147</b>	<b>\$ 1,299</b>
<b>of which:</b>			
Group's share		\$ 1,101	\$ 1,258
Non-controlling interests' share	13	46	41

<sup>(1)</sup> The information presented for the year ended December 31, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

<sup>(2)</sup> The Group's share of "Surplus earnings before dividends to member caisses" is presented in Note 30, "Segmented Information".

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

## Consolidated Statements of Comprehensive Income

For the years ended December 31

(in millions of Canadian dollars)	2019	2018
<b>Net surplus earnings for the year after dividends to member caisses</b>	<b>\$ 1,147</b>	<b>\$ 1,299</b>
<b>Other comprehensive income, net of income taxes</b>		
<b>Items that will not be reclassified subsequently to the Consolidated Statements of Income</b>		
Remeasurement of net defined benefit plan liabilities	(272)	81
Share of associates and joint ventures accounted for using the equity method	(3)	-
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	8	-
	(267)	81
<b>Items that will be reclassified subsequently to the Consolidated Statements of Income</b>		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains (losses)	152	(38)
Reclassification of net (gains) losses to the Consolidated Statements of Income	(36)	14
	116	(24)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	198	(288)
Reclassification of net gains to the Consolidated Statements of Income	(41)	(129)
	157	(417)
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	(7)	(11)
Reclassification to the Consolidated Statements of Income of net (gains) losses on derivative financial instruments designated as cash flow hedges	2	(3)
	(5)	(14)
	268	(455)
<b>Total other comprehensive income, net of income taxes</b>	<b>1</b>	<b>(374)</b>
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>\$ 1,148</b>	<b>\$ 925</b>
<b>of which:</b>		
Group's share	\$ 1,095	\$ 906
Non-controlling interests' share	53	19

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

### Income taxes on other comprehensive income

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

For the years ended December 31

(in millions of Canadian dollars)	2019	2018
<b>Item that will not be reclassified subsequently to the Consolidated Statements of Income</b>		
Remeasurement of net defined benefit plan liabilities	\$ (98)	\$ 29
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	3	-
	(95)	29
<b>Items that will be reclassified subsequently to the Consolidated Statements of Income</b>		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains (losses)	55	(13)
Reclassification of net (gains) losses to the Consolidated Statements of Income	(13)	6
	42	(7)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	49	(88)
Reclassification of net gains to the Consolidated Statements of Income	(14)	(18)
	35	(106)
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	(2)	(7)
Reclassification to the Consolidated Statements of Income of net (gains) losses on derivative financial instruments designated as cash flow hedges	1	(1)
	(1)	(8)
	76	(121)
<b>Total income tax recovery</b>	<b>\$ (19)</b>	<b>\$ (92)</b>



## Consolidated Statements of Changes in Equity

For the years ended December 31

	Capital stock (Note 22)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 23)	Reserves			Equity - Group's share	Non-controlling interests (Notes 13 and 16)	Total equity
				Stabilization reserve	General and other reserves	Total reserves			
(in millions of Canadian dollars)									
<b>BALANCE AS AT DECEMBER 31, 2017</b>	\$ 8,537	\$ 5,674	\$ 458	\$ 467	\$ 73	\$ 540	\$ 15,209	\$ 810	\$ 16,019
Impact of changes in accounting policies	-	34	(35)	-	(213)	(213)	(214)	-	(214)
<b>OPENING BALANCE AS AT JANUARY 1, 2018</b>	\$ 8,537	\$ 5,708	\$ 423	\$ 467	\$ (140)	\$ 327	\$ 14,995	\$ 810	\$ 15,805
Net surplus earnings for the year after dividends to member caisses	-	1,258	-	-	-	-	1,258	41	1,299
Other comprehensive income for the year	-	80	(432)	-	-	-	(352)	(22)	(374)
Comprehensive income for the year	-	1,338	(432)	-	-	-	906	19	925
Issuance of F capital shares	267	-	-	-	-	-	267	-	267
F capital share issuance costs	(1)	-	-	-	-	-	(1)	-	(1)
Other net change in capital stock	(24)	3	-	-	-	-	(21)	-	(21)
Payments to member caisses	-	(1,854)	-	-	-	-	(1,854)	-	(1,854)
Remuneration on capital shares	-	(361)	-	(147)	-	(147)	(508)	-	(508)
Redemption of share capital	-	-	-	-	-	-	-	(11)	(11)
Dividends	-	-	-	-	-	-	-	(36)	(36)
Transfer between surplus earnings to be distributed and reserves	-	(91)	-	97	(6)	91	-	-	-
Transactions related to buy-out options	-	30	-	-	-	-	30	(19)	11
Buy-out of non-controlling interests	-	(13)	-	-	-	-	(13)	(15)	(28)
Other	-	4	-	-	-	-	4	-	4
<b>BALANCE AS AT DECEMBER 31, 2018</b>	\$ 8,779	\$ 4,764	\$ (9)	\$ 417	\$ (146)	\$ 271	\$ 13,805	\$ 748	\$ 14,553
Net surplus earnings for the year after dividends to member caisses	-	1,101	-	-	-	-	1,101	46	1,147
Other comprehensive income for the year	-	(264)	258	-	-	-	(6)	7	1
Comprehensive income for the year	-	837	258	-	-	-	1,095	53	1,148
Issuance of F capital shares	105	-	-	-	-	-	105	-	105
Other net change in capital stock	-	(1)	-	-	-	-	(1)	-	(1)
Payments to member caisses	-	(1)	-	-	-	-	(1)	-	(1)
Remuneration on capital shares	-	(115)	-	(152)	-	(152)	(267)	-	(267)
Issuance of share capital	-	-	-	-	-	-	-	7	7
Dividends	-	-	-	-	-	-	-	(35)	(35)
Transfer between surplus earnings to be distributed and reserves	-	(211)	-	-	211	211	-	-	-
Other	-	3	-	-	-	-	3	-	3
<b>BALANCE AS AT DECEMBER 31, 2019</b>	\$ 8,884	\$ 5,276	\$ 249	\$ 265	\$ 65	\$ 330	\$ 14,739	\$ 773	\$ 15,512

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

**Consolidated Statements of Cash Flows**

For the years ended December 31

(in millions of Canadian dollars)	2019 <sup>(1)</sup>	2018
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Operating surplus earnings	\$ 1,443	\$ 1,558
Non-cash adjustments:		
Depreciation of right-of-use assets	30	N/A
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets	221	218
Net change in insurance contract liabilities	2,873	464
Provision for credit losses	310	288
Net realized (gains) losses on securities classified as at fair value through other comprehensive income	(45)	19
Overlay approach adjustment for insurance operations financial assets	192	(523)
Other	14	(2)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	1,747	(1,883)
Securities borrowed or purchased under reverse repurchase agreements	2,734	(4,710)
Loans	(3,586)	(3,736)
Derivative financial instruments, net amount	1,101	(973)
Net amounts receivable from and payable to clients, brokers and financial institutions	695	(121)
Deposits	915	5,907
Commitments related to securities sold short	(214)	1,717
Commitments related to securities lent or sold under repurchase agreements	(5,671)	6,171
Other	(190)	548
Payment of the contingent consideration	(209)	(250)
Income taxes paid on surplus earnings	(137)	(237)
Dividends paid to member caisses	(70)	(60)
	2,153	4,395
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Repayment of lease liabilities	(30)	N/A
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	20	(11)
Issuance of F capital shares	105	125
F capital share issuance costs	-	(1)
Payment of dividends to member caisses	(1)	(1,854)
Other net change in capital stock	(1)	(20)
Remuneration on capital stock	(260)	(366)
Issuance of share capital	7	-
Redemption of share capital	-	(11)
Dividends paid	(35)	(36)
Buy-out of non-controlling interests	-	(28)
Exercise of put options written on non-controlling interests	-	(63)
	(195)	(2,265)
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Purchase of securities at fair value through other comprehensive income and at amortized cost	(48,777)	(62,858)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	13,513	9,724
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	33,944	52,343
Payment of the contingent consideration recognized at acquisition date	(35)	(27)
Acquisitions of property, plant and equipment, intangible assets and investment property	(280)	(409)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	23	78
	(1,612)	(1,149)
<b>Net increase in cash and cash equivalents</b>	<b>346</b>	<b>981</b>
Cash and cash equivalents at beginning of year	2,738	1,757
<b>CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS AT END OF YEAR</b>	<b>\$ 3,084</b>	<b>\$ 2,738</b>
<b>Supplemental information on cash flows from (used in) operating activities</b>		
Interest paid	\$ 1,311	\$ 1,039
Interest and dividends received	3,663	4,028

<sup>(1)</sup> The information presented for the year ended December 31, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

# Notes to the Consolidated Financial Statements

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

### Nature of operations

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

In addition, the Federation is the parent company of several financial services subsidiaries. The various business segments in which the Federation operates are described in Note 30, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

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

### BASIS OF PRESENTATION

#### Statement of compliance

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

The Consolidated Financial Statements for the year ended December 31, 2019 were approved by the Board of Directors of the Federation on February 26, 2020.

The significant measurement and presentation rules applied to prepare these Consolidated Financial Statements are described below.

#### Significant judgments, estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, determination of the fair value of financial instruments, derecognition of financial assets, impairment of financial instruments, lease liabilities and right-of-use assets, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, dividends to member caisses, employee benefits as well as goodwill and intangible assets. Consequently, actual results could differ from those estimates and assumptions.

#### Principles of consolidation

The Consolidated Financial Statements of the Federation include the assets, liabilities, operating results and cash flows of the Federation and its subsidiaries. The financial statements of all subsidiaries have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

The Federation administers various funds in accordance with the provisions of the Internal By-laws adopted at the General Meeting. For the purposes of the Consolidated Financial Statements of the Federation, these funds have been grouped together and are designated as a Group.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give the Federation control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities.

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

### Subsidiaries

An entity is considered as a subsidiary when it is controlled by the Federation. The Federation controls an investee if and only if it has all the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of its returns.

### Structured entities

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

### Non-controlling interests

Non-controlling interests represent the share in profit or loss as well as net assets not held by the Group. They are presented separately in the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income and in equity, in the Consolidated Balance Sheets.

### Associates

An associate is an entity over which the Federation exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. The Federation investments in associates are presented under "Investments in companies accounted for using the equity method" in the Consolidated Balance Sheets and are accounted for using the equity method. Under this method, investments are initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in the Federation's share in the relevant entities' equity.

### Joint arrangements

A joint arrangement is an arrangement of which the Federation has joint control, which is the contractually agreed sharing of control of such arrangement with one or more other parties. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:

- A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party must recognize its assets, liabilities, revenue and expenses, including its share of the assets held jointly and of the liabilities incurred jointly as well as its share of the revenue generated and expenses incurred in connection with the joint operation.
- A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This type of joint arrangement is accounted for using the equity method. The Federation's investments in joint ventures are presented under "Investments in companies accounted for using the equity method" in the Consolidated Balance Sheets.

### **Presentation and functional currency**

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

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

### CHANGES IN ACCOUNTING POLICIES

#### IFRS 16, “Leases”

On January 1, 2019, the Federation adopted IFRS 16, “Leases”, on a retrospective basis without restatement of comparative periods. IFRS 16 replaces IAS 17, “Leases”, and related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases.

The Federation applied the following transitional expedients as at January 1, 2019:

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

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

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

### SIGNIFICANT ACCOUNTING POLICIES

#### a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date the Federation becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

##### Classification and measurement

Financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

##### Contractual cash flow characteristics

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

##### Business models

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

The Federation's business models are defined as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (vi) Financial assets “Designated as at fair value through other comprehensive income” include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that are held on a long-term-basis.
- (vii) Securities included in the “Amortized cost” class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

Securities included in this class are initially recognized at fair value in the Consolidated Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the “Amortized cost” class is presented under “Interest income – Loans” in the Consolidated Statements of Income when it is recognized by the Personal and Business Services segment and the Other category. For the other segments, it is recognized mainly under “Net investment income”.

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

### Application of the overlay approach to insurance operations financial assets

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

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

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Consolidated Statements of Income under IFRS 9 and the amount that would have been reported if the Federation had continued to apply IAS 39. As a result, net surplus earnings related to designated financial instruments reported in the Consolidated Statements of Income correspond to the amount that would have been reported if the Federation had continued to apply IAS 39.

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

In determining the amount that would have been reported in the Consolidated Statements of Income if IAS 39 had been applied, the Federation considers the following accounting policies as well as foreign currency fair value hedge accounting for equity instruments under IAS 39.

### “Available-for-sale” securities under IAS 39

Under IAS 39, “Available-for-sale” securities are initially recognized at fair value. They are subsequently measured at fair value, and gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Consolidated Statements of Comprehensive Income until the financial asset is derecognized. Premiums and discounts on the purchase of “Available-for-sale” securities as well as transaction costs are amortized using the effective interest method and recognized in the Consolidated Statements of Income. Foreign exchange gains and losses on securities included in this class are recognized in the Consolidated Statements of Income, except for unrealized foreign exchange gains and losses on non-monetary financial instruments, which are recognized in the Consolidated Statements of Comprehensive Income.

### Impairment of “Available-for-sale” securities under IAS 39

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 an impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring, and the disappearance of an active market for the asset.

Debt securities are assessed individually to determine whether there is any objective evidence of impairment. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss has been recognized in the Consolidated Statements of Income, the impairment loss is reversed through the Consolidated Statements of Income.

For equity securities, when evidence of impairment exists, the cumulative loss is transferred out of other comprehensive income and recognized in the Consolidated Statements of Income. Impairment losses on equity securities are not reversed to the Consolidated Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded in other comprehensive income. Any impairment loss on securities previously impaired is directly recognized in the Consolidated Statements of Income.



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

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

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

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

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

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

(ii) Financial liabilities “Classified as at fair value through profit or loss” are securities held for trading and include debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments are also classified as held for trading.

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

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

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

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

Financial liabilities included in this class are initially recognized at fair value in the Consolidated Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the “Amortized cost” class is recognized under “Interest expense” in the Consolidated Statements of Income for the Personal and Business Services segment and the Other category. Interest expense for the other segments is recognized mainly under “Net investment income” in the Consolidated Statements of Income.

### Determination of the fair value of financial instruments

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

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

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



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

### Loans

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

### Deposits

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

### Subordinated notes

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

### Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, the Federation 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 the Federation, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 20, "Derivative financial instruments and hedging activities", specifies the nature of derivative financial instruments held by the Federation.

### Financial instruments whose fair value equals their carrying amount

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

### **Transaction costs**

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method. However, for financial instruments classified or designated as "At fair value through profit or loss", these costs are expensed as incurred.

### **Offsetting of financial assets and liabilities**

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and the Federation intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

### **Derecognition of financial assets and liabilities**

A financial asset is derecognized from the Consolidated 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 the Federation has the obligation to pay them to a third party under certain conditions, or when the Federation 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 the Federation, such asset is not derecognized from the Consolidated 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, the Federation 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, the Federation continues to recognize the asset in the Consolidated Balance Sheets to the extent of its continuing involvement in that asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Consolidated 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 the Federation's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Consolidated Statements of Income.

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

### b) Cash and deposits with financial institutions

"Cash and deposits with financial institutions" includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions—including net amounts receivable related to cheques and other items in the clearing process—as well as certain fixed-income securities. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

### c) Securities

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

#### Securities purchased under reverse repurchase agreements and securities borrowed

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Consolidated Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Consolidated Balance Sheets.

As part of securities borrowings, the Federation pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Consolidated Balance Sheets. When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of ownership of these securities are retained.

#### Securities sold under repurchase agreements and securities lent

Securities sold under repurchase agreements and securities lent are not derecognized from the Consolidated Balance Sheets, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Consolidated Balance Sheets.

As part of securities loans, the Federation receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Consolidated Balance Sheets. When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

#### Securities sold short

Securities sold short as part of trading activities, which represent the Federation's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized under "Net investment income" in the Consolidated Statements of Income.

### d) Loans

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

Fees collected and direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loans. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities, shares, etc.) or cash.

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

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

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

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

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

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

### e) Impairment of financial instruments

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

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

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, the Federation bases its assessment on default risk over the expected life of the financial instrument, which requires significant judgment.

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

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

#### Definition of default and credit-impaired financial asset

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

#### Measurement of the loss allowance for expected credit losses

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

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

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

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

PD	LGD	EAD
<i>Loans, loan commitments and financial guarantees:</i> <ul style="list-style-type: none"> <li>Type of clients</li> <li>Risk level</li> <li>Type of instrument</li> <li>Industry</li> </ul>	<i>Loans, loan commitments and financial guarantees:</i> <ul style="list-style-type: none"> <li>Type of clients</li> <li>Type of collateral</li> <li>Type of guarantor</li> <li>Risk level</li> <li>Type of instrument</li> <li>Industry</li> </ul>	<i>Loans:</i> <ul style="list-style-type: none"> <li>No aggregation<sup>(1)</sup></li> </ul> <i>Loan commitments and financial guarantees<sup>(2)</sup>:</i> <ul style="list-style-type: none"> <li>Type of clients</li> <li>Risk level</li> <li>Utilization rate</li> <li>Authorized amount</li> <li>Type of product</li> <li>Industry</li> </ul>

<sup>(1)</sup> No aggregation variable is required to determine the EAD for loans, as it represents the anticipated balance of each loan.

<sup>(2)</sup> To determine the EAD for loan commitments and financial guarantees, a credit conversion factor is applied.

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

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

### Expected life

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

### Recognition of the loss allowance for expected credit losses

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

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

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

### Foreclosed assets

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

### Loan write-off

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

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

### f) Leases

#### *Accounting policy applicable since January 1, 2019*

The Federation analyzes contracts newly entered into or modified to assess whether they are, or contain, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The manner in which a lease is accounted for differs depending on whether the Federation is the lessee or the lessor.

#### **Lessee**

The Federation mainly leases premises that are used in the normal course of its operations. A right-of-use asset and a lease liability are recognized in the Consolidated Balance Sheets at the commencement date of the lease, except for short-term and low-value leases. The commencement date of the lease is the date on which the lessor makes the leased asset available for use by the lessee. The Federation elected to apply the exemption provisions for short-term and low-value leases. Accordingly, lease payments associated with those leases are recognized as a lease expense in the Consolidated Statements of Income based on the terms of the lease. In addition, the Federation applies the practical expedient which allows not to separate non-lease components from lease components for a contract.

Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liability, plus prepaid lease payments less lease incentives received. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shortest of the lease term and the useful life of the underlying asset. The lease term is the non-cancellable period and includes any renewal options if the Federation is reasonably certain to exercise those options and any termination options if the Federation is reasonably certain not to exercise those options. The right-of-use asset is periodically adjusted to reflect certain reassessments of the lease liability.

Right-of-use assets are presented in the Consolidated Balance Sheets and the depreciation of right-of-use assets is recognized under “Non-interest expense—Premises, equipment and furniture, including depreciation” in the Consolidated Statements of Income.

The lease liability is initially measured at the present value of the lease payments for 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, the Federation uses its incremental borrowing rate as discount rate. Payments included in the measurement of the lease liability comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, based on the index or the rate as at the commencement date of the lease, an estimated amount for any guaranteed residual value as well as amounts the Federation is reasonably certain to pay for the exercise price of a purchase option or a termination penalty.

The lease liability is subsequently remeasured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments mainly as a result of a change in an index or a rate, or a change in the amounts expected to be payable by the Federation under a residual value guarantee, when there are lease modifications, or when the Federation revises its assessment of the potential exercise of a purchase, renewal or termination option.

Lease liabilities are presented in the Consolidated Balance Sheets and interest expense on lease liabilities is recognized under “Interest expense” in the Consolidated Statements of Income.

#### **Lessor**

Leases in which the Federation is the lessor are leases for premises. The Federation classifies the leases in which it is the lessor as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not. The Federation mainly enters into operating leases.

When the Federation is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under “Net investment income” and the leased asset remains recognized in the Consolidated Balance Sheets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent is recognized in profit or loss in the year during which it is earned.

#### *Accounting policy applicable before January 1, 2019*

Under a finance lease, the lessor transferred to the lessee substantially all the risks and rewards inherent to the asset. This type of lease was analyzed as financing granted to the lessee to purchase the asset. In contrast, under an operating lease, the lessor retained substantially all the risks and rewards inherent to the leased asset. The Federation mainly entered into operating leases. The recognition of operating leases depended on the Federation position as a lessee or as a lessor.

#### **Lessee**

When the Federation was the lessee, the asset was not recognized as an asset. Lease payments made under operating leases were recognized as an expense on a straight-line basis until the end of the lease under “Premises, equipment and furniture, including depreciation”, in the Consolidated Statements of Income.

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

### Lessor

When the Federation was the lessor, lease income from operating leases was recognized on a straight-line basis over the lease term under “Net investment income” and the leased asset remained recognized in the Consolidated Balance Sheets. Initial direct costs incurred in negotiating and arranging an operating lease were added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent was recognized in profit or loss in the year during which it was earned.

### g) Property, plant and equipment and investment property

#### Property, plant and equipment

Property, plant and equipment consists of land, buildings, computer hardware, furniture, fixtures and other items as well as leasehold improvements. They are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under “Non-interest expense – Premises, equipment and furniture, including depreciation” in the Consolidated Statements of Income.

#### Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the “Investment property” category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the “Investment property” category to the “Buildings” category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by the Federation becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

The depreciation expense for investment properties is recognized under “Net investment income” in the Consolidated Statements of Income.

### Depreciation

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	2 to 10 years
Furniture, fixtures and other	2 to 20 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

### Derecognition

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains and losses on the disposal or sale of buildings are recognized in the Consolidated Statement of Income for the year in which they are realized under “Premises, equipment and furniture, including depreciation” for property, plant and equipment and under “Net investment income” for investment property.

### h) Goodwill and intangible assets

#### Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method.

At the acquisition date, each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.



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

### Intangible assets

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

The Federation assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and client relationships and are amortized using the straight-line method over their estimated useful lives, which do not exceed 40 years.

Gains or losses resulting from the derecognition of an intangible asset correspond to the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under "Non-interest expense – Other" in the Consolidated Statements of Income upon derecognition of the asset.

### i) Impairment of non-financial assets

The Federation assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Consolidated Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Consolidated Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

### Goodwill

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 CGU (or each group of CGUs) to which goodwill is allocated. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each CGU.

When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in the Consolidated Statement 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 the impairment loss to the assets of the CGU or group of CGUs must however not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

### j) Acceptances and clients' liability under acceptances

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

### k) Insurance contract liabilities

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by these subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries. They are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

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

### Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM) in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Consolidated Balance Sheets of the assets that back them.

Under CALM, actuarial liabilities of the life and health insurance subsidiaries are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

### Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Consolidated Statement of Income for the year in which the revision occurs. The provisions for claims and adjustment expenses are reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

### Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the contract holder to participate in the profitability related to their contract. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health insurance subsidiaries elected not to recognize the participating portion of these contracts separately.

### Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Consolidated Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under "Reinsurance assets" in the Consolidated Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These assets comprise the reinsurers' share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers' share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

### l) Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by one of the life and health insurance subsidiaries for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Consolidated Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section a), "Financial assets and liabilities". In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to contract holders' rights to the segregated fund net assets is also recognized separately.

### m) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing or amount. A provision is recognized when the Federation has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant uncertainties and risks. Management must make significant judgments in determining whether a present obligation exists and in estimating the timing and amount of any outflow of resources. The Federation regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in profit or loss under the items corresponding to the nature of the expenditures covered.



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

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 the Federation 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.

### n) Derivative financial instruments and hedging activities

#### Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of the Federation's derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 20, "Derivative financial instruments and hedging activities".

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

#### Hybrid financial instruments

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

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

#### Objectives of holding derivatives

The Federation uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of member caisses and clients, and to allow the Federation to generate income on its own trading activities. These instruments are recognized at fair value in the Consolidated Balance Sheets, and changes in their fair value are recognized under "Net investment income" in the Consolidated Statements of Income.

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. They enable the Federation to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Consolidated Balance Sheets, as well as firm commitments and forecasted transactions.

#### Hedging activities

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

The Federation mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, the Federation must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows of the hedged item attributable to the risk being hedged.

The Federation may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting.

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or the Federation terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

#### Fair value hedges

In a fair value hedge transaction, changes in fair value of the hedging derivative financial instrument are recognized under "Net investment income" in the Consolidated Statements of Income, as are changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized under "Net investment income" in the Consolidated Statements of Income.

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

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Previously recorded adjustments to the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Consolidated Statements of Income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under “Net investment income” in the Consolidated Statements of Income.

### Cash flow hedges

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized under “Net losses on derivative financial instruments designated as cash flow hedges”, in other comprehensive income, until the hedged item is recognized in the Consolidated Statements of Income, at which time such changes are recognized in net interest income in the Consolidated Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized under “Net investment income” in the Consolidated Statement of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, the Federation discontinues hedge accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Consolidated Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under “Net investment income”.

### **o) Financial guarantees**

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

Financial guarantees are initially recognized as liabilities in the Consolidated Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, except in cases where it must be measured at fair value through profit or loss, the guarantee is measured at the higher of the following amounts:

- i) The amount initially recorded less, when appropriate, accumulated amortization recognized in the Consolidated Statements of Income;
- ii) The amount of the allowance for credit losses.

If a financial guarantee meets the definition of a derivative, it is measured at fair value through profit or loss at each reporting date and presented as a derivative financial instrument. Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument.

The carrying amount of guarantees does not reflect the maximum potential amount of future payments under guarantees. The Federation considers the difference between these two amounts as off-balance sheet credit instruments.

### **p) Reserves**

The Federation's stabilization reserve consists of amounts appropriated from the annual surplus earnings. Amounts appropriated to the Federation's stabilization reserve are essentially used to pay interest on F capital shares it issued.

The general reserve is essentially made up of amounts appropriated by the Federation. This reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on F capital shares.

Other reserves are mainly made up of amounts that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized.

### **q) Revenue recognition**

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

#### **Recognition criteria**

Revenue is recognized when the Federation has transferred control of a good or service (the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

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

### Net interest income

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

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

When calculating the effective interest rate, the Federation estimates cash flows considering all contractual terms of the financial instruments, but it does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders' fees, are assimilated to supplemental interest.

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

### Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as they are recognized, an actuarial provision is established and recognized under “Insurance contract liabilities”. Premiums are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the Consolidated Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. They are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the Consolidated Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under “Insurance contract liabilities” in the Consolidated Balance Sheets.

### Service charges, commissions, brokerage fees and other

The Federation earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its member caisses and clients.

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under “Brokerage and investment fund services” in the Consolidated Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by the Federation is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under “Lending fees and credit card service revenues” in the Consolidated Statements of Income.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party-such as the arrangement of share or other securities acquisitions or business purchases or sales-are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under “Brokerage and investment fund services” in the Consolidated Statements of Income. Income from lending fees and credit card service revenue is recorded under “Lending fees and credit card service revenues” in the Consolidated Statements of Income.

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under “Management and custodial service fees” in the Consolidated Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under “Management and custodial service fees” in the Consolidated Statements of Income.

Fees for service agreements related to technical, financial and administrative support are recognized once the service has been provided or the product has been delivered. This income is recognized under “Service agreements” in the Consolidated Statements of Income.

Dividend income is recognized when the Federation's right to receive payment of the dividend is established.

### r) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Consolidated Balance Sheets of the Federation. Income from these management services is recognized under “Management and custodial service fees” in the Consolidated Statements of Income when the service is provided.

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

### s) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized under "Foreign exchange income" in the Consolidated Statements of Income. However, the following items are presented in other comprehensive income in the Consolidated Statements of Comprehensive Income.

- Translation gains and losses on financial assets "Designated as at fair value through other comprehensive income".
- Gains and losses on derivatives designated as cash flow hedging instruments.

### t) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Consolidated 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 Consolidated Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish the assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If the Federation's interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

#### Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that the Federation expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting dates.

#### Deferred income taxes

Deferred taxes are recognized, using the balance sheet liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Consolidated Balance Sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

- i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).
- ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the difference reverses can be controlled and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these differences, tax loss carryforwards and tax credits can be utilized, except in the following cases:

- i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).
- ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the difference will reverse in the foreseeable future and that a taxable profit will be available against which such difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of a deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

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

### u) Dividends to member caisses

Dividends to member caisses recognized in the Consolidated Statements of Income reflect management's best estimate. They are based on a basis of the distribution of the surplus earnings of the Federation and on a resolution of the Board of Directors to recommend to the annual general meeting that payment of these dividends be approved. The dividends paid are determined and recognized when approved by the member caisses.

### v) Employee benefits

#### Short-term benefits

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

#### Post-employment benefits

##### Pension and post-retirement benefit plans

The Federation offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Consolidated Statements of Income and includes current service cost, past service cost and net interest on net defined benefit plan liabilities. Past service cost resulting from a plan amendment or curtailment is immediately recognized in the Consolidated Statements of Income.

Remeasurements of net defined benefit plan liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Consolidated Statements of Income and are immediately reclassified to undistributed surplus earnings. These remeasurements include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Consolidated Statements of Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets or liabilities are equal to the present value of the plans' obligation, calculated using the projected unit credit method, less the fair value of plan assets. The value of any defined benefit plan asset is, when appropriate, limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

The Federation participates in defined benefit group plans whose risks are shared by entities under common control. The Federation's share in the cost recognized and the liability for the defined benefit group pension plans of Desjardins Group is mainly determined based on funding rules, as described in the plan's by-laws. The main Desjardins Group pension plan is funded by both employee and employer contributions, which are based on the financial position and the funding policy of the plan. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan.

The Federation's share in the cost of the group other post-retirement benefit plan of Desjardins Group is determined based on the number of active insureds of the Federation as a percentage of the total number of active insureds for Desjardins Group as a whole. The method used to determine such share was revised during the year 2018 and is now based on eligible insureds.

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

### 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”, which will replace the current standard, IFRS 4, “Insurance Contracts”. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 provides a general model for measuring insurance contracts, but also includes a simplified method for contracts with a period of one year or less as well as a specific method for insurance contracts with direct participation features. The general model, which 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.

IFRS 17 will be applied retrospectively to each group of insurance contracts. If retrospective application is impracticable, the modified retrospective approach or the fair value approach could be applied to the financial statements for the annual periods beginning on or after January 1, 2021.

In June 2019, the IASB issued an exposure draft proposing amendments to IFRS 17, including a one-year deferral of the effective date to January 1, 2022. The exposure draft comment period ended in September 2019, and the final version of the amendments to the standard should be issued in mid-2020. The Federation is currently assessing the impact of adopting this standard and the amendments proposed in the exposure draft on its financial statements.

#### 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. The Federation will have to apply prospectively this new framework as of January 1, 2020. The new framework will not have any impact on the Federation’s profit or loss and financial position.

#### 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 provisions have been amended so that entities shall assume that the interest rate benchmark on which the hedged cash flows and the cash flows of the hedging instrument are based will not be altered as a result of the interest rate benchmark reform. Disclosure requirements have also been amended to add mandatory disclosures about the uncertainty resulting from the interest rate benchmark reform. The amendments to these standards, which will be effective for the annual periods beginning on or after January 1, 2020, will not have any material impact on the Federation’s profit or loss and financial position.

## NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

### CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income		Amortized cost <sup>(2)</sup>	Total
	Classified as at fair value through profit or loss <sup>(1)</sup>	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income <sup>(2)</sup>	Designated as at fair value through other comprehensive income		
As at December 31, 2019						
<b>Financial assets</b>						
Cash and deposits with financial institutions	\$ -	\$ 273	\$ 1,395	\$ -	\$ 1,416	\$ 3,084
Securities	16,712	18,455	12,591	59	1,616	49,433
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,352	11,352
Loans	-	-	-	-	65,113	65,113
Other financial assets						
Clients' liability under acceptances	-	-	-	-	380	380
Premiums receivable	-	-	-	-	2,689	2,689
Derivative financial instruments <sup>(3)</sup>	4,795	-	-	-	-	4,795
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	2,239	2,239
Other	-	-	-	-	936	936
<b>Total financial assets</b>	<b>\$ 21,507</b>	<b>\$ 18,728</b>	<b>\$ 13,986</b>	<b>\$ 59</b>	<b>\$ 85,741</b>	<b>\$ 140,021</b>
<b>Financial liabilities</b>						
Deposits <sup>(4)</sup>	\$ -	\$ 84	\$ -	\$ -	\$ 58,888	\$ 58,972
Other financial liabilities						
Acceptances	-	-	-	-	380	380
Commitments related to securities sold short	10,615	-	-	-	-	10,615
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	10,562	10,562
Derivative financial instruments <sup>(3)</sup>	4,827	-	-	-	-	4,827
Amounts payable to clients, brokers and financial institutions	-	-	-	-	5,552	5,552
Other	268	-	-	-	2,421	2,689
Subordinated notes	-	-	-	-	1,398	1,398
<b>Total financial liabilities</b>	<b>\$ 15,710</b>	<b>\$ 84</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 79,201</b>	<b>\$ 94,995</b>

<sup>(1)</sup> An amount of \$2,976 million corresponds to financial assets designated for the overlay approach.

<sup>(2)</sup> As at December 31, 2019, the allowance for credit losses on securities at "Amortized cost" totalled \$1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled \$3 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

<sup>(3)</sup> Include derivative financial instruments designated as hedging instruments amounting to \$241 million in assets and \$318 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 20, "Derivative financial instruments and hedging activities".

<sup>(4)</sup> The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.



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

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

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

<sup>(2)</sup> As at December 31, 2018, the allowance for credit losses on securities at "Amortized cost" totalled \$1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled \$2 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

<sup>(3)</sup> Include derivative financial instruments designated as hedging instruments amounting to \$783 million in assets and \$202 million in liabilities.

During the years ended December 31, 2019 and 2018, no financial instruments have been reclassified.



## NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

### FAIR VALUE HIERARCHY

Fair value measurement is determined using the following three-level fair value hierarchy:

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

### Transfers between levels

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

### HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at December 31, 2019	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Cash and deposits with financial institutions	\$ 9	\$ 264	\$ -	\$ 273
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,487	-	-	8,487
Provincial governmental entities and municipal corporations in Canada	15,680	785	-	16,465
School or public corporations in Canada	15	89	-	104
Foreign public administrations	133	-	-	133
Other securities				
Financial institutions	17	810	55	882
Other issuers	1	3,494	771	4,266
Equity securities	3,447	589	794	4,830
	27,789	6,031	1,620	35,440
Derivative financial instruments				
Interest rate contracts	-	1,515	-	1,515
Foreign exchange contracts	-	286	-	286
Other contracts	-	2,994	-	2,994
	-	4,795	-	4,795
<b>Total financial assets at fair value through profit or loss</b>	27,789	10,826	1,620	40,235
<b>Financial assets at fair value through other comprehensive income</b>				
Cash and deposits with financial institutions	9	1,386	-	1,395
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	2,020	1,907	-	3,927
Provincial governmental entities and municipal corporations in Canada	6,017	593	-	6,610
Foreign public administrations	11	-	-	11
Other securities				
Financial institutions	5	1,451	-	1,456
Other issuers	-	517	70	587
Equity securities	-	2	57	59
<b>Total financial assets at fair value through other comprehensive income</b>	8,062	5,856	127	14,045
Financial instruments of segregated funds	6,588	10,351	81	17,020
<b>Total financial assets</b>	\$ 42,439	\$ 27,033	\$ 1,828	\$ 71,300
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Deposits	\$ -	\$ 84	\$ -	\$ 84
Other liabilities				
Commitments related to securities sold short	10,193	422	-	10,615
Other	-	-	268	268
	10,193	506	268	10,967
Derivative financial instruments				
Interest rate contracts	-	1,396	-	1,396
Foreign exchange contracts	-	528	-	528
Other contracts	-	2,903	-	2,903
	-	4,827	-	4,827
<b>Total financial liabilities</b>	\$ 10,193	\$ 5,333	\$ 268	\$ 15,794

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

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

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

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

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

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

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

As at December 31, 2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Securities	\$ 1,616	\$ 1,617	\$ -	\$ 1,617	\$ -
Loans	65,113	65,156	-	34,738	30,418
<b>Financial liabilities</b>					
Deposits	58,888	58,724	1,351	57,352	21
Subordinated notes	1,398	1,433	-	1,433	-
As at December 31, 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Securities	\$ 1,621	\$ 1,621	\$ -	\$ 1,621	\$ -
Loans	61,837	61,610	-	32,957	28,653
<b>Financial liabilities</b>					
Deposits	58,057	57,842	1,222	56,620	-
Subordinated notes	1,378	1,433	-	1,433	-

### FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

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

The Federation has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

The most significant financial instruments categorized within Level 3 that are held by the Federation are mortgage bonds, equity securities and the financial liability related to a contingent consideration resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

For mortgage bonds, the Federation developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

The Federation measures the majority of equity securities and other debt securities based on net values published by the fund administrator. If needed, these values are adjusted based on more recent information, when such information is available and appropriate. These models are examined and approved by the Federation.

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

#### Sensitivity of financial instruments categorized within Level 3

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

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

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

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

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

	Balance at beginning of year	Realized gains / losses recognized in profit or loss <sup>(1)</sup>	Unrealized gains / losses recognized in profit or loss <sup>(2)</sup>	Unrealized gains / losses recognized in other comprehensive income <sup>(3)</sup>	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
<b>For the year ended December 31, 2019</b>								
<b>Financial assets</b>								
<b>Financial assets at fair value through profit or loss</b>								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	\$ 56	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ 55
Other issuers								
Hedge funds	1	-	1	-	-	-	-	2
Asset-backed term notes	5	-	-	-	-	-	(1)	4
Mortgage bonds	736	-	12	-	-	-	(38)	710
Other debt securities	-	-	(1)	-	-	56	-	55
Equity securities	698	(12)	(9)	-	-	193	(76)	794
Other assets	13	-	-	-	-	-	(13)	-
<b>Total financial assets at fair value through profit or loss</b>	<b>1,509</b>	<b>(12)</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>249</b>	<b>(129)</b>	<b>1,620</b>
<b>Financial assets at fair value through other comprehensive income</b>								
Securities								
Other securities								
Other issuers								
Mortgage bonds	89	-	-	-	-	-	(19)	70
Corporate bonds	8	-	-	-	-	-	(8)	-
Equity securities	-	-	-	-	57	-	-	57
<b>Total financial assets at fair value through other comprehensive income</b>	<b>97</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57</b>	<b>-</b>	<b>(27)</b>	<b>127</b>
Financial instruments of segregated funds	72	-	5	-	-	4	-	81
<b>Total financial assets</b>	<b>\$ 1,678</b>	<b>\$ (12)</b>	<b>\$ 8</b>	<b>\$ -</b>	<b>\$ 57</b>	<b>\$ 253</b>	<b>\$ (156)</b>	<b>\$ 1,828</b>
<b>Financial liabilities</b>								
<b>Financial liabilities at fair value through profit or loss</b>								
Other liabilities – Other								
Financial liability related to the contingent consideration	\$ 319	\$ -	\$ 193	\$ -	\$ -	\$ -	\$ (244)	\$ 268
<b>Total financial liabilities</b>	<b>\$ 319</b>	<b>\$ -</b>	<b>\$ 193</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (244)</b>	<b>\$ 268</b>

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

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

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

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

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

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

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

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

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

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

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

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

The following tables present the main techniques and inputs used to measure the fair value of the significant financial instruments categorized within Level 3.

As at December 31, 2019	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
<b>Financial assets</b>				
Securities				
Mortgage bonds	\$ 835	Discounted cash flows	Credit spread <sup>(B,C)</sup> Comparable inputs <sup>(B,C)</sup>	0 bp to 300 bp 37 bp to 243 bp
	789	Adjusted net asset value	Adjusted net asset value <sup>(A,C)</sup>	- - (1)
Equity securities and other debt securities	57	Discounted cash flows	Required rate of return <sup>(B,C)</sup>	- - (1)
	60	Recent transactions and bids	Paid/bid price	- - (1)
Other financial assets <sup>(2)</sup>	87			
<b>Total financial assets</b>	<b>\$ 1,828</b>			
<b>Financial liabilities</b>				
Other liabilities - Other				
Financial liability related to the contingent consideration	268	Actuarial techniques <sup>(3)</sup>	Provision for claims and adjustment expenses <sup>(B)</sup>	- - (1)
<b>Total financial liabilities</b>	<b>\$ 268</b>			

As at December 31, 2018	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
<b>Financial assets</b>				
Securities				
Mortgage bonds	\$ 881	Discounted cash flows	Credit spread <sup>(B,C)</sup> Comparable inputs <sup>(B,C)</sup>	0 bp to 300 bp 37 bp to 251 bp
	79	Adjusted net asset value	Adjusted net asset value <sup>(A,C)</sup>	- - (1)
Equity securities	619	Recent transactions and bids	Paid/bid price	- - (1)
Other financial assets <sup>(2)</sup>	99			
<b>Total financial assets</b>	<b>\$ 1,678</b>			
<b>Financial liabilities</b>				
Other liabilities - Other				
Financial liability related to the contingent consideration	319	Actuarial techniques <sup>(3)</sup>	Provision for claims and adjustment expenses <sup>(B)</sup>	- - (1)
<b>Total financial liabilities</b>	<b>\$ 319</b>			

<sup>(1)</sup> Due to the nature of these financial instruments, no input value range is presented.

<sup>(2)</sup> Include other financial assets such as financial instruments of segregated funds.

<sup>(3)</sup> The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the "Actuarial assumptions" section of Note 16, "Insurance contract liabilities".

### Fair value sensitivity to changes in unobservable inputs

<sup>(A)</sup> An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

<sup>(B)</sup> An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

<sup>(C)</sup> There is no predictable relationship between this input and other material unobservable inputs.

## NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Consolidated Balance Sheets when, and only when, the Federation has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Federation has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements that do not meet the criteria for offsetting in the Consolidated Balance Sheets as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Consolidated Balance Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Consolidated Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, the Federation pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Consolidated Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the normal course of business.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Consolidated Balance Sheets.

The following tables present information about financial assets and liabilities that are set off and not set off in the Consolidated Balance Sheets and are subject to a master netting agreement or a similar agreement.

				Associated amounts not set off in the Consolidated Balance Sheets <sup>(1)</sup>		
	Gross recognized amounts	Set off amounts	Net amounts presented in the Consolidated Balance Sheets <sup>(2)</sup>	Financial instruments <sup>(3)</sup>	Financial collateral held / pledged	Residual amounts not set off
As at December 31, 2019						
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	\$ 16,549	\$ 5,197	\$ 11,352	\$ 4,156	\$ 7,192	\$ 4
Derivative financial instruments	4,782	-	4,782	1,688	2,936	158
Amounts receivable from clients, brokers and financial institutions and other	37	25	12	4	-	8
Total financial assets	\$ 21,368	\$ 5,222	\$ 16,146	\$ 5,848	\$ 10,128	\$ 170
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	\$ 15,759	\$ 5,197	\$ 10,562	\$ 4,156	\$ 6,400	\$ 6
Derivative financial instruments	2,024	-	2,024	1,688	79	257
Amounts payable to clients, brokers and financial institutions and other	52	25	27	4	-	23
Total financial liabilities	\$ 17,835	\$ 5,222	\$ 12,613	\$ 5,848	\$ 6,479	\$ 286

<sup>(1)</sup> Any over-collateralization is excluded from the table.

<sup>(2)</sup> The difference between the net amounts presented in this table and balances appearing in the Consolidated Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

<sup>(3)</sup> Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

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

The following tables present information about financial assets and liabilities that are set off and not set off in the Consolidated Balance Sheets and are subject to a master netting agreement or a similar agreement (*continued*).

As at December 31, 2018	Gross recognized amounts	Set off amounts	Net amounts presented in the Consolidated Balance Sheets <sup>(2)</sup>	Associated amounts not set off in the Consolidated Balance Sheets <sup>(1)</sup>		Residual amounts not set off
				Financial instruments <sup>(3)</sup>	Financial collateral held / pledged	
<b>Financial assets</b>						
Securities borrowed or purchased under reverse repurchase agreements	\$ 14,780	\$ 694	\$ 14,086	\$ 5,485	\$ 8,600	\$ 1
Derivative financial instruments	4,304	-	4,304	1,903	2,203	198
Amounts receivable from clients, brokers and financial institutions and other	48	27	21	2	-	19
<b>Total financial assets</b>	<b>\$ 19,132</b>	<b>\$ 721</b>	<b>\$ 18,411</b>	<b>\$ 7,390</b>	<b>\$ 10,803</b>	<b>\$ 218</b>
<b>Financial liabilities</b>						
Commitments related to securities lent or sold under repurchase agreements	\$ 16,927	\$ 694	\$ 16,233	\$ 5,485	\$ 10,745	\$ 3
Derivative financial instruments	2,028	-	2,028	1,903	69	56
Amounts payable to clients, brokers and financial institutions and other	56	27	29	2	-	27
<b>Total financial liabilities</b>	<b>\$ 19,011</b>	<b>\$ 721</b>	<b>\$ 18,290</b>	<b>\$ 7,390</b>	<b>\$ 10,814</b>	<b>\$ 86</b>

<sup>(1)</sup> Any over-collateralization is excluded from the table.

<sup>(2)</sup> The difference between the net amounts presented in this table and balances appearing in the Consolidated Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

<sup>(3)</sup> Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.



## NOTE 6 – SECURITIES

### MATURITIES OF SECURITIES

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

	Terms to maturity						Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	
<b>As at December 31, 2019</b>							
<b>Financial assets</b>							
<b>Financial assets at fair value through profit or loss</b>							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	\$ 1,382	\$ 1,938	\$ 1,996	\$ 1,245	\$ 1,928	\$ -	\$ 8,489
Provincial governmental entities and municipal corporations in Canada	892	1,553	1,418	2,465	10,137	-	16,465
School or public corporations in Canada	-	-	-	14	89	-	103
Foreign public administrations	86	11	10	1	24	-	132
Other securities							
Financial institutions	275	175	163	161	109	-	883
Other issuers	202	305	476	660	2,620	2	4,265
Equity securities	-	-	-	6	4	4,820	4,830
<b>Total financial assets at fair value through profit or loss</b>	<b>2,837</b>	<b>3,982</b>	<b>4,063</b>	<b>4,552</b>	<b>14,911</b>	<b>4,822</b>	<b>35,167</b>
<b>Financial assets at fair value through other comprehensive income</b>							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	339	1,845	1,613	130	-	-	3,927
Provincial governmental entities and municipal corporations in Canada	394	2,183	1,658	1,454	922	-	6,611
Foreign public administrations	11	-	-	-	-	-	11
Other securities							
Financial institutions	714	366	275	101	-	-	1,456
Other issuers	44	66	187	266	23	-	586
Equity securities	-	-	-	-	-	59	59
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,502</b>	<b>4,460</b>	<b>3,733</b>	<b>1,951</b>	<b>945</b>	<b>59</b>	<b>12,650</b>
<b>Financial assets at amortized cost</b>							
Securities							
Debt securities issued or guaranteed by							
Provincial governmental entities and municipal corporations in Canada	199	2	2	6	-	-	209
School or public corporations in Canada	30	-	-	-	-	-	30
Foreign public administrations	-	-	1	6	21	-	28
Other securities							
Financial institutions	1,329	-	-	-	-	(1)	1,328
Other issuers	20	-	-	1	-	-	21
<b>Total financial assets at amortized cost</b>	<b>1,578</b>	<b>2</b>	<b>3</b>	<b>13</b>	<b>21</b>	<b>(1)</b>	<b>1,616</b>
<b>Total securities</b>	<b>\$ 5,917</b>	<b>\$ 8,444</b>	<b>\$ 7,799</b>	<b>\$ 6,516</b>	<b>\$ 15,877</b>	<b>\$ 4,880</b>	<b>\$ 49,433</b>

## NOTE 6 – SECURITIES (continued)

### MATURITIES OF SECURITIES (continued)

As at December 31, 2018	Terms to maturity						Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	
<b>Financial assets</b>							
<b>Financial assets at fair value through profit or loss</b>							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	\$ 2,246	\$ 2,252	\$ 4,590	\$ 1,419	\$ 1,119	\$ -	\$ 11,626
Provincial governmental entities and municipal corporations in Canada	1,970	2,137	1,342	2,500	8,222	-	16,171
School or public corporations in Canada	-	-	1	16	82	-	99
Foreign public administrations	55	-	-	82	54	-	191
Other securities							
Financial institutions	281	294	65	146	102	-	888
Other issuers	189	286	451	411	2,171	-	3,508
Equity securities	-	-	-	2	6	4,423	4,431
<b>Total financial assets at fair value through profit or loss</b>	4,741	4,969	6,449	4,576	11,756	4,423	36,914
<b>Financial assets at fair value through other comprehensive income</b>							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	575	740	1,195	25	10	-	2,545
Provincial governmental entities and municipal corporations in Canada	755	1,427	695	1,370	796	-	5,043
Other securities							
Financial institutions	2,174	342	188	103	3	-	2,810
Other issuers	160	74	206	230	20	-	690
Equity securities	-	-	-	-	-	43	43
<b>Total financial assets at fair value through other comprehensive income</b>	3,664	2,583	2,284	1,728	829	43	11,131
<b>Financial assets at amortized cost</b>							
Securities							
Debt securities issued or guaranteed by							
Provincial governmental entities and municipal corporations in Canada	174	2	3	6	-	-	185
Foreign public administrations	-	-	1	8	18	-	27
Other securities							
Financial institutions	1,281	-	-	-	-	(1)	1,280
Other issuers	129	-	-	-	-	-	129
<b>Total financial assets at amortized cost</b>	1,584	2	4	14	18	(1)	1,621
<b>Total securities</b>	\$ 9,989	\$ 7,554	\$ 8,737	\$ 6,318	\$ 12,603	\$ 4,465	\$ 49,666

## NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

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

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

#### Residential mortgages, consumer, credit card and other personal loans

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

#### Business and government

Risk levels	PD tranches
Acceptable risk:	
Investment grade	0.00% to 0.36%
Other than investment grade	0.37% to 4.50%
Under watch	4.51% to 99.99%
Default	100.00%

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

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

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

#### Loans

As at December 31, 2019	Non-credit impaired		Credit-impaired <sup>(1)</sup>	Total
	Stage 1	Stage 2	Stage 3	
<b>Residential mortgages</b>				
Excellent	\$ 515	\$ -	\$ -	\$ 515
Very low	1,970	-	-	1,970
Low	1,527	8	-	1,535
Moderate	46	83	-	129
High	1	21	-	22
Default	-	4	8	12
<b>Total gross residential mortgages</b>	<b>\$ 4,059</b>	<b>\$ 116</b>	<b>\$ 8</b>	<b>\$ 4,183</b>
Allowance for credit losses	(5)	(1)	(4)	(10)
<b>Total net residential mortgages</b>	<b>\$ 4,054</b>	<b>\$ 115</b>	<b>\$ 4</b>	<b>\$ 4,173</b>
<b>Consumer, credit card and other personal loans</b>				
Excellent	\$ 1,558	\$ -	\$ -	\$ 1,558
Very low	3,610	-	-	3,610
Low	8,459	139	-	8,598
Moderate	3,515	1,313	-	4,828
High	23	1,701	-	1,724
Default	-	-	249	249
<b>Total gross consumer, credit card and other personal loans</b>	<b>\$ 17,165</b>	<b>\$ 3,153</b>	<b>\$ 249</b>	<b>\$ 20,567</b>
Allowance for credit losses	(103)	(186)	(130)	(419)
<b>Total net consumer, credit card and other personal loans</b>	<b>\$ 17,062</b>	<b>\$ 2,967</b>	<b>\$ 119</b>	<b>\$ 20,148</b>
<b>Business and government loans<sup>(2)</sup></b>				
Acceptable risk				
Investment grade	\$ 32,946	\$ -	\$ -	\$ 32,946
Other than investment grade	7,662	220	-	7,882
Under watch	101	164	-	265
Default	-	-	114	114
<b>Total gross business and government loans</b>	<b>\$ 40,709</b>	<b>\$ 384</b>	<b>\$ 114</b>	<b>\$ 41,207</b>
Allowance for credit losses	(12)	(3)	(20)	(35)
<b>Total net business and government loans</b>	<b>\$ 40,697</b>	<b>\$ 381</b>	<b>\$ 94</b>	<b>\$ 41,172</b>

<sup>(1)</sup> As at December 31, 2019, 34.9% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

<sup>(2)</sup> Including clients' liability under acceptances.

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

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

#### Loans (continued)

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

<sup>(1)</sup> As at December 31, 2018, 43.6% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

<sup>(2)</sup> Including clients' liability under acceptances.

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

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

#### Off-balance sheet items<sup>(1)</sup>

As at December 31, 2019	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Residential mortgages, consumer, credit card and other personal loans</b>				
Excellent	\$ 13,159	\$ 3	\$ -	\$ 13,162
Very low	19,690	2	-	19,692
Low	7,525	16	-	7,541
Moderate	3,786	1,188	-	4,974
High	14	722	-	736
Default	-	-	32	32
<b>Total gross off-balance sheet items</b>	<b>\$ 44,174</b>	<b>\$ 1,931</b>	<b>\$ 32</b>	<b>\$ 46,137</b>
Allowance for credit losses	(24)	(2)	-	(26)
<b>Total net off-balance sheet items</b>	<b>\$ 44,150</b>	<b>\$ 1,929</b>	<b>\$ 32</b>	<b>\$ 46,111</b>
<b>Business and government</b>				
Acceptable risk				
Investment grade	\$ 12,850	\$ -	\$ -	\$ 12,850
Other than investment grade	9,057	78	-	9,135
Under watch	36	53	-	89
Default	-	-	2	2
<b>Total gross off-balance sheet items</b>	<b>\$ 21,943</b>	<b>\$ 131</b>	<b>\$ 2</b>	<b>\$ 22,076</b>
Allowance for credit losses	(6)	-	-	(6)
<b>Total net off-balance sheet items</b>	<b>\$ 21,937</b>	<b>\$ 131</b>	<b>\$ 2</b>	<b>\$ 22,070</b>

<sup>(1)</sup> Loan commitments for which the Federation estimates a loss allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates a loss allowance for expected credit losses comprise guarantees and standby letters of credit.

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

<sup>(1)</sup> Loan commitments for which the Federation estimates a loss allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates a loss allowance for expected credit losses comprise guarantees and standby letters of credit.

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

### ALLOWANCE FOR CREDIT LOSSES

The following tables present the changes in the balance of the loss allowance for expected credit losses on loans and off-balance sheet items.

	Non-credit impaired		Credit-impaired	
	Stage 1	Stage 2	Stage 3	Allowance for credit losses
<b>For the year ended December 31, 2019</b>				
<b>Residential mortgages</b>				
<b>Balance at beginning of year</b>	\$ 4	\$ 1	\$ 5	\$ 10
Provision for credit losses				
Transfers to <sup>(1)</sup> :				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers <sup>(2)</sup>	-	-	-	-
Changes in model inputs <sup>(3)</sup>	-	-	-	-
New originations or acquisitions <sup>(4)</sup>	-	-	-	-
Derecognition and maturities <sup>(5)</sup>	-	-	-	-
Net drawdowns (repayments) <sup>(6)</sup>	-	-	-	-
Other	1	-	-	1
	1	-	-	1
Write-offs and recoveries	-	-	(1)	(1)
<b>Balance at end of year</b>	\$ 5	\$ 1	\$ 4	\$ 10
<b>Consumer, credit card and other personal loans<sup>(7)</sup></b>				
<b>Balance at beginning of year</b>	\$ 129	\$ 259	\$ 110	\$ 498
Provision for credit losses				
Transfers to <sup>(1)</sup> :				
Stage 1	241	(223)	(18)	-
Stage 2	(54)	99	(45)	-
Stage 3	(1)	(36)	37	-
Net remeasurement due to transfers <sup>(2)</sup>	(54)	35	214	195
Changes in model inputs <sup>(3)</sup>	(165)	70	218	123
New originations or acquisitions <sup>(4)</sup>	73	72	-	145
Derecognition and maturities <sup>(5)</sup>	(32)	(66)	(49)	(147)
Net drawdowns (repayments) <sup>(6)</sup>	(4)	(22)	2	(24)
	4	(71)	359	292
Write-offs and recoveries	-	-	(339)	(339)
<b>Balance at end of year</b>	\$ 133	\$ 188	\$ 130	\$ 451
<b>Business and government</b>				
<b>Balance at beginning of year</b>	\$ 9	\$ 5	\$ 6	\$ 20
Provision for credit losses				
Transfers to <sup>(1)</sup> :				
Stage 1	4	(4)	-	-
Stage 2	(1)	1	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers <sup>(2)</sup>	(2)	1	9	8
Changes in model inputs <sup>(3)</sup>	(2)	1	(4)	(5)
New originations or acquisitions <sup>(4)</sup>	6	-	-	6
Derecognition and maturities <sup>(5)</sup>	(4)	(1)	(1)	(6)
Net drawdowns (repayments) <sup>(6)</sup>	2	-	7	9
Other	-	-	3	3
	3	(2)	14	15
Write-offs and recoveries	-	-	-	-
<b>Balance at end of year</b>	\$ 12	\$ 3	\$ 20	\$ 35
<b>Total balances as at December 31, 2019</b>	\$ 150	\$ 192	\$ 154	\$ 496
<b>Composed of:</b>				
Loans	\$ 120	\$ 190	\$ 154	\$ 464
Off-balance sheet items <sup>(8)</sup>	30	2	-	32

<sup>(1)</sup> Represent transfers between stages before the remeasurement of expected credit losses.

<sup>(2)</sup> Represent the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.

<sup>(3)</sup> Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.

<sup>(4)</sup> Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

<sup>(5)</sup> Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

<sup>(6)</sup> Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.

<sup>(7)</sup> For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet item categories are not material.

<sup>(8)</sup> The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Consolidated Balance Sheets.

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

### ALLOWANCE FOR CREDIT LOSSES (continued)

	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
For the year ended December 31, 2018				
<b>Residential mortgages</b>				
<b>Balance as at January 1, 2018</b>	\$ 4	\$ 1	\$ 4	\$ 9
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers <sup>(2)</sup>	-	-	-	-
Changes in model inputs <sup>(3)</sup>	-	-	-	-
New originations or acquisitions <sup>(4)</sup>	-	-	-	-
Derecognition and maturities <sup>(5)</sup>	-	-	-	-
Net drawdowns (repayments) <sup>(6)</sup>	-	-	-	-
Write-offs and recoveries	-	-	1	1
<b>Balance at end of year</b>	\$ 4	\$ 1	\$ 5	\$ 10
<b>Consumer, credit card and other personal loans<sup>(7)</sup></b>				
<b>Balance as at January 1, 2018</b>	\$ 96	\$ 304	\$ 94	\$ 494
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	284	(271)	(13)	-
Stage 2	(43)	75	(32)	-
Stage 3	(1)	(31)	32	-
Net remeasurement due to transfers <sup>(2)</sup>	(139)	68	115	44
Changes in model inputs <sup>(3)</sup>	(96)	149	225	278
New originations or acquisitions <sup>(4)</sup>	86	185	-	271
Derecognition and maturities <sup>(5)</sup>	(40)	(207)	(113)	(360)
Net drawdowns (repayments) <sup>(6)</sup>	(19)	(13)	88	56
Other	1	-	-	1
Write-offs and recoveries	33	(45)	302	290
<b>Balance at end of year</b>	\$ 129	\$ 259	\$ 110	\$ 498
<b>Business and government</b>				
<b>Balance as at January 1, 2018</b>	\$ 7	\$ 9	\$ 8	\$ 24
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	7	(7)	-	-
Stage 2	(1)	2	(1)	-
Stage 3	-	-	-	-
Net remeasurement due to transfers <sup>(2)</sup>	(4)	1	2	(1)
Changes in model inputs <sup>(3)</sup>	(3)	4	1	2
New originations or acquisitions <sup>(4)</sup>	4	-	-	4
Derecognition and maturities <sup>(5)</sup>	(2)	(1)	(3)	(6)
Net drawdowns (repayments) <sup>(6)</sup>	1	-	(1)	-
Other	-	(3)	1	(2)
Write-offs and recoveries	2	(4)	(1)	(3)
<b>Balance at end of year</b>	\$ 9	\$ 5	\$ 6	\$ 20
<b>Total balances as at December 31, 2018</b>	\$ 142	\$ 265	\$ 121	\$ 528
<b>Composed of:</b>				
Loans	\$ 115	\$ 255	\$ 121	\$ 491
Off-balance sheet items <sup>(8)</sup>	27	10	-	37

<sup>(1)</sup> Represent transfers between stages before the remeasurement of expected credit losses.

<sup>(2)</sup> Represent the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.

<sup>(3)</sup> Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.

<sup>(4)</sup> Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

<sup>(5)</sup> Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

<sup>(6)</sup> Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.

<sup>(7)</sup> For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet item categories are not material.

<sup>(8)</sup> The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Consolidated Balance Sheets.



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

### KEY DATA AND ASSUMPTIONS

Determining the loss allowance for expected credit losses 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 such loss allowance. The main items requiring significant judgment that affected its measurement are the following:

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

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

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

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

### Incorporation of forward-looking information

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

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

The macroeconomic scenarios selected for calculating the loss allowance for expected credit losses include the following value ranges over the projection horizon for the most significant variables for credit risk parameters:

	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
<b>As at December 31, 2019</b>						
<b>Macroeconomic variables<sup>(1)</sup></b>						
Gross domestic product (annualized change)	1.3%	1.5%	2.3%	1.9%	(1.0)%	1.3%
Unemployment rate (average)	4.5%	4.5%	4.1%	3.5%	6.1%	7.1%
Consumer Price Index (annualized change)	1.9%	1.7%	3.8%	2.6%	(1.9)%	1.5%
Housing prices (annualized change)	1.5%	0.7%	6.3%	1.9%	(5.8)%	(0.4)%
Corporate credit spread <sup>(2)</sup> (average)	124 bp	125 bp	94 bp	87 bp	173 bp	157 bp
S&P/TSX stock index <sup>(2)</sup> (annualized change)	4.7%	2.9%	9.9%	7.6%	(25.8)%	8.6%

<sup>(1)</sup> All macroeconomic variables relate to the Québec economy, unless otherwise noted.

<sup>(2)</sup> Macroeconomic variables related to the Canadian economy.

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

### Incorporation of forward-looking information (*continued*)

	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
As at December 31, 2018						
<b>Macroeconomic variables<sup>(1)</sup></b>						
Gross domestic product (annualized change)	2.1%	1.0%	2.9%	1.7%	0.1%	0.9%
Unemployment rate (average)	5.1%	4.8%	4.9%	3.9%	6.3%	7.1%
Consumer Price Index (annualized change)	2.2%	1.0%	2.9%	2.6%	1.2%	0.7%
Housing prices (annualized change)	0.8%	1.2%	4.0%	2.9%	(2.7)%	0.1%
Corporate credit spread <sup>(2)</sup> (average)	109 bp	128 bp	98 bp	81 bp	141 bp	166 bp
S&P/TSX stock index <sup>(2)</sup> (annualized change)	9.1%	2.1%	10.9%	8.7%	(11.5)%	4.8%

<sup>(1)</sup> All macroeconomic variables relate to the Québec economy, unless otherwise noted.

<sup>(2)</sup> Macroeconomic variables related to the Canadian economy.

### Estimated life of revolving credit facilities

To determine the life of revolving credit facilities, the Federation 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. In making this estimate, the Federation, considers the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the risk on the financial instruments has increased.

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

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

#### Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2019	As at December 31, 2018
Under IFRS 9	\$ 342	\$ 407
<b>Weighting of 100% assigned to the scenario</b>		
Base	\$ 344	\$ 394
Upside	327	374
Downside	346	448

#### Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2019	As at December 31, 2018
Under IFRS 9	\$ 342	\$ 407
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	\$ 332	\$ 318

## NOTE 8 – DERECOGNITION OF FINANCIAL ASSETS

### FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

#### Loan securitization

As part of Desjardins Group's liquidity and capital management strategy, the Federation participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program. Under this program, the Federation acquires interests in securitized mortgage loans from Desjardins Group member caisses. The residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) are bundled by the Federation into mortgage-backed securities (NHA MBSs) and they are then either transferred to the Canada Housing Trust (CHT) or legally held by the Federation. The acquired interests in securitized mortgage loans do not meet the recognition criteria as member caisses retain substantially all the risks, including prepayment, interest rate and credit risks, and the rewards related to these securities, namely the cash flows associated with the assets. Furthermore, the Federation treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Consolidated Balance Sheets. The CHT funds these purchases by issuing Canada Mortgage Bonds (CMBs) to investors. The legal guarantee of third parties holding CMBs is limited to the transferred assets.

The terms and conditions of the program giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and the Federation to allow the monthly receipt of all cash flows related to the mortgage loans underlying the NHA MBSs. The Federation pays the CHT an amount corresponding to the interest payable to the holders of CMBs, the difference between these amounts being considered as excess interest margin. As part of these swaps, the Federation must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

Under this same program, the Federation bundles some of its residential mortgage loans guaranteed by CMHC into NHA MBSs and transfers them to a related party. As part of these transactions, the Federation retains substantially all the risks, including prepayment, interest rate and credit risks, and the rewards related to these securities, namely the cash flows associated with the assets. As a result, these loans continue to be recognized in the Consolidated Balance Sheets. Furthermore, the Federation treats the transfers as collateralized financing transactions and recognizes a liability in that respect. This liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

No material loss is expected on the mortgage loans as they are guaranteed by CMHC. Income related to securitization transactions is recognized under "Interest income – Securities" and "Interest income – Loans".

#### Securities lent or sold under repurchase agreements

As part of transactions involving securities lent or sold under repurchase agreements, the Federation transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Consolidated Balance Sheets as the Federation retains substantially all the risks and rewards related to these assets.

The following table presents the carrying amount and the fair value of financial assets transferred by the Federation but not derecognized as well as the related liabilities recognized in the Consolidated Balance Sheets.

	As at December 31, 2019		As at December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets transferred but not derecognized</b>				
Financial assets transferred through securitization transactions	\$ 33	\$ 33	\$ 42	\$ 42
Securities sold under repurchase agreements	2,715	2,715	9,656	9,656
Securities lent	6	6	4	4
	<b>\$ 2,754</b>	<b>\$ 2,754</b>	<b>\$ 9,702</b>	<b>\$ 9,702</b>
<b>Related liabilities</b>	<b>\$ 2,730</b>	<b>\$ 2,730</b>	<b>\$ 9,706</b>	<b>\$ 9,706</b>

## NOTE 9 – SEGREGATED FUNDS

### Segregated fund net assets

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

	As at December 31, 2019	As at December 31, 2018
Investments		
Bonds	\$ 650	\$ 584
Shares and mutual fund units	16,330	12,616
Money market securities	40	38
Securities borrowed or purchased under reverse repurchase agreements	46	31
Other assets	93	65
Commitments related to securities lent or sold under repurchase agreements	(22)	(9)
Liabilities	(76)	(60)
<b>Net assets held for segregated fund contract holders</b>	<b>\$ 17,061</b>	<b>\$ 13,265</b>
Assets held for the insurer	(35)	(31)
<b>Total segregated fund net assets<sup>(1)</sup></b>	<b>\$ 17,026</b>	<b>\$ 13,234</b>

<sup>(1)</sup> The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Federation's scope of consolidation. These eliminations amounted to \$24 million as at December 31, 2019 (\$22 million as at December 31, 2018).

### Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. The Federation classifies these instruments using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 4, "Fair value of financial instruments".

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Securities borrowed or purchased under reverse repurchase agreements", "Other assets", "Commitments related to securities lent or sold under repurchase agreements" and "Liabilities".

The following tables present the financial instruments included in segregated fund net assets and recognized at fair value.

As at December 31, 2019	Level 1	Level 2	Level 3	Total
Investments				
Bonds	\$ 335	\$ 315	\$ -	\$ 650
Shares and mutual fund units	6,219	10,030	81	16,330
Money market securities	34	6	-	40
<b>Total financial instruments recognized at fair value</b>	<b>\$ 6,588</b>	<b>\$ 10,351</b>	<b>\$ 81</b>	<b>\$ 17,020</b>

As at December 31, 2018	Level 1	Level 2	Level 3	Total
Investments				
Bonds	\$ 304	\$ 280	\$ -	\$ 584
Shares and mutual fund units	5,221	7,323	72	12,616
Money market securities	31	7	-	38
<b>Total financial instruments recognized at fair value</b>	<b>\$ 5,556</b>	<b>\$ 7,610</b>	<b>\$ 72</b>	<b>\$ 13,238</b>

During the years ended December 31, 2019 and 2018, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value.

## NOTE 9 – SEGREGATED FUNDS *(continued)*

### Derecognition of financial assets

As part of transactions involving securities lent or sold under repurchase agreements, the segregated funds transfer financial assets under terms and conditions providing for their future repurchase. These assets remain recognized in the Consolidated Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2019, the carrying amount and the fair value of such transferred financial assets and related liabilities recognized in the Consolidated Balance Sheets were \$40 million and \$40 million, respectively (\$9 million and \$9 million as at December 31, 2018).

### Financial assets pledged and held as collateral

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities in the normal course of the segregated funds' operations amounted to \$40 million as at December 31, 2019 (\$9 million as at December 31, 2018). The fair value of the financial assets held as collateral that the segregated funds are permitted to sell or repledge in the absence of default totalled \$3 million (\$1 million as at December 31, 2018). No financial assets held as collateral had been sold or repledged in 2019 and 2018. These financial assets were received as collateral in transactions involving securities borrowed or purchased under reverse repurchase agreements.

### Financial instrument risks

The Federation is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

### Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	As at December 31, 2019	As at December 31, 2018
<b>Balance at beginning of year – Net liabilities to segregated fund contract holders</b>	<b>\$ 13,243</b>	<b>\$ 13,386</b>
<b>Additions</b>		
Amounts received from contract holders	3,557	2,025
Net investment income	2,190	(276)
	<b>5,747</b>	<b>1,749</b>
<b>Deductions</b>		
Withdrawals and redemptions	1,805	1,747
Management fees	148	145
	<b>1,953</b>	<b>1,892</b>
<b>Balance at end of year – Net liabilities to segregated fund contract holders</b>	<b>\$ 17,037</b>	<b>\$ 13,243</b>
Liabilities to the insurer	(35)	(31)
<b>Total segregated fund net liabilities<sup>(1)</sup></b>	<b>\$ 17,002</b>	<b>\$ 13,212</b>

<sup>(1)</sup> The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Federation's scope of consolidation. These eliminations amounted to \$24 million as at December 31, 2019 (\$22 million as at December 31, 2018).

## NOTE 10 – LEASES

### LEASES – AS LESSEE

The following table presents the carrying amount of right-of-use assets by class of underlying asset.

	As at December 31, 2019
Buildings	\$ 290
Other <sup>(1)</sup>	8
	<b>\$ 298</b>

<sup>(1)</sup> The "Other" category mainly comprises vehicles.

During fiscal 2019, the Federation entered into leases that increased right-of-use assets by \$25 million.

The following table presents the depreciation of right-of-use assets by class of underlying asset.

	2019
Buildings	\$ 29
Other <sup>(1)</sup>	1
	<b>\$ 30</b>

<sup>(1)</sup> The "Other" category mainly comprises vehicles.

The following table presents amounts recognized in the Consolidated Statement of Income for the year ended December 31, 2019.

	2019
Interest expense on lease liabilities	\$ 13
Short-term leases	12

### LEASES – AS LESSOR

#### Operating leases

Lease income is presented in Note 11, "Property, plant and equipment and investment property", and includes fixed lease payments.

For the year ended December 31, 2019, lease payments to be received under non-cancellable operating leases for premises and equipment are as follows:

	2019
Under 1 year	\$ 74
1 to 2 years	64
Over 2 to 3 years	64
Over 3 to 4 years	57
Over 4 to 5 years	51
Over 5 years	318
<b>Total future lease payments</b>	<b>\$ 628</b>

## NOTE 10 – LEASES *(continued)*

The comparative information presented in the following tables has been prepared in accordance with IAS 17.

### LEASES – AS LESSEE

#### Operating leases

For the year ended December 31, 2018, the minimum future commitments under leases for premises and equipment are as follows:

	2018
Under 1 year	\$ 42
1 to 5 years	132
Over 5 years	168
<b>Total minimum future commitments</b>	<b>\$ 342</b>

Lease payments recognized as expenses for the year ended December 31, 2018 totalled \$46 million.

### LEASES – AS LESSOR

#### Operating leases

For the year ended December 31, 2018, future minimum lease payments to be received under non-cancellable operating leases for premises and equipment are as follows:

	2018
Under 1 year	\$ 82
1 to 5 years	240
Over 5 years	390
<b>Total future minimum payments</b>	<b>\$ 712</b>

No contingent rents were recognized as income for the year ended December 31, 2018.

## NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The following tables present the changes in property, plant and equipment and investment property.

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
<b>Cost</b>									
As at December 31, 2017	\$ 32	\$ 600	\$ 312	\$ 158	\$ 279	\$ 1,381	\$ 181	\$ 882	\$ 1,063
Additions	-	18	51	28	42	139	45	128	173
Disposals	-	-	(22)	(36)	(21)	(79)	(11)	(2)	(13)
Other	-	(4)	-	2	(1)	(3)	-	(2)	(2)
As at December 31, 2018	\$ 32	\$ 614	\$ 341	\$ 152	\$ 299	\$ 1,438	\$ 215	\$ 1,006	\$ 1,221
Additions	-	17	62	10	53	142	9	44	53
Disposals	-	(1)	(96)	(10)	(15)	(122)	(7)	(12)	(19)
Other	-	-	1	(11)	(1)	(11)	-	1	1
<b>As at December 31, 2019</b>	<b>\$ 32</b>	<b>\$ 630</b>	<b>\$ 308</b>	<b>\$ 141</b>	<b>\$ 336</b>	<b>\$ 1,447</b>	<b>\$ 217</b>	<b>\$ 1,039</b>	<b>\$ 1,256</b>

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
<b>Accumulated depreciation</b>									
As at December 31, 2017	\$ -	\$ 178	\$ 221	\$ 81	\$ 121	\$ 601	\$ -	\$ 246	\$ 246
Depreciation	-	19	44	14	18	95	-	34	34
Disposals	-	-	(21)	(31)	(20)	(72)	-	-	-
Other	-	-	-	2	1	3	-	(2)	(2)
As at December 31, 2018	\$ -	\$ 197	\$ 244	\$ 66	\$ 120	\$ 627	\$ -	\$ 278	\$ 278
Depreciation	-	20	49	12	21	102	-	36	36
Disposals	-	(1)	(95)	(10)	(15)	(121)	-	(1)	(1)
Other	-	-	1	(3)	1	(1)	-	(1)	(1)
<b>As at December 31, 2019</b>	<b>\$ -</b>	<b>\$ 216</b>	<b>\$ 199</b>	<b>\$ 65</b>	<b>\$ 127</b>	<b>\$ 607</b>	<b>\$ -</b>	<b>\$ 312</b>	<b>\$ 312</b>

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
<b>Net carrying amount</b>									
<b>As at December 31, 2019</b>	<b>\$ 32</b>	<b>\$ 414</b>	<b>\$ 109</b>	<b>\$ 76</b>	<b>\$ 209</b>	<b>\$ 840</b>	<b>\$ 217</b>	<b>\$ 727</b>	<b>\$ 944</b>
As at December 31, 2018	\$ 32	\$ 417	\$ 97	\$ 86	\$ 179	\$ 811	\$ 215	\$ 728	\$ 943

For the years ended December 31, 2019 and 2018, the Federation had no amounts representing costs related to buildings under construction. In addition, as at December 31, 2019 and 2018, the Federation had no commitments related to the acquisition of these buildings.

As at December 31, 2019, the fair value of investment property was \$1,876 million (\$1,754 million as at December 31, 2018). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 4, "Fair value of financial instruments", as it is measured using techniques that are not primarily based on observable market inputs. The fair value of investment property is determined annually by management, mainly by using the work of independent real estate appraisers with recognized and relevant professional qualifications and any other significant information that may be deemed relevant. These appraisers use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on observable and unobservable inputs, involve estimating capitalization rates and adjusted net operating income, in the case of the normalized net income direct discounting method, and estimating discount and capitalization rates and applicable future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2019, lease income from investment property amounted to \$161 million (\$155 million in 2018). Amounts recognized in profit or loss for operating expenses related to investment property that generated lease income during the year totalled \$109 million (\$113 million in 2018), while no amount has been recognized for those that did not generate lease income. These amounts are presented under "Net investment income" in the Consolidated Statements of Income.



## NOTE 12 – INTANGIBLE ASSETS

### INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software	Client relationships	Other <sup>(1)</sup>	Total
<b>Cost</b>				
As at December 31, 2017	\$ 828	\$ 19	\$ 124	\$ 971
Acquisitions / Additions	96	-	1	97
Disposals / Retirements	(108)	-	(1)	(109)
Other	(6)	-	-	(6)
As at December 31, 2018	\$ 810	\$ 19	\$ 124	\$ 953
Acquisitions / Additions	85	-	-	85
Disposals / Retirements	(88)	(3)	(3)	(94)
Other	(6)	-	-	(6)
<b>As at December 31, 2019</b>	<b>\$ 801</b>	<b>\$ 16</b>	<b>\$ 121</b>	<b>\$ 938</b>

	Software	Client relationships	Other <sup>(1)</sup>	Total
<b>Accumulated amortization</b>				
As at December 31, 2017	\$ 458	\$ 7	\$ 40	\$ 505
Amortization	82	2	5	89
Disposals / Retirements	(35)	-	(1)	(36)
Other	6	-	-	6
As at December 31, 2018	\$ 511	\$ 9	\$ 44	\$ 564
Amortization	77	1	5	83
Disposals / Retirements	(88)	(1)	(3)	(92)
Other	2	-	-	2
<b>As at December 31, 2019</b>	<b>\$ 502</b>	<b>\$ 9</b>	<b>\$ 46</b>	<b>\$ 557</b>

	Software	Client relationships	Other <sup>(1)</sup>	Total
<b>Net carrying amount</b>				
<b>As at December 31, 2019</b>	<b>\$ 299</b>	<b>\$ 7</b>	<b>\$ 75</b>	<b>\$ 381</b>
As at December 31, 2018	\$ 299	\$ 10	\$ 80	\$ 389

<sup>(1)</sup> The "Other" category mainly includes the amount related to the acquisition of insurance contract portfolios and a distribution network.

## NOTE 13 – INTERESTS IN OTHER ENTITIES

### SUBSIDIARIES

The main subsidiaries of the Federation have been incorporated in Canada and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held by the Federation in each of them.

	Nature of operations	As at December 31, 2019 <sup>(1)</sup>	As at December 31, 2018 <sup>(1)</sup>
Desjardins Capital Inc.	Issuance of securities on the markets and financing of the Desjardins caisses	100 %	100 %
Desjardins Financial Holding Inc.	Holding company	100	100
Zag Bank <sup>(2)</sup>	Financial institution	100	100
Desjardins Financial Corporation Inc.	Holding company	100	100
Desjardins Global Asset Management Inc.	Asset management	100	100
Desjardins General Insurance Group Inc.	Property and casualty insurance	100	100
Property and casualty insurance subsidiaries <sup>(3)</sup>	Property and casualty insurance	90	90
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	100	100
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	100	100
Desjardins Trust Inc.	Asset custody and trust services	100	100
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group's technology	100	100
Desjardins Securities Inc.	Securities brokerage	100	100

<sup>(1)</sup> Represents also the proportion of voting rights held by the Federation in these subsidiaries.

<sup>(2)</sup> The Federation plans to wind up this subsidiary in the coming year.

<sup>(3)</sup> Represents a group of six property and casualty insurance subsidiaries.

### Subsidiaries that have material non-controlling interests

As at December 31, 2019 and 2018, the subsidiaries that have material non-controlling interests comprise the six property and casualty insurance subsidiaries aggregated under "Property and casualty insurance subsidiaries".

The following tables present summarized financial information about the subsidiaries that have material non-controlling interests. This information is presented before eliminating intragroup accounts and transactions and has been adjusted to reflect the fair value adjustments made at the time of acquisition.

	As at December 31, 2019	As at December 31, 2018
Assets <sup>(1)</sup>	\$ 15,683	\$ 14,685
Liabilities	12,895	12,134
Equity <sup>(1)</sup>	\$ 2,788	\$ 2,551
<b>Non-controlling interests</b>	<b>\$ 773</b>	<b>\$ 750</b>

<sup>(1)</sup> Include goodwill of \$100 million as at December 31, 2019 (\$100 million as at December 31, 2018).

For the years ended December 31	2019	2018
Total income	\$ 5,357	\$ 4,710
Net surplus earnings for the year after member caisses dividends	176	176
Comprehensive income for the year	\$ 246	\$ (46)
<b>Share of net surplus earnings for the year after member caisses dividends attributable to holders of non-controlling interests</b>	<b>\$ 46</b>	<b>\$ 42</b>
Dividends / distributions paid to holders of non-controlling interests	\$ 36	\$ 36

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

### CONSOLIDATED STRUCTURED ENTITY

#### Covered bonds

Under its covered bond program, the Federation issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, a structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. The operations of this entity are included in the Consolidated Financial Statements of the Federation as this entity is controlled by the Federation. The Federation granted financing to this entity to facilitate the acquisition of the assets for purposes of guaranteeing the covered bonds issued. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by this entity. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by this structured entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to \$5,654 million as at December 31, 2019 (\$5,859 million as at December 31, 2018), are presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

### JOINT VENTURES

#### Information about material joint ventures

The Federation holds interests RPADS LP, Aviso Wealth, 101 St-Clair, Primus Immobilia and Western Canada Shopping Centres joint ventures. RPADS LP is an entity that acquires and develops real estate portfolios, Aviso Wealth is a wealth management company and the other joint ventures are a real estate management and investment companies. These joint ventures have been incorporated in Canada and their principal place of business is in this country.

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

	RPADS LP <sup>(1)</sup>	Aviso Wealth <sup>(2)</sup>	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres
<b>As at December 31, 2019</b>					
<b>Proportion of ownership interest held</b>	<b>60.10%</b>	<b>50.00%</b>	<b>60.00%</b>	<b>85.00%</b>	<b>28.46%</b>
Assets	\$ 649	\$ 2,041	\$ 172	\$ 46	\$ 316
Liabilities <sup>(3)</sup>	126	1,804	36	6	170
Equity	\$ 523	\$ 237	\$ 136	\$ 40	\$ 146
<b>Interests in joint ventures<sup>(4)</sup></b>	<b>\$ 352</b>	<b>\$ 347</b>	<b>\$ 82</b>	<b>\$ 34</b>	<b>\$ 42</b>

<sup>(1)</sup> The interest in the joint venture RPADS LP reflects adjustments of \$38 million made when using the equity method.

<sup>(2)</sup> The interest in the joint venture Aviso Wealth reflects adjustments of \$228 million made when using the equity method.

<sup>(3)</sup> Consisting primarily of financial liabilities other than accounts payable and provisions.

<sup>(4)</sup> Represents the carrying amount of the interests in joint ventures recognized in the Consolidated Balance Sheets.

	RPADS LP	Aviso Wealth <sup>(1)</sup>	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres
<b>As at December 31, 2018</b>					
<b>Proportion of ownership interest held</b>	<b>55.10%</b>	<b>50.00%</b>	<b>60.00%</b>	<b>85.00%</b>	<b>28.46%</b>
Assets	\$ 552	\$ 1,972	\$ 138	\$ 41	\$ 322
Liabilities <sup>(2)</sup>	50	1,758	1	2	177
Equity	\$ 502	\$ 214	\$ 137	\$ 39	\$ 145
<b>Interests in joint ventures<sup>(3)</sup></b>	<b>\$ 272</b>	<b>\$ 335</b>	<b>\$ 82</b>	<b>\$ 33</b>	<b>\$ 41</b>

<sup>(1)</sup> The Aviso Wealth joint venture was created in 2018, as mentioned in Note 21, "Significant transactions". The interest in the joint venture reflects adjustments of \$228 million made when using the equity method.

<sup>(2)</sup> Consisting primarily of financial liabilities other than accounts payable and provisions.

<sup>(3)</sup> Represents the carrying amount of the interests in joint ventures recognized in the Consolidated Balance Sheets.

	RPADS LP	Aviso Wealth	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres
<b>For the year ended December 31, 2019</b>					
Total income	\$ 108	\$ 432	\$ 9	\$ 6	\$ 32
<b>Net income and comprehensive income for the year</b>	<b>\$ 19</b>	<b>\$ 41</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 6</b>

	RPADS LP	Aviso Wealth <sup>(1)</sup>	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres
<b>For the year ended December 31, 2018</b>					
Total income	\$ 102	\$ 374	\$ 2	\$ 5	\$ 31
<b>Net income and comprehensive income for the year</b>	<b>\$ 24</b>	<b>\$ 9</b>	<b>\$ (2)</b>	<b>\$ 1</b>	<b>\$ 4</b>

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

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

### JOINT OPERATIONS

The Federation holds an 80% ownership interest in a joint arrangement with Cogir Real Estate Fund 1 and a 50% ownership interest in a joint arrangement with First Capital Realty Inc. to invest in undivided co-ownership in commercial buildings in Québec. It also holds a 50.5% ownership interest in a second joint arrangement with First Capital Realty Inc. formed during fiscal 2018 to invest in undivided co-ownership in commercial buildings in Ontario.

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

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

### ASSOCIATES

#### Information about material associates

The Federation holds interests in the Fiera Holdings Inc. and CC&L Haldimand Solar Co-Investment Limited Partnership. Fiera Holdings Inc. operates in the investment management industry, while CC&L Haldimand Solar Co-Investment Limited Partnership operates in the solar energy industry. They have been incorporated in Canada and their principal place of business is in this country.

The following tables present summarized financial information about these associates, namely the amounts included in their IFRS financial statements adjusted to reflect adjustments made by the Federation when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	As at December 31, 2019		As at December 31, 2018	
	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership
<b>Proportion of ownership interest held<sup>(1,2)</sup></b>	<b>37.20%</b>	<b>33.33%</b>	37.20%	33.33%
Assets <sup>(3,4)</sup>	\$ 1,705	\$ 112	\$ 1,418	\$ 113
Liabilities <sup>(4)</sup>	1,139	-	773	-
Equity <sup>(3,4)</sup>	\$ 566	\$ 112	\$ 645	\$ 113
<b>Interests in associates<sup>(5)</sup></b>	<b>\$ 41</b>	<b>\$ 37</b>	\$ 50	\$ 41

<sup>(1)</sup> Represents also the proportion of voting rights held by the Federation in the associates.

<sup>(2)</sup> As at December 31, 2019, the Federation indirectly held an 7.20% ownership interest (7.41% as at December 31, 2018) in Fiera Capital Corporation through its interest in Fiera Holdings Inc.

<sup>(3)</sup> Include goodwill of \$10 million (\$10 million as at December 31, 2018) related to Fiera Holdings Inc.

<sup>(4)</sup> The assets, liabilities and equity of Fiera Holdings Inc. for 2019 and 2018 are based on data as at September 30.

<sup>(5)</sup> Represents the carrying amount of the interests in associates recognized in the Consolidated Balance Sheets.

For the years ended December 31	2019		2018	
	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership
Total income <sup>(1)</sup>	\$ 579	\$ 6	\$ 528	\$ 6
<b>Net income and comprehensive income for the year<sup>(1)</sup></b>	<b>\$ (19)</b>	<b>\$ 6</b>	<b>\$ 2</b>	<b>\$ 6</b>

<sup>(1)</sup> Total income, net income and comprehensive income of Fiera Holdings Inc. for 2019 and 2018 are based on data for the twelve-month periods ended September 30.

### UNCONSOLIDATED STRUCTURED ENTITIES

#### Mutual funds

The Federation holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns as a result of the units it holds in these funds, these units do not give the Federation power over the relevant activities of these funds. Accordingly, the Federation does not control these funds, which are considered as unconsolidated structured entities.

The investments of these funds are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. The Federation's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

## NOTE 14 – OTHER ASSETS – OTHER

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

	As at December 31, 2019	As at December 31, 2018
Accounts receivable	\$ 627	\$ 508
Interest receivable	319	273
Prepaid expenses	215	184
Taxes receivable	151	166
Other	356	442
	<b>\$ 1,668</b>	<b>\$ 1,573</b>

## NOTE 15 – DEPOSITS

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

The following tables present the breakdown of deposits.

	As at December 31, 2019				As at December 31, 2018			
	Payable on demand	Payable upon notice	Payable on a fixed date	Total	Payable on demand <sup>(1)</sup>	Payable upon notice	Payable on a fixed date	Total
Individuals	\$ 3,128	\$ 32	\$ 555	\$ 3,715	\$ 2,961	\$ 41	\$ 1,103	\$ 4,105
Business and government	5,835	-	43,089	48,924	4,664	-	42,734	47,398
Deposit-taking institutions	2,596	-	3,737	6,333	3,058	-	3,496	6,554
	<b>\$ 11,559</b>	<b>\$ 32</b>	<b>\$ 47,381</b>	<b>\$ 58,972</b>	<b>\$ 10,683</b>	<b>\$ 41</b>	<b>\$ 47,333</b>	<b>\$ 58,057</b>

<sup>(1)</sup> The Federation changed the classification of certain amounts presented in “Deposits”. As at December 31, 2018, an amount of \$1,400 million was reclassified from “Deposits – Deposit-taking institutions” to “Deposits – Business and governments”.

## NOTE 16 – INSURANCE CONTRACT LIABILITIES

### PREMIUMS

	2019			2018		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Gross premiums	\$ 4,733	\$ 5,250	\$ 9,983	\$ 4,708	\$ 4,640	\$ 9,348
Premiums ceded under reinsurance treaties	(188)	(270)	(458)	(180)	(245)	(425)
<b>Net premiums</b>	<b>\$ 4,545</b>	<b>\$ 4,980</b>	<b>\$ 9,525</b>	<b>\$ 4,528</b>	<b>\$ 4,395</b>	<b>\$ 8,923</b>

### COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2019	As at December 31, 2018
<b>Insurance contract liabilities</b>		
Actuarial liabilities – Life and health insurance	\$ 20,985	\$ 18,553
Provisions for claims and adjustment expenses – Property and casualty insurance	6,716	6,489
Unearned premiums	2,824	2,547
Policyholder deposits	657	670
Provisions for benefits, policyholder dividends and experience refunds	414	470
Other	41	35
	<b>\$ 31,637</b>	<b>\$ 28,764</b>

### ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

#### Composition

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

	As at December 31, 2019	As at December 31, 2018
<b>Gross actuarial liabilities</b>		
Non-participating policies	\$ 16,500	\$ 14,565
Participating policies	4,485	3,988
	<b>20,985</b>	<b>18,553</b>
Amounts ceded to reinsurers	(1,075)	(915)
<b>Net actuarial liabilities</b>	<b>\$ 19,910</b>	<b>\$ 17,638</b>

	As at December 31, 2019	As at December 31, 2018
<b>Composition of assets backing net actuarial liabilities</b>		
Bonds	\$ 13,116	\$ 11,138
Mortgage and business loans	2,522	2,434
Investment property	1,082	1,116
Equities	1,662	1,430
Other	1,528	1,520
	<b>\$ 19,910</b>	<b>\$ 17,638</b>

The fair value of assets backing net actuarial liabilities was \$20,848 million as at December 31, 2019 (\$18,383 million as at December 31, 2018).

#### Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by Canadian accepted actuarial practices. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Consolidated Statements of Income.

## NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in the Consolidated Statements of Income.

### Mortality

The life and health insurance subsidiaries determine their mortality assumptions based on the annual studies of their recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, they also take into account industry studies. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance with Canadian accepted actuarial practices.

### Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the life and health insurance subsidiaries use industry-developed morbidity tables modified based on current data provided by their studies of their underwriting experience and those of the industry.

### Contract cancellation rates

The life and health insurance subsidiaries carry out an annual study of their underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their policy before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on these subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiaries are not sufficiently credible.

### Investment return

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The life and health insurance subsidiaries manage the investments backing their actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in their matching policy. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, they mitigate their sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, cash flows from these assets are matched with cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the loss allowance for expected credit losses recognized through a write-down of the carrying amount of the assets, a provision amounting to \$417 million as at December 31, 2019 (\$336 million as at December 31, 2018) has been included in actuarial liabilities as a protection against the risk of insufficient return on assets.

### Operating expenses and taxes

The operating expense assumptions reflect the projected costs for managing and processing contracts in force, including indirect overhead expenses. The life and health insurance subsidiaries carry out an annual study of operating expenses by major product line, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

## NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

### Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on “Net surplus earnings for the year after dividends to member caisses” of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2019	2018
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	\$ (53)	\$ (53)
Products for which a rate decrease increases actuarial liabilities	(22)	(23)
5% increase in future morbidity rates	(87)	(80)
10% negative change in future contract cancellation rates	(154)	(153)
5% increase in future operating expenses	(43)	(45)

### Changes in actuarial liabilities

The change in net actuarial liabilities during the years ended December 31 was due to business activities and to changes in actuarial estimates, as follows:

	2019			2018		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
<b>Balance at beginning of year</b>	\$ 18,553	\$ (915)	\$ 17,638	\$ 18,428	\$ (915)	\$ 17,513
Change due to						
Passage of time	1,658	(20)	1,638	(512)	4	(508)
New business	783	(26)	757	674	(18)	656
Changes in actuarial assumptions	(86)	(22)	(108)	(24)	(13)	(37)
	2,355	(68)	2,287	138	(27)	111
Other changes	77	(92)	(15)	(13)	27	14
<b>Balance at end of year</b>	\$ 20,985	\$ (1,075)	\$ 19,910	\$ 18,553	\$ (915)	\$ 17,638

### Changes in actuarial assumptions

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact of changes made to assumptions on “Net surplus earnings for the year after dividends to member caisses” for the years ended December 31.

	2019	2018
<b>Changed assumptions</b>		
Mortality	\$ 54	\$ 22
Morbidity	(4)	9
Contract cancellation rates	(36)	(79)
Investment return	37	17
Operating expenses	41	47
Methods and other	(13)	11
	\$ 79	\$ 27



## NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

### PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE

#### Methodology and assumptions

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the rate of return for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

#### Change in provisions for claims and adjustment expenses

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2019			2018		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
<b>Balance at beginning of year</b>	\$ 6,489	\$ (935)	\$ 5,554	\$ 6,457	\$ (1,056)	\$ 5,401
Claims incurred during the years	4,272	(189)	4,083	3,926	(223)	3,703
Development of claims incurred in prior years	(584)	78	(506)	(532)	74	(458)
Changes in discount rates	100	(12)	88	(43)	6	(37)
Claims paid during the year	(3,561)	256	(3,305)	(3,319)	264	(3,055)
<b>Balance at end of year</b>	\$ 6,716	\$ (802)	\$ 5,914	\$ 6,489	\$ (935)	\$ 5,554

Changes in assumptions had no material impact on the Consolidated Financial Statements as at December 31, 2019 and 2018.

#### Assumption sensitivity analysis

The following table shows the impact on the Consolidated Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the "Interest rate risk management" section of this note.

	Changes in actuarial assumptions	Impact on "Net surplus earnings for the year after dividends to member caisses"	
		2019	2018
Average claims settlement cost	+ 5%	\$ (263)	\$ (239)

## NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

### Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2009 and before	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
<b>Estimated ultimate claims amount</b>												
At the end of the accident year		\$ 1,101	\$ 1,272	\$ 1,375	\$ 1,471	\$ 1,536	\$ 2,186	\$ 2,417	\$ 3,158	\$ 3,691	<b>\$ 4,107</b>	
1 year later		1,103	1,272	1,322	1,447	2,453	2,168	2,387	3,121	3,656		
2 years later		1,091	1,238	1,328	2,186	2,349	2,165	2,365	3,086			
3 years later		1,071	1,221	1,967	2,086	2,272	2,117	2,349				
4 years later		1,055	1,781	1,839	1,977	2,184	2,089					
5 years later		1,577	1,657	1,769	1,910	2,105						
6 years later		1,515	1,568	1,717	1,872							
7 years later		1,434	1,547	1,694								
8 years later		1,386	1,507									
9 years later		1,331										
<b>Cumulative payments to date</b>		1,238	1,398	1,524	1,640	1,797	1,758	1,876	2,271	2,524	<b>2,150</b>	
Net provisions for claims and adjustment expenses	\$ 294	\$ 93	\$ 109	\$ 170	\$ 232	\$ 308	\$ 331	\$ 473	\$ 815	\$ 1,132	<b>\$ 1,957</b>	\$ 5,914
Reinsurers' share in provisions for claims and adjustment expenses	4	-	-	-	-	-	206	274	130	79	<b>109</b>	802
<b>Gross provisions for claims and adjustment expenses</b>	<b>\$ 298</b>	<b>\$ 93</b>	<b>\$ 109</b>	<b>\$ 170</b>	<b>\$ 232</b>	<b>\$ 308</b>	<b>\$ 537</b>	<b>\$ 747</b>	<b>\$ 945</b>	<b>\$ 1,211</b>	<b>\$ 2,066</b>	<b>\$ 6,716</b>

### Insurance risk management

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

The life and health insurance subsidiaries are exposed to insurance risk through the products they sell. Depending on the insurance product, these subsidiaries may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose these subsidiaries to expenditure risk.

The property and casualty insurance subsidiaries underwrite automobile, home and commercial property insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: underwriting risk, catastrophe risk and reserve risk.

To manage insurance risk, the insurance subsidiaries apply stringent policies and criteria with respect to product and service development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed.

In addition, for the life and health insurance subsidiaries, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims. With respect to catastrophes, the property and casualty insurance subsidiaries have established a governance structure to monitor the various risks caused by such events and use sophisticated tools to simulate the related financial losses and operational impact. Given the unpredictable nature of large-scale catastrophic events, the property and casualty insurance subsidiaries have a catastrophe reinsurance treaty, which is reviewed at least annually.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

#### Use of reinsurance

In order to limit their losses, the life and health and property and casualty insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. This reinsurance structure takes into account their respective risk profile and appetite. In addition, these subsidiaries purchase additional reinsurance protection with respect to large-scale catastrophic events. The retention and limit amounts selected for the property and casualty insurance subsidiaries' catastrophe treaty are subject to a detailed annual review based on these subsidiaries' various catastrophe models and the positioning of their competitors in the industry.

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

## NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

In order to reduce reinsurance risk, the life and health and property and casualty insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release these subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investments in trust so that it can fulfill its reinsurance obligations.

For the years ended December 31, the impact of reinsurance reduced the Consolidated Statements of Income items presented in the table below by the following amounts:

	2019			2018		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Premiums	\$ 188	\$ 270	\$ 458	\$ 180	\$ 245	\$ 425
Claims, benefits, annuities and changes in insurance contract liabilities	187	123	310	146	142	288

### Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimum guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimum guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of stock market, exchange rate and interest rate fluctuations on the future cost of guarantees as well as a hedging program aimed at offsetting the impact of unfavourable changes in interest rates on these future costs. This program covers all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

### Interest rate risk management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Consolidated Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limits of the gap between the duration of liabilities and the duration of the related assets. These subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Consolidated Statements of Income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Consolidated Statements of Income of the life and health insurance subsidiaries. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Consolidated Statements of Income. However, the subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Consolidated Statements of Income.

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

	2019	2018
1% increase in interest rates	\$ 57	\$ 53
1% decrease in interest rates	(77)	(78)

The interest rate risk management policy of the property and casualty insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the gap compared to the target duration of the consolidated fixed-income portfolio and as well as the limit of the gap between the duration of assets and liabilities to be backed. The property and casualty insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

## NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

The following table shows, for the years ended December 31, the estimated impact on “Net surplus earnings for the year after dividends to member caisses” arising from the impact of a change in interest rates on the property and casualty insurance subsidiaries’ provisions for claims and adjustment expenses and the assets backing these provisions.

	2019	2018
1% increase in interest rates	\$ 6	\$ 7
1% decrease in interest rates	(8)	(8)

### Liquidity risk management

The life and health insurance subsidiaries manage liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet their financial obligations as they become due, in both routine and crisis situations.

For these subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

For the property and casualty insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities and spreading the collection of insurance premiums throughout the year, which generally supports a large portion of the cash outflows associated with claims and other expenses.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Consolidated Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2019	As at December 31, 2018
Less than 1 year	\$ 2,857	\$ 2,746
1 to 5 years	6,075	5,801
Over 5 years	37,458	36,278
<b>Total</b>	<b>\$ 46,390</b>	<b>\$ 44,825</b>

## NOTE 17 – NET DEFINED BENEFIT PLAN LIABILITIES

This note should be read in conjunction with Note 17, “Net defined benefit plan liabilities”, to the audited Combined Financial Statements of Desjardins Group for the year ended December 31, 2019 approved on February 26, 2020, which presents the defined benefit group plans, the risks related to pension plans and information on non-group plans.

### GROUP PLANS

#### Pension plans

The Federation participates in a pension plan and a supplemental pension plan through Desjardins Group’s defined benefit group plans. Consequently, the Federation recognizes its share in the liabilities of these plans in its Consolidated Balance Sheets.

#### Post-retirement benefit plan

For employees meeting certain criteria based on age and the number of years of participation in the plan, the Federation also offers a post-retirement benefit plan, including medical, dental and life insurance, to retiring employees and their dependents through the defined benefit group plan of Desjardins Group. Consequently, the Federation recognizes its share in the liability of this plan in its Consolidated Balance Sheets.

## NOTE 17 – NET DEFINED BENEFIT PLAN LIABILITIES (continued)

### NON-GROUP PLANS

The Federation also offers certain active and retired executives other defined benefit supplemental pension plans for which a liability representing future obligations with respect to these plans was recognized in the Consolidated Balance Sheets.

In addition, the employees of certain subsidiaries are offered specific defined benefit pensions plans and defined benefit post-retirement benefit plan that are not part of Desjardins Group's defined benefit group plans.

The following tables present the recognized defined benefit plan liabilities, cost and remeasurement of net liabilities for all the plans as well as the Federation's share in defined benefit group plans.

	As at December 31, 2019		As at December 31, 2018	
<b>Net defined benefit plan liabilities</b>				
Group plans				
Pension plans	\$	1,310	67%	\$ 1,002 65%
Post-retirement benefit plan		285	38	257 38
		1,595		1,259
Non-group plans		361		319
<b>Total net defined benefit plan liabilities</b>	\$	1,956		\$ 1,578

	As at December 31, 2019		As at December 31, 2018	
<b>Defined benefit plan cost recognized</b>				
Group plans				
Pension plans	\$	253		\$ 243
Post-retirement benefit plan <sup>(1)</sup>		9		(48)
		262		195
Non-group plans		45		34
<b>Total defined benefit plan cost recognized</b>	\$	307		\$ 229

<sup>(1)</sup> The defined benefit plan cost recognized reflects the impact of the amendment to the post-retirement benefit plan made during the year ended December 31, 2018.

	As at December 31, 2019		As at December 31, 2018	
<b>Remeasurement of net defined benefit plan liabilities</b>				
Group plans				
Pension plans	\$	307		\$ 65
Post-retirement benefit plan		32		(165)
		339		(100)
Non-group plans		31		(10)
<b>Total remeasurement of net defined benefit plan liabilities</b>	\$	370		\$ (110)

## NOTE 18 – OTHER LIABILITIES – OTHER

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

	As at December 31, 2019		As at December 31, 2018	
Accounts payable and other accrued liabilities	\$	2,861		\$ 2,698
Client contract liabilities		616		565
Interest payable		424		439
Provisions for risks and expenses		110		84
Taxes payable		166		62
Borrowings from financial institutions		14		28
Other		1,182		1,229
	\$	5,373		\$ 5,105

## NOTE 19 – SUBORDINATED NOTES

The subordinated notes presented in the Federation's Consolidated Balance Sheets are senior notes issued by Desjardins Capital Inc. whose gross proceeds are invested in notes issued by the Desjardins caisses in Québec that are subordinated to the claims of depositors and certain other creditors. These senior notes rank prior, in right of payment, to the subordinated debt securities of Desjardins Capital Inc. and are secured by a hypothec on the subordinated notes issued by the Desjardins caisses in Québec.

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

	As at December 31, 2019	As at December 31, 2018
Senior Series G notes (par value of \$900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer.	\$ 899	\$ 879
Senior Series J notes (par value of \$500 million), issued on December 15, 2011, maturing in December 2026, bearing interest at an annual rate of 4.954% for the first 10 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 2.67%, redeemable at the option of the issuer starting in 2021.	499	499
	<b>\$ 1,398</b>	<b>\$ 1,378</b>

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

### DERIVATIVE FINANCIAL INSTRUMENTS

The Federation's derivative financial instruments include the following types of contracts:

#### Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. The Federation uses interest rate contracts primarily for asset and liability management purposes.

#### Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. The Federation uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

#### Other financial derivative contracts

Other derivative financial contracts used by the Federation include total return swaps and stock index options, which are related to financial index transactions, as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

#### Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. The Federation enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

### MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets.

As at December 31, 2019	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
<b>Designated as hedging instruments<sup>(1)</sup></b>							
<b>Fair value hedges</b>							
<i>Interest rate contracts / Interest rate risk</i>							
Over-the-counter interest rate swaps	\$ 2,497	\$ 5,898	\$ 5,388	\$ 2,830	\$ 16,613	\$ 122	\$ 95
Average rate	1.6%	1.7%	2.3%	2.2%			
	2,497	5,898	5,388	2,830	16,613	122	95
<i>Foreign exchange contracts / Currency risk</i>							
Over-the-counter currency swaps	5,820	2,755	2,185	728	11,488	92	183
CAD-US average rate	1.2985	1.2985	-	-			
CAD-EUR average rate	1.4565	1.4565	1.4565	-			
	5,820	2,755	2,185	728	11,488	92	183
<b>Total – Fair value hedges</b>	<b>8,317</b>	<b>8,653</b>	<b>7,573</b>	<b>3,558</b>	<b>28,101</b>	<b>214</b>	<b>278</b>
<b>Cash flow hedges</b>							
<i>Interest rate contracts / Interest rate risk</i>							
Over-the-counter interest rate swaps	719	4,095	3,070	27	7,911	27	41
Average rate	1.9%	1.9%	2.0%	2.1%			
	719	4,095	3,070	27	7,911	27	41
<b>Total – Cash flow hedges</b>	<b>719</b>	<b>4,095</b>	<b>3,070</b>	<b>27</b>	<b>7,911</b>	<b>27</b>	<b>41</b>
<b>Total – Designated as hedging instruments</b>	<b>\$ 9,036</b>	<b>\$ 12,748</b>	<b>\$ 10,643</b>	<b>\$ 3,585</b>	<b>\$ 36,012</b>	<b>\$ 241</b>	<b>\$ 319</b>

<sup>(1)</sup> Hedging instruments are presented under "Derivative financial instruments" in the Consolidated Balance Sheets.

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets (continued).

As at December 31, 2019	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
<b>Trading purposes<sup>(1)</sup></b>							
<b>Interest rate contracts</b>							
<b>Over-the-counter contracts</b>							
Interest rate swaps	\$ 97,350	\$ 112,415	\$ 70,455	\$ 7,829	\$ 288,049	\$ 1,356	\$ 1,229
Forward rate agreements	963	-	-	-	963	4	20
Options purchased	728	389	85	-	1,202	5	-
Options written	27	274	131	-	432	-	8
<b>Contracts traded through a clearing house</b>							
Interest rate swaps	7,186	11,675	12,831	5,535	37,227	-	-
<b>Exchange-traded contracts</b>							
Futures	16,206	100	-	-	16,306	-	-
Options purchased	10,843	-	-	-	10,843	3	-
Options written	26,282	-	-	-	26,282	-	3
	159,585	124,853	83,502	13,364	381,304	1,368	1,260
<b>Foreign exchange contracts</b>							
<b>Over-the-counter contracts</b>							
Forward contracts	33,282	1,061	14	-	34,357	159	279
Currency swaps	2,874	-	388	480	3,742	20	49
Options purchased	952	241	16	-	1,209	14	-
Options written	1,127	266	13	-	1,406	-	17
<b>Exchange-traded contracts</b>							
Futures	2	-	-	-	2	-	-
	38,237	1,568	431	480	40,716	193	345
<b>Other contracts<sup>(2)</sup></b>							
<b>Over-the-counter contracts</b>							
Swaps	81	162	1,140	-	1,383	3	2
Options purchased	5,021	13,867	12,432	86	31,406	2,990	-
Options written	4,789	12,046	9,470	-	26,305	-	2,901
<b>Contracts traded through a clearing house</b>							
Swaps	-	-	195	-	195	-	-
<b>Exchange-traded contracts</b>							
Futures	899	-	-	-	899	-	-
Options purchased	1	-	-	-	1	-	-
	10,791	26,075	23,237	86	60,189	2,993	2,903
<b>Total – Trading purposes</b>	208,613	152,496	107,170	13,930	482,209	4,554	4,508
<b>Total derivative financial instruments before impact of master netting agreements</b>	\$ 217,649	\$ 165,244	\$ 117,813	\$ 17,515	\$ 518,221	\$ 4,795	\$ 4,827
Less:							
Impact of master netting agreements <sup>(3)</sup>	-	-	-	-	-	1,688	1,688
<b>Total derivative financial instruments after impact of master netting agreements</b>	\$ 217,649	\$ 165,244	\$ 117,813	\$ 17,515	\$ 518,221	\$ 3,107	\$ 3,139

<sup>(1)</sup> As at December 31, 2019, include derivatives with notional amounts totalling \$504 million that would have been designated as hedging instruments if the Federation had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Basis of presentation and significant accounting policies".

<sup>(2)</sup> Include contracts related to indexed term savings products.

<sup>(3)</sup> Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.



## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets *(continued)*.

As at December 31, 2018	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
<b>Designated as hedging instruments<sup>(1)</sup></b>							
<b>Fair value hedges</b>							
<i>Interest rate contracts / Interest rate risk</i>							
Over-the-counter interest rate swaps	\$ 2,029	\$ 4,414	\$ 6,263	\$ 2,182	\$ 14,888	\$ 73	\$ 176
Average rate	2.1%	1.4%	2.2%	2.3%			
	2,029	4,414	6,263	2,182	14,888	73	176
<i>Foreign exchange contracts / Currency risk</i>							
Over-the-counter currency swaps	5,893	6,368	1,173	-	13,434	689	-
CAD-US average rate	1.3347	1.2963	-	-			
CAD-EUR average rate	1.5346	1.5268	1.5202	-			
	5,893	6,368	1,173	-	13,434	689	-
<b>Total – Fair value hedges</b>	<b>7,922</b>	<b>10,782</b>	<b>7,436</b>	<b>2,182</b>	<b>28,322</b>	<b>762</b>	<b>176</b>
<b>Cash flow hedges</b>							
<i>Interest rate contracts / Interest rate risk</i>							
Over-the-counter interest rate swaps	790	1,856	1,971	12	4,629	20	25
Average rate	2.1%	2.0%	2.3%	1.9%			
	790	1,856	1,971	12	4,629	20	25
<b>Total – Cash flow hedges</b>	<b>790</b>	<b>1,856</b>	<b>1,971</b>	<b>12</b>	<b>4,629</b>	<b>20</b>	<b>25</b>
<b>Total – Designated as hedging instruments</b>	<b>\$ 8,712</b>	<b>\$ 12,638</b>	<b>\$ 9,407</b>	<b>\$ 2,194</b>	<b>\$ 32,951</b>	<b>\$ 782</b>	<b>\$ 201</b>

<sup>(1)</sup> Hedging instruments are presented under "Derivative financial instruments" in the Consolidated Balance Sheets.

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets (continued).

	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
As at December 31, 2018							
<b>Trading purposes<sup>(1)</sup></b>							
<b>Interest rate contracts</b>							
<b>Over-the-counter contracts</b>							
Interest rate swaps	\$ 72,967	\$ 102,114	\$ 54,985	\$ 13,793	\$ 243,859	\$ 1,476	\$ 1,373
Forward rate agreements	3,492	-	-	-	3,492	24	23
<b>Contracts traded through a clearing house</b>							
Interest rate swaps	13,864	14,830	3,868	2,751	35,313	111	118
<b>Exchange-traded contracts</b>							
Futures	8,284	4,816	-	-	13,100	-	-
Options purchased	49,794	-	-	-	49,794	4	-
Options written	36,686	-	30	30	36,746	-	12
	185,087	121,760	58,883	16,574	382,304	1,615	1,526
<b>Foreign exchange contracts</b>							
<b>Over-the-counter contracts</b>							
Forward contracts	28,150	956	49	-	29,155	465	233
Currency swaps	2,350	10	100	450	2,910	111	26
Options purchased	729	147	24	-	900	34	-
Options written	1,050	179	20	-	1,249	-	18
	32,279	1,292	193	450	34,214	610	277
<b>Other contracts<sup>(2)</sup></b>							
<b>Over-the-counter contracts</b>							
Swaps	144	89	117	-	350	6	2
Options purchased	3,461	11,592	10,422	-	25,475	1,363	-
Options written	3,290	10,390	8,937	-	22,617	-	1,326
<b>Contracts traded through a clearing house</b>							
Swaps	-	-	539	-	539	-	-
<b>Exchange-traded contracts</b>							
Futures	941	-	-	-	941	-	-
	7,836	22,071	20,015	-	49,922	1,369	1,328
<b>Total – Trading purposes</b>	\$ 225,202	\$ 145,123	\$ 79,091	\$ 17,024	\$ 466,440	\$ 3,594	\$ 3,131
<b>Total derivative financial instruments before impact of master netting agreements</b>	\$ 233,914	\$ 157,761	\$ 88,498	\$ 19,218	\$ 499,391	\$ 4,376	\$ 3,332
Less:							
Impact of master netting agreements <sup>(3)</sup>	-	-	-	-	-	1,903	1,903
<b>Total derivative financial instruments after impact of master netting agreements</b>	\$ 233,914	\$ 157,761	\$ 88,498	\$ 19,218	\$ 499,391	\$ 2,473	\$ 1,429

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

<sup>(2)</sup> Include contracts related to indexed term savings products.

<sup>(3)</sup> Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

### HEDGING ACTIVITIES

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

#### Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. In addition, when a financial instrument is denominated in a foreign currency, The Federation may enter into fair value hedges by using currency swaps or cross-currency interest rate swaps. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. The Federation uses fair value hedge strategies for its loan, deposit and securities portfolios.

#### Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. The Federation uses cash flow hedge strategies for its loan, deposit and securities portfolios.

#### Effectiveness assessment and sources of hedging relationship ineffectiveness

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

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

The following table presents information on the ineffectiveness of fair value hedges.

	As at December 31, 2019		As at December 31, 2018	
	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss <sup>(1)</sup>	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss <sup>(1)</sup>
<b>Fair value hedges</b>				
Interest rate contracts / Interest rate risk	\$ 125	\$ -	\$ 68	\$ -
Over-the-counter interest rate swaps				
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	(786)	1	570	(10)
<b>Total – Fair value hedges</b>	<b>\$ (661)</b>	<b>\$ 1</b>	<b>\$ 638</b>	<b>\$ (10)</b>

<sup>(1)</sup> The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

The following tables present information on the ineffectiveness of cash flow hedges for the years ended December 31.

	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss <sup>(1)</sup>	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss	
				Active hedges <sup>(2)</sup>	Terminated hedges <sup>(1)</sup>
<b>2019</b>					
<b>Cash flow hedges</b>					
Interest rate contracts / Interest rate risk					
Over-the-counter interest rate swaps	\$ (11)	\$ -	\$ (9)	\$ 3	\$ -
<b>Total – Cash flow hedges</b>	<b>\$ (11)</b>	<b>\$ -</b>	<b>\$ (9)</b>	<b>\$ 3</b>	<b>\$ -</b>

<sup>(1)</sup> The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

<sup>(2)</sup> The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss <sup>(1)</sup>	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss	
				Active hedges <sup>(2)</sup>	Terminated hedges <sup>(1)</sup>
<b>2018</b>					
<b>Cash flow hedges</b>					
Interest rate contracts / Interest rate risk					
Over-the-counter interest rate swaps	\$ (1)	\$ -	\$ (15)	\$ (7)	\$ 3
<b>Total – Cash flow hedges</b>	<b>\$ (1)</b>	<b>\$ -</b>	<b>\$ (15)</b>	<b>\$ (7)</b>	<b>\$ 3</b>

<sup>(1)</sup> The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

<sup>(2)</sup> The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

The following tables present the impact of hedge accounting on balances recognized in the Consolidated Balance Sheets and in accumulated other comprehensive income.

	Cash flow hedges			Fair value hedges			
	Balance of the cash flow hedge reserve	Balance of the reserve for discontinued hedges	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year
<b>As at December 31, 2019</b>							
<b>Interest rate risk</b>							
<b>Assets</b>							
Securities	\$ 2	\$ -	\$ 6	\$ 2,382	\$ -	\$ -	\$ (18)
Loans	(17)	(1)	12	1,349	(1)	-	12
<b>Liabilities</b>							
Deposits	\$ 2	\$ (4)	\$ 1	\$ 12,246	\$ (14)	\$ (4)	\$ (119)
<b>Currency risk</b>							
<b>Liabilities</b>							
Deposits	\$ -	\$ -	\$ -	\$ 11,488	\$ 40	\$ -	\$ 787

	Cash flow hedges			Fair value hedges			
	Balance of the cash flow hedge reserve	Balance of the reserve for discontinued hedges	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year
<b>As at December 31, 2018</b>							
<b>Interest rate risk</b>							
<b>Assets</b>							
Securities	\$ 1	\$ (2)	\$ (2)	\$ 177	\$ -	\$ -	\$ 1
Loans	(5)	1	(4)	1,452	(12)	-	7
<b>Liabilities</b>							
Deposits	\$ (2)	\$ -	\$ 7	\$ 12,942	\$ 137	\$ 2	\$ (76)
<b>Currency risk</b>							
<b>Liabilities</b>							
Deposits	\$ -	\$ -	\$ -	\$ 13,428	\$ 16	\$ -	\$ (579)

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

### DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward the Federation at a time when the fair value of the instrument is positive for the Federation. The manner in which the Federation assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Consolidated Financial Statements.

<b>Notional amount</b>	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
<b>Replacement cost</b>	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
<b>Credit risk equivalent</b>	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by Basel III.
<b>Risk-weighted balance</b>	The balance weighted by the risks related to the creditworthiness of counterparties, determined using methods prescribed by Basel III.

The following table gives an overview of the Federation's derivative financial instruments portfolio and related credit risk, before and after the impact of master netting agreements.

	As at December 31, 2019				As at December 31, 2018			
	Notional amount	Replacement cost	Credit risk equivalent <sup>(1)</sup>	Risk-weighted balance <sup>(1)</sup>	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
<b>Interest rate contracts</b>								
Interest rate swaps	\$ 349,800	\$ 1,505	\$ 819	\$ 754	\$ 298,689	\$ 1,681	\$ 2,858	\$ 981
Forward rate agreements	963	-	4	5	3,492	24	38	38
Futures	16,306	4	-	-	13,100	-	-	-
Options purchased	12,045	8	7	4	49,794	2	5	2
Options written	26,714	-	-	-	36,746	-	-	-
	405,828	1,517	830	763	401,821	1,707	2,901	1,021
<b>Foreign exchange contracts</b>								
Forward contracts	34,357	159	451	373	29,155	466	612	225
Futures	2	-	-	-	-	-	-	-
Currency swaps	15,230	112	196	222	16,344	800	1,265	361
Options purchased	1,209	14	75	71	900	34	8	6
Options written	1,406	-	-	-	1,249	-	-	-
	52,204	285	722	666	47,648	1,300	1,885	592
<b>Other contracts</b>								
Swaps	1,578	3	114	33	890	6	4	1
Futures	899	-	-	-	941	-	-	-
Options purchased	31,407	2,990	2,650	2,661	25,474	1,363	3,342	1,290
Options written	26,305	-	-	-	22,617	-	-	-
	60,189	2,993	2,764	2,694	49,922	1,369	3,346	1,291
<b>Total derivative financial instruments before impact of master netting agreements</b>	<b>\$ 518,221</b>	<b>\$ 4,795</b>	<b>\$ 4,316</b>	<b>\$ 4,123</b>	<b>\$ 499,391</b>	<b>\$ 4,376</b>	<b>\$ 8,132</b>	<b>\$ 2,904</b>
Less:								
Impact of master netting agreements <sup>(2)</sup>	-	1,688	-	49	-	1,903	-	820
<b>Total derivative financial instruments after impact of master netting agreements</b>	<b>\$ 518,221</b>	<b>\$ 3,107</b>	<b>\$ 4,316</b>	<b>\$ 4,074</b>	<b>\$ 499,391</b>	<b>\$ 2,473</b>	<b>\$ 8,132</b>	<b>\$ 2,084</b>

<sup>(1)</sup> The information presented as at December 31, 2019 reflects the use of internal models to calculate risk for the sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures asset classes, following the receipt of the AMF authorization on December 5, 2019. Since January 1, 2019, the Federation has applied the new guideline on the Standardized Approach for counterparty credit risk (SA-CCR), which authorizes offsetting exposures prior to calculating the credit risk equivalent and the risk-weighted balance. Comparative figures were not restated.

<sup>(2)</sup> Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously. Since January 1, 2019, the Federation has applied the new guideline on the Standardized Approach for counterparty credit risk (SA-CCR). This approach authorizes offsetting exposures prior to calculating the credit risk equivalent and the risk-weighted balance. Comparative figures were not restated.

## NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

	As at December 31, 2019		As at December 31, 2018	
	Replacement cost <sup>(1)</sup>	Risk-weighted balance <sup>(1)</sup>	Replacement cost	Risk-weighted balance
Credit risk rating <sup>(2)</sup>				
AAA, AA+, AA, AA-	\$ 2,786	\$ 1,378	\$ 2,975	\$ 1,755
A+, A, A-	1,902	2,009	955	989
BBB, B, BB-, BBB-	43	126	70	32
Not rated	64	610	376	128
<b>Total</b>	<b>4,795</b>	<b>4,123</b>	<b>4,376</b>	<b>2,904</b>
Less:				
Impact of master netting agreements <sup>(3)</sup>	1,688	49	1,903	820
<b>Total after impact of master netting agreements</b>	<b>\$ 3,107</b>	<b>\$ 4,074</b>	<b>\$ 2,473</b>	<b>\$ 2,084</b>
Type of counterparty				
Financial institutions	\$ 4,653	\$ 3,386	\$ 3,390	\$ 2,247
Other	142	737	986	657
<b>Total</b>	<b>4,795</b>	<b>4,123</b>	<b>4,376</b>	<b>2,904</b>
Less:				
Impact of master netting agreements <sup>(3)</sup>	1,688	49	1,903	820
<b>Total after impact of master netting agreements</b>	<b>\$ 3,107</b>	<b>\$ 4,074</b>	<b>\$ 2,473</b>	<b>\$ 2,084</b>

<sup>(1)</sup> The information presented as at December 31, 2019 reflects the use of internal models to calculate risk for the sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures asset classes, following the receipt of the AMF authorization on December 5, 2019. Since January 1, 2019, the Federation has applied the new guideline on the Standardized Approach for counterparty credit risk (SA-CCR). Comparative figures were not restated.

<sup>(2)</sup> Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of the Federation. Although the table presents information by external rating, risk-weighted assets have been calculated using internal ratings since December 31, 2019. Comparative figures were not restated.

<sup>(3)</sup> Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously. Since January 1, 2019, the Federation has applied the new guideline on the Standardized Approach for counterparty credit risk (SA-CCR). This approach authorizes offsetting exposures prior to calculating the credit risk equivalent and the risk-weighted balance. Comparative figures were not restated.

## NOTE 21 – SIGNIFICANT TRANSACTIONS

### Year ended December 31, 2019

On December 31, 2019, the Federation completed the sale to Global Payments of its entire merchant portfolio, which is currently housed under the Monetico brand, and finalized the implementation, as of January 1, 2020, of the long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. In addition, on October 31, 2019, the Federation announced it would gradually phase out in-store Accord D financing as of May 1, 2020. These activities were presented in the Individual and Business Services segment.

In the Consolidated Statement of Income for the year ended December 31, 2019, a gain of \$349 million on the disposal of the merchant portfolio was recognized under "Other income – Other".

### Year ended December 31, 2018

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

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

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

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

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

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



## NOTE 22 – CAPITAL STOCK

### AUTHORIZED

The capital stock of the Federation comprises the following qualifying shares and capital shares:

There is an unlimited number of qualifying shares with a par value of \$5. These shares may be issued only to members of the Federation and are redeemable only at the Board of Directors' option under certain conditions stipulated in the by-law.

There is an unlimited number of A and G capital shares with a par value of \$5 and an unlimited number of F capital shares and contingent Z-capital shares (Z capital shares) with a par value of \$10. The A and G shares may be issued only to members of the Federation, while F capital shares may be issued only to members of Desjardins caisses in Québec, including their auxiliary members. Z capital shares may be issued to any person in accordance with the Act, but only for converting non-viability contingent capital instruments of the Federation or at the discretion of the Federation after such conversion. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, A, G, F and Z capital shares, if any, at any time. The Federation may also purchase, in whole or in part, A, G, F and Z capital shares, if any, by private agreement, at any time, with the authorization of the AMF. Furthermore, the A and G capital shares may be converted, at any time, by a resolution of the Board of Directors, in whole or in part, into another category of shares issued for this purpose. The interest rate on A, G, F and Z capital shares, if any, is determined by the Federation's Board of Directors which approves annually the surplus earnings that may be allocated to the payment of interest on these capital shares. The repayment of principal and payment of interest on the A, G, F and Z capital shares, if any, are subject to compliance with certain conditions.

The Federation has the right, by resolution of the Board of Directors, to call for capital in the form of G capital shares from its members, in particular to meet the requirements of a regulatory body with respect to capital adequacy or for other considerations. Any member subject to the capital call must acquire and pay for the G capital shares allotted to it.

There is an unlimited number of FIN-5A, INV, and SER capital shares related to an investment fund. These shares may be issued only to members of the Federation; they have no par value and do not bear interest. Subject to provisions of the Federation's own by-law, the holders of these shares divide up the net income of the funds. These shares are redeemable, with the authorization of the AMF, at the option of the Board of Directors or by private agreement. Furthermore, they may be converted, by a resolution of the Board of Directors, in whole or in part, into another category of shares issued for this purpose.

The qualifying share and the capital shares of the Federation do not entitle their holders to be called, participate or vote at the Federation members meetings.

### SHARES ISSUED AND PAID

(in thousands of dollars)	As at December 31, 2019		As at December 31, 2018	
	Number of shares	Amount	Number of shares	Amount
Qualifying shares	32,270	\$ 161	32,600	\$ 163
A capital shares	13,789,467	68,947	13,789,467	68,947
F capital shares	489,298,743	4,871,673	478,768,270	4,766,943
G capital shares	600,532,931	3,002,665	600,532,931	3,002,665
INV capital shares	47,856,914	-	47,856,914	-
SER capital shares	2,865,680	23,395	2,865,680	23,395
FIN-5A capital shares	694,258,599	916,974	694,258,599	916,974
		<b>\$ 8,883,815</b>		<b>\$ 8,779,087</b>

### ISSUANCE OF SHARES

During the year ended December 31, 2019, the Federation issued 10,530,473 F capital shares for a cash consideration of \$105 million. In addition, the Federation did not issue any F capital shares as interest payments in 2019.

In 2018, the Federation had issued 12,433,692 F capital shares for a cash consideration of \$124 million, which represents the gross proceeds of this issuance of \$125 million less issue costs of \$1 million. In addition, the Federation had issued 14,208,755 F capital shares having a value of \$142 million as interest payments when the holders elected to receive their remuneration in F capital shares.

### REDEMPTION OF SHARES

During the year ended December 31, 2019, the Federation redeemed 330 capital shares for a non significant cash consideration.

In 2018, the Federation redeemed for cancellation all FED-7 capital shares for a cash consideration of \$2 million. It also redeemed 210 qualifying shares for an immaterial cash consideration.

## NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2019		As at December 31, 2018	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
<b>Items that will be reclassified subsequently to the Consolidated Statements of Income</b>				
Net unrealized gains (losses) on debt securities classified as at fair value through other comprehensive income <sup>(1)</sup>	\$ 128	\$ 1	\$ 14	\$ (1)
Net unrealized gains (losses) related to the overlay approach adjustment for insurance operations financial assets	132	6	(17)	(2)
Net losses on derivative financial instruments designated as cash flow hedges	(12)	-	(7)	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	1	-	1	-
<b>Accumulated other comprehensive income</b>	<b>\$ 249</b>	<b>\$ 7</b>	<b>\$ (9)</b>	<b>\$ (3)</b>

<sup>(1)</sup> Includes an allowance for credit losses of \$3 million as at December 31, 2019 (\$2 million as at December 31, 2018) on securities classified as at fair value through other comprehensive income.

## NOTE 24 – CAPITAL MANAGEMENT

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

### DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The regulatory capital adequacy and composition of the Federation are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF, which is derived from the normative framework developed by the Basel Committee on Banking Supervision. The holding company Desjardins Financial Corporation Inc. is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF. Consequently, for purposes of calculating capital, the holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and partly deducted from capital, in accordance with the significant investments rules set out in the guideline.

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

### BASEL III

The Federation's capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets. The Federation must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively.

## NOTE 24 – CAPITAL MANAGEMENT (continued)

The regulatory capital of the Federation differs from the equity disclosed in the Consolidated Balance Sheets. It comprises the following components:

- i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1A (core capital) and Tier 1B (additional capital). Tier 1A capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings and accumulated other comprehensive income. Tier 1B capital consists of non-controlling interests. Non-controlling interests are determined, in particular, based on the nature of the operations and the capitalization of the investee.
- ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It consists of subordinated notes, eligible qualifying shares and the eligible portion of the collective allowance.

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

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

(in millions of dollars and as a percentage)	As at December 31, 2019	As at December 31, 2018
<b>Capital</b>		
Tier 1A capital	\$ 11,073	\$ 9,897
Tier 1 capital	11,073	9,897
Total capital	11,073	9,897
<b>Risk-weighted assets for capital calculation purposes</b>		
For Tier 1A capital	65,397	63,106
For Tier 1 capital	65,397	63,150
For total capital	65,397	63,193
<b>Risk-weighted assets for total capital calculation purposes</b>		
Credit risk <sup>(1)</sup>	53,243	49,216
Market risk	3,091	5,396
Operational risk	9,063	8,581
<b>Total risk-weighted assets</b>	<b>\$ 65,397</b>	<b>\$ 63,193</b>
<b>Ratios and leverage ratio exposure</b>		
Tier 1A capital	16.9%	15.7%
Tier 1 capital	16.9	15.7
Total capital	16.9	15.7
Leverage	9.0	7.4
Leverage ratio exposure	<b>\$ 123,322</b>	<b>\$ 134,198</b>

<sup>(1)</sup> The scaling factors used to take into account the requirements for the CVA charge have been phased in since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios. They were respectively 80%, 83% and 86% in 2018. For fiscal 2019, in accordance with the AMF guideline, the CVA charge is entirely included in credit risk.

### COMPLIANCE WITH REQUIREMENTS

The Federation and its subsidiaries that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2019, as they were in the previous year.

## NOTE 25 – NET INTEREST INCOME AND NET INVESTMENT INCOME

### NET INTEREST INCOME

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

For the year ended December 31	2019	2018
<b>Interest income on financial assets</b>		
At amortized cost	\$ 2,948	\$ 2,624
At fair value through other comprehensive income	159	166
At fair value through profit or loss	22	37
	<b>3,129</b>	<b>2,827</b>
<b>Interest expense on financial liabilities</b>		
At amortized cost	1,590	1,326
	<b>\$ 1,539</b>	<b>\$ 1,501</b>

### NET INVESTMENT INCOME

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

For the years ended December 31	2019			2018		
	Interest income and expense	Fair value gains (losses) and other	Total	Interest income and expense	Fair value gains (losses) and other	Total
<b>Net investment income on financial assets and liabilities</b>						
Classified as at fair value through profit or loss	\$ 302	\$ 350	\$ 652	\$ 371	\$ (625)	\$ (254)
Designated as at fair value through profit or loss	533	1,385	1,918	505	(446)	59
Classified as at fair value through other comprehensive income	143	45	188	136	(14)	122
At amortized cost and other	134	53	187	144	99	243
	<b>\$ 1,112</b>	<b>\$ 1,833</b>	<b>\$ 2,945</b>	<b>\$ 1,156</b>	<b>\$ (986)</b>	<b>\$ 170</b>

## NOTE 26 – NON-INTEREST EXPENSE – OTHER

For the years ended December 31, “Non-interest expense – Other” presented in the Consolidated Statements of Income consisted of the following:

	2019	2018
Commissions	\$ 830	\$ 774
Recovery of expenses related to reinsurance	(77)	(73)
Professional fees	622	567
Business and capital taxes	337	322
Other employee expenses	140	108
Amortization of intangible assets	84	89
Sponsorships and donations	32	44
Other	731	703
	<b>\$ 2,699</b>	<b>\$ 2,534</b>

## NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS

### INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense recognized in the Consolidated Financial Statements for the years ended December 31 is detailed as follows:

	2019	2018
<b>Consolidated Statements of Income</b>		
Current income taxes		
Current income tax expense on surplus earnings	\$ 267	\$ 412
Adjustments for current tax of prior years	-	(11)
Current tax recovery on remuneration on capital stock	(71)	(136)
Tax recovery on dividends to member caisses	(31)	(19)
	<b>165</b>	<b>246</b>
Deferred income taxes		
Origination and reversal of temporary differences	15	(58)
Changes in tax rates	1	1
	<b>16</b>	<b>(57)</b>
	<b>\$ 181</b>	<b>\$ 189</b>
<b>Consolidated Statements of Comprehensive Income</b>		
Current income taxes	\$ 74	\$ (127)
Deferred income taxes	(93)	35
	<b>(19)</b>	<b>(92)</b>
<b>Total income tax expense</b>	<b>\$ 162</b>	<b>\$ 97</b>

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

	2019	2018
Income taxes on surplus earnings	\$ 212	\$ 208
Tax recovery on dividends to member caisses	(31)	(19)
<b>Income taxes on surplus earnings</b>	<b>\$ 181</b>	<b>\$ 189</b>

### TAX RATE RECONCILIATION

The income tax expense on surplus earnings recognized in the Consolidated Statements of Income for the years ended December 31 differs from the income tax expense determined using the Canadian statutory rate for the following reasons:

	2019	2018
Income taxes at the combined Canadian federal and provincial statutory rate of 26.63% (26.83% in 2018)	\$ 354	\$ 399
Non-taxable investment income and other items	(150)	(93)
Changes in tax rates	1	1
Non-deductible expenses	7	4
Adjustment for current tax of prior years	-	(11)
Tax recovery on remuneration on capital stock	(71)	(136)
Tax rate differential applicable to the gain on disposal of subsidiaries	-	2
Other	40	23
	<b>\$ 181</b>	<b>\$ 189</b>

## NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS (continued)

### DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Consolidated Balance Sheets		Consolidated Statements of Income	
	As at December 31, 2019	As at December 31, 2018	2019	2018
<b>Deferred tax assets</b>				
Lease liabilities	\$ 90	\$ -	\$ (90)	\$ -
Insurance contract liabilities	-	-	-	9
Allowance for credit losses	120	133	13	(26)
Net defined benefit plan liabilities	518	419	(2)	7
Tax losses	221	168	(53)	(84)
Other	168	175	7	9
	1,117	895	(125)	(85)
<b>Deferred tax liabilities</b>				
Property, plant and equipment, intangible assets and investment property	177	164	13	10
Right-of-use assets	88	-	88	-
Securities and other financial instruments	48	64	(1)	(7)
Insurance contract liabilities	66	25	41	25
	379	253	141	28
<b>Net deferred income tax assets</b>	<b>\$ 738</b>	<b>\$ 642</b>	<b>\$ 16</b>	<b>\$ (57)</b>

For the purposes of presenting the Consolidated Balance Sheets, deferred tax assets and liabilities are measured by legal entities and presented as follows:

	As at December 31, 2019	As at December 31, 2018
Deferred tax assets <sup>(1)</sup>	\$ 1,015	\$ 896
Deferred tax liabilities <sup>(1)</sup>	277	254
	\$ 738	\$ 642

<sup>(1)</sup> Deferred income taxes will reverse mainly in the long term.

There were no deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Consolidated Balance Sheets as at December 31, 2019 and 2018.

## NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

### COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, the Federation uses credit instruments and off-balance sheet guarantees to meet the financing needs of its member caisses and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that the Federation granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that the Federation could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that the Federation could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater than the amount recognized in the Consolidated Balance Sheets.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Consolidated Balance Sheets expose the Federation to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2019	As at December 31, 2018
Commitments		
Credit commitments	\$ 67,490	\$ 107,415
Indemnification commitments related to securities lending	1,985	2,474
Documentary letters of credit	6	1
Financial guarantees		
Guarantees and standby letters of credit	717	847
Credit default swaps	195	537

#### Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that member caisses and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

#### Indemnification commitments related to securities lending

As part of its asset custody operations, the Federation enters into securities lending agreements with clients. The Federation makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount. There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

#### Documentary letters of credit

Documentary letters of credit are instruments issued for a client and represent the Federation's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. The Federation is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

#### Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by the Federation to make payments in the event that a client cannot meet financial obligations to third parties. The Federation's policy with respect to collateral received for these instruments is generally the same as for loans.

#### Credit default swaps

In the normal course of its investment operations, the Federation entered into credit default swaps and undertook to assume the credit risk for the bonds that constitute the underlying assets for these swaps. The guarantee given is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection.

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

### Other indemnification agreements

In the normal course of its operations, the Federation enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, the Federation may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that the Federation could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

### ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, the Federation enters into asset pledge agreements and receives from its clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor's right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of the Federation's financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	As at December 31, 2019	As at December 31, 2018
<b>Financial assets of the Federation pledged as collateral:</b>		
Cash and deposits with financial institutions	\$ 18	\$ 63
Securities	12,463	19,340
Loans	4,141	4,149
Other	-	1
	<b>16,622</b>	<b>23,553</b>
<b>Assets from third parties:</b>		
Assets held as collateral that may be sold or repledged	16,629	14,658
Less: Assets not sold or not repledged	760	4,123
	<b>15,869</b>	<b>10,535</b>
	<b>\$ 32,491</b>	<b>\$ 34,088</b>
<b>Use of assets:</b>		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	\$ 15,469	\$ 16,617
Transactions involving commitments related to securities sold short	10,639	10,193
Securitization transactions	185	42
Transactions on derivative financial instruments	114	197
Clearing systems, payment systems and depositories <sup>(1)</sup>	4,744	4,916
Transactions involving provisions for claims and adjustment expenses <sup>(2)</sup>	1,340	1,918
Caisse network money supply from the Bank of Canada	-	205
	<b>\$ 32,491</b>	<b>\$ 34,088</b>

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

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



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

### PRIVACY BREACH

During 2019, Desjardins Group announced that personal information on its members had been communicated to persons outside the organization, and that the ill-intentioned employee had quickly been identified and dismissed. In light of this situation, Desjardins Group developed Desjardins Identity Protection, which has four components (protection, support, reimbursement and monitoring) and is provided at Desjardins's expense to all members and clients who do business with Desjardins. The expenses related to costs incurred and the establishment of a provision for the implementation of the Desjardins Identity Protection totalled \$108 million for the year ended December 31, 2019.

### LITIGATION

In the normal course of its business, the Federation is involved in various litigation matters and legal proceedings. It is not currently possible to predict the outcome of certain of these litigation matters and legal proceedings, the timing of such outcomes, or the potential impact on the financial position of the Federation. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and legal proceedings, to the extent that it can be measured, could have an impact on the profit or loss of the Federation for a specific period, but would not have a significant adverse impact on its financial position.

## NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT

The Federation and its subsidiaries are exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which the Federation assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas and tables marked with an asterisk (\*) presented in that section are an integral part of these Consolidated Financial Statements. In addition, information on credit risk related to the recognition and measurement of expected credit losses are presented in these Consolidated Financial Statements, mainly in Note 2, "Basis of presentation and significant accounting policies", and in Note 7, "Loans and allowance for credit losses".

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

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

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

Note 16, "Insurance contract liabilities", provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

## NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT (suite)

### CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)

As at December 31, 2019 <sup>(1)</sup>	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
<b>Assets</b>										
Cash and deposits with financial institutions	\$ 2,637	\$ 428	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ 3,084
<b>Securities</b>										
Securities at fair value through profit or loss <sup>(2)</sup>	18	442	1,068	296	1,014	1,650	6,395	19,452	4,832	35,167
Securities at fair value through other comprehensive income <sup>(2)</sup>	353	330	379	255	185	1,479	6,715	2,895	59	12,650
Securities at amortized cost	567	468	263	166	113	1	4	34	-	1,616
Securities borrowed or purchased under reverse repurchase agreements	11,070	282	-	-	-	-	-	-	-	11,352
<b>Loans</b>										
Residential mortgages <sup>(3)</sup>	66	47	132	154	155	652	1,706	1,261	10	4,183
Consumer, credit card and other personal loans <sup>(3)</sup>	16	43	130	188	287	1,331	5,481	5,235	7,856	20,567
Business and government <sup>(3)</sup>	8,071	2,137	2,339	1,144	1,107	5,748	11,327	1,767	7,187	40,827
Allowance for credit losses	-	-	-	-	-	-	-	-	(464)	(464)
Segregated fund net assets	-	-	-	-	-	-	-	-	17,026	17,026
Clients' liability under acceptances	368	12	-	-	-	-	-	-	-	380
Premiums receivable	195	73	15	3	-	-	-	-	2,403	2,689
Derivative financial instruments	129	143	255	178	316	1,037	2,492	245	-	4,795
Amounts receivable from clients, brokers and financial institutions	2,142	3	-	-	-	-	-	-	94	2,239
Reinsurance assets	37	70	82	70	65	174	380	1,002	121	2,001
Right-of-use assets	-	-	-	-	-	-	-	-	298	298
Investment property	-	-	-	-	-	-	-	-	944	944
Property, plant and equipment	-	-	-	-	-	-	-	-	840	840
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	381	381
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,034	1,034
Deferred tax assets	-	-	-	-	-	-	-	-	1,015	1,015
Other assets	271	84	74	5	10	24	57	7	1,136	1,668
<b>Total assets</b>	<b>\$ 25,940</b>	<b>\$ 4,562</b>	<b>\$ 4,747</b>	<b>\$ 2,459</b>	<b>\$ 3,252</b>	<b>\$ 12,096</b>	<b>\$ 34,557</b>	<b>\$ 31,898</b>	<b>\$ 44,902</b>	<b>\$ 164,413</b>

For footnotes see next page.

## NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT (suite)

### CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)

As at December 31, 2019 <sup>(1)</sup>	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
<b>Liabilities and equity</b>										
<b>Deposits</b>										
Individuals <sup>(4)</sup>	\$ 41	\$ 26	\$ 33	\$ 28	\$ 44	\$ 102	\$ 211	\$ 62	\$ 3,168	\$ 3,715
Business and government <sup>(4)</sup>	7,260	5,656	3,591	3,153	4,867	2,731	12,520	3,311	5,835	48,924
Deposit-taking institutions <sup>(4)</sup>	152	98	257	173	204	819	2,029	5	2,596	6,333
Acceptances	368	12	-	-	-	-	-	-	-	380
Commitments related to securities sold short <sup>(5)</sup>	495	201	171	9	7	196	1,866	7,668	2	10,615
Commitments related to securities lent or sold under repurchase agreements	10,562	-	-	-	-	-	-	-	-	10,562
Derivative financial instruments	152	198	307	218	238	1,067	2,506	141	-	4,827
Amounts payable to clients, brokers and financial institutions	2,695	-	-	-	-	-	-	-	2,857	5,552
Lease liabilities	3	4	7	7	7	26	78	210	8	350
Insurance contract liabilities	442	792	980	858	798	1,931	4,492	18,520	2,824	31,637
Segregated fund net liabilities	-	-	-	-	-	-	-	-	17,002	17,002
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,956	1,956
Deferred tax liabilities	-	-	-	-	-	-	-	-	277	277
Other liabilities	2,225	423	417	25	25	45	110	44	2,059	5,373
Subordinated notes	-	-	899	-	-	-	-	499	-	1,398
Total equity	-	-	-	-	-	-	-	-	15,512	15,512
<b>Total liabilities and equity</b>	<b>\$ 24,395</b>	<b>\$ 7,410</b>	<b>\$ 6,662</b>	<b>\$ 4,471</b>	<b>\$ 6,190</b>	<b>\$ 6,917</b>	<b>\$ 23,812</b>	<b>\$ 30,460</b>	<b>\$ 54,096</b>	<b>\$ 164,413</b>
<b>Off-balance sheet commitments</b>										
Credit commitments <sup>(6)</sup>	\$ 966	\$ 50	\$ 395	\$ 335	\$ 549	\$ 3,566	\$ 7,977	\$ 513	\$ 53,139	\$ 67,490
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,985	1,985
Documentary letters of credit	-	-	-	-	-	6	-	-	-	6
Guarantees and standby letters of credit	25	129	52	225	147	6	9	38	86	717
Credit default swaps	-	-	-	-	-	-	195	-	-	195

<sup>(1)</sup> The information presented as at December 31, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Consolidated Financial Statements.

<sup>(2)</sup> Equity securities are classified under "No stated maturity".

<sup>(3)</sup> Amounts repayable on demand are classified under "No stated maturity".

<sup>(4)</sup> Deposits payable on demand or upon notice are considered as having "No stated maturity".

<sup>(5)</sup> Amounts are presented by remaining contractual maturity of the underlying security.

<sup>(6)</sup> Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Federation's discretion.

## NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT (suite)

### CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)

As at December 31, 2018 <sup>(1)</sup>	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
<b>Assets</b>										
Cash and deposits with financial institutions	\$ 2,435	\$ 308	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5)	\$ 2,738
<b>Securities</b>										
Securities at fair value through profit or loss <sup>(2)</sup>	167	718	1,409	977	1,470	2,947	8,471	16,332	4,423	36,914
Securities at fair value through other comprehensive income <sup>(2)</sup>	1,594	767	755	255	293	1,261	3,607	2,556	43	11,131
Securities at amortized cost	1,124	172	196	89	2	1	5	32	-	1,621
Securities borrowed or purchased under reverse repurchase agreements	13,728	311	47	-	-	-	-	-	-	14,086
<b>Loans</b>										
Residential mortgages <sup>(3)</sup>	46	19	102	110	274	547	2,210	1,306	12	4,626
Consumer, credit card and other personal loans <sup>(3)</sup>	52	65	165	189	279	1,061	5,229	5,298	7,372	19,710
Business and government <sup>(3)</sup>	7,148	1,962	1,704	1,243	1,406	5,626	10,527	1,798	6,578	37,992
Allowance for credit losses	-	-	-	-	-	-	-	-	(491)	(491)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,234	13,234
Clients' liability under acceptances	124	36	-	-	-	-	-	-	-	160
Premiums receivable	178	64	13	3	-	-	-	-	2,120	2,378
Derivative financial instruments	235	391	191	359	215	919	1,843	213	10	4,376
Amounts receivable from clients, brokers and financial institutions	1,455	1	-	-	-	-	-	-	31	1,487
Reinsurance assets	38	76	77	70	68	198	390	1,041	-	1,958
Investment property	-	-	-	-	-	-	-	-	943	943
Property, plant and equipment	-	-	-	-	-	-	-	-	811	811
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	389	389
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	907	907
Deferred tax assets	-	-	-	-	-	-	-	-	896	896
Other assets	297	95	75	3	12	9	26	5	1,051	1,573
<b>Total assets</b>	<b>\$ 28,621</b>	<b>\$ 4,985</b>	<b>\$ 4,734</b>	<b>\$ 3,298</b>	<b>\$ 4,019</b>	<b>\$ 12,569</b>	<b>\$ 32,308</b>	<b>\$ 28,581</b>	<b>\$ 38,445</b>	<b>\$ 157,560</b>

For footnotes see next page.

## NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT (suite)

### CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)

As at December 31, 2018 <sup>(1)</sup>	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
<b>Liabilities and equity</b>										
Deposits										
Individuals <sup>(4)</sup>	\$ 659	\$ 101	\$ 33	\$ 28	\$ 42	\$ 90	\$ 142	\$ 3	\$ 3,007	\$ 4,105
Business and government <sup>(4)</sup>	7,936	5,480	2,142	3,575	3,872	7,396	10,200	2,129	4,668	47,398
Deposit-taking institutions <sup>(4)</sup>	139	151	377	105	169	691	1,852	13	3,057	6,554
Acceptances	124	36	-	-	-	-	-	-	-	160
Commitments related to securities sold short <sup>(5)</sup>	19	490	136	38	1	780	4,316	5,049	-	10,829
Commitments related to securities lent or sold under repurchase agreements	16,233	-	-	-	-	-	-	-	-	16,233
Derivative financial instruments	128	148	163	119	156	656	1,704	248	10	3,332
Amounts payable to clients, brokers and financial institutions	2,078	4	-	-	-	-	-	-	2,023	4,105
Insurance contract liabilities	430	783	929	847	800	1,853	4,286	16,289	2,547	28,764
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,212	13,212
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,578	1,578
Deferred tax liabilities	-	-	-	-	-	-	-	-	254	254
Other liabilities	2,298	407	288	30	15	95	102	42	1,828	5,105
Subordinated notes	-	-	-	-	-	879	-	499	-	1,378
Total equity	-	-	-	-	-	-	-	-	14,553	14,553
<b>Total liabilities and equity</b>	<b>\$ 30,044</b>	<b>\$ 7,600</b>	<b>\$ 4,068</b>	<b>\$ 4,742</b>	<b>\$ 5,055</b>	<b>\$ 12,440</b>	<b>\$ 22,602</b>	<b>\$ 24,272</b>	<b>\$ 46,737</b>	<b>\$ 157,560</b>
<b>Off-balance sheet commitments</b>										
Credit commitments <sup>(6)</sup>	\$ 3,792	\$ 138	\$ 687	\$ 571	\$ 1,052	\$ 2,469	\$ 7,778	\$ 496	\$ 90,432	\$ 107,415
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,474	2,474
Commitments under leases	4	7	11	11	10	38	94	167	-	342
Documentary letters of credit	-	1	-	-	-	-	-	-	-	1
Guarantees and standby letters of credit	18	79	78	191	374	12	16	75	4	847
Credit default swaps	-	-	-	-	-	-	537	-	-	537

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

<sup>(2)</sup> Equity securities are classified under "No stated maturity".

<sup>(3)</sup> Amounts repayable on demand are classified under "No stated maturity".

<sup>(4)</sup> Deposits payable on demand or upon notice are considered as having "No stated maturity".

<sup>(5)</sup> Amounts are presented by remaining contractual maturity of the underlying security.

<sup>(6)</sup> Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Federation's discretion.

## NOTE 30 – SEGMENTED INFORMATION

The Federation is made up of the three following segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. These segments have been structured according to the needs of the members of the Desjardins caisse network and clients and the markets in which the Federation operates, and they reflect the Federation's internal management method. Financial information related to activities that are not specific to a business segment is presented under the Treasury and Other Support to Desjardins Group Entities category.

The Personal and Business Services segment is responsible for upgrading and marketing a comprehensive, integrated offer designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. The line of products and services includes day-to-day, convenience transactions, savings, payment, financing, specialized services, access to capital markets, development capital, business ownership transfers and advice. The Personal and Business Services segment supports the caisses and their service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through the introduction and management of complementary access networks, by phone, online and via, applications for mobile devices, as well as ATMs.

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

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in Québec and outside Québec, online and via applications for mobile devices.

The Treasury and Other Support to Desjardins Group Entities category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities and activities related to financial intermediation between surplus liquidity and the liquidity needs of the caisses, as well as orientation and organizational activities for Desjardins Group. This category also includes the operations of Desjardins Capital Inc. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to the various adjustments that are necessary to prepare the consolidated financial statements, the intersegment balance eliminations are classified in this category.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Consolidated Financial Statements of the Federation.

## NOTE 30 – SEGMENTED INFORMATION (continued)

### RESULTS BY BUSINESS SEGMENT

The following table provides a summary of the Federation's financial results by business segment for the years ended December 31.

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	\$ 1,250	\$ 1,144	\$ 5	\$ 4	\$ -	\$ -	\$ 284	\$ 353	\$ 1,539	\$ 1,501
Net premiums	-	-	4,685	4,676	4,988	4,402	(148)	(155)	9,525	8,923
Other income	2,143	1,684	4,038	2,103	153	148	465	463	6,799	4,398
<b>Total income</b>	<b>3,393</b>	<b>2,828</b>	<b>8,728</b>	<b>6,783</b>	<b>5,141</b>	<b>4,550</b>	<b>601</b>	<b>661</b>	<b>17,863</b>	<b>14,822</b>
Provision for credit losses	308	288	1	(1)	-	-	1	1	310	288
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	5,497	3,369	3,665	3,209	10	6	9,172	6,584
Non-interest expense	2,281	2,137	2,348	2,296	1,229	1,127	1,080	832	6,938	6,392
<b>Operating surplus earnings</b>	<b>804</b>	<b>403</b>	<b>882</b>	<b>1,119</b>	<b>247</b>	<b>214</b>	<b>(490)</b>	<b>(178)</b>	<b>1,443</b>	<b>1,558</b>
Income taxes on surplus earnings	159	102	153	225	60	41	(160)	(160)	212	208
<b>Surplus earnings before dividends to member caisses<sup>(1)</sup></b>	<b>645</b>	<b>301</b>	<b>729</b>	<b>894</b>	<b>187</b>	<b>173</b>	<b>(330)</b>	<b>(18)</b>	<b>1,231</b>	<b>1,350</b>
Dividends to member caisses, net of income tax recovery	-	-	-	-	-	-	84	51	84	51
<b>Net surplus earnings for the year after dividends to member caisses</b>	<b>\$ 645</b>	<b>\$ 301</b>	<b>\$ 729</b>	<b>\$ 894</b>	<b>\$ 187</b>	<b>\$ 173</b>	<b>\$ (414)</b>	<b>\$ (69)</b>	<b>\$ 1,147</b>	<b>\$ 1,299</b>
<b>of which:</b>										
Group's share	\$ 645	\$ 301	\$ 729	\$ 894	\$ 141	\$ 132	\$ (414)	\$ (69)	\$ 1,101	\$ 1,258
Non-controlling interests' share	-	-	-	-	46	41	-	-	46	41

<sup>(1)</sup> For the year ended December 31, 2019, the Group's share of "Surplus earnings before dividends to member caisses" was \$645 million (\$301 million in 2018) for the Personal and Business Services segment, \$729 million (\$894 million in 2018) for the Wealth Management and Life and Health Insurance segment, \$141 million (\$132 million in 2018) for the Property and Casualty Insurance segment and \$(330) million (\$(18) million in 2018) for the Treasury and Other Support to Desjardins Group entities category.

### SEGMENT ASSETS

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
<b>As at December 31, 2019</b>	<b>\$ 61,885</b>		<b>\$ 48,329</b>		<b>\$ 13,860</b>		<b>\$ 40,339</b>		<b>\$ 164,413</b>	
As at December 31, 2018	\$ 60,982		\$ 41,916		\$ 13,007		\$ 41,655		\$ 157,560	

## NOTE 31 – RELATED PARTY DISCLOSURES

The Federation's related parties include entities included in the group scope of Desjardins Group and primarily member caisses. They also include associates, joint ventures and employee benefit plans, as well as certain entities for which the substance of the relationship indicates that they are related to the Federation, including the Desjardins Funds. In addition, they include key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

### TRANSACTIONS WITH THE FEDERATION'S RELATED PARTIES

Transactions with the Federation's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The Federation and its subsidiaries carry out transactions with related parties, and primarily member caisses. Services rendered to member caisses include various technical, administrative and financial services for which income, such as assessments and fees, are earned. On the other hand, member caisses earn remuneration income from the Federation on products and services such as credit cards, payroll services, as well as fund and investment services and financial engineering. The Federation also plays a treasurer role, which allows the caisses to borrow or lend liquidities. Swaps are also entered into between member caisses and the Federation.

Through Desjardins Investments Inc., the Federation earns management fees as manager of the Desjardins Funds for the following services: accounting, record-keeping, securities custody, portfolio management and transfer agent services. Through Desjardins Trust Inc., the Federation also earns fees as fund custodian. Finally, the Federation also earns management income from pension plans and pays interest expense to the Desjardins Group Pension Plan.

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

	2019				2018			
	Member caisses	Associates / Joint ventures	Other related parties	Total	Member caisses	Associates / Joint ventures	Other related parties	Total
<b>Consolidated Statements of Income</b>								
Interest income	\$ 686	\$ 5	\$ -	\$ 691	\$ 667	\$ 3	\$ -	\$ 670
Interest expense	(182)	(1)	(2)	(185)	(169)	(1)	(2)	(172)
Net premiums	113	-	1	114	100	-	1	101
Assessments	380	-	13	393	376	-	16	392
Service agreements	826	-	30	856	694	-	14	708
Brokerage and investment fund services	-	1	560	561	-	2	544	546
Investment income	(2)	3	(88)	(87)	(41)	4	55	18
Other income	226	9	(46)	189	184	10	121	315
Remuneration and other	(578)	-	-	(578)	(563)	-	-	(563)
Other expenses	(254)	(5)	(3)	(262)	(112)	(5)	4	(113)
<b>Consolidated Balance Sheets</b>								
Cash and deposits with financial institutions	\$ 150	\$ -	\$ -	\$ 150	\$ 168	\$ -	\$ -	\$ 168
Securities	-	98	111	209	1	99	178	278
Securities borrowed or purchased under reverse repurchase agreements	1,320	-	484	1,804	2,152	-	657	2,809
Segregated fund net assets	26,832	105	-	26,937	25,805	75	-	25,880
Loans	-	-	1,602	1,602	-	-	1,237	1,237
Other assets	757	2	23	782	978	3	68	1,049
Deposits	5,752	66	331	6,149	6,391	49	154	6,594
Commitments related to securities lent or sold under repurchase agreements	-	-	15	15	-	-	149	149
Derivative financial instruments	3,347	-	73	3,420	1,831	-	15	1,846
Other liabilities	565	1	6	572	663	1	3	667
<b>Other</b>								
Credit commitments given	\$ 398	\$ 36	\$ 429	\$ 863	\$ 43,966	\$ -	\$ 242	\$ 44,208
Guarantees given	81	6	15	102	1	-	149	150
Credit commitments received	35	-	-	35	34	-	-	34
Guarantees received	1,335	-	484	1,819	2,172	-	657	2,829



## NOTE 31 – RELATED PARTY DISCLOSURES *(continued)*

### KEY MANAGEMENT PERSONNEL COMPENSATION

The Federation's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Federation. In the normal course of operations, the Federation carries out financial transactions with its management personnel. In addition to the compensation paid to key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance, and property and casualty insurance transactions with the various entities included in the scope of consolidation of the Federation. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of the Federation's key management personnel was as follows:

	2019	2018
Short-term benefits	\$ 14	\$ 15
Long-term and post-employment benefits	7	6
	\$ 21	\$ 21

## NOTE 32 – SUBSEQUENT EVENT

On February 1, 2020, The Federation acquired from La Capitale a high-quality mortgage portfolio for a total amount of \$474 million. This acquisition enabled Desjardins Group to solidify its position as a leader in the Québec residential mortgage market.