



Working together





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DESJARDINS GROUP ANNUAL REPORT

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This annual report was produced by the Human Resources and Communications Executive Division of Desjardins Group (Corporate Communications Division) and the Finance, Treasury and Administration Executive Division of Desjardins Group (Finance Division).

Message from management

A year of engagement and resilience

In 2019, our elected directors and our employees took the cultural shift to new heights and showed just how committed they are to always doing what's best for members and clients.

In response to the privacy breach, we rallied together to find the best possible solutions for our members and clients. Today, they can count on fraud and identity protection that's second to none in the Canadian financial services sector.

We also demonstrated our commitment to implementing security and reporting best practices by setting up the Desjardins Group Security Office.

We'd like to thank our members and clients for their understanding and solidarity. We're so grateful they've placed their trust in us and continue to choose Desjardins to meet their needs.

Results that reflect the trust of our members and clients

Thanks to our members' and clients' support, we delivered a strong performance in 2019. The Federation posted surplus earnings before dividends to member caisses of \$1,231 million. Operating income totalled \$15,110 million, up \$981 million, or 6.9%, over 2018.

These results account for costs incurred and the establishment of a provision to implement Desjardins Identity Protection following the privacy breach, totalling \$108 million in 2019. The same year, there was a \$309 million gain net of income taxes from the disposal of the Federation's entire merchant portfolio, which was housed under the Monetico brand. In 2018, there was a \$129 million gain net of income taxes from the creation of Aviso Wealth. Also in 2018, a reduction in provisions related to the investment portfolio and the impact of changes to the post-retirement benefit plan had a favourable impact on non-interest expense.

Staying focused on our priorities

Throughout 2019, we continued our efforts to simplify the day-to-day management of finances and insurance for our members and clients. For example, while first-time homebuyers can still meet with a mortgage advisor in person if they want, we now also offer an all-in-one digital solution designed to help them achieve their dream of home ownership. Accessible on computers, tablets and smartphones, this solution guides them through the steps of buying their first home.

We provided strong socio-economic leadership in 2019. Our \$100 million fund supported projects focused on reinvigorating the social and economic landscapes of communities all across Quebec and Ontario.

Over the past year, we've expanded our commitment to young people. We now dedicate \$50 million annually to initiatives that help young people shine in areas like education, employment, entrepreneurship and eco-citizenship.

We're making great strides toward our goal of parity in decision-making bodies and management. In 2019, representation of women increased on our boards and in senior management. We're proud to have reached an important milestone: women now hold 30% of board and senior management positions overall, and this number is even higher in many parts of the organization.



Guy Cormier
President and CEO of Desjardins Group



Réal Bellemare
Senior Executive Vice-President and Chief
Operating Officer of Desjardins Group

Strengthening our responsible finance and sustainable development commitments

We were the first Canadian financial institution to sign the *Principles for Responsible Banking*. Our 2 insurance subsidiaries also signed on to the *Principles for Sustainable Insurance* under the Desjardins Insurance banner. We're also long-standing signatories of the *Principles for Responsible Investment*.

By formally committing to these United Nations-backed principles, we're fast-tracking the integration of environmental, social and governance (ESG) criteria into our business model.

We continue to lead in the Canadian renewables sector with new green energy infrastructure investments. As at December 31, 2019, in partnership with the Desjardins Group Pension Plan, we had invested almost \$1.25 billion, or 46.3% of our infrastructure portfolio, in the sector.

By year-end 2019, we had reduced the carbon footprint of our assets invested in publicly traded securities by almost 15% compared to the benchmark indexes. We're on track to meet our goal of a 25% reduction by the end of 2020.

We're a strong advocate for a just energy transition. By championing green, responsible products and services, we hope to have a positive influence on our members and clients.

Working together to enrich the lives of people and communities

We're starting 2020 with a great deal of determination, knowing that we can count on the support of all our elected directors, our managers and our employees. They're all committed to enriching the lives of our 7 million members and clients, and their communities. We're so grateful for them!



Guy Cormier
President and CEO of Desjardins Group



Réal Bellemare
Senior Executive Vice-President
and Chief Operating Officer of
Desjardins Group

Our strong and distinctive mission, vision and values

DESJARDINS GROUP'S MISSION

To contribute to improving the economic and social well-being of people and communities within the compatible limits of our field of activity:

- by continually developing an integrated cooperative network of secure and profitable financial services, owned and administered by our members, as well as a network of complementary financial organizations with competitive returns, controlled by our members
- by educating people, starting with our members, directors and employees, about democracy, economics, solidarity and individual and collective responsibility

VISION

To leverage our position as Canada's leading cooperative financial group to inspire confidence around the world through the commitment of our people, our financial strength and our contribution to sustainable and shared prosperity.

VALUES

- Money at the service of human development
- Personal commitment
- Democratic action
- Integrity and rigour in the cooperative enterprise
- Solidarity with the community
- Intercooperation

Fédération des caisses Desjardins du Québec Management's Discussion and Analysis

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

The Management's Discussion and Analysis (MD&A) dated February 26, 2020, presents the analysis of the results of and main changes to the Federation's balance sheet for the year ended December 31, 2019, in comparison to previous fiscal years. The Federation reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Information on the Federation's controls and procedures is presented in the "Additional information" section of this MD&A.

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

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

The 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. IFRS represent Canadian generally accepted accounting principles (GAAP). The Federation modified certain accounting policies following the adoption of IFRS 16, "Leases", on January 1, 2019. For more information about the accounting policies used as well as the accounting policy changes, see Note 2, "Basis of presentation and significant accounting policies", to the Consolidated Financial Statements.

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

NON-GAAP MEASURES

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

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

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

Adjusted surplus earnings of the Federation before dividends to member caisses

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

The Federation's surplus earnings before dividends to member caisses are adjusted to exclude the following specific items: the gain, net of income taxes, related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017, the gain, net of income taxes, related to the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth, and the gain, net of income taxes, related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand to Global Payments, completed on December 31, 2019.

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

Table 1 – Adjusted surplus earnings of the Federation before dividends to member caisses

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Presentation of surplus earnings before dividends to member caisses in the Consolidated Financial Statements	\$ 1,231	\$ 1,350	\$ 1,416
Specific items, net of income taxes			
Gain related to the sale of Western Financial Group Inc. and Western Life Assurance Company	-	-	(249)
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	-	(129)	-
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	(309)	-	-
Presentation of the adjusted surplus earnings before dividends to member caisses	\$ 922	\$ 1,221	\$ 1,167

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

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

Adjusted net surplus earnings – Personal and Business Services segment

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

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

Table 2 – Adjusted net surplus earnings – Personal and Business Services segment

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Presentation of surplus earnings of the Personal and Business Services segment in the Consolidated Financial Statements	\$ 645	\$ 301	\$ 317
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	(309)	-	-
Presentation of the adjusted surplus earnings of the Personal and Business Services segment	\$ 336	\$ 301	\$ 317

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

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

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

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

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

Table 3 – Adjusted net surplus earnings – Wealth Management and Life and Health Insurance segment

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Presentation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment in the Consolidated Financial Statements	\$ 729	\$ 894	\$ 612
Specific item, net of income taxes			
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	-	(129)	-
Presentation of the adjusted net surplus earnings of the Wealth Management and Life and Health Insurance segment	\$ 729	\$ 765	\$ 612

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

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

Adjusted net surplus earnings – Property and Casualty Insurance segment

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

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

Table 4 – Adjusted net surplus earnings – Property and Casualty Insurance segment

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

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

⁽²⁾ The difference with the data presented in Table 1, "Adjusted surplus earnings of the Federation before dividends to member caisses", is related to intersegment transaction expenses.

Gross credit-impaired loans/gross loans and acceptances

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

Table 34, "Gross credit-impaired loans by borrower category", of the Federation's MD&A provides more detailed information on this ratio.

Loss ratio – Expense ratio – Combined ratio

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

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

The loss ratio is comprised of the following ratios:

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

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

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

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

Table 5 – Loss ratio – Expense ratio – Combined ratio

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

⁽¹⁾ Due mainly to the life insurance activities of Western Life Assurance Company, the sale of which was completed on July 1, 2017.

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

Return on equity and adjusted return on equity

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

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

Table 6 – Return on equity and adjusted return on equity

(in millions of dollars and as a percentage)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Surplus earnings before dividends to member caisses	\$ 1,231	\$ 1,350	\$ 1,416
Non-controlling interests' share	(46)	(41)	(43)
Group's share	\$ 1,185	\$ 1,309	\$ 1,373
Average equity before non-controlling interests' share	\$ 14,290	\$ 15,210	\$ 14,584
Return on equity	8.3%	8.6%	9.4%
Adjusted return on equity⁽³⁾	6.3%	7.9%	7.8%

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

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

⁽³⁾ Takes into account the specific items presented under the "Adjusted surplus earnings of the Federation before dividends to member caisses" subsection in this section.

Income

Operating income

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

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

Investment income

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

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

Table 7 – Correspondence of total income between the MD&A and the Consolidated Financial Statements

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Presentation of income in the Consolidated Financial Statements			
Net interest income	\$ 1,539	\$ 1,501	\$ 1,404
Net premiums	9,525	8,923	8,146
Other income			
Assessments	393	392	377
Service agreements	773	742	727
Lending fees and credit card service revenues	782	699	660
Brokerage and investment fund services	886	905	1,030
Management and custodial service fees	610	579	514
Net investment income ⁽³⁾	2,945	170	1,767
Overlay approach adjustment for insurance operations financial assets	(192)	523	N/A
Foreign exchange income	70	92	77
Other	532	296	362
Total income	\$ 17,863	\$ 14,822	\$ 15,064
Presentation of income in the MD&A			
Net interest income	\$ 1,539	\$ 1,501	\$ 1,404
Net premiums	9,525	8,923	8,146
Other operating income			
Assessments	393	392	377
Service agreements	773	742	727
Lending fees and credit card service revenues	782	699	660
Brokerage and investment fund services	886	905	1,030
Management and custodial service fees	610	579	514
Foreign exchange income	70	92	77
Other	532	296	362
Operating income	15,110	14,129	13,297
Investment income			
Net investment income ⁽³⁾	2,945	170	1,767
Overlay approach adjustment for insurance operations financial assets	(192)	523	N/A
Investment income	2,753	693	1,767
Total income	\$ 17,863	\$ 14,822	\$ 15,064

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

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

⁽³⁾ The breakdown of this line item is presented in Note 25, "Net interest income and net investment income", to the Consolidated Financial Statements.

Credit loss provisioning rate

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

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

Table 8 – Credit loss provisioning rate

(in millions of dollars and as a percentage)	2019	2018	2017 ⁽¹⁾
Provision for credit losses	\$ 310	\$ 288	\$ 278
Average gross loans	63,006	60,309	55,101
Average gross acceptances	212	105	69
Average gross loans and acceptances	\$ 63,218	\$ 60,414	\$ 55,170
Credit loss provisioning rate	0.49%	0.48%	0.50%

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

REGULATORY ENVIRONMENT

Regulatory environment

The Act respecting financial services cooperatives and the Insurers Act

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

Regulatory capital requirements

Desjardins Group, including the Federation, complies with the minimum regulatory capital requirements issued by the AMF, which reflect the provisions of the Basel III Accord. The Federation manages financial information in compliance with AMF *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*. The Federation's financial and corporate governance are discussed on pages 79 and 80 of this MD&A and in the "Corporate governance" section of the Federation's 2019 Annual Report.

Domestic systemically important financial institution

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

U.S. regulations

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

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

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

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

The *Deposit Institutions and Deposit Protection Act* (which replaced the *Deposit Insurance Act*) provides for new rules for the supervision and control of deposit-taking activities and the activities of authorized deposit-taking institutions, as well as recovery and resolution mechanisms in the event of failure of deposit-taking institutions. For more details, see “Internal recapitalization (bail-in) regime and total loss absorbing capacity” below. Furthermore, the Act introduces a new *Insurers Act* that provides for revised supervision for Québec insurers. A significant change in this new legislation is to allow insurers to sell insurance over the Internet. A few changes aimed at modernizing the *Act respecting the distribution of financial products and services* were also introduced, such as rules for insurance brokers in offering products and new rules applicable to distributing products without a representative. In addition, in property and casualty insurance, the Act makes it mandatory for divided co-owners to have co-ownership insurance.

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

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

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

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

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

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

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

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

Changes in the regulatory environment

This section presents matters concerning changes in the regulatory environment that apply to Desjardins Group as a whole, including the Federation and its components.

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

Rules concerning capital instruments

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

[The Proceeds of Crime \(Money Laundering\) and Terrorist Financing Act \(PCMLTFA\)](#)

The final version of the amendments to the PCMLTFA and its regulations, tabled in June 2018, was published in the Canada Gazette by the Department of Finance Canada on July 10, 2019. Some of the amendments took effect upon official publication and the rest will take effect in June 2020 and June 2021. Desjardins Group is analyzing the various regulatory changes and making the required adjustments, particularly the changes to be made to the systems for electronic funds transfers and large cash transaction reports.

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

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

[Financial reforms in the U.S.](#)

Should reform initiatives in the U.S. pertaining to financial regulation become a reality, they may affect non-U.S. financial institutions operating in the U.S., including Desjardins Group. The deregulation bill of U.S. Congress and the American regulators has been set in motion, in particular with the enactment of a statute providing some relief concerning certain rules prescribed by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and a proposal for a draft regulation simplifying the Volcker rule which deals with proprietary trading and hedge fund ownership interests. On August 20, 2019, U.S. regulators at the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency approved changes to the Volcker rule. The rule was subsequently approved by the Securities and Exchange Commission and the Commodity Futures Trading Commission and finally by the U.S. Federal Reserve in October 2019. The changes took effect on January 1, 2020 and financial institutions will have until January 1, 2021 to comply. Desjardins Group is assessing the impact of these changes on its operations.

[Data confidentiality and security](#)

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

[Pillar 3 disclosure requirements](#)

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These requirements related to the third pillar aim to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group has issued a Pillar 3 Report since December 31, 2018 in order to comply with it. In October 2019, as part of a public consultation by the AMF, Pillar 3 financial disclosure requirements were removed from the *Capital Adequacy Guideline*. These requirements are now covered in a separate document entitled *Pillar 3 Disclosure Requirements Guideline*. This guideline took effect on January 1, 2020 and features new requirements extending until January 1, 2022 that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. Desjardins Group is continuing to work toward compliance with these new requirements.

[Report on Ontario's auto insurance plan](#)

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

[Modernization of the Canadian payments system](#)

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

[Report on Climate change-related Disclosure Project](#)

On August 1, 2019, the CSA issued CSA Staff Notice 51-358, Reporting of Climate Change-related Risks. The Notice is intended to assist issuers, without creating any new legal requirements, to identify and define material climate change-related risks and to improve their disclosure of such risks. The Staff Notice also mentions that the CSA will continue to monitor the quality of issuers' disclosure with respect to climate change-related matters, best practices in the area of climate change-related disclosure and the development of disclosure frameworks. Desjardins Group is closely monitoring regulatory developments in this regard.

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

Client focused reforms

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

Interest rate benchmark reform

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

Guideline on Information and Communications Technology Risk Management

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

1.0 Fédération des caisses Desjardins du Québec

1.1 Profile and structure

WHO WE ARE

The Federation is a cooperative entity which is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group and acts as a financial agent on Canadian and foreign financial markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services. The Federation’s mission also includes risk management and capital management for Desjardins Group, and it ensures the financial soundness and sustainability of the Desjardins Cooperative Group (comprised of the Desjardins caisse network in Québec, the Federation and the *Fonds de sécurité Desjardins*), pursuant to the *Act respecting financial services cooperatives*. The Federation brought together 227 caisses in Québec as at December 31, 2019 and the Caisse Desjardins Ontario Credit Union Inc. A number of its subsidiaries are active across Canada, and the Federation maintains a presence in the U.S. through Desjardins Bank, National Association. The Caisse Desjardins Ontario Credit Union Inc. is the product of a merger between the *Fédération des caisses populaires de l’Ontario Inc.* and its 11 member caisses populaires. The merger took effect on January 1, 2020.

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

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

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

WHAT MAKES US DIFFERENT

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

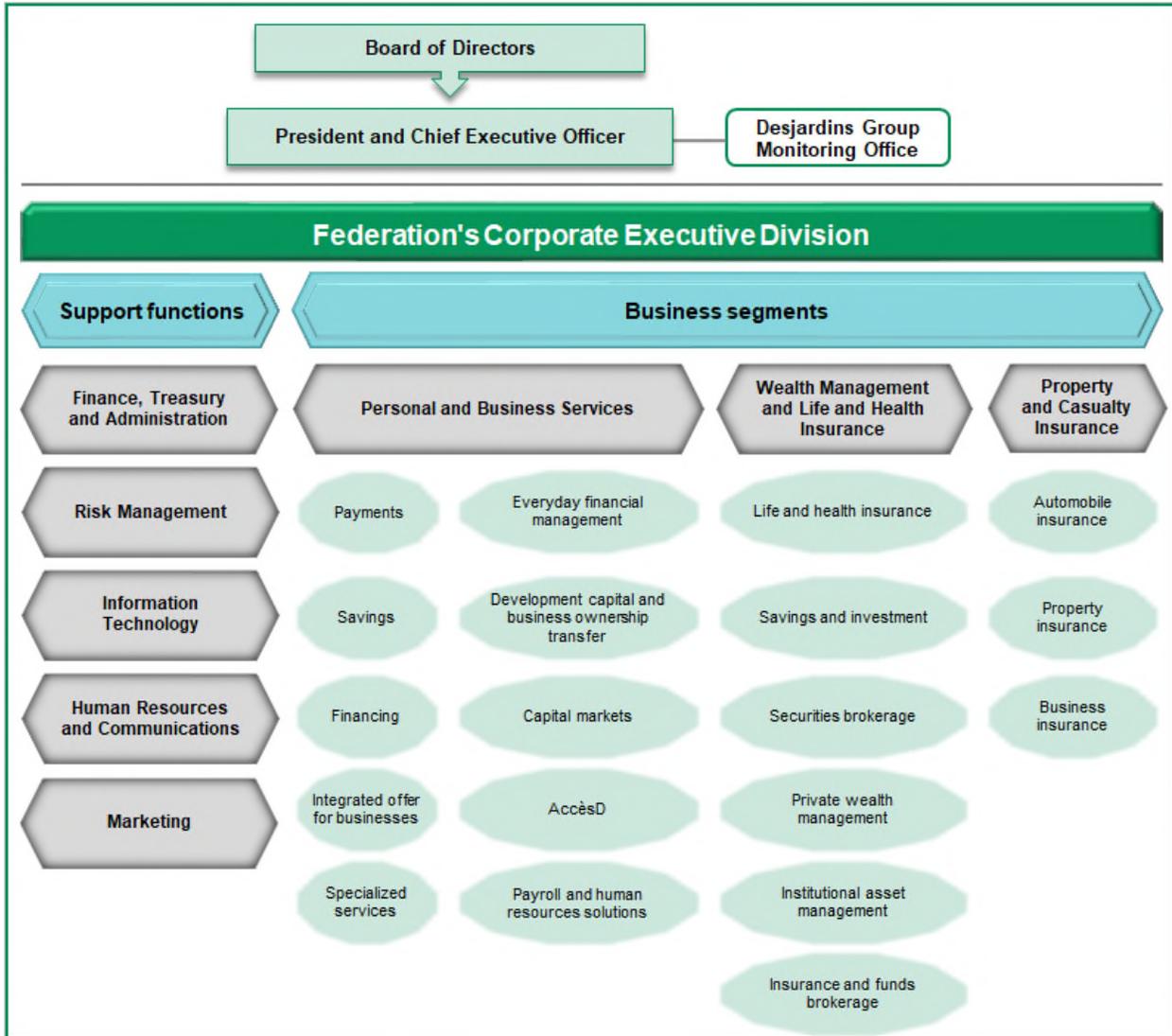
Desjardins Group’s ambition is to be first in people’s hearts. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best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

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

STRUCTURE OF THE FEDERATION

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

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



1.2 Financial highlights

Table 9 – Financial highlights

As at and for the years ended December 31

(in millions of dollars and as a percentage)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Results			
Net interest income	\$ 1,539	\$ 1,501	\$ 1,404
Net premiums	9,525	8,923	8,146
Other operating income ⁽³⁾	4,046	3,705	3,747
Operating income⁽³⁾	15,110	14,129	13,297
Investment income ⁽³⁾	2,753	693	1,767
Total income	17,863	14,822	15,064
Provision for credit losses	310	288	278
Claims, benefits, annuities and changes in insurance contract liabilities	9,172	6,584	6,795
Non-interest expense	6,938	6,392	6,239
Income taxes on surplus earnings	212	208	336
Surplus earnings before dividends to member caisses	\$ 1,231	\$ 1,350	\$ 1,416
Adjusted surplus earnings before dividends to member caisses⁽³⁾	\$ 922	\$ 1,221	\$ 1,167
Contribution to consolidated surplus earnings by business segment⁽⁴⁾			
Personal and Business Services	\$ 645	\$ 301	\$ 317
Wealth Management and Life and Health Insurance	729	894	612
Property and Casualty Insurance	187	173	446
Treasury and Other Support to Desjardins Group Entities	(330)	(18)	41
	\$ 1,231	\$ 1,350	\$ 1,416
Indicators			
Return on equity ⁽³⁾	8.3%	8.6%	9.4%
Adjusted return on equity ⁽³⁾	6.3	7.9	7.8
Credit loss provisioning rate ⁽³⁾	0.49	0.48	0.50
Gross credit-impaired loans ⁽⁵⁾ / gross loans and acceptances ⁽³⁾	0.56	0.56	0.14
On-balance sheet and off-balance sheet			
Assets	\$ 164,413	\$ 157,560	\$ 145,740
Net loans and acceptances	65,493	61,997	58,715
Deposits	58,972	58,057	52,149
Equity	15,512	14,553	16,019
Assets under administration ⁽⁶⁾	426,870	373,558	419,981
Assets under management ⁽⁷⁾	77,018	66,359	66,653
Capital ratios and leverage ratio			
Tier 1A capital ratio	16.9%	15.7%	17.5%
Tier 1 capital ratio	16.9	15.7	17.5
Total capital ratio	16.9	15.7	17.5
Leverage ratio	9.0	7.4	7.9

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

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

⁽³⁾ See "Non-GAAP measures".

⁽⁴⁾ The breakdown by line item is presented in Note 30, "Segmented information", to the Consolidated Financial Statements.

⁽⁵⁾ Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

⁽⁶⁾ Data for 2018 have been reclassified to conform to the current year's presentation, notwithstanding the standard adopted on January 1, 2019.

⁽⁷⁾ Assets under management may also be administered by the Federation. When this is the case, they are included in assets under administration.

The Federation's 2019 highlights

Surplus earnings before dividends	Loans and acceptances outstanding	Assets under management	Tier 1A capital ratio	Total asset
\$1,231 million -8.8%	\$65.5 billion +5.6%	\$77.0 billion +16.1%	16.9%	\$164.4 billion +4.3%

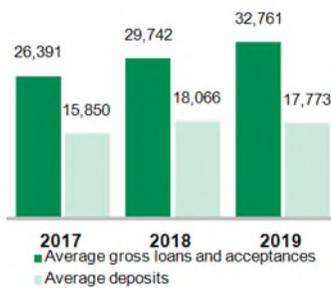
- Surplus earnings before dividends to member caisses down \$119 million, or 8.8%, compared to 2018.
- Decrease of \$299 million, or 24.5%, in adjusted surplus earnings⁽¹⁾ before dividends to member caisses, compared to 2018.
- Operating income⁽¹⁾ of \$15,110 million, up 6.9% compared to 2018.
- Adjusted operating income⁽¹⁾ of \$14,761 million, up 5.5% compared to 2018.
- Growth in loans and acceptances outstanding in 2019, up \$3.5 billion compared to 2018.
- Total capital ratio of 16.9%, compared to 15.7% as at December 31, 2018.

2019 segment highlights

PERSONAL AND BUSINESS SERVICES

Average gross loans and acceptances and average deposits⁽¹⁾

(in millions of dollars)

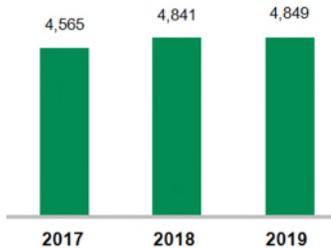


- Leading credit card issuer in Québec and No. 4 in Canada (based on 2018 outstandings), the segment has issued more than 7.0 million credit cards in Canada.
- Growth of 6.8% compared to 2018 in business volume related to credit card products, and auto and durables financing.
- Net surplus earnings for the year totalled \$645 million, up \$344 million compared to 2018.
- Adjusted surplus earnings⁽¹⁾ of \$336 million, up 11.6%, mainly due to growth in payment and financing activities and lower expenses as a result of the winding-up of Zag Bank's operations.
- Growth of \$3.0 billion compared to 2018 in the entire average portfolio of loans and acceptances.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

Gross written premiums

(in millions of dollars)

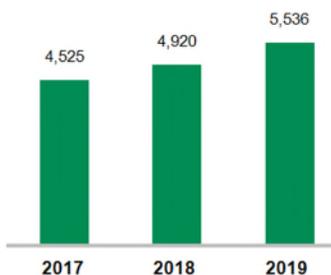


- No. 5 life and health insurer in Canada and No. 2 in Québec (based on gross written premiums in 2018).
- No. 1 in Canada and in Québec for market-linked guaranteed investments (based on 2018 assets under management).
- "Deal of the Year, Americas" award, for a second consecutive year, for its principal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

PROPERTY AND CASUALTY INSURANCE

Gross written premiums

(in millions of dollars)



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

⁽¹⁾ See "Non-GAAP measures".

1.3 Significant events

Significant events in 2019

Privacy breach

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

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

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

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

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

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

Senior management changes at Desjardins Group

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

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

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

Changes to merchant payment and financing activities

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

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

Subsequent event

Purchase of a home mortgage portfolio

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

1.4 Financial outlook for 2020

The Federation develops orientations and financial targets in support of Desjardins Group's ambitions. The Federation's actions and achievements are designed to help further the overall financial objectives of Desjardins Group. The financial outlook presented below therefore relates to Desjardins Group's strategic framework.

FINANCIAL OUTLOOK FOR DESJARDINS GROUP

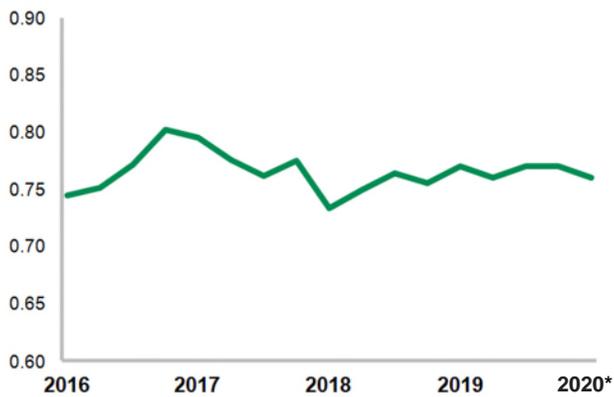
Desjardins Group should continue 2020 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry as well as increasing profitability in a favourable economic environment despite global uncertainty. Stiff competition in the banking sector will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

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

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

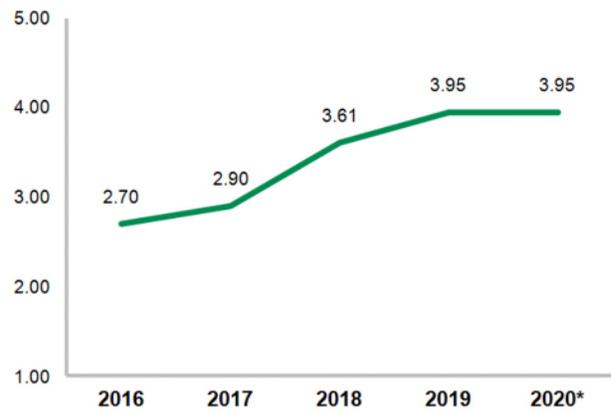
1.5 Economic environment and outlook

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



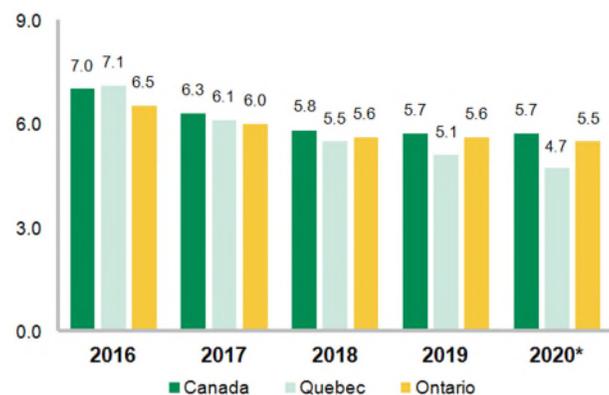
*Forecast

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



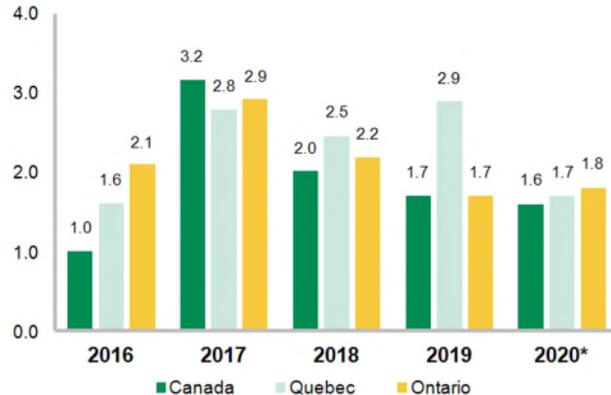
*Forecast

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



*Forecast

Annual growth in GDP
(as a percentage)



*Forecast

Global economy

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

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

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

United States

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

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

Canada

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

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

Québec

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

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

2.0 Review of financial results

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

2.1 Impact of significant transactions in 2019 and 2018

CHANGES RELATED TO MERCHANT PAYMENT AND FINANCING ACTIVITIES IN 2019

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

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

CREATION OF AVISO WEALTH IN 2018

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and the partnership between the Centrals and The CUMIS Group. For Desjardins Group, the interest in Aviso Wealth represents an investment in a joint venture and is recognized using the equity method of accounting in the Wealth Management and Life and Health Insurance segment. A \$21 million share in Aviso Wealth was recognized in the Consolidated Statements of Income for the year ended December 31, 2019.

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

Table 10 – Impact of the creation of Aviso Wealth

For the years ended December 31

(in millions of dollars)

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

⁽¹⁾ See "Non-GAAP measures".

2.2 Analysis of 2019 results

Surplus earnings before dividends to member caisses

(in millions of dollars)



Segment contributions to surplus earnings before dividends to member caisses in 2019

(as a percentage)



Table 11 – Financial results and indicators

For the years ended December 31

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Results			
Net interest income	\$ 1,539	\$ 1,501	\$ 1,404
Net premiums	9,525	8,923	8,146
Other operating income ⁽³⁾	4,046	3,705	3,747
Operating income⁽³⁾	15,110	14,129	13,297
Investment income ⁽³⁾	2,753	693	1,767
Total income	17,863	14,822	15,064
Provision for credit losses	310	288	278
Claims, benefits, annuities and changes in insurance contract liabilities	9,172	6,584	6,795
Non-interest expense	6,938	6,392	6,239
Income taxes on surplus earnings	212	208	336
Surplus earnings before dividends to member caisses	\$ 1,231	\$ 1,350	\$ 1,416
Adjusted surplus earnings before dividends to member caisses⁽³⁾	\$ 922	\$ 1,221	\$ 1,167
Contribution to consolidated surplus earnings by business segment⁽⁴⁾			
Personal and Business Services	\$ 645	\$ 301	\$ 317
Wealth Management and Life and Health Insurance	729	894	612
Property and Casualty Insurance	187	173	446
Treasury and Other Support to Desjardins Group Entities	(330)	(18)	41
	\$ 1,231	\$ 1,350	\$ 1,416
Indicators			
Return on equity ⁽³⁾	8.3%	8.6%	9.4%
Adjusted return on equity ⁽³⁾	6.3	7.9	7.8
Credit loss provisioning rate ⁽³⁾	0.49	0.48	0.50

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

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

⁽³⁾ See "Non-GAAP measures".

⁽⁴⁾ The breakdown by line item is presented in Note 30, "Segmented information", to the Consolidated Financial Statements.

2019 SURPLUS EARNINGS

For 2019, the Federation reported surplus earnings before dividends to member caisses of \$1,231 million, a decrease of \$119 million, or 8.8%, compared to 2018. Surplus earnings adjusted for specific items, namely the gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand recognized in 2019 and the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018 were down \$299 million, or 24.5%. Regarding the privacy breach, expenses to cover the costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection totalled \$108 million in 2019. It should also be mentioned that in 2018, the reduction in investment portfolio provisions and the impact of the change in the post-retirement benefit plan had a positive effect on non-interest expense. The decrease in surplus earnings was due as well to lower gains on investments than in 2018 and lower income from treasury activities. In the Property and Casualty Insurance segment, the slightly more favourable claims experience, which nonetheless remains high, partially offset the reduction in investment income. Lower expenses as a result of the winding-up of Zag Bank's operations and growth in payment and financing activities mitigated the decrease in surplus earnings.

Contribution of business segments to surplus earnings

- Personal and Business Services: **Contribution of \$645 million**, up \$344 million, and net surplus earnings adjusted for the specific item up \$35 million, or 11.6%, compared to 2018.
 - Decrease in expenses as a result of the winding-up of Zag Bank's operations.
 - Growth in payment and financing activities.
 This increase was partially offset by:
 - Profit related to the restructuring of Interac Corp. recognized in first quarter 2018.
 - Increase in the provision for credit losses.
 - Wealth Management and Life and Health Insurance: **Contribution of \$729 million**, down \$165 million and net surplus earnings adjusted for the specific item down \$36 million, or 4.7%, compared to 2018.
 - Lower gains on the disposal of securities and real estate investments and smaller interest margins than in 2018.
 - Higher levels of expenses than in 2018.
 - Offset by favourable adjustments to actuarial assumptions in the normal course of business.
 - Property and Casualty Insurance: **Contribution of \$187 million**, up \$14 million, or 8.1%, compared to 2018.
 - Lower loss ratio, mainly because of the smaller impact of catastrophes and major events and lower current-year claims experience compared to 2018.
 - Offset by lower dividend income than in 2018.
- Return on equity was 8.3%**, compared to 8.6% for 2018.
 - Adjusted return on equity was 6.3%**, compared to 7.9% for 2018, mainly due to the decrease in surplus earnings, as explained above.

OPERATING INCOME

Table 12 – Operating income

For the years ended December 31

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Net interest income	\$ 1,539	\$ 1,501	\$ 1,404
Net premiums	9,525	8,923	8,146
Other operating income ⁽³⁾ (see Table 13)	4,046	3,705	3,747
Total operating income⁽³⁾	\$ 15,110	\$ 14,129	\$ 13,297

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

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

⁽³⁾ See "Non-GAAP measures".

Operating income totalled \$15,110 million, up \$981 million, or 6.9%, compared to 2018. Excluding the gain of \$349 million before income taxes related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand recognized in 2019 and the gain before income taxes of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, operating income would have been up \$764 million, or 5.5%, compared to 2018.

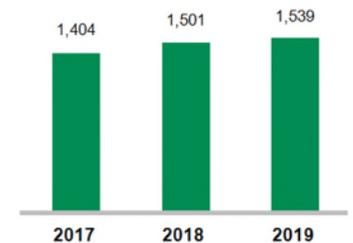
Net interest income

Net interest income is the difference between interest income earned on assets, such as loans and securities, and the interest expense related to liabilities, such as deposits and subordinated notes.

It is affected by interest rate fluctuations, funding and matching strategies, as well as the composition of both interest-bearing and non-interest-bearing financial instruments.

- **Net interest income of \$1,539 million**, up \$38 million, or 2.5%.
 - Due to growth in the entire portfolio of loans and acceptances outstanding of \$3.5 billion, or 5.6%, over the year, particularly loans to medium-sized businesses and large corporations as well as consumer loans and credit card products.

Net interest income
(in millions of dollars)



Net premiums

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, rose by \$602 million, or 6.7%, to total \$9,525 million as at December 31, 2019.

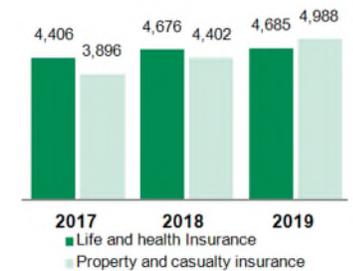
Wealth Management and Life and Health Insurance segment

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

Property and Casualty Insurance segment

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

Net premiums⁽¹⁾
(in millions of dollars)



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

Other operating income

Table 13 – Other operating income

For the years ended December 31

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Assessments	\$ 393	\$ 392	\$ 377
Service agreements	773	742	727
Lending fees and credit card service revenues	782	699	660
Brokerage and investment fund services	886	905	1,030
Management and custodial service fees	610	579	514
Foreign exchange income	70	92	77
Other	532	296	362
Total other operating income⁽³⁾	\$ 4,046	\$ 3,705	\$ 3,747

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

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

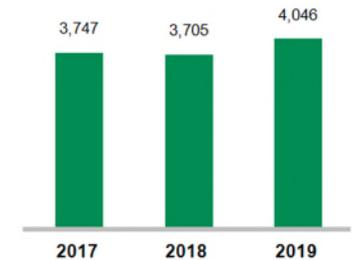
⁽³⁾ See "Non-GAAP measures".

Other operating income stood at \$4,046 million, which is an increase of \$341 million, or 9.2%, compared to the previous year.

Excluding the gain of \$349 million before taxes related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand recognized in 2019 and the gain of \$132 million before taxes on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, other operating income would have been up \$124 million, or 3.5%, compared to 2018.

- Income from assessments and service agreements of \$1,166 million, up \$32 million, or 2.8%.
 - Growth in income from the caisses as a result of activities to enhance the service offer for caisse members and clients, including offers related to *AccèsD* services, the online business centre and the shared services centre.
- Lending fees and credit card service revenues of \$782 million, up \$83 million, or 11.9%.
 - Growth in business volume from payment and financing activities.
- Income from brokerage and investment fund services of \$886 million, down \$19 million, or 2.1%.
 - Decrease in income following the transaction involving Qtrade Canada Inc.
 - Offset by growth in income from assets under management.
- Management and custodial service fees of \$610 million, up \$31 million, or 5.4%.
 - Growth in fees related to assets under management.
- Other operating income of \$532 million, up \$236 million.
 - Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
 - Income from the interest in Aviso Wealth.
 - Offset by the gain in 2018 related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.

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



⁽¹⁾ See "Non-GAAP measures".

INVESTMENT INCOME

Investment income totalled \$2,753 million, an increase of \$2,060 million compared to the previous year, essentially due to the following items:

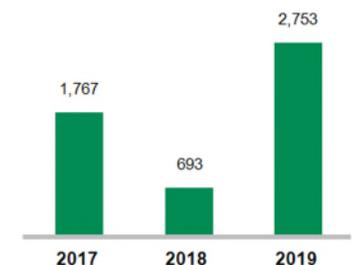
- Increase primarily due to fluctuations in the fair value of assets backing liabilities related to life and health insurance operations.
 - Change mostly due to fluctuations in the fair value of the bond portfolio related to lower interest rates.
 - Increase largely offset by the change in actuarial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

Higher income from trading activities.

This increase was partially offset by the following items:

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

Investment income⁽¹⁾
(in millions of dollars)



⁽¹⁾ See "Non-GAAP measures".

TOTAL INCOME

Total income, comprising net interest income, net premiums, other operating income and investment income, amounted to \$17,863 million, an increase of \$3,041 million, or 20.5%, compared to 2018.

PROVISION FOR CREDIT LOSSES

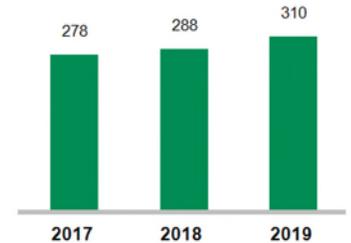
The provision for credit losses totalled \$310 million, up \$22 million, or 7.6%. This increase was mainly the result of the following items:

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

In spite of this increase, the Federation continued to present a quality loan portfolio in 2019.

- The credit loss provisioning rate was 0.49% for 2019, compared to 0.48% in 2018.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56%, the same ratio as at December 31, 2018.

Provision for credit losses
(in millions of dollars)



CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$9,172 million, up \$2,588 million, or 39.3%, compared to 2018.

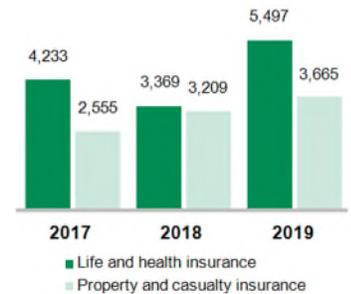
Wealth Management and Life and Health Insurance segment

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

Property and Casualty Insurance segment

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

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



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

NON-INTEREST EXPENSE

Table 14 – Non-interest expense

For the years ended December 31

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Remuneration and other payments	\$ 660	\$ 563	\$ 536
Salaries and fringe benefits			
Salaries	1,964	1,862	1,842
Fringe benefits	479	377	413
	2,443	2,239	2,255
Premises, equipment and furniture, including depreciation	556	496	514
Service agreements and outsourcing	359	341	322
Communications	221	219	244
Other	2,699	2,534	2,368
Total non-interest expense	\$ 6,938	\$ 6,392	\$ 6,239

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

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

Non-interest expense totalled \$6,938 million for 2019, up \$546 million, or 8.5%, compared to 2018. This increase was basically the result of:

- Higher salaries due to indexing and growth in operations.
- Expenses of \$108 million to cover the costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection.

This increase was also the result of the following items from 2018:

- Favourable impact of the change in the post-retirement benefit plan made during 2018.
- Reduction in investment portfolio provisions in 2018.

- **Remuneration and other payments of \$660 million**, up \$97 million, or 17.2%.

- Increase in payments to member caisses as a result of growth in caisse network sales of various Desjardins products.

- **Salaries and fringe benefits of \$2,443 million**, up \$204 million, or 9.1%, compared to 2018, mainly because of the following:

- Increase due to the favourable impact of the change in the post-retirement benefit plan made during 2018.
- Higher salaries due to indexing and growth in operations.

- This expense item represented 35.2% of total non-interest expense, slightly higher than the 35.0% recorded in 2018.

- The ratio of fringe benefits to total base compensation was 24.4% in 2019, up compared to 20.2% in 2018, primarily because of the impact of the change in the post-retirement benefit plan made during 2018.

- **Expenses related to premises, equipment and furniture (including depreciation) of \$556 million**, up \$60 million, or 12.1%, compared to 2018.

- Increase in the purchase of computer hardware.

- **Service agreements and outsourcing of \$359 million**, up \$18 million, or 5.3%, compared to 2018.

- Increase in data processing service expenses.

- **Communication expenses of \$221 million**, comparable to 2018.

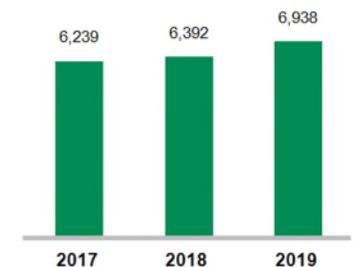
- **Other expenses of \$2,699 million**, up \$165 million, or 6.5%, compared to 2018, essentially because of the following:

- Expenses to cover the costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection.
- Reduction in investment portfolio provisions in 2018.
- Higher expenses related to business growth and accelerated recognition of acquisition fees related to policy issuance.
- Growth in payment activities, including expenses related to the rewards program, and in financing activities.
- Increase in expenses related to assets under management.

This increase was partially offset by the following:

- Decrease in expenses as a result of the winding-up of Zag Bank's operations.
- Decrease in expenses due to the transaction involving Qtrade Canada Inc.
- Reduction in commitments made under the \$100 Million Fund program.

Non-interest expense
(in millions of dollars)



INCOME TAXES AND INDIRECT TAXES

The Federation is a cooperative financial group, and is considered a private and independent company for tax purposes, unlike the vast majority of other Canadian financial institutions, which are large public corporations. The Federation's entities that are not financial services cooperatives are subject to the large corporation tax regime.

- **Income taxes on surplus earnings before dividends to member caisses of \$212 million**, up \$4 million compared to 2018.
 - Effective tax rate of 14.7% for the year ended December 31, 2019, compared to 13.4% for 2018.
 - If specific items are excluded, the effective tax rate would have been 15.7% for 2019, compared to 14.4% for 2018.

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

Indirect taxes consist of property and business taxes, payroll and social security taxes, the goods and services tax, and sales taxes. Indirect taxes are included in non-interest expense. For 2019, the Federation's entities paid \$1,197 million in indirect taxes, compared to \$1,141 million in 2018.

2.3 Analysis of business segment results

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

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

2.3.1 Personal and Business Services

PROFILE

Personal and Business Services is central to Desjardins Group's operations. It is responsible for fine-tuning a comprehensive, integrated line of products and services to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives through the Desjardins caisse network and the Desjardins Business centres, the Signature Service centres, as well as through specialized teams. Its efforts position Desjardins Group as a leader in financial services in Québec and a player on the financial services scene in Ontario as well.

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

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

To meet the constantly changing needs of caisse members and clients, the Federation supports the caisse network and its service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through the implementation and management of complementary access methods by phone, online, via applications for mobile devices, and at ATMs.

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

SERVICES

- **Everyday financial management:**
 - Routine transaction services and term savings, as well as specialty services, such as foreign exchange and funds transfers. These services are increasingly available on the Web and mobile devices.
- **Integrated business offer:**
 - Customized solutions to support businesses of all sizes in their expansion plans, whether on Québec, Canadian or international markets.
- **Financing:**
 - **Residential mortgages**, for the purchase of land, new or existing homes and for renovations;
 - **Consumer loans**, such as loans for the purchase of automobiles and durable goods, personal lines of credit, student loans and Accord D financing solutions;
 - **Commercial credit**, which makes it possible to offer financing in the commercial and industrial, agricultural and agri-food, and public and institutional sectors, as well as for commercial and multi-residential real estate.

- **Payment:**
 - Debit, credit and prepaid card payment services for individuals and businesses, merchant payment acceptance services, electronic payment services and both domestic and international funds transfers.
- **AccèsD:**
 - Desjardins Group products and services are available at anytime, anywhere in the world, by phone, online and via applications for mobile devices.
- **Capital markets:**
 - Meeting the financing needs of Canadian corporations, institutions and cooperatives, and providing advisory services for mergers and acquisitions, as well as intermediation and execution services on the stock and fixed income securities markets;
 - Carried out by seasoned sales and trading teams who are supported by a research team that is renowned in the industry for its excellence.
- **Development capital:**
 - Facilitating investment, both directly and through funds, in small and medium-sized enterprises (SMEs) and cooperatives in every region of Québec;
 - Desjardins Capital Inc., which manages *Capital régionale et coopératif Desjardins*, supports the growth of businesses, especially in business ownership transfers;
 - With the backing of a team of specialists operating throughout Québec, this segment helps to develop and maintain the highest calibre of entrepreneurship in Québec by providing entrepreneurs with assistance at every stage of their company's growth.
- **Specialized services:**
 - International services, cash management services, custodial and trust services, integrated services for high-net-worth clients as well as payroll and human resources management solutions.

2019 ACHIEVEMENTS

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

INDUSTRY

• Canadian market

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

• Québec market

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

• Competition in Québec for financial services

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

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

2020 STRATEGIES AND PRIORITIES

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

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

- **Capitalizing on Desjardins Group's strengths as an expansive Cooperative Group in serving members and clients and increasing their satisfaction.**
 - To do so, facilitate interactions with members and clients across all its channels, in particular by streamlining its offers and processes.
- **Further affirm the cooperative difference by having caisse members' and clients' financial independence at heart.**
 - By contributing to lasting prosperity in businesses and communities.
 - Its strategy is based on establishing enduring relationships of closeness and trust with members, clients and partners, and on sustainable growth.
 - Its implementation is supported by strong foundations and Desjardins's long-standing commitments in the regions and in various socio-economic communities.
- **Continue to implement its plan to achieve profitable growth.**
 - In order to remain a major industry player in Québec while enhancing its productivity by maximizing its synergies with other Desjardins entities.
- **Continue the digital transformation in line with caisse members' and clients' priority life events.**
 - The Personal and Business Services segment will accelerate its initiatives to strengthen its relational presence across all channels and spark caisse members' and clients' interest in proactive, value-added advice.
 - The segment also seeks to make caisse members and clients more independent for regular interactions and to continue to simplify products, services and processes from end to end.
- **Set up the Desjardins Group Security Office, whose priorities will be to:**
 - Ensure the adoption of best practices in information security.
 - Reinforce our personal information protection strategy.
 - Create a unit to fight financial crime.

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

ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

Table 15 – Personal and Business Services – Segment results

For the years ended December 31

(in millions of dollars and as a percentage)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Net interest income	\$ 1,250	\$ 1,144	\$ 1,089
Other operating income ⁽³⁾	2,140	1,638	1,557
Operating income⁽³⁾	3,390	2,782	2,646
Investment income ⁽³⁾	3	46	39
Total income	3,393	2,828	2,685
Provision for credit losses	308	288	274
Non-interest expense	2,281	2,137	1,972
Income taxes on surplus earnings	159	102	122
Net surplus earnings for the year	\$ 645	\$ 301	\$ 317
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	(309)	-	-
Adjusted net surplus earnings for the year⁽³⁾	\$ 336	\$ 301	\$ 317
Indicators			
Average gross loans and acceptances ⁽³⁾	\$ 32,761	\$ 29,742	\$ 26,391
Average deposits ⁽³⁾	17,773	18,066	15,850
Credit loss provisioning rate ⁽³⁾	0.94%	0.97%	1.04%
Gross credit-impaired loans ⁽⁴⁾ / gross loans and acceptances ratio ⁽³⁾	1.08	1.08	0.28

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

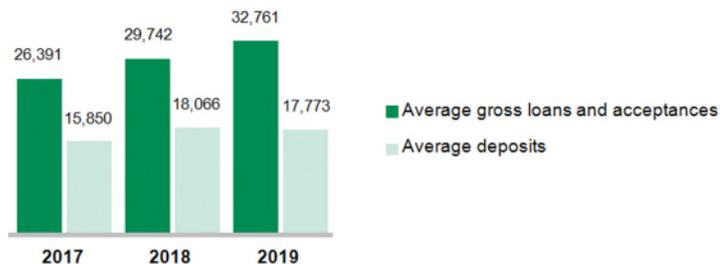
⁽²⁾ In accordance with the standards in effect before the adoption by the Federation of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018 on a retrospective basis without restatement of comparative periods,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

⁽³⁾ See "Non-GAAP measures".

⁽⁴⁾ Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

Average gross loans and acceptances and average deposits

(in millions of dollars)



COMPARISON OF 2019 AND 2018 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings of \$645 million**, up \$344 million, and adjusted net surplus earnings up \$35 million, or 11.6%, essentially due to the following:
 - Decrease in expenses as a result of the winding-up of Zag Bank's operations.
 - Growth in payment and financing activities.
 This increase was partially offset by:
 - Profit related to the restructuring of Interac Corp. recognized in first quarter 2018.
 - Increase in the provision for credit losses.
- **Operating income of \$3,390 million**, up \$608 million, or 21.9%.
 - Increase of \$106 million in net interest income mainly as a result of year-over-year growth of \$3.0 billion in the entire average portfolio of loans and acceptances outstanding, including consumer loans, credit card products and loans to medium-sized businesses and large corporations.
 - Other operating income of \$2,140 million, up \$502 million, or 30.6%, mainly due to the following:
 - ♦ Gain before taxes of \$349 million related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
 - ♦ Growth in business volumes of payment and financing activities
 - ♦ Growth in income from the caisses as a result of activities to enhance the service offer to caisse members and clients, including offers related to *AccèsD* services, the online business centre and the shared services centre.
 - ♦ Increase in income from new capital market issues.
- **Investment income of \$3 million**, down \$43 million, basically as a result of the profit related to the restructuring of Interac Corp. recognized in first quarter 2018.
- **Total income of \$3,393 million**, up \$565 million, or 20.0%.
- **Provision for credit losses of \$308 million**, up \$20 million, or 6.9%, mainly as a result of:
 - Migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.
 - Offset by the refining of the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards in the second quarter of 2019.
- **Non-interest expense of \$2,281 million**, up \$144 million, or 6.7%, essentially due to:
 - Growth in payment activities, including expenses related to the rewards program, and in financing activities.
 - Business growth, especially growth in activities to enhance the service offer to caisse members and clients, including offers related to *AccèsD* services, the online business centre and the shared services centre.
 - Offset by a decrease in expenses as a result of the winding-up of Zag Bank's operations.

2.3.2 Wealth Management and Life and Health Insurance

PROFILE

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

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

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

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

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

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

SERVICES

- **Insurance for individuals:**

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

Wealth Management

- **Savings and investment services:**

- Include the various investment solutions for individuals and businesses, as well as group retirement savings plans for company employees, or individuals who are part of any other group.
- The wide array of investment solutions offered, which includes market-linked guaranteed investments (MLGI), mutual funds, guaranteed investment funds, notes and exchange traded funds (ETF) with a number of responsible investment products, allow individuals and businesses to find the one best suited to their needs, whether for preparing for retirement, planning a trip or any other financial goal.

- **Institutional asset management services:**

- Investment solutions are proposed by a group of investment experts specializing in asset management for institutional clients in order to obtain competitive returns and an attractive risk-return trade-off for them.

Distribution

- **Insurance and funds brokerage services:**

- Provide diversified access to a line of individual insurance products and investment solutions through representatives who operate under the SFL banner in Québec, and as part of the Desjardins Financial Security Independent Network outside Québec.

- **Securities brokerage services:**

- Include the distribution of all types of investments, including stock market securities.
- There are two separate distribution models: the customized services of an investment adviser (full-service brokerage) or online brokerage services for savvy investors who want to trade on their own.

- **Private wealth management services:**

- Are set out in a constantly updated and integrated offer intended for wealthy clients.
- The personalized support of private managers includes a number of aspects, such as financial planning, tax and philanthropy optimization as well as portfolio management.

2019 ACHIEVEMENTS

Life and Health Insurance

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

Wealth Management

- **Investment solutions:**

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

INDUSTRY

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

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

2020 STRATEGIES AND PRIORITIES

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

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

- **Accelerate the shift to a member- and client-focused culture.**
 - To achieve this goal, Wealth Management and Life and Health Insurance intends to continue its work to enhance relationships, optimize its product lines, further automate its processes and accelerate its digital, omnichannel transformation in order to constantly provide better service to members and clients, which is its *raison d'être*.
- **Help actively affirm Desjardins Group's cooperative difference.**
 - Concretely, Wealth Management and Life and Health Insurance will therefore pursue its initiatives to enhance the financial independence and well-being of its members and clients, and to increase its financial literacy efforts with regard to savings and retirement as well as its activities to promote financial independence and security management.
 - Additional action would be to maintain its leadership in the area of responsible investing and responsible insurance across Canada, thereby encouraging the development of a sustainable economy.
- **Capitalize on Desjardins Group's strengths as an expansive Cooperative Group.**
 - Action will therefore be taken to maximize Desjardins' strengths as an expansive Cooperative Group, especially with regard to group insurance and group retirement savings, caissassurance (credit union insurance) and other Desjardins distribution networks. Initiatives also aim to maximize the interest in *Aviso Wealth*.

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

ANALYSIS OF FINANCIAL RESULTS FOR THE WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE SEGMENT
Table 16 – Wealth Management and Life and Health Insurance – Segment results

For the years ended December 31

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

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

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

⁽³⁾ See "Non-GAAP measures".

Table 17 – Expenses attributable to policyholders

For the years ended December 31

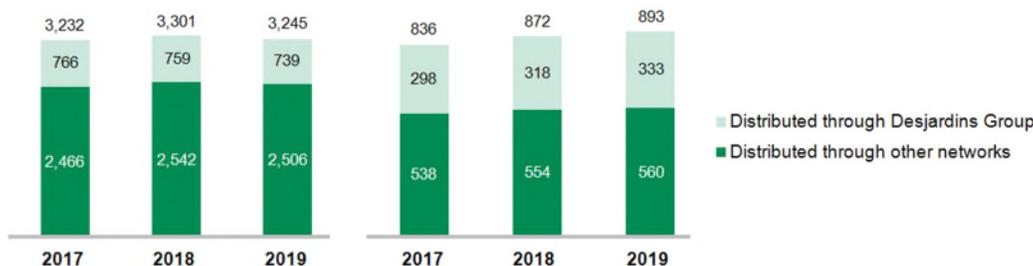
(in millions of dollars)	2019	2018	2017
Insurance and annuity benefits	\$ 3,138	\$ 3,126	\$ 3,037
Change in actuarial liabilities	2,287	111	984
Policyholder dividends, experience refunds and other	72	132	212
Total	\$ 5,497	\$ 3,369	\$ 4,233

Group insurance premiums by distribution network

(in millions of dollars)

Individual insurance premiums by distribution network

(in millions of dollars)



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

- **Net surplus earnings of \$729 million**, down \$165 million, and adjusted net surplus earnings down \$36 million, or 4.7%, mainly as a result of:
 - Lower gains on the disposal of securities and real estate investments, and smaller interest margins than in 2018.
 - Higher levels of expenses than in 2018.
 - Offset by favourable adjustments to actuarial assumptions made in the normal course of business.
- **Operating income of \$6,286 million**, down \$110 million, or 1.7%.
- **Net premiums of \$4,685 million**, up \$9 million due to the following:
 - Increase of \$44 million in annuity premiums and of \$21 million in individual insurance.
 - Offset by a decrease of \$56 million in group insurance premiums.
- **Other operating income of \$1,596 million**, down \$120 million, or 7.0%, due to:
 - Gain in 2018 on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
 - Decrease in income following the transaction involving Qtrade Canada Inc.
 This decrease was partly offset by:
 - Higher income from growth in assets under management.
 - Income from the interest in Aviso Wealth.
- **Investment income of \$2,442 million**, up \$2,055 million.
 - Increase primarily due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
 - ♦ Change mostly due to differences in the fair value of the bond portfolio mainly as a result of lower interest rates.
 - ♦ Increase largely offset by the change in actuarial liabilities leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
 - Mitigated by smaller gains on the disposal of securities and real estate investments in 2018.
- **Total income of \$8,728 million**, up \$1,945 million, or 28.7%.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$5,497 million**, up \$2,128 million, essentially as a result of an increase of \$2,176 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the increase in the fair value of matched investments as well as favourable adjustments related to actuarial assumptions made in the normal course of business.
- **Non-interest expense of \$2,348 million**, up \$52 million, or 2.3%, mainly because of the following:
 - Higher administration expenses, in particular due to an increase in the workforce to improve services to members and clients.
 - Higher expenses for assets under management.
 - Offset by the transaction involving Qtrade Canada Inc. that led to a decrease in expenses.

2.3.3 Property and Casualty Insurance

PROFILE

The Property and Casualty (P&C) Insurance segment offers insurance products providing coverage for Desjardins Group members and clients against disasters. It includes the operations of Desjardins General Insurance Group Inc. and its subsidiaries, offering a personal line of automobile and property insurance products across Canada and also providing businesses with insurance products. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network in Québec, a number of client care centres (call centres) and Desjardins Business centres, and through an exclusive agent network of close to 500 agencies in Ontario, Alberta and New Brunswick distributing P&C insurance and several other financial products online and via applications for mobile devices.

Desjardins General Insurance Group Inc., which has more than 3,000,000 clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner. Desjardins Group has completed the integration of State Farm's Canadian operations and now offers its products under the Desjardins Insurance banner through the exclusive agent network.

SERVICES

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

2019 ACHIEVEMENTS

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

INDUSTRY

- **Canadian market:**
 - The P&C insurance industry offers insurance coverage for motor vehicles, personal and commercial property, and public liability.
 - A mature market, with an average annual growth rate of 4.1% over the past five years.
 - Direct premiums written on the Canadian market totalled \$53.0 billion in 2018, up 6.6% since 2017.
 - Individual insurance accounts for 62.9% of the market, and business insurance, for 37.1%.
- **Competition in Canada:**
 - Challenges associated with profitability resulting from a rise in the frequency and severity of claims for the entire auto insurance industry in Canada.
 - This rise in claims reflects in particular the increase in distracted driving and the cost of repairs for new technologies in motor vehicles.
 - The Desjardins Group P&C Insurance segment is proactive regarding these challenges and has implemented an action plan to optimize its profitability in a changing world given the difficult situation.
- **State of the industry in 2019:**
 - Growth in the average premium as a result of rate increases in home and auto insurance on the Canadian P&C market.
 - Winter 2019 was affected by heavy snowfalls, thaw periods and spring flooding.
 - Numerous snowfalls cause a great deal of problems for motorists and a number of residents in Québec and Ontario. For Québec, this translated into an 8.3% and 23.8% increase, respectively, in the number of auto and home claims compared to the previous year.
 - According to the Insurance Bureau of Canada, the spring flooding in Québec cost \$127 million, while abundant precipitation, high winds, melting snow and flooding between January and March came to a total of \$165 million.
 - ♦ For instance, the dike breached at Ste-Marthe-sur-le-Lac in Québec last April and caused major flooding. The claims team reacted proactively to this industry event. Calls were placed to more than 600 clients, mobilizing various resources in the field.
- **Industry trends:**
 - Insurers' proposals are being increasingly developed through digital channels.
 - The Canadian market will continue to develop quickly as it has in recent years, driven by technological innovations, changes in expectations and consumer behaviour as well as the advent of new business models. These insurers are starting to position themselves in response to new trends such as InsurTech or the sharing economy.
 - The impact of climate change is a major factor affecting the P&C insurance industry.
 - The Desjardins Group P&C Insurance segment is proactive vis-à-vis these new trends.

2020 STRATEGY AND PRIORITIES

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

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

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

- **Improve the profitability of the auto product.**
- **Accelerate the digital transformation for all products and services.**
 - By accelerating the shift toward Desjardins Mobile Services.
 - By developing the full potential of the acquisition of State Farm's Canadian operations.
- **Acquire, assess, develop and mobilize talent.**

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

ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

Table 18 – Property and Casualty Insurance – Segment results

For the years ended December 31

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

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

⁽²⁾ See "Non-GAAP measures".

⁽³⁾ The difference between the data presented in Table 1, "Adjusted surplus earnings of the Federation before dividends to member caisses", is due to intersegment transaction expenses.

Gross written premiums
(in millions of dollars)

Combined ratio
(as a percentage of net premiums earned)



COMPARISON OF 2019 AND 2018 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of \$187 million**, up \$14 million, or 8.1%, due to the following:
 - Lower loss ratio mainly because of the smaller impact of catastrophes and major events and due to the lower claims experience than in 2018.
 - Offset by lower dividend income than in 2018.
- **Operating income of \$4,800 million**, up \$586 million, or 13.9%.
- **Net premiums of \$4,988 million**, up \$586 million, or 13.3%, as a result of:
 - Growth in the average premium due to rate increases, reflecting the current trend in the Canadian P&C insurance market.
 - Larger number of policies issued as a result of growth across all market segments and regions.
- **Loss of \$188 million, presented under Other operating income (loss)**, comparable to 2018.
 - Smaller increase than in 2018 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, and arising from the favourable developments in claims taken over.
 - Offset by the recognition, in 2018, of one-time remuneration payable by a partner as the result of the termination of a private label partnership.
- **Investment income of \$341 million**, up \$5 million, or 1.5%, primarily as a result of the following:
 - Increase in the fair value of matched bonds compared to a decrease in 2018, mainly on account of lower market interest rates in 2019, whereas rates had been higher in 2018. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.
 - Net gains on the sale of bonds, whereas a loss was recorded in 2018.

This increase was partially offset by the following:

 - Lower dividend income than in 2018, particularly on account of reinvested income in 2018, which included prior-year adjustments.
 - Smaller net gains on the sale of funds and shares than those recognized in 2018.
- **Total income of \$5,141 million**, up \$591 million, or 13.0%.
- **Cost of claims totalling \$3,665 million**, up \$456 million, or 14.2%, as a result of the following:
 - Business growth, which led to a higher cost of claims.
 - Unfavourable impact of the decrease in the discount rates used to measure the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in 2018.
 - Offset by a loss ratio of 71.7% for 2019, compared to 73.9% in 2018.
 - ♦ Lower loss ratio related to catastrophes and major events than in 2018, i.e. 2.3% vs. 3.1% because three catastrophes took place in 2018 whereas only one catastrophe occurred in 2019.
 - ♦ Lower claims experience for the current year than in 2018; namely 79.9% vs. 80.7%.
 - ♦ Higher ratio of favourable changes in prior year claims than in 2018, i.e. (10.5)%, compared to (9.9)%, essentially in automobile insurance.
- **Non-interest expense of \$1,229 million**, up \$102 million, or 9.1%, essentially as a result of:
 - Increase in expense due to business growth and faster recognition of acquisition fees for policy issuance.
 - Upward revaluation of the deferred compensation plan provision for Desjardins agents.

2.3.4 Treasury and Other Support to Desjardins Group Entities category

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

Table 19 – Treasury and Other Support to Desjardins Group Entities

For the years ended December 31

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾
Net interest income	\$ 284	\$ 353	\$ 313
Net premiums	(148)	(155)	(156)
Other operating income ⁽³⁾	498	539	598
Operating income⁽³⁾	634	737	755
Investment income (loss) ⁽³⁾	(33)	(76)	108
Total income	601	661	863
Provision for credit losses	1	1	-
Claims, benefits, annuities and changes in insurance contract liabilities	10	6	7
Non-interest expense	1,080	832	839
Income taxes on surplus earnings	(160)	(160)	(24)
Surplus earnings (deficit) before dividends to member caisses	(330)	(18)	41
Dividends to member caisses, net of tax recovery	84	51	44
Net deficit for the year after dividends to member caisses	\$ (414)	\$ (69)	\$ (3)

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

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

⁽³⁾ See "Non-GAAP measures".

COMPARISON OF 2019 AND 2018 – CONTRIBUTION BY TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES TO SURPLUS EARNINGS

- **Deficit of \$330 million before dividends to member caisses**, compared to a deficit of \$18 million in 2018. The change in the net deficit is mainly due to the following:
 - Expenses of \$108 million to cover the costs incurred and the taking of a provision for the implementation of Desjardins Identity Protection.
 - In relation to treasury activities:
 - ♦ Increase in investment income from trading activities, due to the narrowing of credit spreads.
 - ♦ Improved performance of the investment portfolio and increase in financing activities having had a positive effect on net interest income.
 - ♦ Market rate fluctuations as well as changes in hedging positions for matching activities had a favourable effect on net interest income and an unfavourable effect on investment income.
 - Non-interest expense includes expenses related to the continued implementation of Desjardins-wide strategic projects (in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital transformation and information security), thereby enhancing the member and client experience and improving productivity. Other activities also included contributions from the *\$100 Million Fund* regional development program as well as payments under the Desjardins Member Advantages program.
 - In 2018, the decrease in investment portfolio provisions had a mitigating effect on the deficit.

2.4 Analysis of fourth quarter results and quarterly trends

Table 20 – Results for the previous eight quarters

(unaudited, in millions of dollars and as a percentage)	2019				2018			
	Q4 ⁽¹⁾	Q3 ⁽¹⁾	Q2 ⁽¹⁾	Q1 ⁽¹⁾	Q4	Q3	Q2	Q1
Net interest income	\$ 398	\$ 404	\$ 372	\$ 365	\$ 398	\$ 382	\$ 353	\$ 368
Net premiums	2,556	2,354	2,270	2,345	2,246	2,288	2,225	2,164
Other operating income ⁽²⁾								
Assessments	98	99	98	98	97	97	99	99
Service agreements	198	190	199	186	193	179	186	184
Lending fees and credit card service revenues	195	192	185	210	177	172	164	186
Brokerage and investment fund services	226	223	223	214	211	216	223	255
Management and custodial service fees	162	153	148	147	138	154	144	143
Foreign exchange income	19	18	19	14	29	15	21	27
Other	401	30	28	73	11	52	163	70
Operating income⁽²⁾	4,253	3,663	3,542	3,652	3,500	3,555	3,578	3,496
Investment income (loss) ⁽²⁾								
Net investment income (loss)	(51)	581	991	1,424	(42)	(213)	299	126
Overlay approach adjustment for insurance operations financial assets	(22)	(13)	10	(167)	258	76	20	169
Investment income (loss)⁽²⁾	(73)	568	1,001	1,257	216	(137)	319	295
Total income	4,180	4,231	4,543	4,909	3,716	3,418	3,897	3,791
Provision for (recovery of) credit losses	103	129	(6)	84	63	73	63	89
Claims, benefits, annuities and changes in insurance contract liabilities	1,428	2,263	2,361	3,120	1,821	1,380	1,727	1,656
Non-interest expense	1,856	1,608	1,816	1,658	1,598	1,598	1,568	1,628
Income taxes on surplus earnings	145	20	56	(9)	6	68	75	59
Surplus earnings before dividends to member caisses	648	211	316	56	228	299	464	359
Dividends to member caisses, net of tax recovery	84	-	-	-	51	-	-	-
Net surplus earnings for the period after dividends to member caisses	\$ 564	\$ 211	\$ 316	\$ 56	\$ 177	\$ 299	\$ 464	\$ 359
Of which:								
Group's share	\$ 544	\$ 200	\$ 298	\$ 59	\$ 169	\$ 286	\$ 453	\$ 350
Non-controlling interests' share	20	11	18	(3)	8	13	11	9
Contribution to consolidated surplus earnings by business segment								
Personal and Business Services	\$ 358	\$ 70	\$ 138	\$ 79	\$ 52	\$ 72	\$ 71	\$ 106
Wealth Management and Life and Health Insurance	299	108	183	139	183	174	331	206
Property and Casualty Insurance	111	34	123	(81)	25	70	52	26
Treasury and Other Support to Desjardins Group Entities	(120)	(1)	(128)	(81)	(32)	(17)	10	21
	\$ 648	\$ 211	\$ 316	\$ 56	\$ 228	\$ 299	\$ 464	\$ 359
Total assets	\$ 164,413	\$ 165,894	\$ 164,252	\$ 162,449	\$ 157,560	\$ 160,245	\$ 155,685	\$ 151,298
Indicators								
Return on equity ⁽²⁾	17.0%	5.5%	8.4%	1.7%	5.8%	7.1%	11.8%	9.4%
Tier 1A capital ratio	16.9	16.3	15.7	16.3	15.7	17.0	17.0	16.6
Total capital ratio	16.9	16.3	15.7	16.3	15.7	17.0	17.0	16.6

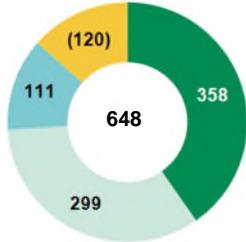
⁽¹⁾ The information presented for the 2019 quarters takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Consolidated Financial Statements.

⁽²⁾ See "Non-GAAP measures".

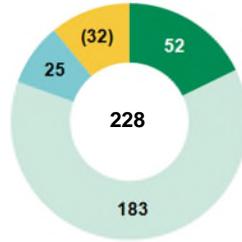
FOURTH QUARTER CONSOLIDATED RESULTS

For the fourth quarter of 2019, the Federation posted surplus earnings before dividends to member caisses of \$648 million, up \$420 million, compared to the same period in 2018. Surplus earnings adjusted for the specific item, namely, the gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand recognized in fourth quarter 2019, were up \$111 million, or 48.7%.

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



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



Contribution of business segments to surplus earnings

- **Personal and Business Services: Contribution of \$358 million**, up \$306 million compared to the same period in 2018, essentially as a result of:
 - Gain of \$309 million, net of income taxes, related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
 - Increase in income from trading and capital market activities.
 - Offset by an increase in the provision for credit losses.
- **Wealth Management and Life and Health Insurance: Contribution of \$299 million**, up \$116 million compared to the same period in 2018, primarily due to favourable adjustments to actuarial assumptions made in the normal course of business.
- **Property and Casualty Insurance: Contribution of \$111 million**, up \$86 million compared to the same period in 2018, mainly as a result of:
 - Lower loss ratio than in the previous period, particularly as a result of the higher favourable change in prior-year claims than in the comparative period in 2018.
 - Favourable impact of investment income.
- **Return on equity of 17.0%**, compared to 5.8% for the fourth quarter of 2018.
- **Adjusted return on equity of 9.0%**, compared to 6.0% for the fourth quarter of 2018, mainly as a result of higher surplus earnings, as previously explained.
- **Operating income of \$4,253 million**, up \$753 million, or 21.5%.
- **Net interest income of \$398 million**, unchanged from fourth quarter 2018.
- **Net premiums of \$2,556 million**, up \$310 million, or 13.8%.
 - **Wealth Management and Life and Health Insurance:** Net insurance and annuity premiums of \$1,291 million, up \$157 million, or 13.8%, compared to the same period in 2018.
 - ♦ Increase of \$159 million in annuity premiums, and of \$9 million in individual insurance premiums.
 - ♦ Offset by the decrease of \$11 million in group insurance premiums.
 - **Property and Casualty Insurance:** Net premiums of \$1,303 million, up \$153 million, or 13.3%, compared to the same period in 2018.
 - ♦ Growth in the average premium due to rate increases, reflecting the current trend in the Canadian P&C insurance market.
 - ♦ Larger number of policies issued as a result of growth across all market segments and regions.
- **Other operating income of \$1,299 million**, up \$443 million, mainly due to:
 - Gain of \$349 million, before income taxes, related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
 - Growth in business volume of payment and financing activities.
 - Increase in income from growth in assets under management.

- **Loss of \$73 million, presented under Investment income (loss)**, compared to income of \$216 million in the fourth quarter of 2018.
 - Decrease mainly due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
 - ♦ Difference mostly due to changes in the fair value of the bond portfolio as a result of higher interest rates.
 - ♦ Decrease largely offset by the change in actuarial liabilities that in turn led to a decrease in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
 - Decrease in the fair value of matched bonds in the Property and Casualty Insurance segment versus an increase in the corresponding quarter of 2018, mainly due to higher market interest rates during the fourth quarter of 2019 versus lower interest rates in the fourth quarter of 2018. It should be remembered that this decrease in bond value was offset by a similar decrease in the cost of claims due to a matching strategy. This decrease was partially offset by:
 - Overall, higher net gains on disposals of investments and dividend income compared to 2018.
 - Increase in trading income.
 - Increase in the fair value of derivative financial instruments associated with the Federation's hedging operations.
- **Total income of \$4,180 million**, up \$464 million, or 12.5%.
- **Provision for credit losses of \$103 million**, up \$40 million, or 63.5%, essentially as a result of the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards.
 - The Federation continued to have a quality loan portfolio.
 - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56%, unchanged from December 31, 2018.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$1,428 million**, down \$393 million, or 21.6%.
 - **Wealth Management and Life and Health Insurance segment:** Cost of claims totalling \$588 million, down \$374 million, or 38.9%, compared to the same period in 2018, essentially as a result of a decrease of \$319 million in actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of a decrease in the fair value of matched investments and favourable adjustments to actuarial assumptions made in the normal course of business.
 - **Property and Casualty Insurance segment:** Cost of claims totalling \$834 million, down \$23 million, or 2.7%, compared to the same period in 2018, mainly due to the following:
 - ♦ Loss ratio of 65.9% for the fourth quarter of 2019, compared to 70.8% for the corresponding quarter of 2018.
 - More positive developments in the loss ratio for prior-year claims than in the fourth quarter of 2018: (14.7)% compared to (10.1)%, for automobile insurance claims.
 - Lower loss ratio for the current year than for 2018: 76.4% vs. 80.8%, particularly in property insurance.
 - Offset by a higher loss ratio related to catastrophes and major events than for the corresponding quarter of 2018: 4.2% vs. 0.1% because there had been one catastrophe in fourth quarter 2019, compared to none in the corresponding period of 2018.
 - ♦ Favourable impact of the higher discount rates used to measure the provision for claims, offset by a similar decrease in matched bonds, whereas lower discount rates had an unfavourable impact on the corresponding period of 2018.
 - ♦ Offset by business growth leading to an increase in the cost of claims.
- **Non-interest expense of \$1,856 million**, up \$258 million, or 16.1%, compared to 2018.
 - Expenses and provisions of \$38 million related to the implementation of Desjardins Identity Protection.
 - Growth in payment activities, including expenses related to the rewards program, and in financing activities.
 - Increase in salaries related to indexing and growth in operations.
 - Remuneration and other payments up because of increased sales of various Desjardins Group products by the caisse network. This growth was also due to the following in 2018:
 - Reduction in investment portfolio provisions in 2018.
 - Favourable impact of the change in the post-retirement benefit plan in fiscal 2018. This increase was partly offset by:
 - Write-off of certain technology assets in 2018.
 - Decrease in expenses resulting from the winding-up of Zag Bank's operations.
- **Income taxes on surplus earnings before member dividends of \$145 million**, up \$139 million compared to 2018.
 - Effective tax rate of 18.3% for the fourth quarter of 2019, compared to 2.6% for the corresponding period of 2018.
 - If the specific item is excluded, the effective tax rate would have been 23.6% for the fourth quarter of 2019, compared to 2.6% for the corresponding quarter of 2018. This increase in the rate results mainly from the tax recovery related to higher remuneration of F capital shares and G capital shares in fourth quarter 2018.

QUARTERLY TRENDS

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

Consolidated surplus earnings

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

Consolidated results

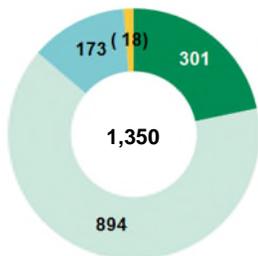
- **Operating income – Upward trend for 2019 quarters, compared to 2018 quarters.**
 - Operations growth allowed the Federation to grow operating income, in particular premium income.
 - Increase in the average premium due to rate increases, reflecting the current trend in the Canadian property and casualty insurance market.
 - Growth in business volume of payment and financing activities, as well as in assets under management.
 - Increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations in the fourth quarter of 2018, which reduced operating income.
 - Operating income was affected by specific items:
 - ♦ Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand recognized in fourth quarter 2019.
 - ♦ Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., completed on April 1, 2018, while income from brokerage and investment fund services was down following this transaction recognized in the second quarter of 2018.
- **Investment income – Fluctuations mainly a result of market volatility leading to changes in the fair value of assets backing liabilities related to life and health insurance operations.** On account of a matching strategy, these fluctuations were offset by a change in provisions, the effect of which was reflected in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- **Provision for credit losses – Quarterly fluctuations.**
 - Migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.
 - Refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards in the second quarter of 2019.
 - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, slightly up for the 2019 quarters compared to the 2018 quarters. The Federation has continued to have a quality loan portfolio.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
 - Growth in business leading to an increase in claims expenses.
 - Expenses mainly affected by a change in the fair value of investments associated with life and health insurance activities and property and casualty insurance activities.
 - Expenses affected by the change in P&C loss ratios:
 - ♦ Difficult weather conditions in the first quarter of 2019 contributed to the higher frequency of claims for the current year.
 - ♦ The fourth quarter of 2019 was affected by one catastrophe, while there were three catastrophes in 2018, namely two in the second quarter and one in the third quarter of 2018.
 - ♦ Fiscal 2019 was affected by nine major events compared to four in 2018.
- **Non-interest expense – Relatively stable when 2019 and 2018 quarters are compared, except for the second and fourth quarters of 2019.**
 - Increase in salaries related to indexing and growth in operations.
 - Growth in payment and financing activities and in assets under management.
 - Expenses to cover costs incurred and the taking of a provision related to the implementation of Desjardins Identity Protection were recognized for \$70 million in the second quarter of 2019, and for \$38 million in the fourth quarter.
 - Reduction in investment portfolio provisions in the first quarter of 2019 and the fourth quarter of 2018.
 - Gain arising from the positive effect of the change in the post-retirement benefit plan made in the fourth quarter of 2018.
 - Transaction involving Qtrade Canada Inc. was completed on April 1, 2018, reducing non-interest expense starting in the second quarter of 2018.
 - Decrease in expenses as a result of the winding-up of Zag Bank's operations.
 - Remuneration and other payments included in non-interest expense were up, if 2019 and 2018 quarters are compared, as a result of increased sales of various Desjardins Group products by the caisse network.

Surplus earnings from business segments

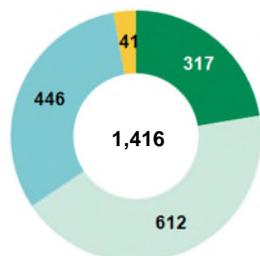
- **Surplus earnings before dividends to member caisses of the Personal and Business Services segment fluctuating over the past eight quarters.**
 - Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand recognized in the fourth quarter of 2019.
 - Net interest income up because of growth in the entire average portfolio of loans and acceptances outstanding over the quarters.
 - Growth in payment and financing activities.
 - Increase in income from trading activities in fourth quarter 2019.
 - Decline in trading income due to volatile capital markets in third quarter 2019.
 - Profit on the restructuring of Interac Corp. in first quarter 2018.
 - Higher expenses related to business growth, especially payment activities and activities to enhance the service offer to caisse members and clients, including offers related to *AccèsD* services, the online business centre and the shared services centre.
 - Offset by a decrease in expenses in the third quarter of 2019 as a result of the winding-up of Zag Bank's operations.
- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the past eight quarters.**
 - Higher surplus earnings for fourth quarter 2019, mainly due to favourable adjustments to the actuarial assumptions and more favourable interest margins, partly offset by higher expenses.
 - Solid investment performance, which also contributed to higher surplus earnings in fourth quarter 2019 and first quarter 2018.
 - Income growth related to assets under management during 2019.
 - More favourable claims experience for almost all business lines, which affected net surplus earnings positively in 2019 and 2018, except for third quarter 2019.
 - 2018 second quarter results were affected by the \$129 million gain on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., which was completed on April 1, 2018.
- **Net surplus earnings of the Property and Casualty Insurance segment fluctuating over the past eight quarters.**
 - Strong growth in net premiums over the past eight quarters.
 - Impact of catastrophes:
 - ♦ The fourth quarter of 2019 was affected by one catastrophe, namely major wind events and water damage, essentially in Québec.
 - ♦ The third quarter of 2018 was affected by one catastrophe, with damage caused by tornadoes and strong winds in September.
 - ♦ The second quarter of 2018 was affected by two catastrophes, namely wind damage in May and damage caused by water and winds in April.
 - Impact of claims experience for the current year:
 - ♦ Harsh weather conditions in first quarter 2019 helped to increase the frequency of claims for the current year.
 - Positive impact of investment income on fourth quarter 2019.
 - Increase in dividend income in third quarter of 2018, particularly on account of reinvested income, which included prior-year adjustments.

2.5 Comparison of 2018 and 2017

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



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



For 2018, the Federation posted surplus earnings before dividends to member caisses of \$1,350 million, compared to \$1,416 million for 2017. Surplus earnings adjusted⁽¹⁾ for specific items totalled \$1,221 million, for an increase of \$54 million. Return on equity was 8.6%, compared to 9.4% in 2017, while adjusted return on equity was 7.9%, compared to 7.8% in 2017.

Segment results

- **Personal and Business Services: Surplus earnings of \$301 million before dividends to member caisses in 2018, down \$16 million compared to 2017, essentially due to the following:**
 - Decrease in income from trading and new capital market issues.
 - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
 - Expenses related to the winding-up of Zag Bank's operations. This decrease was partly offset by the following:
 - ♦ Profit related to the restructuring of Interac Corp.
 - ♦ Growth in financing activities in the area of consumer loans on credit cards and other personal loans.

⁽¹⁾See "Non-GAAP measures".

- **Wealth Management and Life and Health Insurance: Net surplus earnings of \$894 million in 2018**, up \$282 million compared to 2017, essentially due to the following:
 - Larger gains on disposal of real estate investments in 2018.
 - More favourable claims experience.
 - Higher income from growth in assets under management.
 - Offset by less favourable adjustments to actuarial assumptions made in the normal course of business.
- **Property and Casualty Insurance: Net surplus earnings of \$173 million in 2018**, was down \$273 million, and net surplus earnings, adjusted for specific items, was down \$32 million compared to 2017.
 - Higher claims experience than in the previous period.
 - Affected by the sale of Western Financial Group Inc. and Western Life Assurance Company, completed July 1, 2017.
 - Offset by higher investment income.

Consolidated results

- **Operating income of \$14,129 million in 2018**, up \$832 million compared to 2017.
 - Net interest income of \$1,501 million in 2018, an increase of \$97 million compared to 2017, mainly on account of growth in the entire portfolio of loans and acceptances outstanding.
 - Net premiums up \$777 million in 2018.
 - ♦ Wealth Management and Life and Health Insurance: Net insurance and annuity premiums up \$270 million in 2018 because of business growth.
 - Increase of \$270 million in premiums, of which \$165 million is from annuities, \$69 million is from group insurance and \$36 million, from individual insurance.
 - ♦ Property and Casualty Insurance: Net premiums up \$506 million, essentially due to:
 - Increase in net premiums under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly attributable to the change in the cession rate provided in the treaty. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
 - Increase due to growth in the average premium reflecting the current trend in the Canadian property and casualty insurance industry, as well as to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
 - Offset by a decrease in net premiums following the sale of Western Life Assurance Company on July 1, 2017.
 - Other operating income of \$3,705 million, down \$42 million in 2018, essentially due to the following:
 - ♦ Gain of \$278 million before income taxes on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company in 2017.
 - ♦ Decline in commission income following the sale of Western Financial Group Inc. and the transaction involving Qtrade Canada Inc. This decrease was partly offset by the following:
 - ♦ Gain of \$132 million before income taxes related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., recognized in 2018.
 - ♦ Decrease in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
 - ♦ Growth in income from assets under management.
 - ♦ Business volume growth in payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.
 - ♦ Growth in income from caisses as a result of activities to enhance the offer of service to caisse members and clients, as well as growth in AccèsD transaction volume.
- **Investment income of \$693 million in 2018**, down \$1,074 million compared to 2017.
 - Decrease mainly due to fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
 - ♦ Change mostly attributable to the decrease in the fair value of the bond portfolio related to fluctuating interest rates.
 - ♦ Decrease largely offset by the change in actuarial liabilities that in turn led to a reduction in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
 - Decline in trading income.
 - Decrease in the fair value of derivative financial instruments associated with the Federation's hedging activities. This decrease was partly offset by:
 - Higher dividend income than in 2017, particularly because of reinvested income including prior-year adjustments.
 - Larger gains on disposal of real estate investments in 2018.
 - Smaller decrease in the fair value of matched bonds in the Property and Casualty Insurance segment than in 2017, primarily on account of an interest rate hike on the market in 2018 that was lower than in 2017.
 - Profit related to the restructuring of Interac Corp.
- **Provision for credit losses of \$288 million in 2018**, up \$10 million compared to 2017, mainly as a result of growth in outstandings and the adoption of IFRS 9 on January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and of the migration of borrower ratings. Despite this increase, the Federation continued to have a quality loan portfolio in 2018.
 - Credit loss provisioning rate of 0.48% in 2018, compared to 0.50% in 2017.
 - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, of 0.56%, compared to 0.14% as at December 31, 2017. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$6,584 million**, down \$211 million in 2018.
 - Wealth Management and Life and Health Insurance segment: Expenses down \$864 million in 2018.
 - ♦ Decrease of \$873 million in the actuarial liabilities recognized under “Insurance contract liabilities”, which included the effect of a decrease in the fair value of matched investments.
 - ♦ More favourable claims experience for products was offset by less favourable adjustments related to changes in actuarial assumptions made in the normal course of business.
 - Property and Casualty Insurance segment: Expenses up \$654 million in 2018.
 - ♦ Business growth led to a higher cost of claims.
 - ♦ Increase due to the reinsurance treaty signed as part of the acquisition of State Farm’s Canadian operations. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
 - ♦ Less favourable developments in prior-year automobile insurance claims than in 2017.
 - ♦ Loss ratio for P&C insurers of 73.9% in 2018, compared to 67.7% in 2017.
 - Higher loss ratio primarily due to a less favourable change than in 2017 concerning prior-year claims: (9.9)% vs. (15.0)%, mainly in automobile insurance.
 - Higher claims experience for the current year than in 2017: 80.7% vs. 80.1%.
 - Impact of catastrophes and major events was more significant than in 2017, namely 3.1% vs. 2.6%.
- **Non-interest expense totalling \$6,392 million**, up \$153 million in 2018. This increase was mitigated by the following:
 - Reduction in investment portfolio provisions.
 - Gain arising from the impact of the change in the post-retirement benefit plan.
 Apart from these favourable items, non-interest expense rose because of:
 - Increased expenses arising from the reinsurance treaty signed as part of the acquisition of State Farm’s Canadian operations.
 - Business growth, particularly in assets under management.
- **Income taxes on surplus earnings before dividends to member caisses of \$208 million**, down \$128 million compared to 2017.
 - Effective tax rate of 13.4% for the year ended December 31, 2018, down compared to 19.2% for 2017.
 - If the specific items are excluded, the effective tax rate would have been 14.4% for 2018, compared to 20.8% for 2017. This rate decrease results mainly from the tax recovery on the remuneration of G capital shares and F capital shares.

3.0 Balance sheet review

3.1 Balance sheet management

Table 21 – Consolidated Balance Sheets

As at December 31

(in millions of dollars and as a percentage)	2019 ⁽¹⁾		2018		2017 ⁽²⁾	
Assets						
Cash and deposits with financial institutions	\$ 3,084	1.9%	\$ 2,738	1.7%	\$ 1,731	1.2%
Securities	49,433	30.1	49,666	31.5	46,904	32.2
Securities borrowed or purchased under reverse repurchase agreements	11,352	6.9	14,086	8.9	9,377	6.4
Net loans and acceptances	65,493	39.8	61,997	39.3	58,715	40.3
Segregated fund net assets	17,026	10.4	13,234	8.4	13,379	9.2
Derivative financial instruments	4,795	2.9	4,376	2.8	3,772	2.6
Other assets	13,230	8.0	11,463	7.4	11,862	8.1
Total assets	\$ 164,413	100.0%	\$ 157,560	100.0%	\$ 145,740	100.0%
Liabilities and equity						
Deposits	\$ 58,972	35.9%	\$ 58,057	36.8%	\$ 52,149	35.8%
Commitments related to securities sold short	10,615	6.5	10,829	6.9	9,112	6.3
Commitments related to securities lent or sold under repurchase agreements	10,562	6.4	16,233	10.3	10,062	6.9
Derivative financial instruments	4,827	2.9	3,332	2.1	3,677	2.5
Insurance contract liabilities	31,637	19.2	28,764	18.3	28,300	19.4
Segregated fund net liabilities	17,002	10.3	13,212	8.4	13,354	9.2
Other liabilities	13,888	8.5	11,202	7.1	11,679	7.9
Subordinated notes	1,398	0.9	1,378	0.9	1,388	1.0
Equity	15,512	9.4	14,553	9.2	16,019	11.0
Total liabilities and equity	\$ 164,413	100.0%	\$ 157,560	100.0%	\$ 145,740	100.0%

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

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

ASSETS

As at December 31, 2019, the Federation's total assets stood at \$164.4 billion, up by \$6.9 billion, or 4.3%, over the year, mainly due to an increase in segregated fund net assets as well as net loans and acceptances, which were up by \$3.8 billion and \$3.5 billion, respectively.

The Federation's cash and deposits with financial institutions were up \$346 million, or 12.6%. Securities, including those borrowed or purchased under reverse repurchase agreements, totalled \$60.8 billion, down \$3.0 billion, or 4.7%, on account of market conditions in fourth quarter 2019.

The Federation's outstanding loan portfolio, including acceptances, net of the provision for credit losses, increased by \$3.5 billion, or 5.6%. A large share of the growth in 2019 was generated by loans to business and government, which include loans to member caisses. This category has a very important place in the Federation's credit activities, accounting for 62.5% of its portfolio as at December 31, 2019.

Table 22 – Loans and acceptances

As at December 31

(in millions of dollars and as a percentage)	2019		2018		2017 ⁽¹⁾	
Residential mortgages	\$ 4,183	6.3%	\$ 4,626	7.4%	\$ 4,323	7.3%
Consumer, credit card and other personal loans	20,567	31.2	19,710	31.5	17,547	29.8
Business and government	41,207	62.5	38,152	61.1	37,043	62.9
	65,957	100.0%	62,488	100.0%	58,913	100.0%
Provision for credit losses	(464)		(491)		(198)	
Total loans and acceptances by borrower category	\$ 65,493		\$ 61,997		\$ 58,715	

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

Outstanding business and government loans, including acceptances, increased by \$3.1 billion, or 8.0%. Consumer, credit card and other personal loans grew by \$857 million, or 4.3%. Outstanding residential mortgages decreased by \$443 million, or 9.6% since the end of 2018.

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

Derivative financial instrument assets grew by \$419 million, or 9.6%, because of the increase in stock index options, partly offset by a decrease in swaps following a drop in interest rates.

Other assets increased by \$1.8 billion, or 15.4%, as a result of the higher amounts receivable from clients, brokers and financial institutions and the recognition as at January 1, 2019 of right-of-use assets following the change-over to IFRS 16.

LIABILITIES

The Federation's total liabilities amounted to \$148.9 billion as at December 31, 2019, up \$5.9 billion, or 4.1%, since December 31, 2018, largely due to the increase in segregated fund net liabilities and insurance contract liabilities, which were up \$3.8 billion and \$2.9 billion, respectively.

Outstanding deposits grew by \$915 million, or 1.6%. The increase in business and government deposits, which accounted for 83.0% of its total deposit portfolio as at the same date, was largely responsible for this growth. In fact, outstanding deposits were up \$1.5 billion, or 3.2%. This increase was partly due to the various securities, including commercial paper and covered bonds, issued on U.S., Canadian and European markets, which supported the growth in the Federation's funding requirements.

Individuals' savings at the Federation were down \$390 million, or 9.5%. It should be noted that this deposit category accounted for 6.3% of the Federation's total deposit portfolio at the same date. Deposits from deposit-taking institutions decreased by \$221 million, or 3.4%.

Table 23 – Deposits

As at December 31

(in millions of dollars and as a percentage)	2019		2018 ⁽¹⁾		2017 ⁽¹⁾	
Individuals	\$ 3,715	6.3%	\$ 4,105	7.1%	\$ 4,353	8.3%
Business and government	48,924	83.0	47,398	81.6	42,598	81.7
Deposit-taking institutions	6,333	10.7	6,554	11.3	5,198	10.0
Total deposits	\$ 58,972	100.0%	\$ 58,057	100.0%	\$ 52,149	100.0%

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

Commitments related to securities sold short and lent or sold under repurchase agreements decreased by \$5.9 billion, or 21.7%, to reach a volume of \$21.2 billion.

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

The Federation's insurance contract liabilities increased by \$2.9 billion, or 10.0%, largely due to the actuarial liabilities attributable to life and health insurance activities, which grew by \$2.4 billion.

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

Other liabilities grew by \$2.7 billion, or 24.0%, due to the increase in amounts payable to clients, brokers and financial institutions, and to the recognition of lease liabilities as at January 1, 2019 following the change-over to IFRS 16.

EQUITY

Equity was up \$959 million, or 6.6%, since December 31, 2018. Net surplus earnings after dividends to member caisses, totalling \$1.1 billion, accounted for this growth.

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

Table 24 – Information about dividends to member caisses, remuneration and dividends

For the years ended December 31

(in millions of dollars)	2019	2018	2017
Dividends to member caisses	\$ 115	\$ 70	\$ 60
Remuneration on F capital shares	207	388	167
Remuneration on G capital shares	60	120	-
Remuneration on INV capital shares	1	7	8
Remuneration on FIN-5A capital shares	-	1,847	60
Dividends	35	36	42
	\$ 418	\$ 2,468	\$ 337

Note 22, "Capital stock", to the Consolidated Financial Statements provides additional information about the Federation's capital stock.

3.2 Capital management

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

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

The financial industry is placing more emphasis on sound capitalization of its operations. Now more than ever, rating agencies and the market favour the best-capitalized institutions. These factors argue in favour of a general increase in the level and quality of capital issued by financial institutions. This is also reflected in the enhanced requirements under Basel III implemented on January 1, 2013.

Desjardins Group's Integrated Capital Management Framework

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

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

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

Regulatory framework and internal policies

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

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

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

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

This capital takes into consideration investments made in subsidiaries of the Federation. Some of these subsidiaries are subject to separate requirements regarding regulatory capital, liquidity and financing, which are set by regulatory authorities governing banks, insurers and securities, in particular. The Federation oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulation.

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

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

Regulatory developments

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

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

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

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

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

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

Compliance with requirements

The ratios presented below are the result of the application of the guideline on adequacy of capital base standards for financial services cooperatives based on the Federation's Consolidated Financial Statements in order to meet regulatory requirements. Given the revision of the Act, which introduced the concept of the Cooperative Group formalizing procedures such that the Federation could not be liquidated individually but only with the other Cooperative Group entities, please see the "Capital management" section of Desjardins Group's annual report for a complete assessment of the Federation's financial strength. This section is not incorporated by reference in the MD&A.

As at December 31, 2019, the Tier 1A, Tier 1 and total capital ratios, calculated in accordance with Basel III requirements, were all 16.9%. The leverage ratio was 9.0%.

As at December 31, 2019, the Tier 1A capital ratio was up 125 basis points compared to December 31, 2018, due in particular to growth in reserves and undistributed surplus earnings and the increase in eligible accumulated other comprehensive income. The increase in RWA following receipt of the AMF's approval to use internal models to calculate credit risk for certain asset classes was offset by the significant decrease in the Federation's off-balance sheet commitments.

The Federation and its subsidiaries, which are subject to minimum regulatory requirements with respect to capitalization, were in compliance with said requirements as at December 31, 2019.

Regulatory capital

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

Table 25 – Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A ⁽¹⁾	Tier 1B ⁽¹⁾	
Eligible items	<ul style="list-style-type: none"> Reserves and undistributed surplus earnings Eligible accumulated other comprehensive income Capital shares 	<ul style="list-style-type: none"> Non-controlling interests⁽²⁾ 	<ul style="list-style-type: none"> General allowance Subordinated notes subject to phase-out NVCC subordinated notes⁽³⁾ Eligible qualifying shares
Regulatory adjustments	<ul style="list-style-type: none"> Goodwill Software Other intangible assets Deferred tax assets essentially resulting from loss carryforwards Shortfall in allowance Cross-investments 		
Deductions	<ul style="list-style-type: none"> Mainly significant investments in financial institutions⁽⁴⁾ 	<ul style="list-style-type: none"> Investment in preferred shares of a component deconsolidated for regulatory capital purposes Subordinated financial instrument 	

⁽¹⁾ The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios, for financial services cooperatives regulated by the AMF.

⁽²⁾ The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.

⁽³⁾ These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the guideline. No security of this type was issued as at December 31, 2019.

⁽⁴⁾ Represent the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from this capital. The net non-deducted balance will be subject to risk-weighting at a rate of 250%.

Table 26 – Regulatory capital

As at December 31

(in millions of dollars and as a percentage)

	2019	2018
Tier 1A capital		
Federation's capital shares	\$ 4,872	\$ 4,767
Other capital shares	4,012	4,012
Reserves	330	271
Undistributed surplus earnings	5,279	4,754
Eligible accumulated other comprehensive income	263	(1)
Deductions ⁽¹⁾⁽²⁾	(3,683)	(3,906)
Total Tier 1A capital	11,073	9,897
Non-controlling interests	-	-
Deductions ⁽¹⁾	-	-
Total Tier 1B capital	-	-
Total Tier 1 capital	11,073	9,897
Tier 2 capital		
Subordinated notes subject to phase-out	687	844
General allowance	106	271
Deductions ⁽¹⁾	(793)	(1,115)
Total Tier 2 capital	-	-
Total regulatory capital (Tiers 1 and 2)	\$ 11,073	\$ 9,897
Ratios and leverage ratio exposure		
Tier 1A capital ratio ⁽³⁾	16.9%	15.7%
Tier 1 capital ratio ⁽³⁾	16.9	15.7
Total capital ratio ⁽³⁾	16.9	15.7
Leverage ratio ⁽⁴⁾	9.0	7.4
Leverage ratio exposure	\$ 123,322	\$ 134,198

⁽¹⁾ As prescribed by the guideline, when an entity is required to make a deduction from a given capital component but is not adequately provisioned, the difference is deducted from the component of the next highest quality. If Tier 2 capital is insufficient to absorb a deduction, the undeducted portion will be deducted from Tier 1B, and then from Tier 1A, if necessary.

⁽²⁾ Deductions from Tier 1A are comprised of regulatory adjustments (\$553 million in 2019 and \$499 million in 2018), of which cross-investments (\$27 million in 2019 and \$14 million in 2018), significant investments (\$2,416 million in 2019 and \$2,858 million in 2018), and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers (\$714 million in 2019 and \$549 million in 2018).

⁽³⁾ As prescribed by the guideline, the capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.

⁽⁴⁾ The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is independent of risk and includes 1) on-balance sheet exposures 2) securities financing transaction exposures, 3) derivative exposures, and 4) off-balance sheet items.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013, as prescribed. In accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began on January 1, 2013.

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

On December 6, 2019, the Board of Directors of the Federation approved the distribution to member caisses of \$60 million of net income in respect of G capital shares. Also on December 6, 2019, the Board of Directors approved an interest payment to holders of F capital shares of \$207 million.

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

Table 27 – Change in regulatory capital

For the years ended December 31

(in millions of dollars)	2019	2018
Tier 1A capital		
Balance at beginning of year	\$ 9,897	\$ 9,162
Increase in reserves and undistributed surplus earnings ⁽¹⁾	584	(1,170)
Eligible accumulated other comprehensive income	264	(457)
Federation's capital shares	105	266
Other capital shares	-	(24)
Deductions	223	2,120
Balance at end of year	11,073	9,897
Tier 1B capital		
Balance at beginning of year	-	-
Non-controlling interests	-	(13)
Deductions	-	13
Balance at end of year	-	-
Total Tier 1 capital	11,073	9,897
Tier 2 capital		
Balance at beginning of year	-	-
Senior notes subject to phase-out	(157)	(188)
General allowance	(165)	145
Deductions	322	43
Balance at end of year	-	-
Total capital	\$ 11,073	\$ 9,897

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

Risk-weighted assets (RWA)

The Federation calculates risk-weighted assets for credit risk, market risk and operational risk.

Credit risk

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

Market risk

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

Operational risk

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

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

As indicated in the table below, risk-weighted assets totalled \$65.4 billion as at December 31, 2019. Of this amount, \$53.2 billion was for credit risk, \$3.1 billion for market risk and \$9.1 billion for operational risk. As at December 31, 2018, risk-weighted assets stood at \$63.1 billion.

Table 28 – Risk-weighted assets

	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2019 ⁽¹⁾				Total as at December 31, 2018
	Exposure ⁽²⁾	Risk-weighted assets	Exposure ⁽²⁾	Risk-weighted assets	Exposure ⁽²⁾	Risk-weighted assets	Capital requirement ⁽³⁾	Average risk weighting rate	Risk-weighted assets
(in millions of dollars and as a percentage)									
Credit risk other than counterparty risk									
Sovereign borrowers	\$ 9,462	\$ 580	\$ 103	\$ -	\$ 9,565	\$ 580	\$ 46	6.1%	\$ -
Financial institutions	3,585	1,040	29,334	5,889	32,919	6,929	554	21.0	8,210
Businesses	13,336	9,137	5,793	5,597	19,129	14,734	1,179	77.0	15,846
Securitizations	-	-	12	151	12	151	12	1,250.0	63
Equities	-	-	220	324	220	324	26	146.8	334
SMEs similar to other retail client exposures	3,736	2,870	10	8	3,746	2,878	230	76.8	1,686
Mortgages	1,187	133	391	137	1,578	270	22	17.1	433
Other retail client exposures (excluding SMEs)	7,286	3,855	1,335	1,001	8,621	4,856	389	56.3	4,595
Qualifying revolving retail client exposures	24,958	8,567	-	-	24,958	8,567	685	34.3	9,156
Subtotal - Credit risk other than counterparty risk	63,550	26,182	37,198	13,107	100,748	39,289	3,143	39.0	40,323
Counterparty risk									
Sovereign borrowers	45	1	-	-	45	1	-	2.6	-
Financial institutions	2,754	1,727	215	43	2,969	1,770	141	59.6	554
Businesses	-	-	12	8	12	8	1	63.9	12
Trading portfolio	894	387	551	407	1,445	794	64	55.0	543
Credit valuation adjustment (CVA) charge	-	-	-	-	-	1,623	130	-	1,459
Additional requirements for banking and trading portfolio	-	-	-	-	358	23	2	-	14
Subtotal - Counterparty risk	3,693	2,115	778	458	4,829	4,219	338	87.4	2,582
Other assets ⁽⁴⁾	-	-	-	-	16,302	8,037	643	49.3	5,722
Scaling factor ⁽⁵⁾	-	1,698	-	-	-	1,698	136	-	794
Total credit risk	67,243	29,995	37,976	13,565	121,879	53,243	4,260	43.7	49,421
Market risk									
Value at Risk (VaR)	-	406	-	-	-	406	32	-	575
Stressed Value at Risk (SVaR)	-	1,394	-	-	-	1,394	111	-	2,335
Incremental risk charge (IRC) ⁽⁶⁾	-	819	-	-	-	819	66	-	1,732
Other ⁽⁷⁾	-	54	-	418	-	472	38	-	754
Total market risk	-	2,673	-	418	-	3,091	247	-	5,396
Operational risk	-	-	-	9,063	-	9,063	725	-	8,581
Total risk-weighted assets before the RWA floor⁽⁸⁾	67,243	32,668	37,976	23,046	121,879	65,397	5,232	-	63,398
Risk-weighted assets after the transitional provisions for the credit valuation adjustment charge⁽⁹⁾									
RWA for Tier 1A capital	-	-	-	-	-	N/A	N/A	-	63,106
RWA for Tier 1 capital	-	-	-	-	-	N/A	N/A	-	63,150
RWA for total capital	-	-	-	-	-	N/A	N/A	-	63,193
Total risk-weighted assets	\$ 67,243	\$ 32,668	\$ 37,976	\$ 23,046	\$ 121,879	\$ 65,397	\$ 5,232	-%	\$ 63,106

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

⁽²⁾ Net exposure after credit risk mitigation (net of allowance for expected credit losses on credit-impaired loans other than retail (except for credit card loans) using the Standardized Approach, excluding those using the Internal Ratings-Based Approach, according to the AMF guideline).

⁽³⁾ The capital requirement represents 8% of risk-weighted assets.

⁽⁴⁾ Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain threshold in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.), the investments portion below a certain threshold in associates as well as the portion of other deferred tax assets above a certain threshold. These three items are weighted at 250% and the deducted portion (namely above a certain threshold) is weighted at 0%. This class does not include the CVA charge and additional requirements for the banking and trading portfolios, which are disclosed in the counterparty credit risk section.

⁽⁵⁾ The scaling factor is a 6% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.

⁽⁶⁾ Additional requirements representing an estimate of default and migration risks of unsecuritized products exposed to interest rate risk.

⁽⁷⁾ Represents mainly capital requirements calculated using the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio.

⁽⁸⁾ In accordance with the guideline updated in first quarter 2019, the RWA floor is now defined based on the Standardized Approaches presented in the guideline.

⁽⁹⁾ In order to take the CVA charge into account, scaling factors have been used since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios. They were 80%, 83% and 86%, respectively, in 2018. For 2019, in accordance with directives from the AMF, the CVA charge will be entirely included in credit risk.

3.3 Off-balance sheet arrangements

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

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

As at December 31, 2019, the Federation administered, for the account of its members and clients, assets totalling \$426.9 billion, for an annual increase of \$53.3 billion, or 14.3%. Financial assets placed with the Federation as wealth manager amounted to \$77.0 billion at the close of 2019, representing an increase of \$10.7 billion, or 16.1% on an annual basis.

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

Table 29 – Assets under management and under administration

As at December 31

(in millions of dollars)	2019	2018	2017
Assets under management			
Institutions and individuals	\$ 17,325	\$ 13,902	\$ 15,263
Investment funds ⁽¹⁾	59,693	52,457	51,390
Total assets under management	\$ 77,018	\$ 66,359	\$ 66,653
Assets under administration			
Individual and institutional trust and custodial services	\$ 324,879	\$ 280,378	\$ 313,517
Investment funds ⁽¹⁾⁽²⁾	101,991	93,180	106,464
Total assets under administration	\$ 426,870	\$ 373,558	\$ 419,981

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

⁽²⁾ Data for 2018 have been reclassified to conform to the current year's presentation.

CREDIT INSTRUMENTS

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

Note 28, "Commitments, guarantees and contingent liabilities", to the Federation's Consolidated Financial Statements provides more detailed information about these credit instruments.

GUARANTEES

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

STRUCTURED ENTITIES

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

Securitization of the Federation's financial assets

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

4.0 Risk management

The shaded areas and tables marked with an asterisk (*) in this section contain information about credit, market and liquidity risks in accordance with IFRS 7, "Financial Instruments: Disclosures". They also contain an analysis of how the Federation assesses its risks as well as a description of its risk management objectives, policies and methods. IFRS 7 provides that risk disclosures may be included in the MD&A. Consequently, the shaded areas and tables marked with an asterisk (*) are an integral part of the Consolidated Financial Statements, as explained in Note 29, "Financial instrument risk management", to the Consolidated Financial Statements.

4.1 Risk factors that could impact future results

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

Principal emerging risks

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

Principal emerging risks	Description
Climate change	<p>Climate change is an external risk factor that is part of environmental risk. It is defined as an entity's vulnerability to the negative effects of climate change, which could lead to financial losses. It includes:</p> <ul style="list-style-type: none"> • physical risks, namely the risks resulting from damage caused by extreme weather events; • transition risks, namely the risks related to implementation of measures to ensure environmental transition. <p>Catastrophes resulting from extreme weather events are unforeseeable and their frequency seems to be growing. The severity of their effects means that they could have a material impact on Desjardins Group's results. Given the nature of their operations, Desjardins's property and casualty insurance subsidiaries are particularly affected by climate change, especially through catastrophe risk that is an integral part of insurance risk.</p>
Household indebtedness and changes in the housing market	<p>An economic slowdown, accentuated by the climate of uncertainty, could substantially affect households, particularly through a higher unemployment rate. Given that household debt levels are still high, this could lead to a decline in the housing market, which has experienced solid growth in recent years, despite tighter mortgage granting rules. Nonetheless, Desjardins remains proactive in assisting members and clients who could be affected in the event of such a situation. Desjardins has sound practices in granting and managing mortgage financing, including a stress test involving interest rates for mortgage financing, which should allow it to circumvent this risk.</p>
Technological developments	<p>Innovative technologies are being increasingly taken into consideration and adopted by financial institutions. These innovative technologies represent a crucial vector for transforming business processes and models. In addition to cyber threat risks, use of these technologies exposes financial institutions to other risks relating to system stability, the modernizing of infrastructure, complex environments and system interdependence. Regulators' expectations and the regulatory environment will be increasingly demanding, and financial sector requirements will continue to grow in terms of managing technology risk. The growing presence of FinTech and InsurTech, which offer simple, innovative technology solutions that meet the expectations of members and clients, puts more pressure on traditional financial institutions to adapt. Desjardins Group has been no exception and remains active in managing this operational and strategic risk, among others, by investing in technology and by reviewing and diversifying its products, services and distribution channels to meet the needs of its members and clients.</p>

Principal emerging risks	Description
Regulatory developments	<p>The financial services industry is one of the most tightly monitored and regulated, and industry regulation has been expanding for many years now. This trend is in response to a number of socio-economic phenomena such as the development of new, increasingly complex financial products, ongoing volatility in the securities market, financial fraud, the fight against money laundering and terrorist financing, the fight against tax evasion, compliance with economic sanctions and the protection of personal information.</p> <p>Although Desjardins Group actively monitors and manages regulatory risk, changes in regulation, its complexity and its uncertainty could have an impact on the performance of its operations, its reputation, its strategies and its financial objectives.</p> <p>As an independent supervisory function, the Office of the Chief Compliance Officer, Desjardins Group promotes a proactive approach to compliance by fully integrating it into the organization's regular operations. Maintaining an effective compliance management framework mobilizes significant amounts of technical, human and financial resources.</p>
Interest rate developments	<p>Global interest rates fell quickly at the beginning of 2019 as a result of recession fears and a change in tone at several central banks. In the U.S., the Federal Reserve made three interest rate cuts during the second half of the year. The Bank of Canada opted instead for the status quo, but Canadian bond rates nonetheless followed the global trend. The BoC is now wondering about cutting its key rate for 2020, whereas the Canadian economy is showing signs of weakness.</p> <p>The interventions by the Federal Reserve and other central banks helped to reduce risk premiums, which had risen at the end of 2018. The increase in trade tensions did not have any major effects on risk premiums in 2019. Bond rates should remain low in 2020 because of several risks hanging over the global economy and the prudent bias being maintained by most of the central banks.</p> <p>This rate environment puts pressure on financial intermediation margins, where interest income falls or competition increases, particularly for deposits.</p>
Geopolitical uncertainties	<p>Trade tensions remained high in 2019, resulting, among other things, in a definite slowdown in global trade. However, the U.S. and China recently reached a trade agreement, which should allay some of the concerns, even though implementing it will not be easy. In addition, the ratification of the Canada-United States-Mexico Agreement (CUSMA) should be concluded in the next few months, which will greatly ease uncertainties over North American trade. That said, the harmful effects of the trade tensions in recent years will leave a mark and will still be felt for some time.</p> <p>In Europe, the election of a Conservative government with a large majority in the U.K. at the end of 2019 means that Brexit went ahead on January 31, 2020. Some uncertainty will be present during the transition period. The social climate also raises some uncertainty, particularly in France with pension plan reform.</p> <p>In addition, the threat of international conflict remains present, as seen in the recent events involving Iran.</p>

Other risk factors that could impact future results

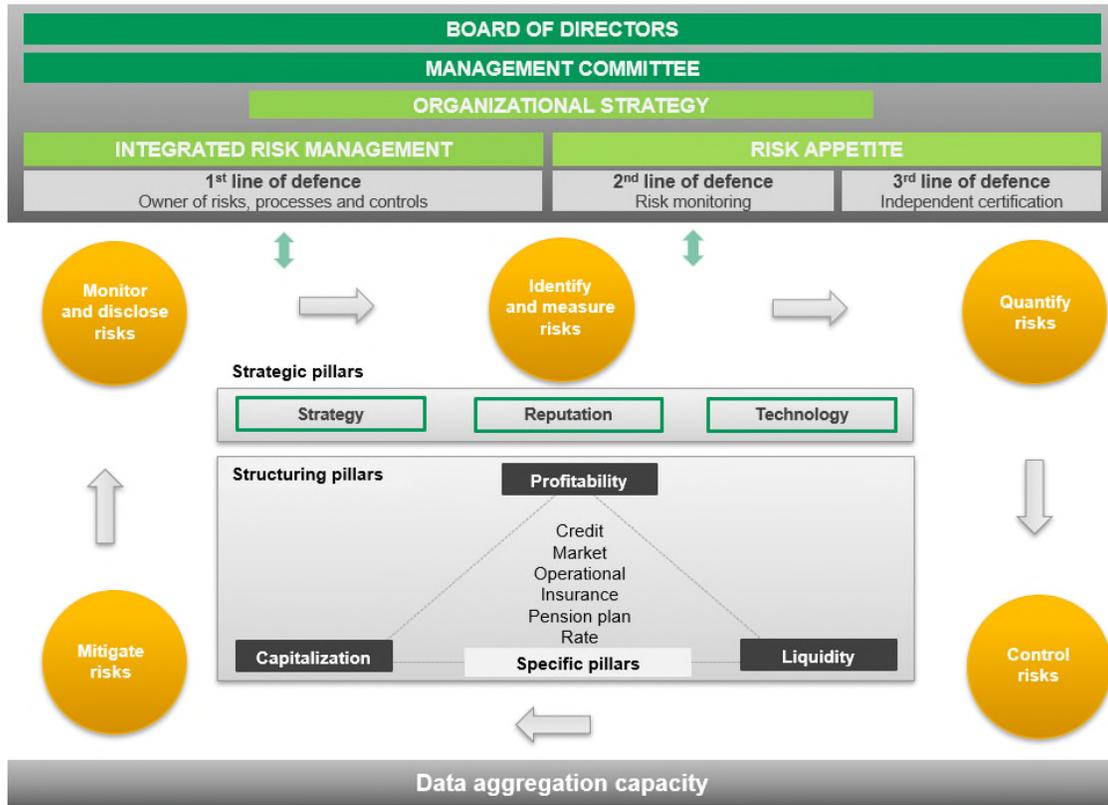
Risk factors	Description
General economic and business conditions in regions in which Desjardins Group operates	<p>General economic and business conditions in the regions in which Desjardins Group operates may significantly affect its income and surplus earnings. These conditions include short- and long-term interest rates, inflation, debt securities market fluctuations, foreign exchange rates, the volatility of capital markets, tighter liquidity conditions in certain markets, the level of indebtedness, the strength of the economy, consumer spending and saving habits, and the volume of business conducted by Desjardins Group in a given region.</p>
Cyber threats	<p>Risks related to cyber threats have been on the rise for a number of years. Both the aggregation of new services for members and clients and the exposure of online services are becoming increasingly complex and gradually extending to more and more areas and products. In addition, the perpetrators of cyber threats are using increasingly sophisticated methods and strategies for criminal purposes. Consequently, Desjardins Group has been investing for many years in technology to strengthen its cyber defence capabilities in order to detect cyber security incidents as quickly as possible; in its processes, by optimizing them to respond efficiently to incidents; and in its employees, by attracting and training them in order to continue developing its defence methods. Desjardins Group has also optimized its cyber risk transfer strategies by refining its own assurance policies during 2019. The organization remains proactive by creating on January 23, 2020 the Desjardins Group Security Office and reinforcing its cyber defence investments to protect its caisse members, their assets and their personal information.</p>

Risk factors	Description
Monetary policies	The monetary policies of the Bank of Canada and the U.S. Federal Reserve (the Fed), as well as interventions in capital markets, have an impact on Desjardins Group's income. The general level of interest rates may impact Desjardins Group's profitability because interest rate fluctuations affect the spread between interest paid on deposits and interest earned on loans, thereby affecting Desjardins Group's net interest income. Furthermore, considering the current level of indebtedness of Canadian households, higher interest rates could have an adverse effect on consumers' ability to service their debt, leading to an increased risk of loan losses for financial institutions. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.
Accuracy and completeness of information concerning clients and counterparties	Desjardins Group relies on the accuracy and completeness of the information it has concerning its clients and counterparties. When deciding to authorize a loan or other transactions with clients or counterparties, Desjardins Group may use information provided by them, including financial statements and other financial information. It may also rely on representations made by clients and counterparties regarding the completeness and accuracy of such information, and on auditors' reports regarding the financial statements. The financial position and income of Desjardins Group could be adversely affected if the financial statements on which it relies fail to comply with accounting standards, are misleading or do not present fairly, in all material respects, the financial position, performance and cash flows of its members, clients and counterparties. Desjardins Group trains its employees and implements procedures to mitigate the risks related to the use of inaccurate, incomplete or fraudulent information from its members, clients or counterparties.
Critical accounting estimates and accounting standards	The Consolidated Financial Statements are prepared in accordance with the IFRS. The accounting policies used by the Federation determine how it reports its financial position and results of operations, and management may be required to make estimates or rely on assumptions about matters that are inherently uncertain. Any change in these estimates and assumptions, as well as in accounting standards and policies, may have a significant impact on the Federation's financial position and results of operations. Significant accounting policies and future accounting changes are described in Note 2, "Basis of presentation and significant accounting policies", to the Consolidated Financial Statements.
New products and services to maintain or increase market share	Strong competitive pressures from Canadian financial institutions and the emergence of new competitors have led Desjardins Group to develop new products and services at a faster pace to maintain or increase its attractiveness as a financial institution with its clients. Developing these new products and services could require large investments by Desjardins or involve risks not identified at the time of their development. Desjardins cannot be certain that the new products and services it offers will result in the anticipated financial benefits.
Geographic concentration	<p>The Federation's operations are heavily concentrated in Québec. As at December 31, 2019, its loans to Québec members and clients therefore accounted for 80.4% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results largely depend on economic conditions in Québec. Any deterioration in these conditions could adversely impact:</p> <ul style="list-style-type: none"> • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; • the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in the approval of transactions by regulators or their imposing of additional conditions, the inability to apply the strategic plan in its original form, difficulties in integrating or retaining clients, an increase in regulatory costs, unexpected expenses, or changes in the economic and competitive environment. As a result, synergies, higher income, cost savings, increased market share and other expected benefits may not materialize or may be delayed, thereby impacting Desjardins Group's future surplus earnings.
Credit ratings	The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. These ratings may be revised or withdrawn at any time by the agencies. In addition, a significant downgrade to various ratings could raise Desjardins Group's cost of funding, reduce its access to capital markets, and increase additional obligations required by its counterparties.
Other factors	<p>Other factors that may have an impact on Desjardins Group's future results include changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact of international conflicts on operations, and Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment.</p> <p>Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.</p>

4.2 Risk management

Integrated Risk Management Framework

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



RISK IDENTIFICATION

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

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

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

RISK MEASUREMENT

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

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

Desjardins-wide integrated stress testing

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

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

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

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

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

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

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

Governance and model validation

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

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

RISK DISCLOSURE

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

RISK APPETITE

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

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

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

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

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

PROACTIVE RISK MANAGEMENT APPROACH

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

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

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

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

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

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

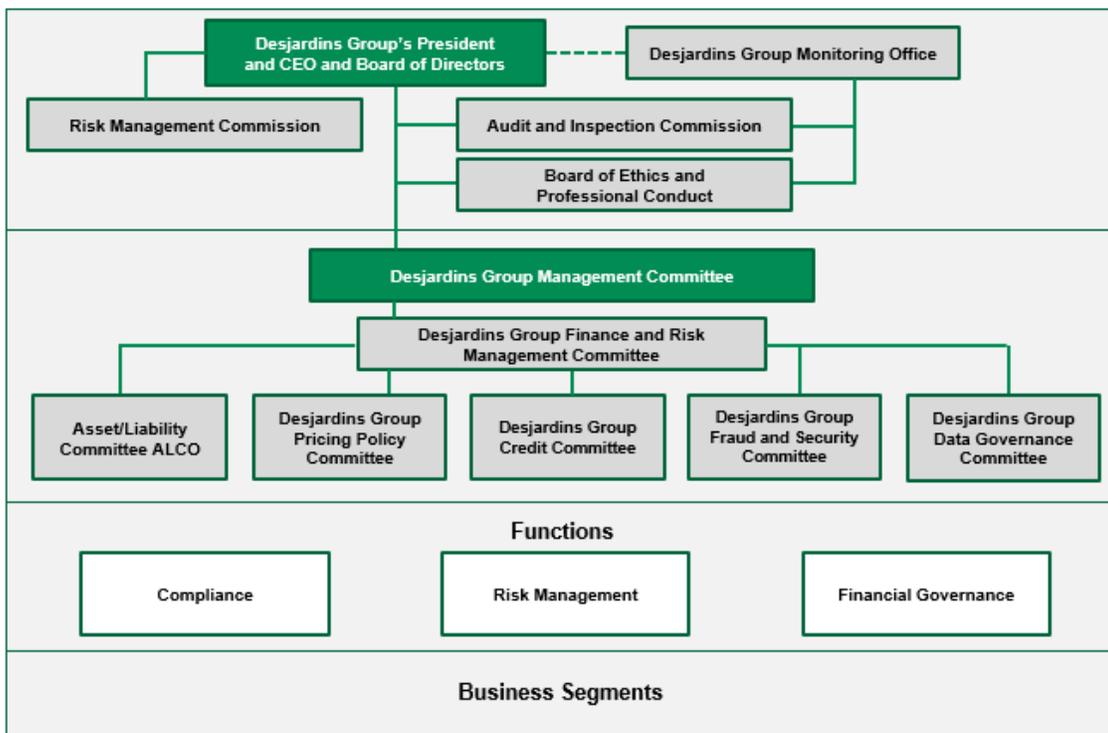
Compensation in relation to risk management

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

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

RISK MANAGEMENT GOVERNANCE

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



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

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

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

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

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

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

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

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

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

Operations management approach based on the Three Lines of Defence model

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

THREE LINES OF DEFENCE MODEL	
First line	
Owner of risks, processes and controls	<ul style="list-style-type: none"> • Identifies, assesses, controls and mitigates process-related risks while respecting risk appetite • Designs, implements and maintains effective internal controls and shows that risks are being managed • Produces its risk profile and reports on management of its risks • Identifies potential conflict of interest situations and remedies them by adequate segregation of tasks
Second line	
Framework and monitoring	<ul style="list-style-type: none"> • Supports the first line in design and implementation of risk management procedures and reviews its work • Establishes the risk management framework, particularly risk appetite • Identifies methodologies and analyzes risks (present and emerging) • Monitors compliance with risk frameworks and exposures • Reports on significant risks to the Management Committee and the Board of Directors
Third line	
Independent certification	<ul style="list-style-type: none"> • Gives an independent and objective opinion on the effectiveness of governance, risk management and internal controls • Provides objective certification to the Management Committee and the Board of Directors as to the overall effectiveness of governance, risk management and internal controls

1st Line of Defence

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

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

2nd Line of Defence

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

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

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

3rd Line of Defence

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

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

Basel capital accord

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

The Basel III framework is essentially based on three pillars:

- the first pillar sets out the requirements for risk-weighted regulatory capital;
- the second pillar deals with the supervisory review process;
- the third pillar stipulates financial disclosure requirements.

Credit risk

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

Market risk

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

Operational risk

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

These provisions are used to calculate the Federation's capital ratios, among other things.

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

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

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

Credit risk

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

The Federation is exposed to credit risk first through its direct personal, business and government loans, which accounted for 39.6% of assets on the Consolidated Balance Sheets as at December 31, 2019, compared to 39.2% at the end of 2018. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as securities transactions.

CREDIT RISK MANAGEMENT

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

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

Framework

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

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

Assessment of regulatory capital

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

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

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

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

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

Differences between the parameters used for accounting and regulatory capital purposes

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

Regulatory capital		IFRS 9
PD	<ul style="list-style-type: none"> Estimated using a long-term average for a full economic cycle. Projected over the next 12 months. Definition of default associated with an instrument for which payments have been past due for over 90 days, plus certain other criteria. 	<ul style="list-style-type: none"> Estimated at a point in time for the next 12 months or for the lifetime of the instrument. Based on past experience, current conditions and relevant forward-looking information. Corresponds to the definition of default used for regulatory capital purposes.
LGD	<ul style="list-style-type: none"> Based on losses that would be expected during an economic downturn. Subject to certain regulatory floors. Takes into account all direct and indirect recovery costs. Discounted to account for the recovery period until default using the discount rate required for regulatory capital purposes. 	<ul style="list-style-type: none"> Based on past experience, current conditions and relevant forward-looking information. Excessive conservatism and floors are excluded. Takes into account only direct recovery costs. Discounted to account for the recovery period until default using the initial effective interest rate.
EAD	<ul style="list-style-type: none"> Corresponds to drawn amounts plus expected use of undrawn amounts before default. 	<ul style="list-style-type: none"> Based on the expected balance of amounts in default projected over the next 12 months or the lifetime of the instrument based on forward-looking expectations.
Discounting	<ul style="list-style-type: none"> No discounting between the date of default and the reporting date. 	<ul style="list-style-type: none"> Discounting from the date of default to the reporting date using the initial effective interest rate.

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

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

As at December 31, 2019, the EAD was \$125.2 billion before using CRM techniques and \$105.2 billion after using CRM techniques.

Credit granting

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

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

Retail loans

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

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

Table 30 presents PD tranches in relation to risk levels.

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

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

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

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

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

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

More specifically for PD, such back testing takes the form of various statistical tests to assess the following criteria:

- model's discriminating power;
- calibration of the model;
- stability of model results.

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

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

Loans to businesses, sovereign borrowers and financial institutions

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

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

Table 31 – Probabilities of default of businesses, financial institutions and sovereign borrowers by risk level*

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

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

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

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

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

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

Other segments

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

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

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

Credit risk mitigation

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

For some portfolios, programs offered by various organizations, in particular Canada Mortgage and Housing Corporation (CMHC) and *La Financière agricole du Québec*, are used in addition to customary collateral. As at December 31, 2019, guaranteed or insured loans represented 7.7% of the Federation's total gross loans, compared to 8.6% at the end of 2018. As a result of these additional measures, the residual credit risk is minimal for loan portfolios with such collateral. In order for enhanced credit offered by a guarantor to be considered a credit risk mitigation technique, the guarantor must meet certain specific criteria to allow this.

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

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

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

Loan debt relief

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

File monitoring and management of higher risk files

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

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

Default situations

Identification of default

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

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

These criteria are applicable to all clients.

Impact of default

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

For individuals, the Federation does not pass on the default.

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

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

Removing default

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

Monitoring of portfolio and reporting

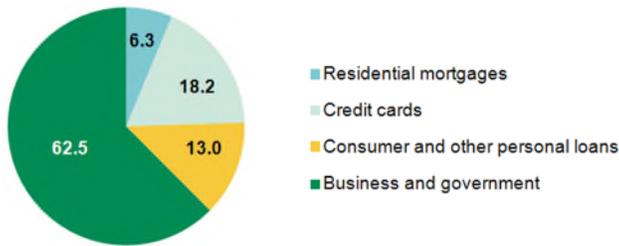
The Risk Management Executive Division oversees the management of all risks to which the organization is exposed, including credit risks. The operating methods require ongoing monitoring of the credit risks to which the Federation is exposed, as well as periodic reporting on portfolio quality to the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

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

The following chart presents the distribution of loans and acceptances by borrower category.

Breakdown of loans and acceptances

As at December 31, 2019
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2019, the main sectors of the business loan portfolio were finance and insurance, manufacturing and real estate, which accounted for 83.8% of the business loan portfolio amounting to \$39.0 billion. The main industries are the same as they were as at December 31, 2018.

Table 32 – Loans by borrower category and by industry

As at December 31

(in millions of dollars)	2019		2018		2017 ⁽¹⁾	
	Gross loans	Gross credit-impaired ⁽²⁾ loans	Gross loans	Gross credit-impaired ⁽²⁾ loans	Gross loans	Gross credit-impaired ⁽²⁾ loans
Residential mortgages	\$ 4,183	\$ 8	\$ 4,626	\$ 10	\$ 4,323	\$ 8
Consumer, credit card and other personal loans	20,567	249	19,710	200	17,547	72
Public bodies ⁽³⁾	1,866	-	1,446	-	1,910	-
Business						
Agriculture	199	15	189	15	125	-
Mining, oil and gas	315	-	275	-	258	-
Utilities	641	-	660	-	379	1
Construction	1,503	84	1,114	118	730	-
Manufacturing	2,280	2	1,922	2	1,193	2
Wholesale trade	697	-	501	-	384	-
Retail trade	360	-	322	-	478	-
Transportation	610	8	563	-	468	-
Information industry	232	-	359	-	218	-
Finance and insurance	28,459	-	26,243	-	26,804	-
Real estate	1,921	2	1,662	-	1,810	-
Professional services	352	-	234	-	166	-
Management of companies	160	-	237	-	168	-
Administrative services	41	-	30	-	13	-
Education	99	-	42	-	-	-
Health care	355	-	207	-	126	1
Arts and entertainment	128	-	134	-	79	-
Accommodation	93	-	50	-	36	-
Other services	305	3	305	-	147	-
Other businesses	211	-	1,497	3	1,520	-
Total business loans	\$ 38,961	\$ 114	\$ 36,546	\$ 138	\$ 35,102	\$ 4
Total loans	\$ 65,577	\$ 371	\$ 62,328	\$ 348	\$ 58,882	\$ 84

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

⁽²⁾ Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

⁽³⁾ Including loans to governments.

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

Table 33 – Gross loans past due but not credit-impaired

As at December 31, 2019	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 27	\$ 3	\$ 1	\$ 2	\$ 33
Consumer, credit card and other personal loans	718	156	75	-	949
Business and government	2	-	-	-	2
	\$ 747	\$ 159	\$ 76	\$ 2	\$ 984

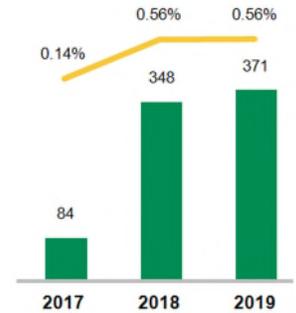
As at December 31, 2018	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 43	\$ 3	\$ -	\$ 11	\$ 57
Consumer, credit card and other personal loans	679	126	57	-	862
Business and government	2	-	-	-	2
	\$ 724	\$ 129	\$ 57	\$ 11	\$ 921

According to Note 7, "Loans and allowance for credit losses" to the Consolidated Financial Statements, the allowance for credit losses as at December 31, 2019 stood at \$464 million, down \$27 million compared to December 31, 2018. This decrease was mainly the result of refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards in second quarter 2019, offset by the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.

Gross credit-impaired loans outstanding are the loans included in stage 3 of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56% as at December 31, 2019, unchanged since December 31, 2018. The allowance for credit losses on credit-impaired loans totalled \$154 million as at December 31, 2019, for a provisioning rate on credit-impaired loans of 41.5%.

Gross credit-impaired loans and gross credit-impaired loan ratio⁽¹⁾

(in millions of dollars and as a percentage)



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

Tables 34 and 35 present the gross credit-impaired loans by Federation borrower category and the change in the gross credit-impaired loan balance.

Table 34 – Gross credit-impaired⁽¹⁾ loans by borrower category

As at December 31

(in millions of dollars and as a percentage)	2019					2018		2017 ⁽²⁾	
	Gross carrying amount			Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans
Gross loans and acceptances	Gross credit-impaired loans								
Residential mortgages	\$ 4,183	\$ 8	0.19%	\$ 4	\$ 4	\$ 10	\$ 5	\$ 8	\$ 3
Consumer, credit card and other personal loans	20,567	249	1.21	130	119	200	90	72	49
Business and government	41,207	114	0.28	20	94	138	132	4	-
Total	\$ 65,957	\$ 371	0.56%	\$ 154	\$ 217	\$ 348	\$ 227	\$ 84	\$ 52

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

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

Table 35 – Change in gross credit-impaired loans⁽¹⁾

As at December 31

(in millions of dollars)	2019	2018	2017 ⁽²⁾
Gross impaired loans at the beginning of the year under IAS 39	N/A	\$ 84	\$ 95
Impact of adopting IFRS 9 as at January 1, 2018	N/A	125	N/A
Gross credit-impaired loans at the beginning of the year under IFRS 9	\$ 348	209	N/A
Gross credit-impaired loans during the year	1,365	777	441
Reinstatement to non credit-impaired status	(1,033)	(306)	(225)
Write-offs and recoveries	(340)	(286)	(278)
Other changes	31	(46)	51
Gross credit-impaired loans at the end of the year	\$ 371	\$ 348	\$ 84

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

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

Provision for credit losses

The Federation's provision for credit losses totalled \$310 million for 2019, up \$22 million compared to 2018. This increase was mainly due to the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019, offset by refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards in second quarter 2019. The credit loss provisioning rate was 0.49% at the end of 2019, slightly up from a ratio of 0.48% recorded as at December 31, 2018.

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

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



Counterparty and issuer risk

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

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

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

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

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

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

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

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

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

Additional information about credit risk is presented in Note 5, "Offsetting financial assets and liabilities", Note 20, "Derivative financial instruments and hedging activities", and Note 28, "Commitments, guarantees and contingent liabilities", to the Consolidated Financial Statements.

Market risk

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

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

GOVERNANCE

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

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

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

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

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

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

Table 36 presents the aggregate VaR and the aggregate SVaR for Desjardins Group's trading activities by risk category as well as the incremental risk charge (IRC). Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four risk categories to which the Federation is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

Table 36 – Market risk measures for the trading portfolio*

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

⁽¹⁾ Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish the specific risk from the general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of the issuer, such as provinces, municipalities and companies, and a sub-portfolio that contains the positions considered to be without issuer risk, such as governments in the local currency.

⁽²⁾ Refers to the risk reduction related to diversification, namely the difference between the sum of the VaR of the various market risks and the aggregate VaR.

⁽³⁾ The highs and lows of the various market risk categories can refer to different dates.

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

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

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

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

Back testing

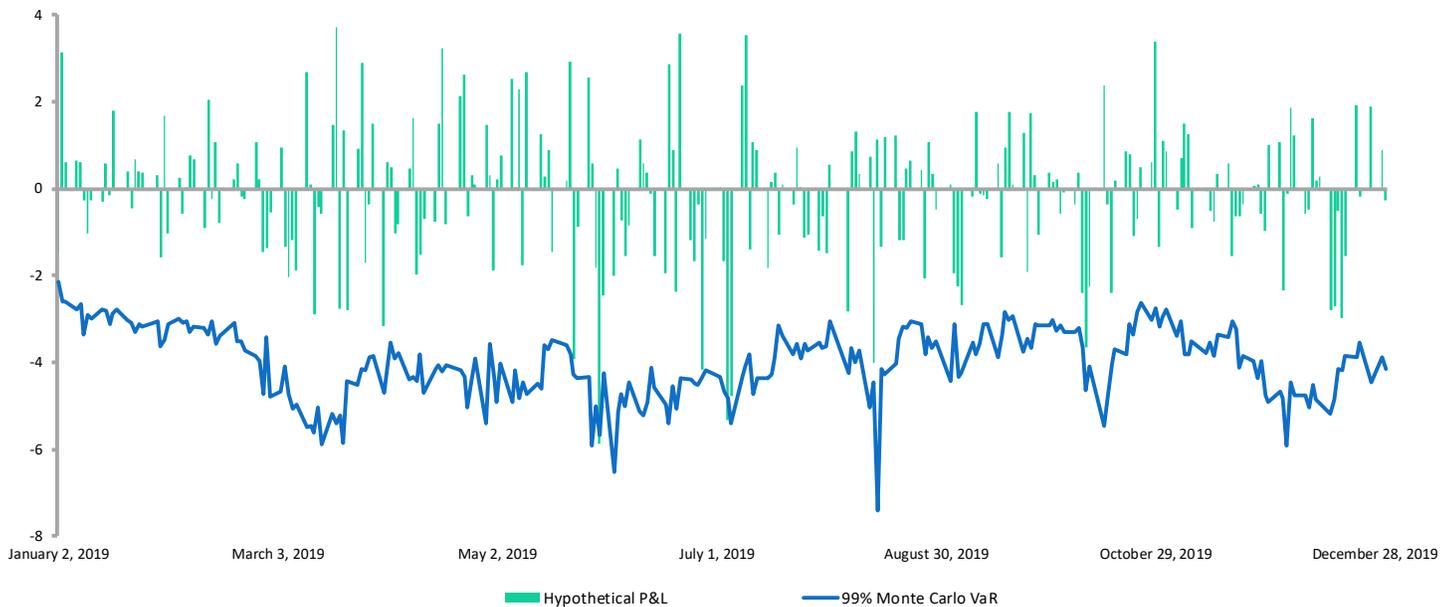
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the model every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

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

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

VaR compared to hypothetical P&L for trading activities

(in millions of dollars)



Stress testing

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

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

STRUCTURAL INTEREST RATE RISK MANAGEMENT

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

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

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

In addition to the total sensitivity gap, the main structural interest rate risk factors are:

- the trend in interest rate level and volatility;
- the changes in the shape of the interest rate curve;
- member and client behaviour in their choice of products;
- the financial intermediation margin;
- the optionality of the various financial products offered.

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

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

Table 37 presents the potential impact before income taxes, with regard to structural interest rate risk management associated with banking activities, of a sudden and sustained 100 basis point increase or decrease in interest rates on net interest income and the economic value of equity for the Federation. The impact related to insurance activities is presented in Note 1 of this table.

Table 37 – Interest rate sensitivity (before income taxes)⁽¹⁾

As at December 31

(in millions of dollars)

	2019		2018	
	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾
Impact of a 100-basis-point increase in interest rates	\$ (40)	\$ (17)	\$ (21)	\$ 51
Impact of a 100-basis-point decrease in interest rates ⁽⁴⁾	38	14	19	(54)

⁽¹⁾ Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a \$215 million decrease in the economic value of equity before taxes as at December 31, 2019, and a \$215 million decrease as at December 31, 2018. A 100-basis-point decrease in interest rates would result in an increase of \$228 million in the economic value of equity before taxes as at December 31, 2019, and of \$222 million as at December 31, 2018. Additional information is provided in the "Interest rate risk management" section of Note 16, "Insurance contract liabilities", to the Consolidated Financial Statements.

⁽²⁾ Represents the interest rate sensitivity of net interest income for the next 12 months.

⁽³⁾ Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.

⁽⁴⁾ The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

PRICE RISK MANAGEMENT

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

Management of price risk related to real estate activities

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

Management of price risk related to stock markets

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

Liquidity risk

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

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

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

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

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

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

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

Liquidity risk measurement and monitoring

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

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

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

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

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

Liquidity risk indicators

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

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

SOURCES OF FINANCING

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which the Federation's liquidity position depends. The solid base of deposits from member caisses combined with wholesale funding, diversified in terms of the programs used as well as the staggering of contractual maturities, allows high regulatory liquidity ratios to be maintained while ensuring their stability. For more information about contractual maturities, please refer to the “Residual contractual maturities of on-balance sheet items and off-balance sheet commitments” table in Note 29, “Financial instrument risk management” to the Consolidated Financial Statements. The deposits of member caisses are presented on the Consolidated Balance Sheets, under “Deposits – Deposit-taking institutions” and accounted for 3.9% of total consolidated liabilities as at December 31, 2019, compared to 4.5% a year earlier. Total deposits, including wholesale funding, presented on the Consolidated Balance Sheets amounted to \$59.0 billion as at December 31, 2019, up \$0.9 billion since December 31, 2018. Additional information on deposits is found in Section 3.1 “Balance sheet management” of this MD&A.

Financing programs and strategies

As Desjardins Group's treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, which strategies are regulated by policies. In 2019, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional financing and the contribution of the caisse network. Short-term wholesale financing is used to finance very liquid assets while long-term wholesale financing is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

The main programs currently used by the Federation are:

Table 38 – Main financing programs

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

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

Table 39 – Remaining contractual term to maturity of wholesale funding

As at December 31

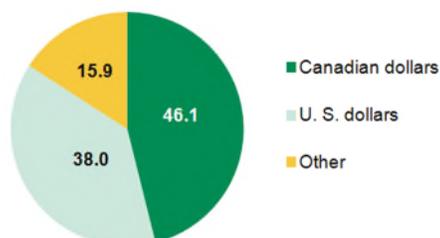
(in millions of dollars)	2019								2018
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total – Less than one year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	\$ 1,740	\$ 541	\$ 22	\$ (53)	\$ 2,250	\$ -	\$ -	\$ 2,250	\$ 2,798
Commercial paper	4,344	3,403	2,808	2,503	13,058	-	-	13,058	13,174
Medium-term notes	728	1,480	389	3,476	6,073	1,453	3,645	11,171	10,657
Mortgage securitization	-	229	369	575	1,173	1,274	7,976	10,423	9,820
Covered bonds	-	-	-	1,456	1,456	-	4,199	5,655	5,859
Subordinated notes	-	-	899	-	899	-	499	1,398	1,378
Total	\$ 6,812	\$ 5,653	\$ 4,487	\$ 7,957	\$ 24,909	\$ 2,727	\$ 16,319	\$ 43,955	\$ 43,686
Including:									
Secured	\$ -	\$ 229	\$ 1,268	\$ 2,031	\$ 3,528	\$ 1,274	\$ 12,674	\$ 17,476	\$ 17,057
Unsecured	6,812	5,424	3,219	5,926	21,381	1,453	3,645	26,479	26,629

The Federation's total wholesale funding presented in the preceding table was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up \$269 million compared to December 31, 2018, mainly because of an increase in securitization of mortgage loans and medium-term notes partly offset by a decrease in bearer discount notes and covered bonds. The Federation does not foresee any event, commitment or requirement that could have a major impact on its ability to mobilize funds through wholesale funding or its members' deposits.

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

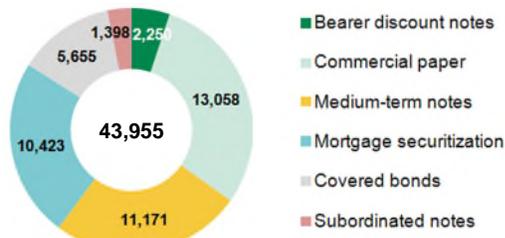
Wholesale funding by currency

As at December 31, 2019
(as a percentage)



Wholesale funding by category

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



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

Outstanding notes issued under the Federation's medium-term financing programs amounted to \$27.2 billion as at December 31, 2019, compared to \$26.3 billion a year earlier. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Consolidated Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled \$1.4 billion as at December 31, 2019, unchanged from a year earlier. Furthermore, to round out its financing and increase its capital base, in 2019, Desjardins Group, through the Federation, issued F capital shares for a cash consideration of \$105 million. Finally, the Federation did not issue any F capital shares for interest payments in 2019. This issue started on January 15, 2019 and ended on July 23, 2019.

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

CREDIT RATINGS OF SECURITIES ISSUED AND OUTSTANDING

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

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

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

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

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

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

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

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

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

Table 40 – Credit ratings of securities issued and outstanding

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

⁽¹⁾ Includes medium- and long-term senior debt issued before March 31, 2019, as well as that issued on or after that date and excluded from the bail-in regime applicable to Desjardins Group.

⁽²⁾ Includes medium- and long-term senior debt issued on or after March 31, 2019, which can be converted under the bail-in regime applicable to Desjardins Group.

⁽³⁾ No such securities were issued as at December 31, 2019.

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

Operational risk

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

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

OPERATIONAL RISK MANAGEMENT FRAMEWORK

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

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

GOVERNANCE

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

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

Approaches to identifying, measuring and monitoring operational risk

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

	Description
Risk and control identification and measurement	A standard inventory of operational risks to which Desjardins Group is exposed has been prepared and is used as the basis for determining the most significant operational risks and evaluating the effectiveness of the mitigation measures in place to reduce them. The risk and control assessments, carried out on a periodic basis, can be related to projects, products, systems, processes and activities, as well as to strategic initiatives and important new products. Consideration of various internal and external factors (losses, audit findings, etc.) is an integral part of these assessments. When the results indicate operational risk exposures that exceed the established tolerance level, action plans are prepared to reduce exposure to an acceptable level.
Collection and analysis of internal and external events	The collection of internal event data is carried out to list and quantify events according to predetermined levels. Internal events are indexed in a database. Through analysis, causes are better understood, trends are determined, and corrective measures are taken when necessary. The main trends identified through analysis of internal events are reported to the various committees on a regular basis. In addition, external operational risk events in the industry are monitored to detect potential or emerging risks and increase risk management at Desjardins Group, if need be. Contingent liabilities, including the impact of litigation, are presented in Note 28, "Commitments, guarantees and contingent liabilities", to the Consolidated Financial Statements.
Risk indicators	To monitor their risk profile and track developments in it, the business segments and support functions establish operational risk indicators to help them proactively monitor any increase in their exposure to the most significant risks and act accordingly when the tolerance level is reached.
Scenario analysis	Scenario analysis consists of assessing events that could lead to a major operational risk, but have little likelihood of occurring (e.g. earthquake). The analysis makes it possible to identify vulnerabilities to such "extreme risks" within the organization in order to apply the required mitigation measures.
Specialized risk assessment programs	Complementing the operational risk management framework are certain programs that are the responsibility of specialized groups. These programs supervise specific risks and track them using their oversight process. They are as follows: <ul style="list-style-type: none"> • Financial disclosure risk management; • Technology risk management; • Business continuity risk management; • Third party risk management; • Risk management related to fraud; • Regulatory risk management; • Risk management related to governance and data quality.
Risk-sharing insurance programs	Desjardins Group has developed insurance programs to give itself additional protection against material operational losses. These programs offer protection based on the business segment's needs, the institution's risk tolerance, as well as emerging risks on the market.
Calculation of capital exposed to operational risk	Since second quarter 2017, Desjardins Group has used the Standardized Approach to calculate its operational risk in the form of regulatory capital exposed to operational risk.

Insurance risk

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

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

Insurance risk for the life and health insurance subsidiaries is composed of the following elements:

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

Insurance risk for the property and casualty insurance subsidiaries is composed of the following elements:

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

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

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

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

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

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

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

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

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

Strategic risk

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

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

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

Reputation risk

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

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

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

Pension plan risk

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

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

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

Environmental or social risk

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

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

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

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

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

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

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

Legal and regulatory risk

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

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

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

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

4.3 Additional information related to certain risk exposures

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

Table 41 – Asset-backed securities

As at December 31

(in millions of dollars)

	2019		2018	
	Notional amounts	Fair value	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities ⁽¹⁾	\$ 135	\$ 135	\$ 138	\$ 140

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

Table 42 – Leveraged finance loans and subprime loans

As at December 31

(in millions of dollars)

	2019	2018
Leveraged finance loans ⁽¹⁾	\$ 370	\$ 81
Alt-A mortgage loans ⁽²⁾	15	18
Subprime residential mortgage loans ⁽³⁾	4	2

⁽¹⁾ Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.

⁽²⁾ Alt-A mortgages are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

⁽³⁾ These loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

5.0 Additional information

5.1 Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the Federation's 2019 Annual Report.

5.2 Related party disclosures

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

The Federation and its subsidiaries carry out transactions with related parties, primarily member caisses. Services provided to the member caisses include various technical, administrative and financial services, for which income, such as assessments and fees, are collected. At the same time, the member caisses receive remuneration from the Federation on products and services such as credit cards, payroll services and investment fund and financial engineering services. The Federation also acts as treasurer, thereby allowing the member caisses to borrow or lend liquidities. Member caisses and the Federation also enter into swap contracts.

Through Desjardins Investments Inc., the Federation receives management fees as manager for Desjardins Funds in exchange for the following services: accounting, record keeping, custody of securities, portfolio management and transfer agent services. Through Desjardins Trust Inc., the Federation also receives fees as fund depositary. Finally, it receives management income from pension plans and interest expense paid to the Desjardins Group Pension Plan.

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

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

Additional information about related party transactions is presented in Note 31, "Related party disclosures", to the Consolidated Financial Statements.

5.3 Critical accounting policies and estimates

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

STRUCTURED ENTITIES

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

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

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

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Loans

The fair value of performing loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date, and takes estimated prepayments into account, adjusted to take into account credit losses on the loan portfolio. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by 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 takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

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

Derivative financial instruments

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

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

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized from the 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 said 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.

Additional information about the derecognition of financial assets is presented in Note 8, "Derecognition of financial assets", to the Consolidated Financial Statements.

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 different stages:

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

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the change in credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, the Federation bases its assessment on the default risk over the expected life of the financial instrument, which requires significant judgment.

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

Definition of default and credit-impaired financial asset

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

Measurement of the loss allowance for expected credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the loss allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of the contract, and total cash flows that 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. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, 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 to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. It may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters.

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

Key data and assumptions

Determining the loss allowance for expected credit losses under IFRS 9 is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions. Significant judgment must therefore be exercised to determine the loss allowance for expected credit losses. The main items affecting its measurement are the following:

- changes in the borrowers' credit risk rating or probability of default;
- incorporation of forward-looking information;
- estimated life of revolving credit facilities.

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the loss allowance for expected credit losses. Changes in the credit risk rating may increase or decrease the loss allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the allowance, while an improvement results in a decrease in the allowance.

Incorporation of forward-looking information

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 following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios are reviewed quarterly.

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

Estimated life of revolving credit facilities

The expected life of most financial instruments is equal to the maximum contractual term during which 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, for which their life must be estimated. 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, and considers the following:

- the period over which it was exposed to credit risk on similar financial instruments;
- the length of time for defaults to occur on similar financial instruments following a significant increase in credit risk;
- the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

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

Additional information about loans and the allowance for credit losses, in particular a sensitivity analysis of the allowance for credit losses, is presented in Note 7, “Loans and allowance for credit losses” to the Consolidated Financial Statements.

IMPAIRMENT OF “AVAILABLE-FOR-SALE” SECURITIES UNDER IAS 39 CONSIDERED FOR THE OVERLAY APPROACH

The Federation elected to designate certain eligible insurance operations financial assets for the overlay approach permitted by IFRS 4, “Insurance Contracts”, to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, “Financial Instruments”, and IFRS 17, “Insurance Contracts”.

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the 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 assets 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.

In determining the amount that would have been reported in the Consolidated Statements of Income if IAS 39 had been applied, the Federation considers, in particular, the impairment of “Available-for-sale” securities under IAS 39, which requires the significant use of judgment.

Under IAS 39, “Available-for-sale” securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, major financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring and the disappearance of an active market for the asset in question. Debt securities are assessed individually to determine whether there is any objective evidence of impairment. For equity securities, objective evidence of impairment would also include a significant or prolonged decline in fair value below cost.

LEASES

From a lessee’s perspective, a right-of-use asset and a lease liability are recognized in the Consolidated Balance Sheets at the commencement date of the lease. Management must therefore use its judgment in determining the term of the lease and the discount date. The lease liability is initially measured at the present value of the lease payments for the leased asset over the lease term that have not yet been paid, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee’s incremental borrowing rate. Generally, the Federation uses its incremental borrowing rate as the discount rate. The lease term is the non-cancellable period and includes any renewal option if the Federation is reasonably certain to exercise that option or any termination option if the Federation is reasonably certain not to exercise that option. Right-of-use assets are measured at cost, which is the amount of the lease liability, increased or reduced by certain adjustments.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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 the asset exceeds its recoverable amount.

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

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

Goodwill

Goodwill is tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill is performed based on the recoverable amount of each cash-generating unit (CGU) (or each group of CGUs) to which goodwill applies. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each CGU.

When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in the Consolidated Statements of Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of an impairment loss to the assets of a CGU (or group of CGUs) must however not result in their carrying amount being lower than the highest of the following amounts: fair value of the assets less costs to sell, their value in use, and zero. Goodwill impairment losses cannot be reversed.

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

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

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

Property and casualty insurance contract liabilities

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

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

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

Note 16, "Insurance contract liabilities", to the Consolidated Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. A provision is recognized when 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 risks and uncertainties. Management must use significant judgment in determining whether a current obligation exists and in estimating the likelihood, timing and amount of any outflow of resources. 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 significantly from forecasts.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of 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. In the normal course of its business, the Federation is involved in various litigation and legal proceedings.

Additional information is presented in Note 28, "Commitments, guarantees and contingent liabilities", to the Consolidated Financial Statements.

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

Note 27, "Income taxes on surplus earnings", to the Consolidated Financial Statements provides additional information on income taxes on surplus earnings.

DIVIDENDS TO MEMBER CAISSES

Dividends to member caisses presented in the Consolidated Statements of Income reflect management's best estimate. They are determined according to the Federation's distribution of the surplus earnings and are based on a resolution of the Board of Directors to recommend to the Annual General Meeting that their payment be approved. Dividend payments are recognized when approved by the member caisses. Dividends to member caisses are allocated to Treasury and Other Support to Desjardins Group Entities.

EMPLOYEE BENEFITS

The Federation participates in a pension plan and a supplemental pension plan through Desjardins Group's defined benefit group plans. It offers the majority of its employees, who meet certain criteria based on age and the number of years of plan membership, a defined benefit pension plan and a defined benefit supplemental pension plan. The Federation also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents. However, during the fourth quarter of 2018, Desjardins Group notified its employees of amendments to this plan that would come into effect on January 1, 2019. As of that date, Desjardins Group would no longer fund the post-retirement benefit plan for retiring employees, except for those employees who had met, as at January 1, 2019, certain criteria allowing them to keep their rights under the current plan.

The Federation participates in defined benefit group pension plans whose risks are shared by entities under common control. The Federation's share in the cost recognized and the net 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 post-retirement benefit plan of Desjardins Group is determined based on the number of eligible insureds of the Federation as a percentage of the total number of eligible insureds for Desjardins Group as a whole. The method to determine the share was reviewed in 2018 and was previously based on active insureds.

Note 17, "Net defined benefit plan liabilities", to the Consolidated Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2019 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, "INSURANCE CONTRACTS"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", to supersede the existing standard, IFRS 4, "Insurance Contracts". IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 proposes a general model for the measurement of insurance contracts, as well as a simplified approach for contracts of one year or less, and a specific method for insurance contracts with direct participation features. The general model is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows, and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

The provisions of IFRS 17 will apply retrospectively to each group of insurance contracts. When retrospective application is impracticable, the modified retrospective approach or the fair value approach may be used for annual reporting periods beginning on or after January 1, 2021.

In June 2019, the IASB issued Exposure Draft Amendments to IFRS 17, for which the effective date was deferred by one year to January 1, 2022. The Exposure Draft comment deadline was in September 2019, and the final IFRS 17 amendments should be issued in mid-2020. The Federation is currently assessing the impact on its financial statements of adopting IFRS 17 and the Exposure Draft Amendments.

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

In March 2018, the IASB issued the "Conceptual Framework for Financial Reporting", which replaces the current version of the conceptual framework. The "Conceptual Framework for Financial Reporting" includes new concepts, updates the definitions and recognition criteria for assets and liabilities and clarifies some key concepts. The Federation is required to adopt this new framework prospectively as of January 1, 2020. The new framework will have no impact on the Federation's financial position and results of operations.

IFRS 9, "FINANCIAL INSTRUMENTS", IAS 39, "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT" AND IFRS 7, "FINANCIAL INSTRUMENTS: DISCLOSURES"

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in connection with the interest rate benchmark reform. The amendments address issues affecting financial reporting in the period before the replacement of the interest rate benchmark. Certain hedge accounting requirements are amended so that entities shall assume that the interest rate benchmark on which the hedged cash flows and the cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. Disclosure requirements have also been amended to add mandatory disclosures. The amendments to these standards, which are effective for all annual reporting periods beginning on or after January 1, 2020, will not have any significant impact on the Federation's financial position or results of operation.

5.5 Five-year statistical review

Table 43 – Consolidated Balance Sheets

For the years ended December 31

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾	2016 ⁽²⁾	2015 ⁽²⁾
ASSETS					
Cash and deposits with financial institutions	\$ 3,084	\$ 2,738	\$ 1,731	\$ 1,212	\$ 1,006
Securities					
Securities at fair value through profit or loss	35,167	36,914	31,654	31,005	28,715
Available-for-sale securities	N/A	N/A	15,250	13,932	14,400
Securities at fair value through other comprehensive income	12,650	11,131	N/A	N/A	N/A
Securities at amortized cost	1,616	1,621	N/A	N/A	N/A
	49,433	49,666	46,904	44,937	43,115
Securities borrowed or purchased under reverse repurchase agreements	11,352	14,086	9,377	7,713	8,046
Loans					
Residential mortgages	4,183	4,626	4,323	3,486	2,861
Consumer, credit card and other personal loans	20,567	19,710	17,547	15,720	14,697
Business and government	40,827	37,992	37,012	33,416	33,330
	65,577	62,328	58,882	52,622	50,888
Allowance for credit losses	(464)	(491)	(198)	(192)	(180)
	65,113	61,837	58,684	52,430	50,708
Segregated fund net assets	17,026	13,234	13,379	11,965	9,781
Other assets					
Clients' liability under acceptances	380	160	31	11	376
Premiums receivable	2,689	2,378	2,098	1,961	1,665
Derivative financial instruments	4,795	4,376	3,772	3,706	4,879
Amounts receivable from clients, brokers and financial institutions	2,239	1,487	1,563	2,541	2,041
Reinsurance assets	2,001	1,958	2,202	2,582	1,964
Right-of-use assets	298	N/A	N/A	N/A	N/A
Investment property	944	943	817	806	669
Property, plant and equipment	840	811	780	769	745
Goodwill	121	121	121	471	472
Intangible assets	381	389	466	690	660
Investments in companies accounted for using the equity method	1,034	907	515	567	414
Deferred tax assets	1,015	896	746	724	678
Other	1,668	1,573	1,673	1,573	1,438
Assets of the disposal group held to be transferred	-	-	881	-	-
	18,405	15,999	15,665	16,401	16,001
TOTAL ASSETS	\$ 164,413	\$ 157,560	\$ 145,740	\$ 134,658	\$ 128,657

See the next page for footnotes.

Table 43 – Consolidated Balance Sheets (continued)

For the years ended December 31

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾	2016 ⁽²⁾	2015 ⁽²⁾
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	\$ 3,715	\$ 4,105	\$ 4,353	\$ 3,817	\$ 2,518
Business and government ⁽³⁾	48,924	47,398	42,598	37,999	40,054
Deposit-taking institutions ⁽³⁾	6,333	6,554	5,198	5,086	5,350
	58,972	58,057	52,149	46,902	47,922
Other liabilities					
Acceptances	380	160	31	11	376
Commitments related to securities sold short	10,615	10,829	9,112	8,196	5,464
Commitments related to securities lent or sold under repurchase agreements	10,562	16,233	10,062	9,870	9,283
Derivative financial instruments	4,827	3,332	3,677	2,540	2,478
Amounts payable to clients, brokers and financial institutions	5,552	4,105	4,247	4,659	4,713
Lease liabilities	350	N/A	N/A	N/A	N/A
Insurance contract liabilities	31,637	28,764	28,300	27,493	26,734
Segregated fund net liabilities	17,002	13,212	13,354	11,957	9,776
Net defined benefit plan liabilities	1,956	1,578	1,741	1,478	1,548
Deferred tax liabilities	277	254	204	247	218
Other	5,373	5,105	4,794	5,247	4,674
Liabilities of the disposal group held to be transferred	-	-	662	-	-
	88,531	83,572	76,184	71,698	65,264
Subordinated notes	1,398	1,378	1,388	1,378	1,884
TOTAL LIABILITIES	148,901	143,007	129,721	119,978	115,070
EQUITY					
Capital stock	8,884	8,779	8,537	8,066	7,505
Undistributed surplus earnings	5,276	4,764	5,674	4,781	3,977
Accumulated other comprehensive income	249	(9)	458	393	265
Reserves	330	271	540	524	507
Equity – Group's share	14,739	13,805	15,209	13,764	12,254
Non-controlling interests	773	748	810	916	1,333
TOTAL EQUITY	15,512	14,553	16,019	14,680	13,587
TOTAL LIABILITIES AND EQUITY	\$ 164,413	\$ 157,560	\$ 145,740	\$ 134,658	\$ 128,657

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

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

⁽³⁾ Prior-period data have been reclassified to conform to the current year's presentation.

Table 44 – Consolidated Statements of Income

For the years ended December 31

(in millions of dollars)	2019 ⁽¹⁾	2018	2017 ⁽²⁾	2016 ⁽²⁾	2015 ⁽²⁾
Interest income					
Loans	\$ 2,913	\$ 2,597	\$ 2,070	\$ 1,866	\$ 1,762
Securities	216	230	195	182	167
	3,129	2,827	2,265	2,048	1,929
Interest expense					
Deposits	1,393	1,159	783	660	598
Subordinated notes and other	197	167	78	85	128
	1,590	1,326	861	745	726
Net interest income	1,539	1,501	1,404	1,303	1,203
Net premiums	9,525	8,923	8,146	7,263	7,006
Other income					
Assessments	393	392	377	393	339
Service agreements	773	742	727	699	760
Lending fees and credit card service revenues	782	699	660	575	547
Brokerage and investment fund services	886	905	1,030	1,060	1,037
Management and custodial service fees	610	579	514	443	385
Net investment income	2,945	170	1,767	1,108	1,210
Overlay approach adjustment for insurance operations financial assets	(192)	523	N/A	N/A	N/A
Foreign exchange income	70	92	77	70	74
Other	532	296	362	140	250
	6,799	4,398	5,514	4,488	4,602
Total income	17,863	14,822	15,064	13,054	12,811
Provision for credit losses	310	288	278	248	302
Claims, benefits, annuities and changes in insurance contract liabilities	9,172	6,584	6,795	5,446	5,431
Non-interest expense					
Remuneration and other payments	660	563	536	492	471
Salaries and fringe benefits	2,443	2,239	2,255	2,329	2,221
Premises, equipment and furniture, including depreciation	556	496	514	437	397
Service agreements and outsourcing	359	341	322	306	327
Communications	221	219	244	265	254
Other	2,699	2,534	2,368	2,193	2,063
	6,938	6,392	6,239	6,022	5,733
Operating surplus earnings	1,443	1,558	1,752	1,338	1,345
Income taxes on surplus earnings	212	208	336	147	208
Surplus earnings before dividends to member caisses	1,231	1,350	1,416	1,191	1,137
Dividends to member caisses	115	70	60	25	-
Tax recovery on dividends to member caisses	(31)	(19)	(16)	(7)	-
Net surplus earnings for the year after dividends to member caisses	\$ 1,147	\$ 1,299	\$ 1,372	\$ 1,173	\$ 1,137
Of which:					
Group's share	\$ 1,101	\$ 1,258	\$ 1,329	\$ 1,088	\$ 957
Non-controlling interests' share	46	41	43	85	180

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

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

Table 45 – Selected financial measures

For the years ended December 31

(in millions of dollars and as a percentage)	2019 ⁽¹⁾	2018	2017 ⁽²⁾	2016 ⁽²⁾	2015 ⁽²⁾
Tier 1A capital ratio	16.9%	15.7%	17.5%	15.9%	N/A ⁽³⁾
Tier 1 capital ratio	16.9	15.7	17.5	15.9	N/A ⁽³⁾
Total capital ratio	16.9	15.7	17.5	15.9	N/A ⁽³⁾
Leverage ratio	9.0	7.4	7.9	7.4	N/A ⁽³⁾
Return on equity ⁽⁴⁾	8.3	8.6	9.4	8.5	8.2%
Credit loss provisioning rate ⁽⁴⁾	0.49	0.48	0.50	0.48	0.62
Gross credit-impaired loans ⁽⁵⁾ / gross loans and acceptances ratio ⁽⁴⁾	0.56	0.56	0.14	0.18	0.17
Assets under administration ⁽⁶⁾	\$ 426,870	\$ 373,558	\$ 419,981	\$ 428,106	\$ 410,858
Assets under management ⁽⁷⁾	77,018	66,359	66,653	59,490	53,561
Average assets ⁽⁴⁾	162,914	154,106	143,110	134,333	130,051
Average net loans and acceptances ⁽⁴⁾	62,752	59,973	54,977	51,213	48,831
Average deposits ⁽⁴⁾	58,645	55,758	52,256	48,376	44,985

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

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

⁽³⁾ The Federation has published its capital ratios calculated according to the guideline on the adequacy of capital base standards applicable to financial services cooperatives issued by the AMF since January 1, 2017. The ratios as at December 31, 2016 are as at January 1, 2017.

⁽⁴⁾ See "Non-GAAP measures".

⁽⁵⁾ Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

⁽⁶⁾ Data for 2018 have been reclassified to conform to the current year's presentation, notwithstanding the standard adopted on January 1, 2019.

⁽⁷⁾ Assets under management may also be administered by the Federation. If applicable, they are included in assets under administration.

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.⁽¹⁾

⁽¹⁾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 ⁽¹⁾	As at December 31, 2018
ASSETS			
Cash and deposits with financial institutions		\$ 3,084	\$ 2,738
Securities			
	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
Securities borrowed or purchased under reverse repurchase agreements		11,352	14,086
Loans			
	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
Segregated fund net assets	9	17,026	13,234
Other assets			
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
TOTAL ASSETS		\$ 164,413	\$ 157,560
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits			
	15		
Individuals		\$ 3,715	\$ 4,105
Business and government		48,924	47,398
Deposit-taking institutions		6,333	6,554
		58,972	58,057
Other liabilities			
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
Subordinated notes	19	1,398	1,378
TOTAL LIABILITIES		148,901	143,007
EQUITY			
Capital stock	22	8,884	8,779
Undistributed surplus earnings		5,276	4,764
Accumulated other comprehensive income	23	249	(9)
Reserves		330	271
Equity – Group's share		14,739	13,805
Non-controlling interests	13 and 16	773	748
TOTAL EQUITY		15,512	14,553
TOTAL LIABILITIES AND EQUITY		\$ 164,413	\$ 157,560

⁽¹⁾ 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 ⁽¹⁾	2018
INTEREST INCOME			
Loans		\$ 2,913	\$ 2,597
Securities		216	230
		3,129	2,827
INTEREST EXPENSE			
Deposits		1,393	1,159
Subordinated notes		72	70
Other		125	97
		1,590	1,326
NET INTEREST INCOME	25	1,539	1,501
NET PREMIUMS	16	9,525	8,923
OTHER INCOME			
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
		6,799	4,398
TOTAL INCOME		17,863	14,822
PROVISION FOR CREDIT LOSSES	7	310	288
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	16	9,172	6,584
NON-INTEREST EXPENSE			
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
		6,938	6,392
OPERATING SURPLUS EARNINGS		1,443	1,558
Income taxes on surplus earnings	27	212	208
SURPLUS EARNINGS BEFORE DIVIDENDS TO MEMBER CAISSES⁽²⁾		1,231	1,350
Dividends to member caisses		115	70
Tax recovery on dividends to member caisses	27	(31)	(19)
NET SURPLUS EARNINGS FOR THE YEAR AFTER DIVIDENDS TO MEMBER CAISSES		\$ 1,147	\$ 1,299
of which:			
Group's share		\$ 1,101	\$ 1,258
Non-controlling interests' share	13	46	41

⁽¹⁾ 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".

⁽²⁾ 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
Net surplus earnings for the year after dividends to member caisses	\$ 1,147	\$ 1,299
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	(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
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains (losses)	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)
Total other comprehensive income, net of income taxes	1	(374)
COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,148	\$ 925
of which:		
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
Item that will not be reclassified subsequently to the Consolidated Statements of Income		
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
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains (losses)	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)
Total income tax recovery	\$ (19)	\$ (92)

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)									
BALANCE AS AT DECEMBER 31, 2017	\$ 8,537	\$ 5,674	\$ 458	\$ 467	\$ 73	\$ 540	\$ 15,209	\$ 810	\$ 16,019
Impact of changes in accounting policies	-	34	(35)	-	(213)	(213)	(214)	-	(214)
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 8,537	\$ 5,708	\$ 423	\$ 467	\$ (140)	\$ 327	\$ 14,995	\$ 810	\$ 15,805
Net surplus earnings for the 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
BALANCE AS AT DECEMBER 31, 2018	\$ 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
BALANCE AS AT DECEMBER 31, 2019	\$ 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 ⁽¹⁾	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
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
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
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)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
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)
Net increase in cash and cash equivalents	346	981
Cash and cash equivalents at beginning of year	2,738	1,757
CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS AT END OF YEAR	\$ 3,084	\$ 2,738
Supplemental information on cash flows from (used in) operating activities		
Interest paid	\$ 1,311	\$ 1,039
Interest and dividends received	3,663	4,028

⁽¹⁾ 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)
Lease liabilities as at January 1, 2019	\$ 361

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

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

⁽²⁾ 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 ⁽²⁾	Total
	Classified as at fair value through profit or loss ⁽¹⁾	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income ⁽²⁾	Designated as at fair value through other comprehensive income		
As at December 31, 2019						
Financial assets						
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 ⁽³⁾	4,795	-	-	-	-	4,795
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	2,239	2,239
Other	-	-	-	-	936	936
Total financial assets	\$ 21,507	\$ 18,728	\$ 13,986	\$ 59	\$ 85,741	\$ 140,021
Financial liabilities						
Deposits ⁽⁴⁾	\$ -	\$ 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 ⁽³⁾	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
Total financial liabilities	\$ 15,710	\$ 84	\$ -	\$ -	\$ 79,201	\$ 94,995

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

⁽²⁾ 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".

⁽³⁾ 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".

⁽⁴⁾ 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)**

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

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

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

⁽³⁾ 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
Financial assets				
Financial assets at fair value through profit or loss				
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
Total financial assets at fair value through profit or loss	27,789	10,826	1,620	40,235
Financial assets at fair value through other comprehensive income				
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
Total financial assets at fair value through other comprehensive income	8,062	5,856	127	14,045
Financial instruments of segregated funds	6,588	10,351	81	17,020
Total financial assets	\$ 42,439	\$ 27,033	\$ 1,828	\$ 71,300
Financial liabilities				
Financial liabilities at fair value through profit or loss				
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
Total financial liabilities	\$ 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
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	\$ 27	\$ 264	\$ -	\$ 291
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	10,632	994	-	11,626
Provincial governmental entities and municipal corporations in Canada	15,063	1,108	-	16,171
School or public corporations in Canada	14	85	-	99
Foreign public administrations	191	-	-	191
Other securities				
Financial institutions	32	800	56	888
Other issuers	3	2,763	742	3,508
Equity securities	3,106	627	698	4,431
	29,068	6,641	1,496	37,205
Derivative financial instruments				
Interest rate contracts	-	1,707	-	1,707
Foreign exchange contracts	-	1,300	-	1,300
Other contracts	-	1,369	-	1,369
	-	4,376	-	4,376
Other assets	-	-	13	13
Total financial assets at fair value through profit or loss	29,068	11,017	1,509	41,594
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	135	933	-	1,068
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	1,950	595	-	2,545
Provincial governmental entities and municipal corporations in Canada	4,402	641	-	5,043
Other securities				
Financial institutions	-	2,810	-	2,810
Other issuers	-	593	97	690
Equity securities	-	43	-	43
Total financial assets at fair value through other comprehensive income	6,487	5,615	97	12,199
Financial instruments of segregated funds	5,556	7,610	72	13,238
Total financial assets	\$ 41,111	\$ 24,242	\$ 1,678	\$ 67,031
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Other liabilities				
Commitments related to securities sold short	\$ 10,535	\$ 294	\$ -	\$ 10,829
Other	-	-	319	319
	10,535	294	319	11,148
Derivative financial instruments				
Interest rate contracts	-	1,726	-	1,726
Foreign exchange contracts	-	278	-	278
Other contracts	-	1,328	-	1,328
	-	3,332	-	3,332
Total financial liabilities	\$ 10,535	\$ 3,626	\$ 319	\$ 14,480

During the 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
Financial assets					
Securities	\$ 1,616	\$ 1,617	\$ -	\$ 1,617	\$ -
Loans	65,113	65,156	-	34,738	30,418
Financial liabilities					
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
Financial assets					
Securities	\$ 1,621	\$ 1,621	\$ -	\$ 1,621	\$ -
Loans	61,837	61,610	-	32,957	28,653
Financial liabilities					
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 ⁽¹⁾	Unrealized gains / losses recognized in profit or loss ⁽²⁾	Unrealized gains / losses recognized in other comprehensive income ⁽³⁾	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
For the year ended December 31, 2019								
Financial assets								
Financial assets at fair value through profit or loss								
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)	-
Total financial assets at fair value through profit or loss	1,509	(12)	3	-	-	249	(129)	1,620
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	89	-	-	-	-	-	(19)	70
Corporate bonds	8	-	-	-	-	-	(8)	-
Equity securities	-	-	-	-	57	-	-	57
Total financial assets at fair value through other comprehensive income	97	-	-	-	57	-	(27)	127
Financial instruments of segregated funds	72	-	5	-	-	4	-	81
Total financial assets	\$ 1,678	\$ (12)	\$ 8	\$ -	\$ 57	\$ 253	\$ (156)	\$ 1,828
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	\$ 319	\$ -	\$ 193	\$ -	\$ -	\$ -	\$ (244)	\$ 268
Total financial liabilities	\$ 319	\$ -	\$ 193	\$ -	\$ -	\$ -	\$ (244)	\$ 268

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

⁽²⁾ Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income", 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.

⁽³⁾ Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized gains (losses)" on debt securities at fair value through other comprehensive income, 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)**

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

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

⁽²⁾ Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income", 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.

⁽³⁾ Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized gains (losses)" on debt securities at fair value through other comprehensive income, 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
Financial assets				
Securities				
Mortgage bonds	\$ 835	Discounted cash flows	Credit spread ^(B,C) Comparable inputs ^(B,C)	0 bp to 300 bp 37 bp to 243 bp
Equity securities and other debt securities	789	Adjusted net asset value	Adjusted net asset value ^(A,C)	- - (1)
	57	Discounted cash flows	Required rate of return ^(B,C)	- - (1)
	60	Recent transactions and bids	Paid/bid price	- - (1)
Other financial assets ⁽²⁾	87			
Total financial assets	\$ 1,828			
Financial liabilities				
Other liabilities - Other				
Financial liability related to the contingent consideration	268	Actuarial techniques ⁽³⁾	Provision for claims and adjustment expenses ^(B)	- - (1)
Total financial liabilities	\$ 268			

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

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

(2) Include other financial assets such as financial instruments of segregated funds.

(3) 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

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

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

(C) 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.

As at December 31, 2019	Gross recognized amounts	Set off amounts	Net amounts presented in the Consolidated Balance Sheets ⁽²⁾	Associated amounts not set off in the Consolidated Balance Sheets ⁽¹⁾		
				Financial instruments ⁽³⁾	Financial collateral held / pledged	Residual amounts not set off
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

⁽¹⁾ Any over-collateralization is excluded from the table.

⁽²⁾ 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.

⁽³⁾ 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 ⁽²⁾	Associated amounts not set off in the Consolidated Balance Sheets ⁽¹⁾		
				Financial instruments ⁽³⁾	Financial collateral held / pledged	Residual amounts not set off
Financial assets						
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
Total financial assets	\$ 19,132	\$ 721	\$ 18,411	\$ 7,390	\$ 10,803	\$ 218
Financial liabilities						
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
Total financial liabilities	\$ 19,011	\$ 721	\$ 18,290	\$ 7,390	\$ 10,814	\$ 86

⁽¹⁾ Any over-collateralization is excluded from the table.

⁽²⁾ 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.

⁽³⁾ 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	
As at December 31, 2019							
Financial assets							
Financial assets at fair value through profit or loss							
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
Total financial assets at fair value through profit or loss	2,837	3,982	4,063	4,552	14,911	4,822	35,167
Financial assets at fair value through other comprehensive income							
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
Total financial assets at fair value through other comprehensive income	1,502	4,460	3,733	1,951	945	59	12,650
Financial assets at amortized cost							
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
Total financial assets at amortized cost	1,578	2	3	13	21	(1)	1,616
Total securities	\$ 5,917	\$ 8,444	\$ 7,799	\$ 6,516	\$ 15,877	\$ 4,880	\$ 49,433

NOTE 6 – SECURITIES (continued)**MATURITIES OF SECURITIES (continued)**

As at December 31, 2018	Terms to maturity					No specific maturity	Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years		
Financial assets							
Financial assets at fair value through profit or loss							
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
Total financial assets at fair value through profit or loss	4,741	4,969	6,449	4,576	11,756	4,423	36,914
Financial assets at fair value through other comprehensive income							
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
Total financial assets at fair value through other comprehensive income	3,664	2,583	2,284	1,728	829	43	11,131
Financial assets at amortized cost							
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
Total financial assets at amortized cost	1,584	2	4	14	18	(1)	1,621
Total securities	\$ 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 ⁽¹⁾	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
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
Total gross residential mortgages	\$ 4,059	\$ 116	\$ 8	\$ 4,183
Allowance for credit losses	(5)	(1)	(4)	(10)
Total net residential mortgages	\$ 4,054	\$ 115	\$ 4	\$ 4,173
Consumer, credit card and other personal loans				
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
Total gross consumer, credit card and other personal loans	\$ 17,165	\$ 3,153	\$ 249	\$ 20,567
Allowance for credit losses	(103)	(186)	(130)	(419)
Total net consumer, credit card and other personal loans	\$ 17,062	\$ 2,967	\$ 119	\$ 20,148
Business and government loans⁽²⁾				
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
Total gross business and government loans	\$ 40,709	\$ 384	\$ 114	\$ 41,207
Allowance for credit losses	(12)	(3)	(20)	(35)
Total net business and government loans	\$ 40,697	\$ 381	\$ 94	\$ 41,172

⁽¹⁾ 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.

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

⁽¹⁾ 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.

⁽²⁾ 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⁽¹⁾**

As at December 31, 2019	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages, consumer, credit card and other personal loans				
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
Total gross off-balance sheet items	\$ 44,174	\$ 1,931	\$ 32	\$ 46,137
Allowance for credit losses	(24)	(2)	-	(26)
Total net off-balance sheet items	\$ 44,150	\$ 1,929	\$ 32	\$ 46,111
Business and government				
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
Total gross off-balance sheet items	\$ 21,943	\$ 131	\$ 2	\$ 22,076
Allowance for credit losses	(6)	-	-	(6)
Total net off-balance sheet items	\$ 21,937	\$ 131	\$ 2	\$ 22,070

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

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

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

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

⁽¹⁾ Represent transfers between stages before the remeasurement of expected credit losses.

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

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

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

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

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

⁽⁷⁾ 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.

⁽⁸⁾ 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)**

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

⁽¹⁾ Represent transfers between stages before the remeasurement of expected credit losses.

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

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

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

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

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

⁽⁷⁾ 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.

⁽⁸⁾ 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
As at December 31, 2019						
Macroeconomic variables⁽¹⁾						
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 ⁽²⁾ (average)	124 bp	125 bp	94 bp	87 bp	173 bp	157 bp
S&P/TSX stock index ⁽²⁾ (annualized change)	4.7%	2.9%	9.9%	7.6%	(25.8)%	8.6%

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

⁽²⁾ Macroeconomic variables related to the Canadian economy.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)**Incorporation of forward-looking information (continued)**

As at December 31, 2018	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic variables⁽¹⁾						
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 ⁽²⁾ (average)	109 bp	128 bp	98 bp	81 bp	141 bp	166 bp
S&P/TSX stock index ⁽²⁾ (annualized change)	9.1%	2.1%	10.9%	8.7%	(11.5)%	4.8%

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

⁽²⁾ 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
Weighting of 100% assigned to the scenario		
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
Financial assets transferred but not derecognized				
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
	\$ 2,754	\$ 2,754	\$ 9,702	\$ 9,702
Related liabilities	\$ 2,730	\$ 2,730	\$ 9,706	\$ 9,706

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)
Net assets held for segregated fund contract holders	\$ 17,061	\$ 13,265
Assets held for the insurer	(35)	(31)
Total segregated fund net assets⁽¹⁾	\$ 17,026	\$ 13,234

⁽¹⁾ 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
Total financial instruments recognized at fair value	\$ 6,588	\$ 10,351	\$ 81	\$ 17,020
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
Total financial instruments recognized at fair value	\$ 5,556	\$ 7,610	\$ 72	\$ 13,238

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

⁽¹⁾ 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 ⁽¹⁾	8
	\$ 298

⁽¹⁾ 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 ⁽¹⁾	1
	\$ 30

⁽¹⁾ 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
Total future lease payments	\$ 628

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
Total minimum future commitments	\$ 342

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
Total future minimum payments	\$ 712

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
Cost									
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
As at December 31, 2019	\$ 32	\$ 630	\$ 308	\$ 141	\$ 336	\$ 1,447	\$ 217	\$ 1,039	\$ 1,256

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Accumulated depreciation									
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)
As at December 31, 2019	\$ -	\$ 216	\$ 199	\$ 65	\$ 127	\$ 607	\$ -	\$ 312	\$ 312

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Net carrying amount									
As at December 31, 2019	\$ 32	\$ 414	\$ 109	\$ 76	\$ 209	\$ 840	\$ 217	\$ 727	\$ 944
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 ⁽¹⁾	Total
Cost				
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)
As at December 31, 2019	\$ 801	\$ 16	\$ 121	\$ 938

	Software	Client relationships	Other ⁽¹⁾	Total
Accumulated amortization				
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
As at December 31, 2019	\$ 502	\$ 9	\$ 46	\$ 557

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

⁽¹⁾ 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 ⁽¹⁾	As at December 31, 2018 ⁽¹⁾
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 ⁽²⁾	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 ⁽³⁾	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

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

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

⁽³⁾ 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 ⁽¹⁾	\$ 15,683	\$ 14,685
Liabilities	12,895	12,134
Equity ⁽¹⁾	\$ 2,788	\$ 2,551
Non-controlling interests	\$ 773	\$ 750

⁽¹⁾ 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)
Share of net surplus earnings for the year after member caisses dividends attributable to holders of non-controlling interests	\$ 46	\$ 42
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 ⁽¹⁾	Aviso Wealth ⁽²⁾	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres
As at December 31, 2019					
Proportion of ownership interest held	60.10%	50.00%	60.00%	85.00%	28.46%
Assets	\$ 649	\$ 2,041	\$ 172	\$ 46	\$ 316
Liabilities ⁽³⁾	126	1,804	36	6	170
Equity	\$ 523	\$ 237	\$ 136	\$ 40	\$ 146
Interests in joint ventures⁽⁴⁾	\$ 352	\$ 347	\$ 82	\$ 34	\$ 42

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

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

⁽³⁾ Consisting primarily of financial liabilities other than accounts payable and provisions.

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

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

⁽¹⁾ 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.

⁽²⁾ Consisting primarily of financial liabilities other than accounts payable and provisions.

⁽³⁾ 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
For the year ended December 31, 2019					
Total income	\$ 108	\$ 432	\$ 9	\$ 6	\$ 32
Net income and comprehensive income for the year	\$ 19	\$ 41	\$ 2	\$ 2	\$ 6

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

⁽¹⁾ 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
Proportion of ownership interest held^(1,2)	37.20%	33.33%	37.20%	33.33%
Assets ^(3,4)	\$ 1,705	\$ 112	\$ 1,418	\$ 113
Liabilities ⁽⁴⁾	1,139	-	773	-
Equity ^(3,4)	\$ 566	\$ 112	\$ 645	\$ 113
Interests in associates⁽⁵⁾	\$ 41	\$ 37	\$ 50	\$ 41

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

⁽²⁾ 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.

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

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

⁽⁵⁾ 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 ⁽¹⁾	\$ 579	\$ 6	\$ 528	\$ 6
Net income and comprehensive income for the year⁽¹⁾	\$ (19)	\$ 6	\$ 2	\$ 6

⁽¹⁾ 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
	\$ 1,668	\$ 1,573

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 ⁽¹⁾	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
	\$ 11,559	\$ 32	\$ 47,381	\$ 58,972	\$ 10,683	\$ 41	\$ 47,333	\$ 58,057

⁽¹⁾ 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)
Net premiums	\$ 4,545	\$ 4,980	\$ 9,525	\$ 4,528	\$ 4,395	\$ 8,923

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2019	As at December 31, 2018
Insurance contract liabilities		
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
	\$ 31,637	\$ 28,764

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
Gross actuarial liabilities		
Non-participating policies	\$ 16,500	\$ 14,565
Participating policies	4,485	3,988
	20,985	18,553
Amounts ceded to reinsurers	(1,075)	(915)
Net actuarial liabilities	\$ 19,910	\$ 17,638

	As at December 31, 2019	As at December 31, 2018
Composition of assets backing net actuarial liabilities		
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
	\$ 19,910	\$ 17,638

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
Balance at beginning of year	\$ 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
Balance at end of year	\$ 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
Changed assumptions		
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
Balance at beginning of year	\$ 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)
Balance at end of year	\$ 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
Estimated ultimate claims amount												
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	\$ 4,107	
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										
Cumulative payments to date		1,238	1,398	1,524	1,640	1,797	1,758	1,876	2,271	2,524	2,150	
Net provisions for claims and adjustment expenses	\$ 294	\$ 93	\$ 109	\$ 170	\$ 232	\$ 308	\$ 331	\$ 473	\$ 815	\$ 1,132	\$ 1,957	\$ 5,914
Reinsurers' share in provisions for claims and adjustment expenses	4	-	-	-	-	-	206	274	130	79	109	802
Gross provisions for claims and adjustment expenses	\$ 298	\$ 93	\$ 109	\$ 170	\$ 232	\$ 308	\$ 537	\$ 747	\$ 945	\$ 1,211	\$ 2,066	\$ 6,716

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
Total	\$ 46,390	\$ 44,825

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		
Net defined benefit plan liabilities					
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	
Total net defined benefit plan liabilities	\$	1,956		\$ 1,578	

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

⁽¹⁾ 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	
Remeasurement of net defined benefit plan liabilities				
Group plans				
Pension plans	\$	307		\$ 65
Post-retirement benefit plan		32		(165)
		339		(100)
Non-group plans		31		(10)
Total remeasurement of net defined benefit plan liabilities	\$	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
	\$ 1,398	\$ 1,378

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
Designated as hedging instruments⁽¹⁾							
Fair value hedges							
<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
Total – Fair value hedges	8,317	8,653	7,573	3,558	28,101	214	278
Cash flow hedges							
<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
Total – Cash flow hedges	719	4,095	3,070	27	7,911	27	41
Total – Designated as hedging instruments	\$ 9,036	\$ 12,748	\$ 10,643	\$ 3,585	\$ 36,012	\$ 241	\$ 319

⁽¹⁾ 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
Trading purposes⁽¹⁾							
Interest rate contracts							
Over-the-counter contracts							
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
Contracts traded through a clearing house							
Interest rate swaps	7,186	11,675	12,831	5,535	37,227	-	-
Exchange-traded contracts							
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
Foreign exchange contracts							
Over-the-counter contracts							
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
Exchange-traded contracts							
Futures	2	-	-	-	2	-	-
	38,237	1,568	431	480	40,716	193	345
Other contracts⁽²⁾							
Over-the-counter contracts							
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
Contracts traded through a clearing house							
Swaps	-	-	195	-	195	-	-
Exchange-traded contracts							
Futures	899	-	-	-	899	-	-
Options purchased	1	-	-	-	1	-	-
	10,791	26,075	23,237	86	60,189	2,993	2,903
Total – Trading purposes	208,613	152,496	107,170	13,930	482,209	4,554	4,508
Total derivative financial instruments before impact of master netting agreements	\$ 217,649	\$ 165,244	\$ 117,813	\$ 17,515	\$ 518,221	\$ 4,795	\$ 4,827
Less:							
Impact of master netting agreements ⁽³⁾	-	-	-	-	-	1,688	1,688
Total derivative financial instruments after impact of master netting agreements	\$ 217,649	\$ 165,244	\$ 117,813	\$ 17,515	\$ 518,221	\$ 3,107	\$ 3,139

⁽¹⁾ 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".

⁽²⁾ Include contracts related to indexed term savings products.

⁽³⁾ 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
Designated as hedging instruments⁽¹⁾							
Fair value hedges							
Interest rate contracts / Interest rate risk							
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
Foreign exchange contracts / Currency risk							
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	-
Total – Fair value hedges	7,922	10,782	7,436	2,182	28,322	762	176
Cash flow hedges							
Interest rate contracts / Interest rate risk							
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
Total – Cash flow hedges	790	1,856	1,971	12	4,629	20	25
Total – Designated as hedging instruments	\$ 8,712	\$ 12,638	\$ 9,407	\$ 2,194	\$ 32,951	\$ 782	\$ 201

⁽¹⁾ 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, 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
Trading purposes⁽¹⁾							
Interest rate contracts							
Over-the-counter contracts							
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
Contracts traded through a clearing house							
Interest rate swaps	13,864	14,830	3,868	2,751	35,313	111	118
Exchange-traded contracts							
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
Foreign exchange contracts							
Over-the-counter contracts							
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
Other contracts⁽²⁾							
Over-the-counter contracts							
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
Contracts traded through a clearing house							
Swaps	-	-	539	-	539	-	-
Exchange-traded contracts							
Futures	941	-	-	-	941	-	-
	7,836	22,071	20,015	-	49,922	1,369	1,328
Total – Trading purposes	\$ 225,202	\$ 145,123	\$ 79,091	\$ 17,024	\$ 466,440	\$ 3,594	\$ 3,131
Total derivative financial instruments before impact of master netting agreements	\$ 233,914	\$ 157,761	\$ 88,498	\$ 19,218	\$ 499,391	\$ 4,376	\$ 3,332
Less:							
Impact of master netting agreements ⁽³⁾	-	-	-	-	-	1,903	1,903
Total derivative financial instruments after impact of master netting agreements	\$ 233,914	\$ 157,761	\$ 88,498	\$ 19,218	\$ 499,391	\$ 2,473	\$ 1,429

⁽¹⁾ 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".

⁽²⁾ Include contracts related to indexed term savings products.

⁽³⁾ 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 ⁽¹⁾	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss ⁽¹⁾
Fair value hedges				
Interest rate contracts / Interest rate risk Over-the-counter interest rate swaps	\$ 125	\$ -	\$ 68	\$ -
Foreign exchange contracts / Currency risk Over-the-counter currency swaps	(786)	1	570	(10)
Total – Fair value hedges	\$ (661)	\$ 1	\$ 638	\$ (10)

⁽¹⁾ 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 ⁽¹⁾	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss	
				Active hedges ⁽²⁾	Terminated hedges ⁽¹⁾
2019					
Cash flow hedges					
Interest rate contracts / Interest rate risk					
Over-the-counter interest rate swaps	\$ (11)	\$ -	\$ (9)	\$ 3	\$ -
Total – Cash flow hedges	\$ (11)	\$ -	\$ (9)	\$ 3	\$ -

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

⁽²⁾ 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 ⁽¹⁾	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss	
				Active hedges ⁽²⁾	Terminated hedges ⁽¹⁾
2018					
Cash flow hedges					
Interest rate contracts / Interest rate risk					
Over-the-counter interest rate swaps	\$ (1)	\$ -	\$ (15)	\$ (7)	\$ 3
Total – Cash flow hedges	\$ (1)	\$ -	\$ (15)	\$ (7)	\$ 3

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

⁽²⁾ 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
As at December 31, 2019							
Interest rate risk							
Assets							
Securities	\$ 2	\$ -	\$ 6	\$ 2,382	\$ -	\$ -	\$ (18)
Loans	(17)	(1)	12	1,349	(1)	-	12
Liabilities							
Deposits	\$ 2	\$ (4)	\$ 1	\$ 12,246	\$ (14)	\$ (4)	\$ (119)
Currency risk							
Liabilities							
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
As at December 31, 2018							
Interest rate risk							
Assets							
Securities	\$ 1	\$ (2)	\$ (2)	\$ 177	\$ -	\$ -	\$ 1
Loans	(5)	1	(4)	1,452	(12)	-	7
Liabilities							
Deposits	\$ (2)	\$ -	\$ 7	\$ 12,942	\$ 137	\$ 2	\$ (76)
Currency risk							
Liabilities							
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.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	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.
Credit risk equivalent	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.
Risk-weighted balance	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 ⁽¹⁾	Risk-weighted balance ⁽¹⁾	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
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
Foreign exchange contracts								
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
Other contracts								
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
Total derivative financial instruments before impact of master netting agreements	\$ 518,221	\$ 4,795	\$ 4,316	\$ 4,123	\$ 499,391	\$ 4,376	\$ 8,132	\$ 2,904
Less:								
Impact of master netting agreements ⁽²⁾	-	1,688	-	49	-	1,903	-	820
Total derivative financial instruments after impact of master netting agreements	\$ 518,221	\$ 3,107	\$ 4,316	\$ 4,074	\$ 499,391	\$ 2,473	\$ 8,132	\$ 2,084

⁽¹⁾ 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.

⁽²⁾ 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 ⁽¹⁾	Risk-weighted balance ⁽¹⁾	Replacement cost	Risk-weighted balance
Credit risk rating ⁽²⁾				
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
Total	4,795	4,123	4,376	2,904
Less:				
Impact of master netting agreements ⁽³⁾	1,688	49	1,903	820
Total after impact of master netting agreements	\$ 3,107	\$ 4,074	\$ 2,473	\$ 2,084
Type of counterparty				
Financial institutions	\$ 4,653	\$ 3,386	\$ 3,390	\$ 2,247
Other	142	737	986	657
Total	4,795	4,123	4,376	2,904
Less:				
Impact of master netting agreements ⁽³⁾	1,688	49	1,903	820
Total after impact of master netting agreements	\$ 3,107	\$ 4,074	\$ 2,473	\$ 2,084

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ 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
Assets disposed of	
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
Total assets disposed of	\$ 918
Liabilities disposed of	
Deferred tax liabilities	\$ 14
Amounts payable to clients, brokers and financial institutions	682
Other liabilities	22
Total liabilities disposed of	\$ 718

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
		\$ 8,883,815		\$ 8,779,087

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
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net unrealized gains (losses) on debt securities classified as at fair value through other comprehensive income ⁽¹⁾	\$ 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	-
Accumulated other comprehensive income	\$ 249	\$ 7	\$ (9)	\$ (3)

⁽¹⁾ 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
Capital		
Tier 1A capital	\$ 11,073	\$ 9,897
Tier 1 capital	11,073	9,897
Total capital	11,073	9,897
Risk-weighted assets for capital calculation purposes		
For Tier 1A capital	65,397	63,106
For Tier 1 capital	65,397	63,150
For total capital	65,397	63,193
Risk-weighted assets for total capital calculation purposes		
Credit risk ⁽¹⁾	53,243	49,216
Market risk	3,091	5,396
Operational risk	9,063	8,581
Total risk-weighted assets	\$ 65,397	\$ 63,193
Ratios and leverage ratio exposure		
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	\$ 123,322	\$ 134,198

⁽¹⁾ 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
Interest income on financial assets		
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
	3,129	2,827
Interest expense on financial liabilities		
At amortized cost	1,590	1,326
	\$ 1,539	\$ 1,501

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
Net investment income on financial assets and liabilities						
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
	\$ 1,112	\$ 1,833	\$ 2,945	\$ 1,156	\$ (986)	\$ 170

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
	\$ 2,699	\$ 2,534

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
Consolidated Statements of Income		
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)
	165	246
Deferred income taxes		
Origination and reversal of temporary differences	15	(58)
Changes in tax rates	1	1
	16	(57)
	\$ 181	\$ 189
Consolidated Statements of Comprehensive Income		
Current income taxes	\$ 74	\$ (127)
Deferred income taxes	(93)	35
	(19)	(92)
Total income tax expense	\$ 162	\$ 97

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)
Income taxes on surplus earnings	\$ 181	\$ 189

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
	\$ 181	\$ 189

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
Deferred tax assets				
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)
Deferred tax liabilities				
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
Net deferred income tax assets	\$ 738	\$ 642	\$ 16	\$ (57)

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 ⁽¹⁾	\$ 1,015	\$ 896
Deferred tax liabilities ⁽¹⁾	277	254
	\$ 738	\$ 642

⁽¹⁾ 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
Financial assets of the Federation pledged as collateral:		
Cash and deposits with financial institutions	\$ 18	\$ 63
Securities	12,463	19,340
Loans	4,141	4,149
Other	-	1
	16,622	23,553
Assets from third parties:		
Assets held as collateral that may be sold or repledged	16,629	14,658
Less: Assets not sold or not repledged	760	4,123
	15,869	10,535
	\$ 32,491	\$ 34,088
Use of assets:		
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 ⁽¹⁾	4,744	4,916
Transactions involving provisions for claims and adjustment expenses ⁽²⁾	1,340	1,918
Caisse network money supply from the Bank of Canada	-	205
	\$ 32,491	\$ 34,088

⁽¹⁾ 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.

⁽²⁾ 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⁽¹⁾	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	\$ 2,637	\$ 428	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ 3,084
Securities										
Securities at fair value through profit or loss ⁽²⁾	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 ⁽²⁾	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
Loans										
Residential mortgages ⁽³⁾	66	47	132	154	155	652	1,706	1,261	10	4,183
Consumer, credit card and other personal loans ⁽³⁾	16	43	130	188	287	1,331	5,481	5,235	7,856	20,567
Business and government ⁽³⁾	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
Total assets	\$ 25,940	\$ 4,562	\$ 4,747	\$ 2,459	\$ 3,252	\$ 12,096	\$ 34,557	\$ 31,898	\$ 44,902	\$ 164,413

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 ⁽¹⁾	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals ⁽⁴⁾	\$ 41	\$ 26	\$ 33	\$ 28	\$ 44	\$ 102	\$ 211	\$ 62	\$ 3,168	\$ 3,715
Business and government ⁽⁴⁾	7,260	5,656	3,591	3,153	4,867	2,731	12,520	3,311	5,835	48,924
Deposit-taking institutions ⁽⁴⁾	152	98	257	173	204	819	2,029	5	2,596	6,333
Acceptances	368	12	-	-	-	-	-	-	-	380
Commitments related to securities sold short ⁽⁵⁾	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
Total liabilities and equity	\$ 24,395	\$ 7,410	\$ 6,662	\$ 4,471	\$ 6,190	\$ 6,917	\$ 23,812	\$ 30,460	\$ 54,096	\$ 164,413
Off-balance sheet commitments										
Credit commitments ⁽⁶⁾	\$ 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

⁽¹⁾ 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.

⁽²⁾ Equity securities are classified under "No stated maturity".

⁽³⁾ Amounts repayable on demand are classified under "No stated maturity".

⁽⁴⁾ Deposits payable on demand or upon notice are considered as having "No stated maturity".

⁽⁵⁾ Amounts are presented by remaining contractual maturity of the underlying security.

⁽⁶⁾ Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Federation's discretion.

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 ⁽¹⁾	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	\$ 2,435	\$ 308	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5)	\$ 2,738
Securities										
Securities at fair value through profit or loss ⁽²⁾	167	718	1,409	977	1,470	2,947	8,471	16,332	4,423	36,914
Securities at fair value through other comprehensive income ⁽²⁾	1,594	767	755	255	293	1,261	3,607	2,556	43	11,131
Securities at amortized cost	1,124	172	196	89	2	1	5	32	-	1,621
Securities borrowed or purchased under reverse repurchase agreements	13,728	311	47	-	-	-	-	-	-	14,086
Loans										
Residential mortgages ⁽³⁾	46	19	102	110	274	547	2,210	1,306	12	4,626
Consumer, credit card and other personal loans ⁽³⁾	52	65	165	189	279	1,061	5,229	5,298	7,372	19,710
Business and government ⁽³⁾	7,148	1,962	1,704	1,243	1,406	5,626	10,527	1,798	6,578	37,992
Allowance for credit losses	-	-	-	-	-	-	-	-	(491)	(491)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,234	13,234
Clients' liability under acceptances	124	36	-	-	-	-	-	-	-	160
Premiums receivable	178	64	13	3	-	-	-	-	2,120	2,378
Derivative financial instruments	235	391	191	359	215	919	1,843	213	10	4,376
Amounts receivable from clients, brokers and financial institutions	1,455	1	-	-	-	-	-	-	31	1,487
Reinsurance assets	38	76	77	70	68	198	390	1,041	-	1,958
Investment property	-	-	-	-	-	-	-	-	943	943
Property, plant and equipment	-	-	-	-	-	-	-	-	811	811
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	389	389
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
Total assets	\$ 28,621	\$ 4,985	\$ 4,734	\$ 3,298	\$ 4,019	\$ 12,569	\$ 32,308	\$ 28,581	\$ 38,445	\$ 157,560

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 ⁽¹⁾	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals ⁽⁴⁾	\$ 659	\$ 101	\$ 33	\$ 28	\$ 42	\$ 90	\$ 142	\$ 3	\$ 3,007	\$ 4,105
Business and government ⁽⁴⁾	7,936	5,480	2,142	3,575	3,872	7,396	10,200	2,129	4,668	47,398
Deposit-taking institutions ⁽⁴⁾	139	151	377	105	169	691	1,852	13	3,057	6,554
Acceptances	124	36	-	-	-	-	-	-	-	160
Commitments related to securities sold short ⁽⁵⁾	19	490	136	38	1	780	4,316	5,049	-	10,829
Commitments related to securities lent or sold under repurchase agreements	16,233	-	-	-	-	-	-	-	-	16,233
Derivative financial instruments	128	148	163	119	156	656	1,704	248	10	3,332
Amounts payable to clients, brokers and financial institutions	2,078	4	-	-	-	-	-	-	2,023	4,105
Insurance contract liabilities	430	783	929	847	800	1,853	4,286	16,289	2,547	28,764
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,212	13,212
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,578	1,578
Deferred tax liabilities	-	-	-	-	-	-	-	-	254	254
Other liabilities	2,298	407	288	30	15	95	102	42	1,828	5,105
Subordinated notes	-	-	-	-	-	879	-	499	-	1,378
Total equity	-	-	-	-	-	-	-	-	14,553	14,553
Total liabilities and equity	\$ 30,044	\$ 7,600	\$ 4,068	\$ 4,742	\$ 5,055	\$ 12,440	\$ 22,602	\$ 24,272	\$ 46,737	\$ 157,560
Off-balance sheet commitments										
Credit commitments ⁽⁶⁾	\$ 3,792	\$ 138	\$ 687	\$ 571	\$ 1,052	\$ 2,469	\$ 7,778	\$ 496	\$ 90,432	\$ 107,415
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,474	2,474
Commitments under 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

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

⁽²⁾ Equity securities are classified under "No stated maturity".

⁽³⁾ Amounts repayable on demand are classified under "No stated maturity".

⁽⁴⁾ Deposits payable on demand or upon notice are considered as having "No stated maturity".

⁽⁵⁾ Amounts are presented by remaining contractual maturity of the underlying security.

⁽⁶⁾ Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Federation's discretion.

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
Total income	3,393	2,828	8,728	6,783	5,141	4,550	601	661	17,863	14,822
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
Operating surplus earnings	804	403	882	1,119	247	214	(490)	(178)	1,443	1,558
Income taxes on surplus earnings	159	102	153	225	60	41	(160)	(160)	212	208
Surplus earnings before dividends to member caisses⁽¹⁾	645	301	729	894	187	173	(330)	(18)	1,231	1,350
Dividends to member caisses, net of income tax recovery	-	-	-	-	-	-	84	51	84	51
Net surplus earnings for the year after dividends to member caisses	\$ 645	\$ 301	\$ 729	\$ 894	\$ 187	\$ 173	\$ (414)	\$ (69)	\$ 1,147	\$ 1,299
of which:										
Group's share	\$ 645	\$ 301	\$ 729	\$ 894	\$ 141	\$ 132	\$ (414)	\$ (69)	\$ 1,101	\$ 1,258
Non-controlling interests' share	-	-	-	-	46	41	-	-	46	41

⁽¹⁾ 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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
As at December 31, 2019	\$ 61,885	\$ 60,982	\$ 48,329	\$ 41,916	\$ 13,860	\$ 13,007	\$ 40,339	\$ 41,655	\$ 164,413	\$ 157,560
As at December 31, 2018										

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
Consolidated Statements of Income								
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)
Consolidated Balance Sheets								
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
Other								
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.

People-focused governance

The values and democratic structure of Desjardins Group (Desjardins) are central to the organization's strategic vision and initiatives. Representatives acting on behalf of caisse members decide where we're heading and how we'll get there. Caisse directors are elected or appointed to the Desjardins Board of Directors and attend the annual general meeting according to the rules set out in the *Bylaws of the Groupe coopératif Desjardins* (group bylaws), which contain provisions to ensure the organization's cohesion and operation. To prepare for their decision-making responsibilities, these representatives regularly participate in team-building exercises and they attend the Desjardins Group Congress, which is generally held every 3 years. As caisse directors, these representatives delve into the local needs of their members and communities and make sure we're always doing what's best for them. These bodies—and the Federation's Board of Directors—are also responsible for making sure we're doing what's best for Desjardins clients all across Canada.

In 2019, we stepped up efforts to integrate environmental, social and governance (ESG) factors into our governance and business practices. This aspect has become essential in the financial sector. We also continued our efforts to fight and adapt to climate change, and now it's the caisse boards' turn to explore these topics. Our goals to be everyone's #1 choice and to enrich the lives of people and communities depend on collective efforts to protect resources and the environment. Desjardins has joined other key players in the civil sector and in government to help develop a sustainable and responsible economy.

Governance highlights

The privacy breach dominated 2019. To keep a tight rein on managing this major operational incident, the Board of Directors closely supervised how the crisis was handled. The top priority was to protect Desjardins members and clients. To prevent the risk of misuse and fraud, we created Desjardins Identity Protection for all our business and personal members and clients, whether or not they were affected by the breach.

On December 3, 2019, we announced a senior management shuffle and the creation of the Desjardins Group Security Office, which will work closely with the business sectors, support functions, marketing, risk management and information security to roll out integrated cross-sector security strategies.

The main highlights are:

1. The cultural shift

We continued to roll out a cultural shift program for directors, managers and employees to change business practices, management practices and systems so that every person working at Desjardins feels invested in always doing what's best for members and clients. This is a recurring topic for Board meetings. The Board has been exploring how to track and achieve this goal, and they've made some changes to the general incentive plan to align the entire organization with the cultural shift objectives.

2. The election process for the Board of Directors and Board of Ethics and Professional Conduct

In 2019, for the first time in our history, caisse delegates at our annual general meeting voted to elect 5 people to the Board of Directors and 1 person to the Board of Ethics and Professional Conduct (BEPC) based on an enhanced group profile and priority areas identified by the Board of Directors and the BEPC. Eligibility to stand for election was open to existing members of caisse boards of directors. In another Desjardins first, an information session was held before the election, where candidates were asked to explain what they would contribute to the boards' enhanced group profiles: the targeted mix of diversity, skills and knowledge shared by the board membership as a whole.

3. Increasing representation of women across all Desjardins boards

We're committed to achieving gender parity on all boards by 2024. In 2019, women's representation on boards increased in the caisse network, in the subsidiaries and at the Federation level. In the March 29, 2019 election, 3 women were elected to the Federation's Board of Directors, including an Indigenous woman. Women now make up 33% of the board, holding 7 out of 21 seats. A woman also won the only spot available on the 5-member BEPC, bringing the rate of representation up to 40%. We've also developed and approved a strategy to encourage better representation and increase the percentage of women in upper management positions. We've put in place an action plan with specific initiatives to support this goal. Targets have been set and the Desjardins Group Management Committee checks in on them quarterly. Our goal is to reach parity by 2024.

4. First-ever appointment of 2 external board members

Acting on decisions made at the 23rd Congress, the Federation's Board of Directors appointed 2 external members¹ for the first time. Both are women. The Board selected the 2 candidates based on what they bring to the enhanced group profile and priority areas. External board members serve 1-year terms that can be renewed for up to 12 years. Their tenure is renewed annually, but in practice, our priority is stability so we can fully benefit from their contributions, similar to our subsidiaries' external board members.

5. More changes to membership for the Federation's Board of Directors

In 2019, the Board dropped from 23 seats to 21, including the addition of the 2 external members.

6. Changes to eligibility conditions for Desjardins boards

To manage conflicts of interest and make sure people are independent, we've made a change to the *Code of Professional Conduct*. We added a rule barring ex-employees or ex-managers from applying for positions on a caisse board, the Federation Board or the BEPC for a given period (5 years at the caisse level and 10 years at the Federation level).

¹ According to Bylaws of the Group Coopératif Desjardins, the external directors who are neither caisse directors nor caisse managers and who are appointed by the board of directors, according to the enhanced group profile, for a one year term renewable for up to 12 years.

7. Changes to the Federation’s election process

The Election Committee is now a permanent Federation committee. It oversees the proper conduct of the election process for positions on the Board and BEPC and for Desjardins’s President and CEO. The committee provides and enforces guidelines for the electoral process, sets up processes that enable the electoral colleges to properly fulfill their role, and assesses the nominations according to the profile adopted by the Board and by the BEPC for the purposes of reporting at the general meeting. The Election Committee is made up of 5 caisse directors who are neither directors of the Federation nor members of the BEPC. An external expert supports the committee.

For the election of Desjardins’s President and CEO, the electoral college is now made up of 1 director from each caisse. This director is the person who represents the caisse on the community collaboration group and the Desjardins Collaboration Forum. The changes made to the group bylaws in 2018 mean there are no salaried employees in the electoral college. To support the electoral college, the Board of Directors develops the parameters of the mandate, the profile for the position of President and CEO, and a candidate evaluation guide based on this profile.

The President and CEO in office must declare their intention to run again before the nomination period. Guy Cormier announced he was running for a second term on November 26, 2019. After the nomination period, he was elected by acclamation for a second 4-year term starting after the annual general meeting in March 2020.

8. Update on caisse representation on Federation governing bodies

At the Desjardins Collaboration Forum meeting on November 16, 2019, the participants voted for the Board to make a recommendation at the annual general meeting in March 2020. They’d like to see a change in the number of delegates a caisse can send to a general meeting or congress to adjust the level of representation to reflect changes in the caisse network.

9. Signing the Principles for Responsible Banking and Principles for Sustainable Insurance, and adopting ESG factor-forward positions

In 2017, we adopted a position on our contribution to reaching the Paris Agreement objectives. Subsequently, the Board monitored the implementation of our position and obtained reports about all prioritized initiatives. In addition to initiatives to reduce our carbon footprint, support the use of electric vehicles and invest in renewable energy, the Board took steps toward responsible finance by authorizing senior management to sign the relevant international principles. After both insurance companies signed the Principles for Sustainable Insurance, Desjardins signed the Principles for Responsible Banking, making it the first Canadian financial institution to sign these UN principles. In 2019, we adopted positions to restrict cannabis and exclude tobacco, weapons and coal from our investments. Since 2018, the application of ESG factors have changed our business practices and management practices because these factors are now part of our procurement activities and real estate management. The Board makes sure that climate change and ESG factors are taken into consideration in our governance and business model. This means we need new expertise on our boards. Consequently, this requirement has been identified as a priority area for the next round of director elections. You can find the most up-to-date version of our commitments on our website at https://bloques.desjardins.com/press_release/2020/01/report-concrete-measures.php.

Governance structure

At Desjardins, the primary purpose of our corporate governance practices is to support our mission of contributing to improving the economic and social well-being of people and communities. The Federation oversees the development and application of the Desjardins-wide governance structure, which takes into account our cooperative nature, our sustainable development objectives, the complexity of our operations, and Autorité des marchés financiers (AMF) guidelines. This structure covers the activities of the Federation, the Desjardins Security Fund, the Fédération des caisses populaires de l'Ontario Inc., the Desjardins subsidiaries and the caisses. As certain components are subject to specific laws and regulations, the structure largely complies with rules established by the Canadian Securities Administrators (CSA) and the Office of the Superintendent of Financial Institutions, as well as industry best practices.

Mandate of the Board of Directors

1. Administration of the Federation

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Board is responsible for managing the affairs of the Federation, with support from its commissions and committees. It ensures that the necessary mechanisms and structures are in place for it to play its role as the organization that guides, plans, coordinates, monitors and controls all Desjardins operations. As part of its responsibilities, it makes the necessary decisions and coordinates the components' actions to ensure Desjardins's long-term success. The organizational structure, which is built around the business sectors and support functions, serves to optimize overall performance, streamline the organization and improve financial and risk management. The Board's responsibilities include the following:

a. Corporate culture

The Board is responsible for promoting the corporate culture based on Desjardins's values: money at the service of human development, democratic action, personal commitment, integrity and rigour in the cooperative enterprise, solidarity with the community and intercooperation, with a view to earning the trust of the public and ensuring members and clients have confidence in their financial services cooperative. The Board is also responsible for enforcing Desjardins's rules of professional conduct.

At the heart of this ever-evolving culture is the strategic framework defined by the Board, which is based on Desjardins's purpose: *At Desjardins, we enrich the lives of people and communities through our members and clients*. All our decision-making and actions are guided by our goal of becoming everyone's #1 choice by doing what's best for our members and clients.

The Federation has a Board of Ethics and Professional Conduct (BEPC) whose members are all independent from management and from the Board of Directors (Board). For Desjardins caisses in Quebec, responsibility for ethics and professional conduct is assumed by an Audit and Professional Conduct Committee and a Governance and Ethics Committee made up of caisse directors. For caisses in Ontario, this responsibility is assumed by an Audit Committee made up of caisse directors. Desjardins also has a policy for reporting regulatory violations and violations of Desjardins's Code of Professional Conduct. This policy is combined with a confidential reporting mechanism that protects the anonymity of those who use it.

Desjardins's Code of Professional Conduct, which is available to the public on Desjardins.com, is applicable to all Desjardins components. It includes a section on ethics and Desjardins's mission and values, and a section that describes all the rules of professional conduct. All Desjardins employees and directors and members of the BEPC must sign an annual acknowledgement that they have read and agree to uphold the Code.

b. Strategic and financial planning process

The Board has an ongoing strategic and financial planning process for Desjardins that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. This process is the basis for all other plans for Desjardins components and focuses on maintaining continuity, setting priorities and fostering commitment. The Board adopts a rolling strategic plan that is updated periodically, with input from the caisses, Desjardins's democratic bodies and business sectors, as well as the decision-making bodies of subsidiaries.

The strategic planning process occasionally calls on the Congress, which is an assembly of more than 1,000 caisse delegates. Mechanisms are in place to ensure that all components are aligned with key strategic directions, including the general incentive plan. The plan was revised in 2019 to add shared objectives that revolve around doing what's best for members and clients and promoting unity, equality, and synergy within the organization. These shared objectives encourage all managers and employees to do what's best for members and clients.

The Board plays a supervisory and monitoring role in this process, with support from the Desjardins Group Management Committee (DGMC). The DGMC produces regular reports via the performance review so the Board can monitor the progress made on Desjardins's strategic plan and the business plans, and make changes as needed.

c. Identification and management of main risks

The Board is responsible for identifying the main risks facing Desjardins, approving risk appetite limits and ensuring that management sets up the required systems to manage these risks in a sound and prudent manner. The Board is supported in these tasks by the Risk Management Executive Division. Backed by the Risk Management Commission (RMC), the Board works with the Audit and Inspection Commission (AIC), which is responsible for risks related to the financial reporting process. The DGMC also supports the Board in carrying out its financial reporting responsibilities. All RMC sessions include closed-door meetings with the Risk Management Executive Division, as well as closed-door meetings which are not attended by management.

A detailed presentation of the risk management principles applied at Desjardins Group can be found in the Risk Management section of the Management's Discussion and Analysis on page 51.

The complete mandate and lists of members of the commissions and committees that support the Federation's Board of Directors are available on our website at www.desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp. Additional information specifically about the RMC and its governance practices can also be found there.

d. Succession planning

The Board oversees the senior management succession and development program with the support of the Human Resources Commission (HRC) and the Human Resources and Communications Executive Division. The HRC runs the program and reports to the Board, making recommendations as needed. This program is an important tool for the DGMC, as it promotes personal development, supports succession planning and helps protect the organization against human resources-related risks.

Talent development, succession planning and hiring processes promote professional competency and diversity among Desjardins staff.

President and CEO

In keeping with Desjardins's cooperative nature, the President and CEO is chosen by an electoral college made up of representatives from all Quebec and Ontario caisses, meaning the successful candidate is backed by the majority and ensuring solidarity within the group. The maximum tenure is 8 years (2 x 4 years). Although the Board does not have the power to appoint the President and CEO, it does have a role to play in succession planning, mainly through the senior management succession program and skills development for directors of local caisses, subsidiaries and the Federation. The Board is also responsible for ensuring smooth transitions between mandates by adopting the major parameters of each 4-year plan, which becomes the base for the next strategic plan, and by updating the President and CEO profile based on Desjardins's status as a domestic systemically important financial institution.

The electoral process is governed by the group bylaws and Desjardins's *Code of Professional Conduct* and is overseen by an Election Committee made up of directors who are independent from the Board and the BEPC. The Election Committee is responsible for establishing the rules of the electoral process and the rules of conduct applicable to the electoral college, candidates, employees and directors from local caisses, assessing how the candidates fit the profile and recommending that the Board remove candidates who do not meet the minimum requirements. This committee also makes sure that the electoral college has the tools they need to assess the candidates who do meet the requirements. The BEPC is responsible for issuing notices for any violations of the *Code of Professional Conduct* submitted by the Election Committee.

Senior Executive Vice-President and COO

To bolster independence, stability and succession planning, the Board approves the appointment of the Senior Executive Vice-President and COO, who assumes, for the purposes of the law and the group bylaws, the role of general manager of the Federation. The Senior Executive Vice-President and COO also recommends a working organizational structure for Federation and Desjardins senior executives to the President and CEO.

e. Integrity of internal control and management reporting systems

The Board, backed by its Audit and Inspection Commission (AIC), ensures the implementation of effective control systems and obtains the required reporting information from management. The Board is supported in this responsibility by Desjardins's Chief Monitoring Officer, whose annual work plan is approved by the AIC. A rigorous financial governance process is applied throughout Desjardins to properly support the Executive Vice-President of Finance, Treasury and Administration and CFO who, together with Desjardins's President and CEO, is responsible for certifying Desjardins's combined financial statements.

The Federation discloses financial information in compliance with CSA *National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*. Desjardins Group is not, on a combined basis, a reporting issuer according to the Regulation. However, it has elected to comply with the Regulation to show its willingness to observe best practices in financial governance. Under Federation's financial governance system, its signing officers certify, at the end of the fiscal year, the design and operating effectiveness of disclosure controls and procedures, as well as the internal controls over financial reporting.

At Desjardins, we continuously update our internal control system to make sure it's effective, efficient and tailored to our organization's needs. This system is designed to provide the boards of directors of Desjardins components with reasonable assurance that the components are achieving their business objectives in compliance with regulatory requirements.

The Board ensures that the DGMC provides the Board and its commissions and committees with information that is accurate, timely and adapted to the specific needs of its directors so they can take advantage of business opportunities and measure the risks involved. Board members are invited to assess the quality of documents used in the decision-making process. This is a recurring segment on the agenda to ensure continuous improvement.

The Board benefits from the information used by each business sector to effectively monitor key performance indicators, as it allows its members to quickly obtain strategic information pertinent to the decision-making process.

Board members receive financial and operating reports at least quarterly so they can assess Desjardins's situation and the status of the Federation's projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of this information.

To effectively carry out its duties, the Board holds regular meetings on a predetermined schedule. Board members receive the meeting agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process. The Board constantly seeks to increase its efficiency and focus its efforts on strategic issues by optimizing meeting agendas and by delegating certain operational responsibilities to the DGMC. The DGMC's mandate was clarified in 2019.

Directors have access to technological tools so they can easily and securely access all meeting-related documentation and management guidelines for Desjardins's operations. They are required to comply with Desjardins's information security policy.

f. Strategic communications

The Board adopts a communications policy and strategic communications priorities for Desjardins, in line with the Desjardins Group strategic plan, including actions to be taken and targets. The Federation also draws up internal and external communications plans or strategies in order to better manage its relations with the caisses and their members; the business sectors and their clients; its employees; socio-economic, community and non-governmental organizations; opinion makers; the public; the media; rating agencies; and the government. It ensures consistent, quality communications across Desjardins, helps promote Desjardins's cooperative difference, contributes to the promotion, development and growth of the Desjardins brand; and listens to internal and external audiences.

The Federation oversees the financial reporting process and the disclosure of any major changes that may affect the financial position of Desjardins Group. It uses different teams and various channels to communicate effectively with its many stakeholders.

These teams and channels include: the Office of the Ombudsman, the Desjardins ethics and professional conduct support team and the caisse complaint-handling procedure (Your Satisfaction, Our Priority); as well as, within Desjardins: the annual general meetings, the disclosure of quarterly financial results, publications (including our annual report and the social and cooperative responsibility report), toll-free telephone numbers, intranet portals (including one designed especially for caisse directors), the website (which includes information on the Co-opme Program on education, cooperation and dialogue with our members and clients, as well as a Member Relations section), the Federation's member services, the procedure for reporting violations of Desjardins's *Code of Professional Conduct* and other regulatory instruments, newsletters, and social media (Facebook, YouTube, LinkedIn, Twitter, etc.).

In addition, the Federation maintains relations with international rating agencies and coordinates Desjardins's relationships with the different levels of government in compliance with applicable lobbying legislation.

2. Composition of the board of directors

In 2019, the Federation's Board consisted of 21 members, 18 of whom are independent directors. There are 16 representatives from the caisse network, 2 caisse general managers, 2 external directors and the President and CEO, who is also Chair of the Board. There is 1 managing director position, which will be eliminated after the next annual general meeting. This position isn't eligible to vote and isn't included in the 21 positions mentioned above.

Additionally, the following members of management support the Board by attending its meetings: the Senior Executive Vice-President and COO; the Executive Vice-President, Finance, Treasury and Administration and CFO; the Secretary General and Vice-President, Governance and Sustainable Development; and the Vice-President, President's Office, Cooperation and Director Support.

3. Nomination process

In accordance with Desjardins's democratic structure and the principle of delegation, the 15 members of the Board and the two general managers, who are all from the caisse network, are elected by the delegates of the Federation member caisses during the annual general meeting. The Federation therefore benefits from having directors who have in-depth knowledge of their community and the activities of Desjardins yet remain independent from management. Their knowledge of the organization is one of the considerable advantages of Desjardins's democratic structure. Having two caisse general managers sit on the Board also helps ensure that the priorities adopted and implemented by the Board reflect the caisses' needs and priorities.

The 2 external directors, who are neither caisse directors nor general managers, are appointed by the Board for a 1-year term renewable for up to 12 years.

The final position is reserved for the President and CEO of Desjardins.

Board members have three-year renewable terms, and each year one-third of the Board members are outgoing. Federation directors and members of the BEPC are subject to a limit of four three-year terms, consecutive or not.

Board membership is also based on an enhanced group profile, in accordance with the group bylaws. The Board adopts and updates, as needed, this enhanced group profile, which it strives to achieve, and which takes into account the following criteria: skills related to the individual qualities required to be a member of the Board; representation from diverse communities, members and clients; skills relevant to the reality of a regulated cooperative financial institution; and skills relevant to Desjardins's strategic priorities. The Federation has designed tools to help electors understand what is expected of directors, so they can make an informed choice. The Board's role is to put in place strategies to find the right mix of skill sets as quickly as possible. The general meeting's role is to elect people who meet the requirements set by the Board or the BEPC.

Desjardins has made a gender parity a priority for the boards of directors of its caisses, subsidiaries and the Federation. Parity is taken into account in the electoral and nomination processes. Our goal is to reach parity by 2024

4. Application of independent director

A director is considered independent if they do not have any significant relationship with Desjardins that, in the opinion of the Board, may affect the independence of their judgment.

There are 3 non-independent members of the Board of Directors: Desjardins's President and CEO, plus 2 caisse general managers. The President and CEO is a non-independent party because they are a member of Federation management, and the caisse general managers are non-independent parties because they are employees of cooperatives belonging to Desjardins (the caisses). The directors do not have any business or personal relationships with members of the DGMC; nor do they have any interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of the Groupe coopératif Desjardins, or any interests of any other nature which, in the opinion of the Board, could reasonably be perceived as harmful. As a result, the members of the Board, both individually and collectively, are able to exercise objective and impartial judgment on Desjardins business free of undue influence from senior management or third parties.

For guidance in these matters, the Board refers to the provisions of Desjardins's *Code of Professional Conduct*, which governs the actions of its directors, and to the declarations of interests filed annually by the directors. Only 1 member of the Board, Marie-Josée Lamothe, sits on the board of a public company.

Independent directors

In the opinion of the Board, and in accordance with CSA *National Instrument 52-110 – Audit Committees* and the AMF *Governance Guideline*, the following directors are independent:

- Louis Babineau
- Johanne Charbonneau
- Stéphane Corbeil
- André Grenier
- Kateri C. Jourdain
- Jean-François Laporte
- Roch Ouellet
- Michel Tourangeau
- Stéphane Trottier
- Lisa Baillargeon
- Carole Chevalier
- Michel Doré
- Nadine Groulx
- Marie-Josée Lamothe
- Camil Maltais
- Serge Rousseau
- Marie-Eve Tremblay
- Yvon Vinet

Lisa Baillargeon's, Kateri C. Jourdain's and Marie-Eve Tremblay's terms began on March 30, 2019.

Johanne Charbonneau's and Marie-Josée Lamothe's terms began on April 18, 2019.

Annie P. Bélanger's, Claude Chapdelaine's, Jean-Robert Laporte's and Mario Simard's terms ended on March 30, 2019.

Pierre Perras is a managing director. He is also independent, like the other directors.

Non-independent directors

In the opinion of the Board, and in accordance with CSA *National Instrument 52-110 – Audit Committees* and the AMF *Governance Guideline*, the following directors are not independent:

- Guy Cormier
- Benoît Bélanger
- Neil Hawthorn

5. Performance reviews and director skills

Performance reviews

The Board and its commissions and committees conduct a review of their performance every 2 years. A 2-year action plan based on these performance reviews is then submitted to the Board by the Corporate Governance Commission (CGC), which oversees the plan.

This exercise is accompanied by individual meetings between each director and the Chair of the Board. These meetings, whether formal or not, are intended to enhance the performance of decision-making bodies and each director's contribution. Directors have regular meetings with the Chair throughout the year. The Vice-Chair, who is also a lead director, holds regular meetings with the Board to monitor its independence and exemplary conduct.

Director skills

The Board has adopted an enhanced group profile with criteria to help elect members of the Board at the general meeting. The profile also guides the disclosure of how well the membership of the Federation's board lines up with these criteria.

Moreover, on the recommendation of the CGC and in accordance with the AMF *Guideline Governing Integrity and Competency Criteria*, the Board performs a self-assessment of the skills of its members. Every 2 years, each member completes a self-assessment grid for this purpose. Then an external firm holds one-on-one interviews with members of the Board and BEPC. The results of the self-assessments and the one-on-one interviews are used to establish the skills development plan.

The matrix below shows that the members of the Federation's Board collectively possess a wide range of experience and complementary skills that enable them to make an active and enlightened contribution to Desjardins's governance. The new enhanced group profile adopted by the Board and this matrix are reviewed together annually, and the results show what the Board needs to focus on to gradually achieve this profile. This voluntary disclosure will evolve over time. The weighting for the board members' self-assessments is determined by the Chair and Vice-Chair of the Board after consulting the external firm's report. The result is presented to the CGC to disclose the Board's matrix, as seen in the table below.

FEDERATION DIRECTOR SKILLS MATRIX

DIRECTORS	Financial institution skills							Strategic planning skills					Expertise recognized by a professional title and relevant experience					Representation										
	Financial services market	Culture and cooperative	Business and distribution model	Risk management	Entrepreneurship/Economic sectors	Education	Responsible finance	Members and clients interest	Members and clients experience	Digital innovation	IT management and security	Insurance market	Canadian market	Accounting and finance	Corporate law	Human resources	Governance	Personnal profil					Type of community					
																		Gender		Age	Years on the Federation's Board	Years on a caisse's Board	Cultural community	Communi-ty ¹		Network ²		
																		Male	Female					Urban	Rural	Large caisse	Medium caisse	Small caisse
Babineau, Louis	✓	✓		✓		✓	✓	✓	✓	✓			✓			✓	✓	61	4	20		✓		✓				
Baillargeon, Lisa		✓				✓	✓	✓					✓			✓	✓	48	1	5		✓			✓			
Bélanger, Benoît	✓	✓	✓	✓	✓		✓	✓					✓		✓		✓	49	3			✓		✓				
Charbonneau, Johanne	✓	✓	✓	✓			✓	✓			✓	✓	✓			✓	✓	61	1									
Chevalier, Carole	✓	✓				✓	✓	✓	✓							✓	✓	63	9	22		✓		✓				
Corbeil, Stéphane		✓		✓	✓		✓	✓				✓	✓				✓	53	4	7		✓			✓			
Cormier, Guy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	50	4									
Doré, Michel		✓					✓	✓					✓			✓	✓	56	2	23			✓			✓		
Grenier, André		✓			✓	✓	✓	✓									✓	56	2	27			✓		✓			
Groulx, Nadine		✓			✓	✓	✓	✓									✓	48	3	18			✓		✓			
Hawthorn, Neil	✓	✓	✓	✓	✓		✓	✓		✓		✓	✓			✓	✓	57	5			✓		✓				
Jourdain, Kateri C.					✓		✓	✓									✓	39	1	2	✓		✓			✓		
Lamothe, Marie-Josée				✓	✓		✓	✓	✓			✓				✓	✓	52	1									
Laporte, Jean-François		✓		✓			✓	✓			✓	✓	✓			✓	✓	60	3	17			✓		✓			
Maltais, Camil		✓			✓		✓	✓									✓	57	3	16			✓			✓		
Ouellet, Roch		✓					✓	✓									✓	70	3	26			✓		✓			
Rousseau, Serge	✓	✓		✓		✓	✓	✓								✓	✓	53	6	16		✓			✓			
Tourangeau, Michel	✓	✓			✓		✓	✓			✓				✓		✓	64	3	35		✓		✓				
Tremblay, Marie-Eve		✓	✓		✓	✓	✓	✓			✓				✓		✓	41	1	9		✓			✓			
Trottier, Stéphane	✓	✓			✓	✓	✓	✓			✓	✓					✓	54	4	24		✓			✓			
Vinet, Yvon	✓	✓			✓	✓	✓	✓			✓	✓			✓		✓	61	11	33		✓		✓				
TOTAL (21)³	10	19	5	9	13	9	4	21	21	3	3	7	8	9	2	10	10	14	7	54,9	3,5	18,7	1	11	7	6	9	3

1 Based on the Statistics Canada typology: Urban (caisse whose head office is in a municipality with over 10,000 inhabitants) and Rural (caisse whose head office is in a municipality with under 10,000 inhabitants).

2 Small caisse: 1 to 15,000 members; Medium caisse: 15,001 to 35,000 members; Large caisse: over 35,000 members; and Group caisse.

3 Pierre Perras is a managing director whose mandate will end at the 2020 general meeting. In accordance with the group bylaws, he does not have voting rights, but he has the right to speak. He contributes to board discussions with his expertise in culture and the cooperative business model, always doing what's best for members and clients, the member and client experience and accounting and finance.

6. Onboarding and training program for new Federation directors and BEPC members

The Federation organizes onboarding and training programs for all its directors and members of the Board of Ethics and Professional Conduct (BEPC). It develops individual and group knowledge acquisition and enhancement activities, so Board and BEPC members can learn more about the various aspects of their roles and responsibilities. All new directors and members of the BEPC attend orientation sessions where they meet with members of management and receive a reference manual containing all the information they need to carry out their duties. Onboarding sessions are held to ensure effective and efficient integration of new members of Board commissions and committees.

The training program for Board and BEPC members is based on needs identified through their skills self-assessments. The Corporate Governance Commission (CGC) reviews these needs and creates a 2-year skills development program for both boards. The Board also holds conferences on specific topics related to strategic planning and the associated challenges. These conferences, which are also attended by members of the DGMC, prove to be intensive skills development and contribution opportunities for Board members. In 2019, the training program was updated specifically to include skills development activities with external experts to help the Board expand its knowledge base for informed and independent decision-making. This practice will be underscored in the next skills development plan.

7. Compensation policy for Federation directors and BEPC members

The Board reviews, whenever it deems it necessary and at least every 3 years, its policy on the compensation of Federation directors and BEPC members. It receives recommendations from the CGC, which keeps a close eye on industry developments. The policy's compensation rates are consistent with those of comparable cooperative organizations in Quebec, Canada and Europe.

The policy includes guidelines for calculating the compensation for caisse directors, Federation directors, BEPC members and subsidiary directors.

In accordance with the *Act Respecting Financial Services Cooperatives*, the total budget for the payment of attendance fees to directors and BEPC members is authorized by the Federation's general meeting. The total compensation budget (annual stipends plus attendance fees) is reported to the general meeting. The general meeting receives a report on changes to the compensation budget every year. The total budget for 2019 was \$2,083,000, down from \$2,880,500 in 2018 and 2017.

The policy's compensation rates can be found on page 205 of this section of the Federation annual report.

8. Independence of the board of directors from Desjardins Group management

Desjardins Group governing bodies have established a number of structures and procedures to ensure the Board's independence from management:

- There is only 1 board member who is also a member of Desjardins management: the President and CEO of Desjardins, who is also a director elected by an electoral college made up of representatives from all caisses. Since the President and CEO does not select the members of the Board, its legitimacy and independence are ensured.
- The Vice-Chair of the Board, an independent director, presides over the Board's meetings, playing the role of lead director, when the issues being discussed require the recusal of the President and CEO. The group bylaws specify that the Vice-Chair of the Board replaces the Chair when the latter is unable to act, such as when the Chair is in a real or perceived conflict of interest. Descriptions of the positions of Vice-Chair and Secretary of the Board are attached to the governance policy adopted by the Board.
- The directors hold periodic informal meetings among themselves. The Chair of the Board and CEO of Desjardins provides updates to the members of the DGMC, who are not present at these meetings. Both independent and non-independent directors attend these meetings, given that the discussions pertain to matters that do not bear any risk of conflict of interest for the non-independent directors.
- Closed-door sessions not attended by management (except for the Chair of the Board and CEO) are held at the end of each meeting of the Board and of the Executive Committee. The same is true for Board commissions and committees.
- Once a year, the Board holds a closed-door meeting with the BEPC.
- Closed-door sessions not attended by the President and CEO are held with the individuals in independent oversight functions, namely the Executive Vice-President, Finance, Treasury and Administration and CFO; the Executive Vice-President, Risk Management; the Chief Monitoring Officer of Desjardins; and the Vice-President and Chief Compliance Officer.
- The Corporate Governance Commission (CGC), the Audit and Inspection Commission (AIC) and the Risk Management Commission (RMC) are chaired by independent directors. The AIC is chaired by an external director who is a CPA.
- The CGC, chaired by the Vice-Chair of the Board and of which only 1 member is a non-independent party, assumes responsibility for:
 - Managing relations between the Board and the DGMC
 - Ensuring that the Board fulfils its duties (however, the responsibility of drawing up and overseeing meeting agendas for the Board and its commissions/committees falls to the Chair of the Board and is subject to the process for assessing the performance of governing bodies)
 - Providing a direct line between the Vice-Chair of the Board and the Secretary General, who assumes functional leadership of the CGC and the BEPC
- Only independent directors serve on the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR).

- The division of responsibilities between the Board and the DGMC is formally documented in the group bylaws, the governance policy and the mandates of these 2 governing bodies, which define their respective areas of activity.
- The President and CEO can appoint and replace the Senior Executive Vice-President and COO with the approval of the Board. This safeguard allows the Board to assess the relationship between the CEO and the COO.
- The members of the Human Resources Commission and the CAR are supported, when needed, by an external consultant when dealing with issues involving the aggregate remuneration of senior management.

Position against separating the functions of Chair of the Board from those of CEO

The responsibilities of Desjardins's President and CEO are set out in the group bylaws. The functions of Desjardins's Chair of the Board and CEO are concurrent. This decision, which was made by the Federation's general meeting and reaffirmed in 2018, has been integrated into its bylaws.

At the 23rd Congress held in the fall of 2017, caisse delegates adopted a priority confirming that the roles of Desjardins's Chair of the Board and CEO should be held by the same person. The priority was integrated into the group bylaws. Considering the fact that risk management for Desjardins's leadership transition process is the responsibility of the Federation's Board, the bylaws also allow for the following: when someone new assumes this role, it happens promptly and there is a structured transition process lasting up to 6 months, under the Board's supervision.

The main reasons for making the responsibilities concurrent are:

- The CEO is elected by an electoral college made up of a representative from each caisse. This individual's primary responsibility is to ensure the group is always doing what's best for members and clients, the group's interests are protected, democratic bodies are functioning properly and cooperative values are respected.
- The Chair of the Board and CEO has no influence over the choice of directors, who are elected at the annual general meeting. Their observations are used to select the 2 external directors; however, the Board of Directors has decision-making powers, on the recommendation of the CGC, which is chaired by the lead director (who is an independent director). The Chair of the Board and CEO also has no influence on the selection of BEPC members.
- The Board created the CAR, which is chaired by the lead director (Vice-Chair of the Board) and made up entirely of independent directors, to eliminate any risk of conflict of interest. CAR meetings are closed-door. The committee also holds working sessions with the Board of Directors, which the President and CEO does not attend.
- Owing to the complex nature of Desjardins's management structure and activities, and to the expectations of regulators and the general public, it is essential that the Chair of the Board be thoroughly familiar with the activities, business and projects of both the Federation and Desjardins in order to effectively act as a leader for the democratic and decision-making bodies, the management teams of the Desjardins subsidiaries, managers and employees.
- Desjardins's structure frees its President and CEO from the everyday operational concerns of the Federation and Desjardins. This person can therefore focus on other areas, such as: managing Desjardins; defining, developing and overseeing the implementation of key strategic directions; listening to members and clients; overseeing development, innovation and governance; engaging people; and representing Desjardins as a socio-economic leader.
- With a view to freeing the President and CEO from such responsibilities, the Senior Executive Vice-President and COO oversees all Desjardins business sectors and support functions. Following the recent senior management shuffle announced on December 3, 2019, the President and CEO will temporarily oversee the 5 business sectors. We'll get things back to normal as quickly as possible in the first half of 2020 by filling the positions of Chief Security Officer and Executive Vice-President, Information Technology, which the Senior Executive Vice-President and COO currently holds on an interim basis.

9. Senior management reviews

a. Setting annual management objectives and performance reviews

President and CEO

The annual objectives of Desjardins's President and CEO are recommended to the Board by the CAR. The CAR is chaired by the lead director in accordance with the established independence standards. The President and CEO is not present for the committee's deliberations.

The degree to which these objectives are achieved is measured through a year-end review process. The CAR supervises the performance review of Desjardins's President and CEO and sets out how Board members participate in the process.

Senior Executive Vice-President and COO

The annual objectives of the Senior Executive Vice-President and COO are set by the Board, on the recommendation of the President and CEO.

Executive vice-presidents on the DGMC

The objectives of the executive vice-presidents on the DGMC are set by the President and CEO and the Senior Executive Vice-President and COO, and provided to the Board for information purposes.

b. Variable compensation evaluation

President and CEO

The compensation paid to the President and CEO of Desjardins is determined by an evaluation of the annual objectives by the Board of Directors and the achievement of certain strategic planning priority targets.

Senior Executive Vice-President and COO and executive vice-presidents on the DGMC

The Board has established guidelines for setting objectives for the various indicators to ensure sound management of Desjardins's general incentive plan. The results are reviewed by the HRC and approved by the Board.

10. External consultants

A director may require the Board to retain the services of an external consultant at the Federation's expense. The Board is reminded about this option annually. However, to ensure that such services are relevant, a request must be submitted to the CGC.

Mandates and membership of the Federation’s commissions, committees and BEPC

As at December 31, 2019

The Board of Directors (Board) creates committees and commissions and defines their mandates in order to support and streamline its guidance, planning, monitoring and control activities. These commissions and committees are made up entirely or almost entirely of independent parties. At the end of each meeting, these commissions and committees hold closed-door sessions which members of management do not attend, except for the Chair of the Board and CEO (unless this individual’s recusal is necessary for independence reasons). The composition and mandate of these commissions and committees are reviewed annually. Any work carried out by a commission or committee is documented in a factual report, which is presented at the next Board meeting, and the commission or committee chair gives Board members a review of the issues discussed.

The detailed mandates of these bodies are available on our website at

www.desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp.

Note: In this section, when the name of a director is followed by an asterisk (*), it means that the person is an independent director. A double asterisk (**) indicates that the person is also a managing director.

EXECUTIVE COMMITTEE

This committee has the same functions and powers as the Board, with the exception of those which the Board may reserve for itself or assign to another committee or commission. It held 5 meetings, including 3 conference calls, in 2019.

The Executive Committee is composed of 7 directors:

- Guy Cormier, Chair of the Board and Chair of the Committee
- Serge Rousseau,* Vice-Chair of the Board
- Michel Tourangeau*⁽ⁱ⁾, Secretary of the Board
- Carole Chevalier*
- Nadine Groulx*⁽ⁱ⁾
- Neil Hawthorn
- Camil Maltais*⁽ⁱ⁾

(i) Terms began on April 25, 2019.

Annie P. Bélanger and Jean-Robert Laporte were members until March 30, 2019.

Yvon Vinet* was a member until April 25, 2019.

COOPERATION AND NETWORK LIAISON COMMISSION

This commission assists the Board with issues related to Desjardins’s cooperative culture and the relationship between the Federation’s governing bodies and the caisse network. The commission ensures the effective and efficient implementation of mechanisms for collaboration, participation and connection with the network. In addition, it examines Desjardins’s social and cooperative responsibility report and recommends its adoption to the Board. It also makes recommendations to the Board, if need be. It held 5 meetings, including 2 conference calls, in 2019.

The Cooperation and Network Liaison Commission is composed of 7 directors:

- Nadine Groulx,* Chair
- Benoît Bélanger
- André Grenier*
- Kateri C. Jourdain*⁽ⁱ⁾
- Marie-Josée Lamothe*⁽ⁱ⁾
- Camil Maltais*

(i) Terms began on May 14, 2019.

Michel Allard** and Claude Chapdelaine* were members until March 30, 2019.

AUDIT AND INSPECTION COMMISSION

The AIC, established under the *Act Respecting Financial Services Cooperatives*, acts as the audit committee for the Federation's caisse inspection activities. Its members are all independent directors and its Chair is an external director who is a CPA.

The roles and responsibilities of the AIC have been defined to give its members a clear understanding of their oversight duties. It reviews all financial information, supervises the required reporting activities and plays a lead role in overseeing financial disclosure controls and assessing their accuracy. The AIC has a direct line of communication with the Desjardins Group Monitoring Office (DGMO), which oversees the internal audit of the Desjardins subsidiaries and components and the inspections of the Quebec and Ontario caisses. It also has a line of communication with the external auditors, should the need arise to discuss and review any issues.

The DGMO provides independent opinions on the management of the caisses. Through its inspections, it monitors the risks associated with network activities and determines whether these risks are being managed according to sound and prudent practices and in compliance with applicable legislation, regulations, standards and rules of conduct. The AIC ensures the independence of Desjardins's internal audit function and adopts its annual action plan. It held 7 meetings, including 1 conference call, in 2019.

The Audit and Inspection Committee is composed of 6 directors:

- Johanne Charbonneau, CPA⁽ⁱ⁾, Chair
- Louis Babineau*
- Lisa Baillargeon⁽ⁱ⁾
- Stéphane Corbeil⁽ⁱ⁾
- Jean-François Laporte*
- Pierre Perras^{*/**}

(i) Terms began on May 14, 2019.

Mario Simard* was a member until March 30, 2019.

Michel Tourangeau* was a member until May 14, 2019.

Michel Doré* was a member until May 14, 2019 and has been sitting as an observer since that date.

Jean-François Laporte* was sitting as an observer until May 14, 2019 and has been a member since that date.

Benoit Bélanger, Michel Magnan and Robert Saint-Aubin sit on the AIC as observers.

RISK MANAGEMENT COMMISSION

The RMC's main role is to assist the Board with overall strategies and directions for risk management. It ensures the implementation of an integrated risk management framework, standards and policies that establish the rules for accepting, monitoring, managing and reporting the material risks that Desjardins is exposed to. The commission also monitors compliance with Desjardins's risk appetite framework and examines the steps that need to be taken when established limits have been exceeded. It held 6 meetings, including 3 conference calls, in 2019.

The Risk Management Commission is composed of 6 directors:

- Michel Doré⁽ⁱ⁾, Chair
- André Grenier*
- Marie-Josée Lamothe⁽ⁱ⁾
- Camil Maltais*
- Roch Ouellet*
- Stéphane Trottier*

(i) Terms began on May 14, 2019.

Jean-François Laporte* was a member until May 14, 2019.

Johanne Charbonneau*, Neil Hawthorn, Claudia Champagne and Béatrice Couture sit on the RMC as observers.

HUMAN RESOURCES COMMISSION

The HRC supports the Board in the following areas: governance and risk management of issues relating to human resources and overall compensation across Desjardins; creation and maintenance of the integration and skills development program for general managers, managers and employees; the senior management succession plan; creation and maintenance of the profile of general managers, managers and employees; annual salary recommendations, including incentive plans; the group insurance plan; changes to the pension plan; union relations; the management structure, etc. The mandate of the HRC does not include the terms of employment for the President and CEO. It held 6 meetings, including 3 conference calls, in 2019.

The Human Resources Commission is composed of 6 directors:

- Guy Cormier, Chair of the Board and Chair of the Commission
- Serge Rousseau*, Vice-Chair of the Board
- Michel Tourangeau⁽ⁱ⁾, Secretary of the Board
- Carole Chevalier*
- Marie-Eve Tremblay⁽ⁱ⁾
- Yvon Vinet⁽ⁱ⁾

(i) Terms began on May 14, 2019.

Jean-Robert Laporte* and Mario Simard* were members until March 30, 2019.

COMMITTEE ON THE AGGREGATE REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

This committee, whose members are all independent directors, is mandated to make recommendations to the Board regarding the President and CEO's remuneration, working conditions, annual objectives and performance review. It held 5 meetings, including 2 conference calls, in 2019.

The CAR is composed of 5 directors:

- Serge Rousseau,*⁽ⁱ⁾, Vice-Chair of the Board and Chair of the Committee
- Michel Tourangeau*⁽ⁱ⁾, Secretary of the Board
- Carole Chevalier*
- Marie-Eve Tremblay*⁽ⁱ⁾
- Yvon Vinet*⁽ⁱ⁾

(i) Terms began on May 14, 2019.

Jean-Robert Laporte* and Mario Simard* were members until March 30, 2019.

CORPORATE GOVERNANCE COMMISSION

This commission supports the Board in applying and updating Desjardins's corporate governance framework and policy. The CGC examines guidelines and reports issued by regulatory authorities. It also assists the Board in applying its enhanced group profile. The CGC oversees the selection process for the directors of Desjardins's subsidiaries, the performance review program for members of the Board and its commissions and committees, as well as the integration and skills development program for Federation directors. It also administers various policies, including the policy on the compensation of directors and BEPC members and the policy on Desjardins's commitment to sustainable development. It held 12 meetings, including 7 conference calls, in 2019.

The Corporate Governance Commission is composed of 6 directors:

- Serge Rousseau,* Vice-Chair of the Board and Chair of the Commission⁽ⁱ⁾
- Lisa Baillargeon*⁽ⁱ⁾
- Guy Cormier, Chair of the Board
- Nadine Groulx*
- Camil Maltais*
- Roch Ouellet*⁽ⁱ⁾

(i) Terms began on May 14, 2019.

Annie P. Bélanger* was a member until March 30, 2019.

DESJARDINS INVESTMENT COMMISSION (IC)

This commission's role is to monitor the markets and develop an integrated overview to provide a Desjardins-wide framework for portfolio positioning and asset distribution. The IC also follows up on strategies and directions and acts as an advisory body. The commission's activities complement—but do not overlap—the RMC and Desjardins's various other investment committees. It held 4 meetings in 2019.

The Desjardins Investment Committee is composed of 6 directors:

- Carole Chevalier,* Chair
- Benoît Bélanger
- Stéphane Corbeil*
- André Grenier*⁽ⁱ⁾
- Kateri C. Jourdain*⁽ⁱ⁾
- Stéphane Trottier*

(i) Terms began on May 14, 2019.

Neil Hawthorn was a member until May 14, 2019.

Bernard Morency and Normand Provost sit on the IC as observers.

ELECTION COMMITTEE

This committee oversees the proper conduct of the election process for positions on the Board and BEPC. It's also responsible for overseeing all processes for electing the President and CEO. The committee provides guidelines for the electoral process and ensures compliance with them, sets up processes that enable the electoral college to properly fulfill its role and assesses the nominations received based on the enhanced group profile adopted by the Board. The committee also establishes any other measures or rules necessary for the electoral process to run properly and makes any other decisions regarding the process. The Election Committee was formed when the Federation bylaws were adopted on September 25, 2018, and committee members assumed their roles on December 7, 2018. While the committee is not composed of directors, it is accountable to the Board. It held 17 meetings, including 14 conference calls, in 2019.

The Election Committee is composed of 5 caisse directors who are neither Federation directors nor BEPC members:

- Marie-Claude Beaudin, Chair
- Lorraine Bédard, Vice-Chair
- Érik Asselin
- Marie Caron
- Marc Lemieux

DESJARDINS GROUP RETIREMENT COMMITTEE

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the *Desjardins Group Pension Plan Regulation*, the DGRC is in charge of administering the Desjardins Group Pension Plan (DGPP), managing the pension fund and paying members and their survivors the benefits they are entitled to. The members share the role of trustee for the pension fund. It held 5 meetings in 2019.

The Federation assumes the responsibilities of the DGPP's sponsor. The Federation's Board has decision-making powers in certain areas, including the *Desjardins Group Pension Plan Regulation*, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. The Federation stands surety for the obligations (payment of benefits) resulting from the participation of all Desjardins employers in the DGPP.

The DGRC is composed of 13 members: 6 employer representatives (including the Chair), 4 who represent active members, 2 who represent non-active members and beneficiaries, and 1 external member. The employer representatives and the external member are appointed by the Federation's Board, and those who represent active members, non-active members and beneficiaries are elected. The DGRC's governance structure changed in 2019 as a result of the new governance structure adopted in late 2018.

Employer representatives:

- Yvon Vinet,* Chair
- Roch Ouellet,* Vice-Chair
- Pierre Perras**/, Secretary
- Bernard Morency⁽ⁱ⁾
- Marie-Eve Tremblay*⁽ⁱ⁾
- Stéphane Trottier*⁽ⁱ⁾

(i) Terms began on May 14, 2019.

Michel Allard**/, Claude Chapdelaine* and Stéphane Corbeil* were members until May 14, 2019.

Active member representatives:

- Vincent Coulombe
- Dominique Laurin
- Julie Tremblay
- Brigitte Chabarekh, observer⁽ⁱ⁾

(i) Term began on March 29, 2019.

Robert Bastien and Mario Lévesque were members until March 29, 2019.

External member:

- Marc Saint-Pierre

Non-active member and beneficiary representatives:

- Jacques Dignard⁽ⁱ⁾
- Robert Desbiens, observer

(i) Term began on March 29, 2019.

Michel-Pierre Bergeron was a member until March 29, 2019.

DGRC INVESTMENT COMMITTEE

Under the responsibility of the DGRC, which adopts the investment policy, the RCIC's mandate is to ensure that the policy is applied, respected and followed. The committee selects investment vehicles, awards mandates to portfolio managers and ensures that each investment meets expectations. The structure of the RCIC was revamped on March 4, 2019. It held 32 meetings in 2019.

The RCIC is composed of 9 members:

- Sylvain Gareau, Chair⁽ⁱ⁾
- Patrick Chillis, Secretary⁽ⁱ⁾
- Frédéric Angers⁽ⁱ⁾
- Louis Beaulieu⁽ⁱ⁾
- Jean-Philippe Cazalais⁽ⁱ⁾
- François Hudon⁽ⁱ⁾
- Éric Lemay⁽ⁱ⁾
- Guillaume Morency⁽ⁱ⁾
- Mylène Villeneuve⁽ⁱ⁾

(i) Terms began March 4, 2019.

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Federation has a Board of Ethics and Professional Conduct (BEPC) that is independent from its Board of Directors (Board). There are 5 members who are directors of local caisses. The BEPC is supported by a team that reports to the Office of the Secretariat General and Governance and Sustainable Development Division, which enables it to organize education and training activities and provide advisory services.

One of the main responsibilities of the BEPC is to ensure the independence and objectivity of the Office of the Ombudsman and the Federation's inspection service for the caisses (DGMO), and to make recommendations to the Board regarding the appointment of the person responsible for managing this service. In addition to the above-mentioned responsibilities, the BEPC's role includes adopting the rules of conduct applicable to the directors of Desjardins and its subsidiaries and to the employees of the Federation and the caisses; presenting these rules for approval to the Board and ensuring the caisses and the Federation comply with them; supporting the caisses and the Federation in applying the rules of conduct; issuing advice, observations and recommendations on ethical and professional conduct issues (Desjardins's mission and values), particularly in cases of misconduct; notifying the Board of violations of the rules of professional conduct or of violations by the Federation of the *Act Respecting Financial Services Cooperatives* or the regulations governing restricted party transactions and conflicts of interest; and ensuring that complaints about the Federation originating from the caisses or other Federation members (holding companies or subsidiaries) are addressed. Members of the BEPC and directors attend meetings with AMF representatives. In 2019, the BEPC made changes to Desjardins's *Code of Professional Conduct* that were approved by the Federation's Board. The BEPC holds closed-door meetings that are not attended by management.

It held 13 meetings, including 8 conference calls, in 2019. Its members were also invited to attend the annual conference of the Réseau d'éthique organisationnelle du Québec.

The BEPC is composed of 5 members:

- Michel Guénette, Chair
- Katia Cyr
- Normand Gingras
- Maryse Lapierre
- Michel Yelle

Ronald Pichette was a member until March 30, 2019.

Katia Cyr's term began on March 30, 2019.

DESJARDINS GROUP MANAGEMENT COMMITTEE

This committee supports the President and CEO and the Board in their responsibility of managing Desjardins with one voice. The DGMC helps the Board incorporate the strategic directions of the cooperative network, business sectors and support functions and implement business development strategies. It also oversees operations in accordance with the rules and requirements set by the Board and other Desjardins governing bodies. The DGMC is responsible for operational files with economic, environmental and social significance that have an impact on Desjardins. It makes sure that all Desjardins's operations are above board and that its managers and employees act with integrity. The mandates of the DGMC and its committees were reviewed in fall 2019. The DGMC held 20 meetings, including 3 conference calls, in 2019.

The DGMC is composed of 11 management members,⁽ⁱ⁾ including 5 women (45%):

- **Guy Cormier**
President and CEO of Desjardins Group
- **Réal Bellemare**
Senior Executive Vice-President and COO
Interim Executive Vice-President, Information Technology
- **Marie-Claude Boisvert**
Executive Vice-President, Business Services
- **Francine Champoux**
Executive Vice-President, Risk Management
- **Marie-Huguette Cormier**
Executive Vice-President, Human Resources and Communications
- **Denis Dubois**
Executive Vice-President, Wealth Management and Life and Health Insurance
President and Chief Operating Officer, Desjardins Financial Security
- **Éric Lachaine**
Executive Vice-President, Caisse Network and Member and Client Services
- **Nathalie Larue**
Executive Vice-President, Strategy, Marketing and Personal Services
- **Valérie Lavoie**
Executive Vice-President, Property and Casualty Insurance
President and Chief Operating Officer, Desjardins General Insurance Group (DGIG)
- **Alain Leprohon**
Executive Vice-President, Finance, Treasury and Administration and Chief Financial Officer

(i) The Management Committee usually has 11 members, but it only has 10 at the moment because Réal Bellemare is serving 2 roles as Senior Executive Vice-President and COO and Interim Executive Vice-President, Information Technology.

The Vice-President, President's Office, Cooperation and Director Support, always attends DGMC meetings.

DGMC members are deemed to be Federation managers within the meaning of section 93 of the *Act Respecting Financial Services Cooperatives*. The following individuals are also considered Federation managers:

- Daniel Dupuis, Chief Monitoring Officer, Desjardins Group
- Sylvain Perreault, Vice-President and Chief Compliance Officer
- Renaud Coulombe, Vice-President and Chief Legal Officer
- Isabelle Garon, Vice-President, President's Office, Cooperation and Director Support
- Pauline D'Amboise, Secretary General and Vice-President, Governance and Sustainable Development

The DGMC has Desjardins-wide coordination committees in the following areas:

- Disclosure
- Finance and risk management
- Environmental, social and governance issues
- Development planning and follow-up

DIRECTOR COMPENSATION

Certain Desjardins components, namely the Federation and Desjardins Capital Inc., are subject to obligations regarding the disclosure of director compensation. As required by CSA *National Instrument 51-102 Respecting Continuous Disclosure Obligations*, the compensation of directors from these components is presented in this annual report, the Federation's Annual Information Form and the disclosure document filed by Desjardins Capital Inc. The Annual Information Form and the disclosure document are available on the SEDAR website (www.sedar.com) under each component's respective company profile.

Compensation rates for members of the boards of directors of the Federation, Desjardins Technology Group and Desjardins Trust Inc., and the members of the Federation's Board of Ethics and Professional Conduct

	Federation ⁽¹⁾	Subsidiaries
Chair of the Board of Directors ⁽²⁾	\$0 This position is held by the President and CEO of Desjardins	\$11,500
Annual stipend for the Chair of a commission or committee of the Board of Directors ⁽³⁾	\$7,400 (not including the AIC)	\$7,400
Additional annual stipend for the Chair of the Audit and Inspection Commission	\$14,800	N/A
Annual stipend for the Vice-Chair of the Board of Directors	\$22,800	N/A
Annual stipend for a member of the Board of Directors ⁽⁴⁾	\$53,800	\$11,500
Annual stipend for a member of a commission or a committee of the Board of Directors ⁽⁵⁾	\$2,300	\$2,300
Additional annual stipend for a member of the Audit and Inspection Commission	\$2,300	\$2,300 (Audit and Risk Management Committee)
Attendance fee for a meeting of the Board of Directors	\$1,375 (daily maximum)	\$1,400 (daily maximum)
Attendance fee for a meeting of a commission or committee of the Board of Directors ⁽⁶⁾	\$1,375 (daily maximum) \$685 (per half-day)	\$1,400 (daily maximum) \$700 (per half-day)
Conference call	\$230	\$230
Attendance fee for a meeting of the Board of Ethics and Professional Conduct or the Professional Conduct Committee ⁽⁷⁾	\$2,750 (for the Chair) \$1,375 (for members)	\$700 (per half-day)

*** The compensation rates were updated in 2018 further to the review of the policy on the compensation of directors and BEPC members and changes to the organization's governance structure.

N/A: Not applicable

- (1) The director compensation indicated for the Federation includes, where applicable, the portion paid to members of the Board to also serve as directors for Desjardins Trust Inc., Desjardins Technology Group Inc. and Desjardins Capital Inc.
- (2) The position of Chair of the boards of directors of the following subsidiaries is held by a member of the Federation's Board: Développement international Desjardins, Desjardins General Insurance Group Inc., Desjardins Financial Security Life Assurance Company and Desjardins Financial Corporation Inc.
- (3) The attendance fee is doubled in lieu of the annual stipend for the Chairs of commissions or committees that hold fewer than 4 meetings per year, except for the Chair of the CAR.
- (4) The stipend paid to the 1 managing director is \$38,100. A single stipend is paid to directors for their roles on the boards, commissions and committees of the Federation, CDI, Desjardins Trust and Desjardins Technology Group. For the Federation, the annual stipend also covers directors' roles as members of the community collaboration groups and of the Desjardins Collaboration Forum.
- (5) A board member's annual stipend includes all of the commissions and committees they sit on for the Federation, Desjardins Trust, Desjardins Technology Group, and Desjardins Capital. In other words, a single stipend is paid for all positions held for all 4 entities.
- (6) The maximum daily attendance fee for the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc. and Desjardins Capital is \$1,375, regardless of the number of board of directors, commission or committee meetings a member attends in a single day. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Federation's Board may invite any caisse director to sit on any of its committees. The Board determines the compensation to be paid based on the nature of the responsibilities entrusted to the caisse director and the compensation schedule. General managers who sit on the Board or on a commission or committee do not receive an attendance fee.
- (7) This represents the fee for full-day meetings of the Federation's BEPC. The fee for half-day meetings is \$1,375 for the Chair and \$700 for members.

Director compensation

The compensation paid to each member in 2019 for the duties they assume as directors of the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc., Desjardins Capital Inc. or for other duties listed below is detailed as follows:

Name	Compensation received as a director of the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc. and Desjardins Capital Inc.		Other fees ⁽¹⁾		2019 TOTAL
	Attendance fees	Annual stipend	Attendance fees	Annual stipend	
Babineau, Louis (prés. du CA de DID) ⁽²⁾	34 603,06	61 526,67	4 140,35	37 416,17	137 686,25
Baillargeon, Lisa ⁽³⁾	32 910,09	41 800,28	1 079,87	3 626,96	79 417,20
Bélanger, Benoît	0	55 250,28	0	0	55 250,28
Charbonneau, Johanne (E)	30 840,94	48 591,94	1 234,03	18 341,95	99 008,86
Chevalier, Carole	35 042,04	61 200,00	2 862,99	15 097,00	114 202,03
Corbeil, Stéphane (prés. du CA de FSD) ⁽²⁾	27 555,10	55 253,95	394,87	9 751,39	92 955,31
Cormier, Guy (prés. du CA de DSF) ^{(2) (4)}	s.o.	s.o.	s.o.	s.o.	s.o.
Doré, Michel	36 829,45	60 766,11	1 100,51	2 109,07	100 805,14
Grenier, André	36 895,01	53 800,00	0	0	90 695,01
Groulx, Nadine	33 412,33	61 200,00	9 232,94	10 464,99	114 310,26
Hawthorn, Neil	0	53 800,00	0	16 100,00	69 900,00
Jourdain, Kateri C. ⁽³⁾	27 034,98	40 350,00	0	0	67 384,98
Lamothe, Marie-Josée (E)	28 874,97	37 809,44	0	0	66 684,41
Laporte, Jean-François (prés. du CA de DGAG) ⁽²⁾	35 969,96	58 812,33	7 920,00	18 916,16	121 618,45
Maltais, Camil	42 128,34	53 800,00	761,94	9 161,66	105 851,94
Ouellet, Roch	36 664,98	53 800,00	0	10 875,00	101 339,98
Perras, Pierre*	30 892,66	42 650,00	1 623,84	15 002,00	90 168,50
Rousseau, Serge ⁽⁵⁾	37 197,46	93 416,00	1 747,56	13 800,00	146 161,02
Tourangeau, Michel	33 344,14	54 649,72	4 036,12	12 574,06	104 604,04
Tremblay, Marie-Eve ⁽³⁾	26 389,98	40 350,00	2 100,00	9 000,00	77 839,98
Trottier, Stéphane	34 369,98	53 800,00	2 800,00	24 800,00	115 769,98
Vinet, Yvon	25 697,36	53 800,00	872,62	27 481,39	107 851,37
Directors who completed their terms on March 30, 2019					
Allard, Michel*	6 870,01	13 450,00	6 415,00	2 500,00	29 235,01
Bélanger, Annie P. (prés. du CA de DID) ⁽²⁾	7 313,63	13 450,00	5 506,37	18 728,32	44 998,32
Chapdelaine, Claude	7 120,01	13 450,00	0	2 500,00	23 070,01
Laporte, Jean-Robert (prés. du CA de DGAG) ⁽²⁾	11 578,63	13 450,00	5 801,37	17 976,23	48 806,23
Simard, Mario (prés. du CA de FSD) ⁽²⁾	10 719,49	14 025,00	10 580,51	2 875,00	38 200,00
Total	670 254,60	1 204 251,72	86 610,89	282 697,35	2 243 814,56

N/A: Not applicable

* Managing director

(E): External director. Term began on April 18, 2019

- (1) Amounts received for chairing the board of a subsidiary, sitting on the DGRC or the RCIC, sitting on the board of directors of Desjardins Financial Corporation Inc., Desjardins Security Fund and contributing to other ad hoc committees.
- (2) Développement international Desjardins (DID); Desjardins General Insurance Group Inc. (DGIG); Desjardins Financial Security Life Assurance Company (DFS); and Desjardins Security Fund.
- (3) Term began on March 30, 2019.
- (4) Desjardins's President and CEO does not receive any compensation for the position of Chair and member of the Board of Directors of the Federation, Desjardins Trust, Desjardins Financial Security, Desjardins Financial Corporation, Desjardins Capital and Desjardins Technology Group.
- (5) Michel Allard, Annie P. Bélanger, Jean-Robert Laporte, Mario Simard and Serge Tourangeau finished their terms on March 30, 2019.
- (6) Serge Rousseau receives compensation for his roles as Vice-Chair of the Board, Chair of the Corporate Governance Commission and Chair of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.

Compensation of members of the Federation's board of ethics and professional conduct

Name	Attendance fees (\$)
Cyr, Katia ⁽¹⁾	3 895,00
Gingras, Normand	4 810,00
Guénette, Michel, president	9 160,00
Lapierre, Maryse	4 810,00
Pichette, Ronald ⁽²⁾	915,00
Yelle, Michel	4 580,00

(1) Term began on March 30, 2019.

(2) Term ended on March 30, 2019.

Record of attendance for Federation directors

Name	BOD	BOD conf. calls	EC	CNLC	AIC	RMC	HRC	CAR	CGC	IC	DGRC	RCIC
Allard, Michel**/** ⁽³⁾	3/3			2/2							1/1	
Babineau, Louis*	13/13	14/16			7/7	4/4						
Baillargeon, Lisa* ⁽¹⁾	9/9	15/16			4/4				8/8			
Bélanger, Annie P.* ⁽³⁾	3/3		2/2						2/2			
Bélanger, Benoît	13/13	15/16		6/7	4/4	4/4				4/4		
Chapdelaine, Claude* ⁽³⁾	3/3			2/2							1/1	1/1
Charbonneau, Johanne* ⁽²⁾	9/10	14/15			4/4	5/5						
Chevalier, Carole*	13/13	16/16	8/8				7/7	7/7		4/4		
Corbeil, Stéphane*	13/13	14/16			4/4					4/4	1/1	0/1
Cormier, Guy	13/13	14/14	8/8				7/7		11/12			
Doré, Michel*	13/13	16/16			7/7	5/5						
Grenier, André*	13/13	14/16		7/7		9/9				3/3		
Groulx, Nadine*	13/13	14/16	5/5	7/7					12/12			
Hawthorn, Neil	13/13	15/16	8/8			5/5				1/1		
Jourdain, Kateri C.* ⁽¹⁾	10/10	14/16		4/4						2/3		
Lamothe, Marie-Josée ⁽²⁾	9/10	8/15		4/4		4/5						
Laporte, Jean-François*	13/13	16/16			7/7	4/4						
Laporte, Jean-Robert* ⁽³⁾	3/3		1/2				3/3	2/2				
Maltais, Camil*	13/13	13/16	5/5	7/7		9/9			12/12			
Ouellet, Roch*	13/13	16/16				9/9			8/8		4/5	
Perras, Pierre**/**	13/13	13/16			7/7						5/5	1/1
Rousseau, Serge*	13/13	16/16	8/8				7/7	7/7	12/12			
Simard, Mario* ⁽³⁾	3/3				2/2		3/3	2/2				
Tourangeau, Michel*	13/13	15/16	5/5		3/3		4/4	5/5				
Tremblay, Marie-Eve* ⁽¹⁾	10/10	16/16					4/4	5/5			4/4	
Trottier, Stéphane*	13/13	16/16				9/9				4/4	4/4	
Vinet, Yvon*	13/13	12/16	3/3				3/4	5/5			5/5	1/1

BoD = Board of Directors, EC = Executive Committee, CNLC = Cooperation and Network Liaison Commission, AIC = Audit and Inspection Commission, RMC = Risk Management Commission, HRC = Human Resources Commission, CAR = Committee on the Aggregate Remuneration of the President and CEO of Desjardins, CGC = Corporate Governance Commission, IC = Desjardins Group Investment Commission, DGRC = Desjardins Group Retirement Committee and RCIC = Desjardins Group Retirement Committee Investment Committee

Note: In the above table, when the name of a director is followed by an asterisk (*), it means that the person is an independent director. A double asterisk (**) indicates that the person is also a managing director.

(1) Terms began on March 30, 2019.

(2) Terms began on April 18, 2019.

(3) Terms ended on March 30, 2019.

The Board of Directors held 13 meetings over 19 days and 16 conference calls in 2019. Directors may be absent for professional or personal reasons, but justification is required in all instances.

Record of attendance for the members of the Federation's Board of Ethics and Professional Conduct

Name	Number of meetings
Cyr, Katia ⁽¹⁾	12/12
Guénette, Michel (Chair)	12/13
Gingras, Normand	13/13
Lapierre, Maryse	13/13
Pichette, Ronald ⁽²⁾	1/1
Yelle, Michel	13/13

(1) Term began on March 30, 2019.

(2) Term ended on March 30, 2019.

Main subsidiaries⁽¹⁾

As at December 31, 2019

Subsidiaries	Main activities
FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC	Planning, supervision, coordination, treasury and development of Desjardins Group, Desjardins Group's financial agent on the Canadian and international markets and payment solution and credit card issuance
DESJARDINS CAPITAL INC.	Capital issuances on financial markets and financing for the Desjardins caisses
COLLABRIA FINANCIAL SERVICES INC.	Payment solution and credit card issuance
DESJARDINS FINANCIAL SERVICES FIRM INC.	Mutual fund brokerage and financial planning services
DESJARDINS CAPITAL MANAGEMENT INC.	Development and venture capital fund management
DESJARDINS FINANCIAL HOLDING INC.	Holding company
Zag Bank	Financial institution
Desjardins Financial Corporation Inc.	Holding company
Desjardins Global Asset Management Inc.	Asset management
Desjardins General Insurance Group Inc.	Property and casualty insurance
<i>Certas Direct Insurance Company</i>	Property and casualty insurance
<i>Certas Home and Auto Insurance Company</i>	Property and casualty insurance
<i>Desjardins General Insurance Inc.</i>	Property and casualty insurance
<i>Desjardins General Insurance Services Inc.</i>	Property and casualty insurance
<i>The Personal General Insurance Inc.</i>	Property and casualty insurance
<i>The Personal Insurance Company</i>	Property and casualty insurance
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services
<i>Assistel Inc.</i>	Assistance services
<i>Desjardins Investment Product Operations Inc.</i>	Processing and administration of savings and investment accounts and specialized products for Desjardins Group components
<i>Desjardins Investments Inc.</i>	Design, administration and distribution of insurance and savings products
<i>Desjardins Financial Security Investments Inc.</i>	Mutual fund and insurance brokerage
Desjardins Trust Inc.	Asset custody and trust services
Desjardins Investment Management Inc.	Investment management
Desjardins Technology Group Inc.	Development, maintenance and modernization of Desjardins Group technology
Aviso Wealth	Wealth management company held in equal shares by Desjardins Group and the partnership between five provincial credit union centrals and CUMIS Group
Desjardins Securities Inc.	Securities brokerage

⁽¹⁾ Additional information on the *Fédération des caisses Desjardins du Québec*'s activities is presented in Section 2.3 "Analysis of business segment results" in the 2019 Management's Discussion and Analysis.

Glossary

Acceptance

Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

Allowance for 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.

Amortized cost

For a financial asset or a financial liability, represents the historical cost at initial recognition, decreased or increased by amortization and any differences that made it fluctuate from initial recognition to maturity.

Annuity premium

Amount invested by a policyholder in order to receive annuity payments, immediately or after an accumulation period.

Assets under administration

Assets administered by a financial institution that are beneficially owned by its caisse members or clients and are therefore not recognized on its Consolidated Balance Sheet. Services provided in respect of such assets are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions.

Assets under management

Assets managed by a financial institution that are beneficially owned by its caisse members or clients and are therefore not recognized on its Consolidated Balance Sheet. Services provided in respect of assets under management include selecting investments and offering investment advice. Assets under management may also be administered by the financial institution.

Autorité des marchés financiers (AMF)

Organization whose mission is to enforce the laws governing the financial industry in Québec, particularly in the areas of insurance, securities, deposit-taking institutions and financial product and service distribution.

Basis point

Unit of measure equal to one one-hundredth of a percent (0.01%).

Bond

Certificate evidencing a debt under which the issuer promises to pay the holder a specified amount of interest for a specified period of time, and to repay the borrowing at maturity. Generally, assets are pledged as security for the borrowing, except in the case of government or corporate bonds. This term is often used to describe any debt security.

Capital ratios

Regulatory Tier 1A capital, Tier 1 capital or total regulatory capital divided by risk-weighted assets. These measures are governed by the guidelines issued by the AMF, which are based on the standards developed by the Basel Committee on Banking Supervision.

Catastrophe and notable event

- Catastrophe

In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the cost is deemed significant since it reaches a minimum threshold, established annually *Fédération des caisses Desjardins du Québec's* (the Federation) management, for the reinsurance program retention.

- Natural catastrophes can take many forms and include, but are not limited to, hurricanes, tornados, windstorms, hailstorms, heavy rainfalls, ice storms, floods, extreme weather conditions and wildfires.
- Catastrophes other than natural catastrophes include, but are not limited to, terrorist acts, riots, explosions, crashes, train wrecks, large-scale cyber attacks.

- Notable event

In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the impact on the loss ratio and claims frequency is deemed significant by the Federation's management.

Commercial mortgage-backed security

Security created through the securitization of a pool of commercial mortgage loans.

Commitment- Direct commitment

Any agreement entered into by a Desjardins Group component with a natural or legal person creating a on- or off-balance sheet exposure, either disbursed or non-disbursed, revocable or irrevocable, with or without condition, that may lead to losses for the component if the debtor is unable to meet its obligations.

- Indirect commitment

Any financial receivable creating a credit exposure that is acquired by a Desjardins Group component in connection with a purchase on the market or the delivery of a financial asset pledged as collateral by a client or a counterparty, whose value may change in particular as a result of the deterioration of the creditworthiness of the counterparty associated to this receivable or changes in market prices.

Counterparty and issuer risk

Credit risk related to different types of securities, derivative financial instruments and securities lending transactions.

Covered bond

Full recourse on-balance sheet bond issued by a financial institution and secured by assets, comprised mainly of mortgage loans, over which investors enjoy a priority claim in the event of an issuer's insolvency or bankruptcy. These assets are separated from the issuer's assets in the event of the issuer's insolvency or bankruptcy and belong to a bankruptcy remote structured entity that guarantees the bond.

Credit commitment

Unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit, whose primary purpose is to ensure that caisse members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Credit-impaired loan

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated cash flows of that financial asset have occurred or when contractual payments are 90 days past due.

Credit instrument

Credit facility offered in the form of a loan or other financing vehicle recognized in the Consolidated Balance Sheets or in the form of an off-balance sheet product. Credit instruments include credit commitments, documentary letters of credit as well as guarantees and standby letters of credit.

Credit risk

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

Credit valuation adjustment

Adjustment representing the market value of a potential loss on over-the-counter derivatives due to counterparty risk.

Defined benefit pension plan

Pension plan guaranteeing each participant a defined level of retirement income that is often based on a formula set by the plan in terms of the participant's salary and years of service.

Derivative financial instrument, or derivative

Financial contract whose value fluctuates based on an underlying asset, but that does not require holding or delivering the underlying asset itself. Derivatives are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and financial indexes.

Desjardins Group component

Cooperative or subsidiary that is part of Desjardins Group.

Dividend to member caisses

The Federation distributes to its member caisses a portion of its surplus earnings for a given year, taking into account its financial capacity. This distribution, called dividend to member caisses, is paid based on the volume of assessments paid during the year by the member caisses to the Federation.

Documentary letter of credit

Instrument issued for a caisse member or a client that represents Federation's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. 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.

Economic capital

Amount of capital that an institution must maintain, in addition to anticipated losses, to ensure its solvency over a certain horizon and at a high confidence level.

Effective interest rate

Rate determined by discounting total future cash flows, including those related to commissions paid or received, premiums or discounts and transaction costs.

Environmental or social risk

Risk that the impact of an environmental event or a social issue in connection with Desjardins Group's operations or its financing, investing or insurance activities could result in financial losses or damage Desjardins Group's reputation.

Exposure at default

Estimate of the amount of a given exposure at time of default. For balance sheet exposures, it corresponds to the balance as at observation time. For off-balance sheet exposures, it includes an estimate of additional draws that may be made between observation time and default.

Fair value

Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date.

Fair value measurement

Measurement to determine the approximate value at which financial instruments could be traded in a current transaction between willing parties.

Financial asset-backed security

Security created through the securitization of a pool of financial assets.

Foreign exchange risk

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

Forward contract

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are tailored and traded over the counter.

Forward exchange contract

Contractual commitment to sell or purchase a fixed amount of foreign currency on a specified future date and at a predetermined exchange rate.

Futures contract

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are standardized and exchange-traded.

Gross premiums written

In property and casualty insurance, the premiums stipulated in insurance policies issued during the year.

Guarantee and standby letter of credit

Irrevocable commitment by a financial institution to make payments in the event that a caisse member or client cannot meet financial obligations to third parties. Federation's policy with respect to collateral received for these instruments is generally the same as for loans.

Hedge fund

Investment fund offered to accredited investors. A hedge fund manager enjoys great latitude with respect to the investment strategies to be used, which may include selling short, leverage, program trading, swaps, arbitrage and derivatives.

Hedging

Transaction designed to reduce or offset the Federation's exposure to one or more financial risks that involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

Incremental risk charge (IRC)

Additional capital charge related to default and migration risks of positions with issuer risk in trading portfolios.

Indemnification commitment related to securities lending

Commitment made to caisse members and clients with whom Federation entered into securities lending agreements and intended to ensure that the fair value of the securities lent will be reimbursed if the borrower does not return the borrowed securities or if 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.

Insurance contract liabilities

Provision representing the amount of an insurance company's commitments toward all insureds and beneficiaries, established to guarantee the payment of benefits.

Insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance risk

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.

Insurance sales

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to annualized gross new premiums under group and individual insurance policies.

Internal Model Method

Approach used to calculate, with internal models, risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on different risk measures, such as Value at Risk, stressed Value at Risk and the incremental risk charge (IRC).

Internal Ratings-Based Approach

Approach under which risk weighing is based on the type of counterparty (individuals, small or medium-sized business, large corporation, etc.) and risk-weighting factors determined using internal parameters: the borrower's probability of default, loss given default, effective maturity and exposure at default.

Large loss

In property and casualty insurance, single claim having a significant cost.

Legal and regulatory risk

Risk associated with the non-compliance by Desjardins Group with obligations arising from the interpretation or application of a legislative or regulatory provision or a contractual commitment, which could have an impact on the conduct of its operations, its reputation, its strategies and its financial objectives.

Leverage ratio

Ratio calculated as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items.

Liquidity coverage ratio

Basel III metric representing a liquidity standard that measures the sufficiency of high quality liquid assets available to face net short-term financial obligations over a 30 day period in an acute liquidity stress scenario.

Liquidity risk

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

Loss given default

Economic loss that may be incurred should the borrower default, expressed as a percentage of exposure at default.

Market risk

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

Master netting agreement

Standard agreement developed to reduce the credit risk of multiple derivative transactions by creating a legal right to set off the obligations of a counterparty in the event of default.

Matching

Process of adjusting asset, liability and off-balance sheet item maturities in order to reduce risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

Morbidity rate

Probability that a person of a given age will suffer an illness or disability. The accident/health insurance premium paid by a person belonging to a particular age group is based on this group's morbidity rate.

Mortality rate

Rate of death in a particular group of persons. The life insurance premium paid by a person belonging to a particular age group is based on this group's mortality rate.

Mortgage-backed security

Security created through the securitization of a pool of residential mortgage loans under the *National Housing Act*.

Net interest income

Difference between what a financial institution receives on assets such as loans and securities and what it pays out on liabilities such as deposits and subordinated bonds.

Net premiums earned

In property and casualty insurance, premiums earned for a given period, net of reinsurance premiums.

Net sales of savings products

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to sales of group and individual savings products manufactured and distributed by segment entities, and is comprised of on- or off-balance sheet deposits, less redemptions.

Notional amount

Reference amount used to calculate payments for instruments such as forward rate agreements and interest rate swaps. This amount is called "notional" because it does not change hands.

Office of the Superintendent of Financial Institutions (OSFI)

Organization whose mission is to enforce all laws governing the financial industry in Canada, particularly as concerns banks, insurance companies, trust companies, loan companies, cooperative credit associations, fraternal companies and private pension plans subject to federal oversight.

Operational risk

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

Option

Contractual agreement that grants the right, but not the obligation, to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

Other retail client exposures

In accordance with the regulatory capital framework, risk category that includes all loans granted to individuals except for exposures related to residential mortgage loans and qualifying revolving retail client exposures.

Pension plan

Contract under which participants receive retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made either by the employer alone or by both the employer and the participants.

Pension plan risk

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

Permanent share or capital share

Equity security offered to Desjardins caisse members.

Price risk

Risk of potential loss resulting from a change in the market value of assets (shares, commodities, real estate properties, index-based assets) but not resulting from a change in interest or foreign exchange rates or in the credit quality of a counterparty.

Probability of default

Probability that a borrower defaults on his obligations over a period of one year.

Qualifying revolving retail client exposures

In accordance with the regulatory capital framework, risk category that includes credit card loans and unsecured credit margins granted to individuals.

Regulatory capital

In accordance with the definition set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, the regulatory capital under Basel III comprises Tier 1A capital, Tier 1 capital and Tier 2 capital. The composition of these various tiers is presented in the “Capital management” section of the Management’s Discussion and Analysis.

Regulatory funds

Funds needed to cover unexpected losses, calculated according to parameters and methods prescribed by regulatory authorities.

Reinstatement premium

Premium payable to restore the original reinsurance coverage limit that has been reduced by the occurrence of a catastrophe. Reinstatement premiums are recognized in net premiums.

Reinsurance treaty

Agreement whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the treaty, the original insurer remains fully liable to its policyholders for the insurance obligations.

Repurchase agreement

Agreement involving both the sale of securities for cash and the repurchase of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Reputation risk

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

Reverse repurchase agreement

Agreement involving both the purchase of securities for cash and the sale of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Risk-weighted assets

Assets adjusted based on a risk-weighting factor prescribed by regulations to reflect the level of risk associated with items presented in the Consolidated Balance Sheets. Some assets are not weighted, but rather deducted from capital. The calculation method is defined in the AMF guidelines. For more details, see the “Capital management” section of the Management’s Discussion and Analysis.

Scaling factor

Adjustment representing 6.0% of assets valued according to the Internal Ratings-Based Approach, applied to credit exposures in compliance with section 1.3 of the AMF guideline on the capital adequacy standards applicable to financial services cooperatives.

Securitization

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities and transferred to a trust.

Security borrowed or purchased

Security typically borrowed or purchased to cover a short position. The borrowing or purchase usually requires that an asset, taking the form of cash or highly rated securities, be pledged as collateral by the borrower.

Security lent or sold

Security typically lent or sold to cover a short position of the borrower. The loan or sale usually requires that an asset, taking the form of cash or highly rated securities, be pledged as collateral by the borrower.

Security sold short

Commitment by a seller to sell a security it does not own. Typically, the seller initially borrows the security to deliver it to the purchaser. At a later date, the seller buys an identical security to replace the borrowed security.

Segregated fund

Type of fund offered by insurance companies through a variable contract that provides the contract holder with a number of guarantees, such as principal repayment upon death. Segregated funds encompass a range of categories of securities and are designed to meet a variety of investment objectives. Segregated fund deposits represent amounts invested by clients. Segregated funds are comprised of investment funds with capital guaranteed upon death or at maturity.

Segregated fund deposits

Amounts paid by annuity contract holders in order to invest in segregated funds. Individual annuity contracts provide for a guarantee of the principal on death or at maturity.

Standardized Approach- Credit risk

Default approach used to calculate risk-weighted assets. Under this method, the financial institution uses valuations performed by external credit assessment institutions recognized by the AMF to determine the risk-weighting factors related to the various exposure categories.

- Market risk

Default approach used to calculate risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on predefined rules such as those on the size and nature of the financial instruments held.

- Operational risk

Risk measurement approach used to assess the capital charge for operational risk. For this measurement, activities are divided into predefined business lines for a financial institution. The capital charge is calculated by multiplying each business line's gross income by a specific factor. The total capital charge represents the three-year average of the summation of the capital charges across each of the business lines in each year.

Strategic risk

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

Stressed Value at Risk (VaR)

Value calculated in the same way as the Value at Risk, except for the historical data used, which are for a one-year stress period.

Structural interest rate risk

Risk related to the potential impact of interest rate fluctuations on net interest income and the economic value of equity.

Structured entity

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.

Subordinated note

Unsecured note whose repayment in the event of liquidation is subordinated to the prior repayment of certain other creditors.

Subsidiary

Company controlled by the Federation.

Swap

Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

Underwriting experience

In life and health insurance, the difference between actual results and actuarial assumptions used to determine premiums or actuarial liabilities, as applicable.

Value at Risk (VaR)

Estimate of the potential loss over a certain period of time at a given confidence level, calculated using historical data for a one-year interval.

Written premiums

In life and health insurance, insurance or annuity premiums for the policies or certificates issue during the year.

