2017 Desjardins Group Annual Report

When you choose Desjardins,
you're making change happen.

Desjardins

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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 the President and CEO

Guy Cormier
President and CEO of Desjardins Group

I'm very proud of this report. I'm proud of what we've achieved, I'm proud of our results, and I'm proud of the progress we've made toward our goals.

Members and clients: our singular focus

This report is a reflection of the efforts of our many dedicated officers, managers and employees over the past 12 months. Desjardins Group is a large, people-focused organization serving more than seven million members and clients. We're committed to enriching the lives of people and communities, and I want to thank everyone at Desjardins for all they do.

Thanks to our hard work, our net promoter scores for member/client satisfaction are on the rise. We're also attracting more members, including young people. But we're not about to stop there.

We're always looking for ways to do more for our members and clients. We're putting more tools and the vast resources of Desjardins at the fingertips of our front-line employees so they can provide members and clients with prompt, personalized assistance. We also want to deliver the same superior service when it comes to big financial goals and important life events.

Innovation benefiting members and clients

We're constantly innovating to provide our members and clients with even better service. They can do more on their mobile devices, tablets and computers all the time, like buying auto insurance and submitting a claim.

We opened our fifth Desjardins 360[d] location catering to students and young adults on the Université Laval campus in Quebec City. We also launched Alert, which uses smart devices to help policyholders prevent property damage.

Within our organization, we're in the midst of a huge digital shift. We want to make more services available on mobile devices and enhance the member/client experience no matter how our members and clients interact with us.

Social and economic leadership for our communities

Over the past year, we've taken our social and economic leadership to the next level. Most regions greenlighted the first projects to be supported by our new $100 million development fund. This initiative is near and dear to my heart, and I'm excited to see it come to fruition. By joining forces with partners and other businesses, we'll help local and regional projects get off the ground or make a bigger impact. In 2017, we committed $20 million to some 70 projects.

The new Desjardins Capital SME fund will provide additional support to small businesses and regions. We've also partnered with the Caisse de dépôt et placement du Québec to launch an investment fund for financial technology and artificial intelligence in finance start-ups across Canada.

A renewed commitment to sustainability

One of our strategic priorities is to foster a sustainable, responsible economy. As part of our ongoing efforts to support the transition to a low-carbon economy, in 2017 we instituted new practices to more effectively tackle climate change. Together we're taking meaningful steps to meet Paris Agreement targets.

We've committed to becoming carbon-neutral, investing in new renewable energy initiatives, and reducing the carbon footprint of our publicly traded portfolios. We're gradually incorporating environmental, social and governance factors into the decisions made by our investment, financing, insurance and other business sectors.

With our line of green products and services, we encourage our members and clients to support this transition while pocketing the savings that come with greater energy efficiency.

In 2017, we also conducted a wide-ranging survey of stakeholders regarding sustainability reporting. They told us they share the priorities we currently address in our non-financial reports.

Closer ties with our Canadian cooperative partners

Through an exciting new partnership with a number of Canadian cooperative partners, we're creating Aviso Wealth. It will be one of Canada's largest independent wealth management firms, with 500,000 clients and over $55 billion in assets under management. Together, we're building a stronger cooperative movement across Canada.

Our nationwide expansion is also supported by the teams who joined us through our acquisition of State Farm Canada. In the spring of 2018, we'll begin moving from the State Farm name to Desjardins Insurance which will boost our brand recognition across the country.

The cooperative difference for young people

Our cooperative difference is on display in our strategic choices, our products and services, and our many educational programs. Personal Finance: I'm in Charge!, our popular financial literacy program for 16- to 25-year-olds, really hit its stride in 2017.

And during its first full year of existence, our Youth Advisory Board weighed in on a number of important issues, putting the views and concerns of young people front and centre for our Board of Directors and Management Committee.

A Congress focusing on members and clients

Our members and clients were also a central focus of our 23rd Congress and the intense preparation leading up to it. The priorities adopted by the more than 1,100 delegates in attendance will give our members a bigger say in the products and services we offer and a larger role in our cooperative difference, such as our community initiatives.

We also adopted priorities that will empower our elected officers and improve our decision-making agility. These changes will help us remain focused on the interests of our members and clients and meeting their expectations.

Other priorities include instituting new governance practices so our Board of Directors better reflects the diversity of our members, caisses and communities, and ensuring that the Board has the skills it needs to implement our strategic plan and serve our regulated financial cooperative well. Similar practices will be introduced in each of our caisses.

The Congress also featured a consultation on how to better recognize our members' relationship with us when determining member dividends. Our new approach will take effect in the spring of 2019.

Financial results that outperformed expectations

2017 was a busy year, and we did it all while outperforming our financial targets. We posted surplus earnings of $2,151 million, up 21.4% from 2016, and our operating income climbed 9.5% to $15,413 million. The numbers are clear. We're becoming more efficient and effective at meeting the needs and expectations of our members and clients.

Thanks to these strong results, we were able to give back $320 million to our members and communities in 2017, even more than the year before. We also made big investments in our digital shift to help us exceed member and client expectations.

In 2018, we'll continue to diligently implement our strategic plan to make our member/client culture even stronger. And that is how we'll achieve our goal of being everyone's #1 choice.

Guy Cormier
President and CEO of Desjardins Group

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, officers 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 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

2017 highlights

Over **7** million members and clients

$320 million redistributed to members and communities

18.0% Tier 1A capital ratio

4,351 elected officers

$100 million development fund

$2,151 million in surplus earnings

45,547 employees

Strong, shared commitment to action on **climate change**

$275.1 billion in assets

When you choose Desjardins, you're taking action on climate change.

For 25 years, we have taken concrete actions to make a difference for the environment

1990 Launch of the Desjardins Environment Fund

2005 Adoption of the Desjardins Group Sustainable Development Commitment Policy, which made action on climate change a number one environmental priority

2009 Launch of the SocieTerra portfolios

2016 Launch of three new SocieTerra funds, including Canada's very first green bond fund, and partnership with the Carbon Pricing Leadership Coalition

2017 At Desjardins, we're well aware of the urgent need for action. That's why the Desjardins Group Board of Directors adopted a Desjardins-wide position to ensure we contribute to the goals of the Paris Agreement. This high-level, strategic approach is incorporated into our 2018–2020 strategic plan, which prioritizes the development of a sustainable and responsible economy.

Committing to the Paris Agreement

Climate change is causing serious, irreparable damage to the economic and social well-being of people and communities. As a cooperative financial group, we feel that it's our duty to lead by example by transitioning to clean energy.

Taking action on climate change

Supporting the transition to clean energy

New practices will be implemented across Desjardins to help us transition to clean energy and affirm our leadership in the shift to a low-carbon economy.

- **Starting in 2017, we became carbon neutral**
- We will focus on renewables when directly investing our own assets in energy infrastructure
- We will ensure that by 2020, the carbon footprint of our own assets invested in the markets is 25% less than the average GHG emissions of the companies that make up the stock and bond market indices
- **For all business decisions, we're gradually applying new authorization criteria that take environmental, social and governance factors into consideration**
- We will roll out initiatives to help both business and individual members transition to clean energy

Growing the renewable energy sector

We provide financing support to large businesses involved with renewable energy sources. As at December 31, 2017, the total financing volume was $1.15 billion.

The market value of our infrastructure portfolio is approximately $2.2 billion as at December 31, 2017. Investments in the renewable energy industry make up close to $1 billion, representing a significant portion of our portfolio, and include 48 assets held fully by Desjardins or with strategic partners.

In 2017, the Desjardins Group Pension Plan made acquisitions and reinvestments that enabled us to grow the infrastructure portion of our investments and invest in the expansion of renewable energy sources:

- The Kingston, Windsor and Southgate solar farms in Ontario, with a total capacity of 200 megawatts
- A portfolio of five wind farms in France, with a total production capacity of 162 megawatts

When you choose Desjardins,
you're choosing an innovative cooperative that makes your life easier.

Innovative methods of distribution

The Desjardins Mobile Branch

A bus set up to provide financial services wherever our members are

Signature Service

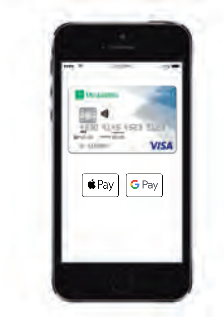
Services tailored to members who have sophisticated financial needs

360d centre

A friendly environment where students can discuss their plans and career ambitions with our advisors

The Studio

An innovative, boutique-inspired concept that provides a modern banking experience seven days a week



Tapping into smartphone technology

Logging on to AccèsD with facial recognition or touch ID

+

Paying by smartphone with Apple Pay and Google Pay

Doing more on the Desjardins Insurance Home-Auto app

The new Desjardins Insurance app gives members and clients direct access to their insurance account online. They can now view their insurance policies, submit claims, get quotes and more—right on their smartphone. The Home-Auto app is also the gateway to two of our exclusive services—Ajusto and Alert.

Making change happen for businesses

Supporting start-ups with the fintech fund

Desjardins Group and the Caisse de dépôt et placement du Québec announced the creation of an investment fund focusing solely on the financial technology (fintech) sector and financial artificial intelligence. Together we will invest the equivalent of $50 million in the fund.

Incubating new ideas with Desjardins Lab

Through its initiatives and the Cooperathon start-up impact track, Desjardins Lab supported some 20 start-ups in 2017, while 4,000 members of the public took part in our Desjardins Lab Meet-ups. A new Desjardins Lab opened in Lévis in December 2017. This campus focuses primarily on insurance initiatives in collaboration with insurance technology start-ups. Desjardins Lab also gets support through its partnership with the University of Quebec at Rimouski Lévis campus and Le Camp, a tech incubator in Quebec City.

Desjardins Lab is at the forefront of our innovation and modernization efforts.

When you choose Desjardins,

you're enriching the lives of people and communities.

In 2017, the Personal Finance: I'm in Charge® program had 55,418 participants, for a total of over 130,000 since 2013 in 18 regions of Quebec and Ontario

Youth

A helping hand for youth

We organized many activities in support of academic success during the 2017 Co-op Week. About 7,100 of our employees and officers participated in 50 volunteer activities in Auberges du cœur youth shelters and numerous other projects to encourage the success of young people. On October 19 alone, we raised a total of $1.5 million for the cause.

Desjardins Foundation: $2 million to help young people succeed

The Desjardins Foundation, the philanthropic arm of Desjardins Group, helps enrich the lives of individuals and communities by promoting education. It awards academic scholarships, provides direct assistance to young people through recognized partners, and develops and distributes tools to help parents support their children throughout their schooling. In 2017, the Desjardins Foundation gave over $2 million to help young people succeed and supported over 130,000 young people in Quebec and Ontario.

Personal Finance: I'm in Charge®

Personal Finance: I'm in Charge® is a distinctive, highly successful financial education program for 16- to 25-year-olds and newcomers to Canada. It addresses such pressing issues as high debt levels and peer pressure to spend. The program is made possible through our partnership with 90 community and school organizations, including four CEGEPs and 24 Centres de Formation en Entreprise et Récupération in Quebec.

Wooing IT professionals

We hosted a networking event called Desjardins Tellement Geek to show techies what we have to offer. Passionate professionals who are part of the Desjardins IT revolution were on hand to talk about the innovative spirit that reigns at Desjardins.

We also partnered with Academos to launch "T'es-tu game?," a campaign to raise awareness of IT opportunities among young people. Companion videos, quizzes, articles and other activities are available online.

Community development and sustainable development

$100 million development fund

We created the $100 million fund with a view to grow our ability to act and strengthen our socio-economic leadership. We use the fund to invest in initiatives and projects that are in line with our socio-economic mission to support entrepreneurship, education, social responsibility, sustainable development and community involvement. In 2017, we invested nearly $20 million to support some 70 projects that benefited members and communities in various regions.

Through the fund, we helped:

- Rebuild the Théâtre de la Vieille Forge in the town of Petite-Vallée in the Gaspé Peninsula
- Fund the annual job exploration event Carrefour des professions d'avenir organized by the Table régionale de l'éducation du Centre-du-Québec
- Test an anti-bullying virtual reality tool created in partnership with Carrefour jeunesse-emploi Arthabaska and Impact Emploi de L'Érable
- Launch Mon premier emploi manufacturier, a project created by the Commission scolaire des Chênes to help high school students find their first manufacturing job
- Build a new space and provide scholarships for the Social Innovation Workshop at Ottawa's Saint Paul University

Thousands of projects supported by Community Development Funds

Our Community Development Funds (CDFs) are a concrete example of the spirit of solidarity shared by Desjardins caisse members. At each caisse's general meeting, members can decide to give up a portion of their individual dividend and deposit it to their CDF, which is managed by the caisse's board of directors.

In 2017, we distributed $38.3 million through the CDFs.

UN sustainable development goals

Cooperatives and mutuals around the world have committed to supporting the UN Sustainable Development Goals (SDGs). We do our part to achieve the SDGs, particularly those to end poverty, reduce inequality and protect the environment. We have also signed the Paris Agreement to reduce our carbon footprint and adapt to climate change.

Developing communities with the Desjardins Community Zone and La Ruche

The Desjardins Community Zone is a pilot project that provides a digital "town square" for socio-economic leaders. So far, it has connected more than 50 group project developers with local residents, organizations and businesses interested in supporting them and facilitated some 20 initiatives that address local issues or support economic development.

We also renewed our partnership with La Ruche, which provides local project developers and entrepreneurs with a crowdfunding platform and support from a group of business people involved in the community.

Solidarity-based financing

CRÉ*AVENIR*

CRÉ*AVENIR* is a financing program that supports young entrepreneurs looking to start up a business. It is open to caisse members between the ages of 18 and 35 who have a public company or cooperative that isn't off the ground yet, or that has been in business for less than three years. **In 2017, 131 business projects were supported and 491 jobs were created or maintained.**

Desjardins Microcredit to Businesses

Desjardins Microcredit to Businesses is a program providing micro-entrepreneurs and self-employed workers with the support they need to consolidate their businesses or get them off the ground. **In 2017, 527 entrepreneurs were supported and 185 jobs were created or maintained.**

Desjardins Mutual Assistance Fund

The Desjardins Mutual Assistance Fund provides individuals experiencing financial hardship with budget counselling and emergency loans. This successful program is a partnership between Desjardins Group and a number of community organizations specializing in financial education and budget counselling.

When you choose Desjardins, you're doing business with a renowned financial services cooperative.

Sustained financial performance

We maintained our spot on Global Finance magazine's list of the World's 50 Safest "Banks", ranking 3rd in Canada and 34th in the world.

Canada's Top Employers

For the seventh year in a row, MediaCorp Canada named us one of Canada's Top 100 Employers. We also placed 10th on Indeed's 2017 ranking of the 25 Best Places to Work in Canada.

Canada's Best 50 Corporate Citizens: Ranked 2nd

For the seventh straight year, we made the top 10 in Corporate Knights magazine's list of the Best 50 Corporate Citizens in Canada. We're recognized as a responsible business able to simultaneously address economic, social and environmental challenges while remaining true to our mission.

One of Canada's 150 most iconic brands

According to an Interbrand survey of Canadians, we have one of the 150 most iconic brands that have marked our country's history and will shape its future growth.

World's 5th largest financial cooperative

In 2017, we jumped a spot to number 5 in the World Co-operative Monitor's ranking of financial cooperatives (based on total 2015 revenue in U.S. dollars). We ranked 36th among all cooperatives, up four places from 2016.

Best Overall Forecaster

International firm FocusEconomics named the Desjardins Economic Studies team the Best Overall Forecaster for Canada based on the accuracy of its economic and financial forecasts.

Two awards for Société historique Alphonse-Desjardins

The Association des archivistes du Québec gave the Société historique Alphonse-Desjardins a Robert-Garon award honourable mention in recognition of our Centre de conservation et de mise en valeur des archives et des collections muséales.

The Maison Alphonse-Desjardins museum also took home an award in the tourist attraction category at the Grands prix du tourisme Desjardins gala for the Chaudière-Appalaches region.

Building of the Year Award and BOMA BEST® Platinum certification

We were awarded Building of the Year and BOMA BEST® Platinum environmental certification for our building at 150 rue des Commandeurs in Lévis. This is the highest of the five levels of certification.

Enhanced Disclosure Task Force recommendations index

On October 29, 2012, the Enhanced Disclosure Task Force (EDTF), established by the Financial Stability Board, released its report, "Enhancing the Risk Disclosures of Banks", in which it issued 32 recommendations aimed at improving risk disclosure and transparency.

Information regarding the EDTF recommendations is presented in the Management Discussion and Analysis, the Financial Statements as well as in "Supplemental Financial Information" report, which are available on Desjardins Group's website at **www.desjardins.com/ca/about-us.** The "Supplemental Financial Information" report is not incorporated by reference in the 2017 MD&A.

Below is a summary of disclosures under the EDTF recommendations and the location of the disclosures:

			Pages	
Type of risk	Recommendation	Disclosure	Annual Report	Supplemental Financial Information
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	2	Risk terminology, risk measures and key parameters	70, 71, 226-233	
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Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	60	
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	11	Movements in regulatory capital	61-63	9
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	13	Risk-weighted assets by business segments	63, 64, 75, 76	15, 16
	14	Breakdown of capital requirements by type of risk and by calculation method	63, 64, 80, 81, 89, 90	15, 16
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	23	Market risk factors	87, 89-92, 178-182, 200	
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	29	Counterparty risk related to derivatives	86, 183-188	
	30	Credit risk mitigation techniques	82, 86, 183-188	27-29
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	32	Publicly known risk events	197-199	

Desjardins Group Management's Discussion and Analysis

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SECTION 1.0 **Desjardins Group**

This section gives a brief overview of Desjardins Group and its 2017 financial highlights. It also includes material events, priority financial objectives, a description of the economic environment in 2017, and the economic and financial outlook for 2018.

SECTION 2.0 **Review of financial results**

This section provides an analysis of Desjardins Group's results for the year ended December 31, 2017. It contains information on each of Desjardins Group's business segments, including a profile, a description of the industry, the strategy and priorities for 2018, and an analysis of financial results. An analysis of fourth quarter results and quarterly trends is also included.

SECTION 3.0 **Balance sheet review**

This section provides commentary on Desjardins Group's balance sheet. It mainly addresses financing activities and recruitment of savings, as well as capital management and off-balance sheet arrangements.

SECTION 4.0 **Risk management**

This section focuses on the risk management framework and presents the various risks associated with Desjardins Group's operations. It also presents risk factors that could impact its future results.

SECTION 5.0 **Additional information**

This section presents controls and procedures, related party disclosures, critical accounting policies and estimates, future accounting changes and various annual statistics.

Note to the reader

Desjardins Group (hereinafter also referred to as Desjardins) comprises the Desjardins caisse network in Quebec and Ontario (the caisses), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries (including Desjardins Capital Inc.), the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*.

The Management's Discussion and Analysis (MD&A) dated February 26, 2018, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the year ended December 31, 2017, in comparison to previous fiscal years. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this regulation. However, it has chosen to apply the provisions provided in this regulation to demonstrate its willingness to comply with best practices in financial governance. Information about Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

The MD&A should be read in conjunction with the Combined Financial Statements, including the Notes thereto, as at December 31, 2017.

Additional information about Desjardins Group is available on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at **www.sedar.com** (under the Desjardins Capital Inc. profile). The Annual Information Form of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can be found on SEDAR as well. Further 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.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements. Such forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. These forward-looking statements include those appearing in sections 1.3 "Financial strategy and objectives," 1.4 "Changes in the economy," 2.0 "Review of financial results", 3.0 "Balance sheet review" and 5.0 "Additional information" of this MD&A. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan" and "may", words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions made may be incorrect, or that the predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Desjardins Group cautions readers against placing undue reliance on these forward-looking statements since actual results, conditions, actions and future events could differ significantly from the targets, expectations, estimates or intents in the forward-looking statements, either explicitly or implicitly.

A number of factors, many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0 "Risk management," such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include legal and regulatory environment risk, including legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies, reporting guidance, liquidity regulatory guidance and capital guidelines, or interpretations thereof. There is also environmental risk, which is the risk of financial, operational or reputational loss for Desjardins Group as a result of environmental impacts or issues, whether they are a result of Desjardins Group's credit or investment activities or its operations. Lastly, there is the risk related to pension plans, which is the risk of losses resulting from pension plan commitments made by Desjardins Group for the benefit of its employees arising essentially from interest rate, price, foreign exchange and longevity risks.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to cyber threats, technological advancement and regulatory developments, household indebtedness and real estate market trends, the low interest rate environment and geopolitical risks. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; changes in the economic and financial environment in Quebec, Canada and globally, including short- and long-term interest rates, inflation, debt market fluctuations, foreign exchange rates, the volatility of capital markets, tighter liquidity conditions in certain markets, the strength of the economy and the volume of business conducted by Desjardins Group in a given region; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; geographic concentration; acquisitions and joint arrangements; credit ratings; catastrophes and climate change.

Other factors that could influence the accuracy of the forward-looking statements in this MD&A include amendments to tax laws, unexpected changes in consumer spending and saving habits, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts or natural disasters, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of this MD&A. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events.

The significant economic assumptions underlying the forward-looking statements in this MD&A are described in the section "Economic outlook for 2018" of this MD&A. These assumptions may also be updated in the quarterly MD&As. Any forward-looking statements contained in this MD&A represent the views of management only as at the date hereof, and are presented for the purpose of assisting readers in understanding and interpreting Desjardins Group's balance sheet as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives. These statements may not be appropriate for other purposes. Desjardins Group does not undertake to update any oral or written forward-looking statements that could be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. The accounting policies used did not differ from those used in 2016. For more information about the accounting policies used, see the Combined Financial Statements.

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

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

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

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

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

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

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

(in millions of dollars and as a percentage)	**2017**	2016	2015
Operating income	**$ 15,413**	$ 14,082	$ 13,880
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company[1]	**(278)**	-	-
Gain related to the acquisition of State Farm's Canadian operations[1]	**-**	-	(52)
Adjusted operating expenses	**$ 15,135**	$ 14,082	$ 13,828
Growth in adjusted operating income	**7.5%**	1.8%	9.6%
Non-interest expense	**$ 7,348**	$ 7,204	$ 6,959
Expenses related to the acquisition of State Farm's Canadian operations[1]	**(44)**	(45)	(45)
Adjusted non-interest expense	**$ 7,304**	$ 7,159	$ 6,914
Growth in adjusted non-interest expense	**2.0%**	3.5%	7.0%
Growth differential between adjusted operating income and adjusted non interest expense	**5.5%**	(1.7)%	2.6%

[1] Amounts before income taxes.

Adjusted surplus earnings of Desjardins Group before member dividends

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

Desjardins Group's surplus earnings before member dividends are adjusted to exclude the following specific items: the gain and expenses, 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, as well as the gain as at the acquisition date and expenses, net of income taxes, incurred as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm), completed on January 1, 2015. These latter expenses include the costs related to the transaction and the integration of operations as well as processing expenses.

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

(in millions of dollars)	2017	2016	2015
Presentation of the surplus earnings before member dividends in the Combined Financial Statements	**$ 2,151**	$ 1,772	$ 1,959
Specific items, net of income taxes			
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company[(1)]	**(249)**	-	-
Gain and expenses related to the acquisition of State Farm's Canadian operations	**32**	33	(19)
Presentation of the adjusted surplus earnings before member dividends	**$ 1,934**	$ 1,805	$ 1,940

[(1)] The amount before income taxes was $278 million for the year ended December 31, 2017, as presented in Note 20, "Significant disposals" to the Combined Financial Statements.

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 items: the gain and expenses, 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, as well as the gain as at the acquisition date and expenses, net of income taxes, incurred as part of the acquisition of State Farm's Canadian operations, completed on January 1, 2015. These latter expenses include the costs related to the transaction and the integration of operations as well as processing expenses.

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

(in millions of dollars)	2017	2016	2015
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Combined Financial Statements	**$ 446**	$ 296	$ 360
Specific items, net of income taxes			
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company[(1)]	**(241)**	-	-
Gain and expenses related to the acquisition of State Farm's Canadian operations[(2)]	**32**	33	(22)
Presentation of the adjusted net surplus earnings of the Property and Casualty segment	**$ 237**	$ 329	$ 338

[(1)] The difference with the data presented in the table for adjusted surplus earnings of Desjardins Group before member dividends is related to intersegment transaction expenses.
[(2)] The difference with the data presented in the table for adjusted surplus earnings of Desjardins Group before member dividends is related to an amount from the Wealth Management and Life and Health Insurance segment.

Productivity index and adjusted productivity index

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

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

(in millions of dollars and as a percentage)	2017	2016[(1)]	2015[(1)]
Non-interest expense	**$ 7,348**	$ 7,204	$ 6,959
Total income	**17,101**	15,201	15,242
Claims, benefits, annuities and changes in insurance contract liabilities	**(6,717)**	(5,446)	(5,431)
Total income excluding claims	**$ 10,384**	$ 9,755	$ 9,811
Productivity index	**70.8%**	73.8%	70.9%
Adjusted productivity index[(2)]	**72.3**	73.4	70.8

[(1)] Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.
[(2)] Takes into account the specific items presented under "Adjusted surplus earnings of Desjardins Group before member dividends" subsection of this section.

Net interest margin

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

Table 6 of Desjardins Group's MD&A provides more detailed information on the net interest margin.

Gross impaired loans/gross loans and acceptances ratio

The gross impaired loans/gross loans and acceptances ratio is used to measure loan portfolio quality and is equal to gross impaired loans expressed as a percentage of total gross loans and acceptances.

Table 36 of Desjardins Group's MD&A provides more detailed information on this indicator.

Loss ratio – Expense ratio – Combined ratio

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

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, in the numerator, the effect of changes in total prior year claims for a given period, net of related reinsurance, not including, in the denominator, reinstatement premiums, as applicable.

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

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

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

(in millions of dollars and as a percentage)	2017	2016	2015
Net premiums	**$ 3,896**	$ 3,207	$ 3,113
Premiums excluded from the loss ratio[1]	**(61)**	(149)	(117)
Net premiums considered in the ratio denominators	**$ 3,835**	$ 3,058	$ 2,996
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 2,555**	$ 1,838	$ 1,922
Market yield adjustment (MYA)	**62**	39	(27)
Other items excluded from the loss ratio[1]	**(20)**	(36)	(34)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 2,597**	$ 1,841	$ 1,861
Loss ratio	**67.7%**	60.2%	62.1%
Non-interest expense	**$ 1,099**	$ 1,132	$ 1,070
Other expenses excluded from the expense ratio[2]	**(158)**	(329)	(306)
Operating expenses	**$ 941**	$ 803	$ 764
Expense ratio	**24.5%**	26.3%	25.5%
Combined ratio	**92.2**	86.5	87.6

(1) Due mainly to the life insurance activities of Western Life Assurance Company, the sale of which was completed on July 1, 2017.
(2) 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, and expenses related to the acquisition of State Farm's Canadian operations on January 1, 2015.

Return on equity and adjusted return on equity

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

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

(in millions of dollars and as a percentage)	2017	2016	2015
Surplus earnings before member dividends	**$ 2,151**	$ 1,772	$ 1,959
Non-controlling interests' share	**(43)**	(76)	(172)
Group's share	**2,108**	1,696	1,787
Average equity before non-controlling interests' share	**$ 23,228**	$ 21,236	$ 19,667
Return on equity	**9.1%**	8.0%	9.1%
Adjusted return on equity[1]	**8.1**	8.1	9.0

(1) Takes into account the specific items presented under "Adjusted surplus earnings of Desjardins Group before member dividends" subsection in this section.

Income

Operating income

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

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

Investment income

Investment income includes net income on securities at fair value through profit or loss, net income on available-for-sale securities and net other investment income. These items, taken individually, correspond to those presented in the Combined Financial Statements. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income, given that these assets back insurance liabilities, which are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Combined Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss.

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

(in millions of dollars)	2017	2016(1)	2015(1)
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 4,405**	$ 4,273	$ 4,279
Net premiums	**8,049**	7,168	6,907
Other income			
Deposit and payment service charges	**458**	488	489
Lending fees and credit card service revenues	**660**	574	550
Brokerage and investment fund services	**1,087**	1,106	1,037
Management and custodial service fees	**428**	376	365
Net income on securities at fair value through profit or loss	**1,079**	533	809
Net income on available-for-sale securities	**408**	388	318
Net other investment income	**201**	198	235
Foreign exchange income	**77**	70	88
Other	**249**	27	165
Total income	**$ 17,101**	$ 15,201	$ 15,242
Presentation of income in the Management's Discussion and Analysis			
Net interest income	**$ 4,405**	$ 4,273	$ 4,279
Net premiums	**8,049**	7,168	6,907
Other operating income			
Deposit and payment service charges	**458**	488	489
Lending fees and credit card service revenues	**660**	574	550
Brokerage and investment fund services	**1,087**	1,106	1,037
Management and custodial service fees	**428**	376	365
Foreign exchange income	**77**	70	88
Other	**249**	27	165
Operating income	**15,413**	14,082	13,880
Investment income			
Net income on securities at fair value through profit or loss	**1,079**	533	809
Net income on available-for-sale securities	**408**	388	318
Net other investment income	**201**	198	235
	1,688	1,119	1,362
Total income	**$ 17,101**	$ 15,201	$ 15,242

(1) Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.

Provisioning rate

The 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 provisioning rate as presented in the MD&A.

(in millions of dollars and as a percentage)	2017	2016	2015
Provision for credit losses	**$ 349**	$ 319	$ 377
Average gross loans	**171,737**	162,979	155,431
Average gross acceptances	**69**	108	483
Average gross loans and acceptances	**$ 171,806**	$ 163,087	$ 155,914
Provisioning rate	**0.20%**	0.20%	0.24%

REGULATORY ENVIRONMENT

Regulatory environment

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

Moreover, Desjardins Group complies with the minimum regulatory capital requirements issued by the AMF, which reflect the provisions of the Basel III Accord. As mentioned on page 13, although Desjardins Group is not a reporting issuer under AMF *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, it has chosen to apply the provisions in the regulation to demonstrate its willingness to comply with sound practices in financial governance. Desjardins Group's financial and corporate governance are discussed on page 108 of this MD&A and in the "Corporate governance" section of the 2017 Desjardins Group Annual Report.

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 develop its external disclosures and integrating 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. Note that the OSFI also determined in 2013 that Canada's six major financial institutions meet the criteria for designation as D-SIFI.

It should also be mentioned that Desjardins Bank, National Association, a subsidiary of the Federation incorporated under U.S. federal laws, is supervised by the Office of the Comptroller of the Currency of the United States (OCC), and that the Federation's operations in the United States, as a bank holding company, are subject to the supervisory and regulatory authority of the Board of Governors of the Federal Reserve System. Desjardins Florida Branch, the branch of the Federation operating in the State of Florida and incorporated under U.S. federal laws, is also supervised by the OCC. Desjardins Group is further governed by the U.S. *Bank Holding Company Act* and has the status of financial holding company (FHC) in the U.S. In order to maintain such status, Desjardins Group must continue to meet capital requirements and certain other requirements to be considered "well capitalized" and be deemed "well managed" in accordance with the regulations of the U.S. Federal Reserve (the Fed).

Changes in the regulatory environment

Desjardins Group closely monitors regulations for financial products and services, as well as new developments in fraud, corruption, tax evasion, protection of personal information, money laundering and terrorist financing 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.

The *Act respecting financial services cooperatives* and the *Act respecting the Mouvement Desjardins*

On October 5, 2017, the Quebec Minister of Finance tabled 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 Bill) in the National Assembly. The Bill will have significant impacts on all institutions and intermediaries operating in Quebec's financial sector. Bill 141 is intended to update and modernize the legislative framework for Quebec's financial sector so that the financial institutions that it governs will have all the levers they need to operate in a very competitive environment and governance that is consistent with best practices. The Bill will have impacts on a series of laws, including 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*. The *Act respecting financial service cooperatives* will be amended to, among other things, prescribe the rules for organizing a network of financial services cooperatives and a financial group, as well as the rules for issuing capital shares and investment shares.

The Bill will also add a chapter concerning the *Groupe coopératif Desjardins* to replace the *Act respecting the Mouvement Desjardins* and strengthen financial solidarity mechanisms within Desjardins, among other things. In this way, the Bill will affirm the Federation's mission to manage Desjardins Group's risks and look after the financial health and sustainability of the cooperative group. The Federation and the *Fonds de sécurité Desjardins* will therefore be given additional special powers of supervision and intervention regarding the protection of creditors, including depositors, and the public interest. The proposed amendments to the *Deposit Insurance Act* include a proposal to have this Act govern the supervision and control of deposit-taking activities and the activities of authorized deposit-taking institutions, as well as recovery and resolution mechanisms in the event of failure of deposit-taking institutions. Furthermore, the Bill will provide for revised supervision for Quebec insurers, including the introduction of a modern regime for selling insurance over the Internet. The government's parliamentary leader has not provided a specific timeline for passage of the Bill in its definitive version. Desjardins Group continues to closely monitor the legislative process and analyze the impacts of this Bill.

Defined benefit pension plan legislation

The *Act to amend the Supplemental Pension Plans Act mainly with respect to the funding of defined benefit pension plans* came into force on January 1, 2016. The changes to the funding rules are intended to promote the sustainability of private pension plans by ensuring funding that must include an explicit stabilization provision determined according to the plan's investment policy. Funding on a solvency basis is no longer required. On December 20, 2017, the Quebec government issued a regulation to set out the requirements applicable to the elements introduced in 2016, particularly the funding policy and the annuity purchase policy. Desjardins Group continues to monitor developments in legislation that could affect pension plans.

Rules concerning capital instruments

The Capital Adequacy Requirements (CAR) Guideline of the Office of the Superintendent of Financial Institutions (OSFI) applicable to Canadian financial institutions includes requirements for Non-Viability Contingent Capital as part of regulatory capital. Desjardins Group, under the AMF's guideline on adequacy of capital base standards, is subject to similar rules applicable to non-viability contingent capital in its regulatory capital. However, Desjardins Group has not issued any instrument subject to these rules since discussions with the AMF are still underway on how Desjardins Group will apply these rules.

Proceeds of Crime (Money Laundering) and Terrorist Financing Act

On June 19, 2014, to strengthen the Canadian regime to fight money laundering and terrorist financing as well as improve the effectiveness of its financial sanctions, the Parliament of Canada passed the *Economic Action Plan 2014 Act, No. 1*. The Act includes, in particular, amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and the regulations thereunder. Some of these amendments came into effect in June 2016. The rest will come into effect gradually. The transitional period for the application of the new measures for ascertaining identity has been extended to January 23, 2018. Furthermore, on June 22, 2017, the Parliament of Canada passed an *Act to implement certain provisions of the budget tabled in Parliament on March 22, 2017 and other measures*. This Act includes amendments to the P*roceeds of Crime (Money Laundering) and Terrorist Financing Act*. Desjardins Group is preparing to implement these legislative changes and is closely monitoring developments to assess their impact on its operations.

Recapitalization regime for domestic systemically important banks

On June 16, 2017, the Department of Finance Canada pre-published three draft regulations to implement the Bank Recapitalization (Bail-in) Regime and the OSFI issued a draft guideline on Total Loss Absorbing Capacity (TLAC) for comments. The introduction of the regulations and the TLAC guideline are intended to ensure that a non-viable domestic systemically important bank (D-SIB) has sufficient loss absorbing capacity to support its recapitalization. The D-SIBs will be required to issue the ratios specified in the TLAC guideline as of the quarter commencing November 1, 2018 and comply with the requirements of the TLAC guideline no later than November 1, 2021. This regime is not applicable immediately to Desjardins Group because it is regulated by the AMF. Furthermore, the bill tabled by the Quebec government on October 5, 2017, as mentioned above, provides for certain recovery and resolution mechanisms in the event of failure of deposit-taking institutions.

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. It should be noted that the future of the reforms being considered is still uncertain when it comes to the U.S. Congress. The rules resulting from the *Dodd-Frank Wall Street Reform and Consumer Protection Act* which affect, in particular, the implementation of provisions on swap trading, proprietary trading and ownership interests in hedge funds (the Volcker rule), as well as those concerning the Enhanced Prudential Standards and the submission of a resolution plan, could be affected. Desjardins Group continues to closely monitor developments in these requirements and the reform initiatives.

Standard for automatic exchange of financial information in tax matters

The Organisation for Economic Co-operation and Development (OECD) has set up a "Standard for Automatic Exchange of Financial Information in Tax Matters", based on the same general principles and obligations as those of the *Foreign Account Tax Compliance Act*, but globally. The standard took effect in Canada on July 1, 2017, with the first exchange of information between Canada and the competent authorities scheduled for May 1, 2018. Desjardins Group has implemented various solutions to ensure its compliance while minimizing the impact on member and client experience.

Data confidentiality and security

Data confidentiality and security is a rapidly changing area. In Canada, new provisions of the *Personal Information Protection and Electronic Documents Act* (PIPEDA) will soon come into force. They will, in particular, require businesses to give notice of any breaches of security safeguards and impose the keeping of a register. Failure to give notice will result in a fine. It should be noted that in Europe, the *General Data Protection Regulation* (GDPR), which will come into force in May 2018, provides for new obligations that will apply internationally to entities that control or process the personal data of citizens of the European Union. Several of these obligations, if applicable, could require changes to the processes used by Desjardins Group. In Quebec, consultations are currently underway concerning amendments to *An Act respecting the protection of personal information in the private sector* (ARPPIPS). Desjardins Group can expect that stricter rules will be adopted, and it is closely monitoring developments to assess the impacts on its operations.

New standard related to the third pillar of the Basel Committee on Banking Supervision

Desjardins Group continues to monitor changes in capital and liquidity requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). To this end, in January 2015, the Committee issued a new standard related to the third pillar, which aims 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, which includes provisions with respect to the third pillar. Desjardins Group is currently working to ensure compliance with these new requirements, which will take effect on December 31, 2018. In addition, in March 2017, the BCBS issued the second phase of the standard related to the third pillar. The OSFI has not yet announced the effective date of the second phase, nor has the AMF.

Capital adequacy requirements for life and health insurers

In October 2016, the AMF issued the new *Capital Adequacy Requirements Guideline (CARLI) – Insurance of persons*. This new regulatory framework replaces the current *Capital Adequacy Requirements Guideline (CAR) – Life and Health Insurance* as of January 1, 2018. Based on information currently available, the subsidiary Desjardins Financial Security Life Assurance Company plans to comply with the requirements of the new guideline.

Report on Ontario's auto insurance plan

On April 11, 2017, a report by David Marshall on the province of Ontario's automobile insurance system was released, with 35 recommendations for improving it and thereby strengthening consumer protection. The report was also the subject of a public consultation aimed at obtaining various opinions on what the government could do to protect persons injured in collisions. Desjardins Group welcomes this measure and supports the Ontario government in seeking to offer affordable products and services.

Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures

In October 2017, the OSFI issued the revised guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*. The changes made reaffirm the OSFI's expectations by encouraging mortgage lenders to remain prudent in their mortgage underwriting practices. The OSFI in particular sets a new minimum interest rate or "stress test" for uninsured mortgages. Desjardins Group has applied these practices since January 1, 2018 even though the equivalent requirements of the AMF's guideline on granting residential mortgages does not go into effect until March 2018.

Modernization of the Canadian payments system

Technological progress and innovation affect the payments ecosystem, which is undergoing major changes. In 2016, Payments Canada launched a multi-year initiative to modernize the Canadian payments system. The Department of Finance Canada unveiled its project for a retail payments oversight framework in 2017. In December 2017, the Competition Bureau issued the final report from its market study concerning technology-led innovation in the Canadian financial services sector. The report suggests modernizing laws and regulations and provides recommendations for regulators. Desjardins Group continues to monitor work by the industry, the federal government and Payments Canada.

Qualified Intermediary Agreement

The U.S. Qualified Intermediary regime allows clients of financial intermediaries to benefit from more streamlined administrative procedures and more readily take advantage of the reduced tax rates allowed under tax agreements concerning taxable U.S source income. For their part, financial institutions must comply with the sometimes-complex provisions of an agreement established by the U.S. tax authorities. This agreement has undergone several significant changes in the past few years with very short implementation deadlines. Desjardins Group entities that are QIs are continuing their efforts to take the necessary measures to comply with the last agreement issued in January 2017 and monitor developments.

Section 871(m) of the U.S. Internal Revenue Code

Section 871(m) of the U.S. Internal Revenue Code was set up to ensure that non-U.S. investors pay tax on dividend payments on U.S. equity-linked instruments. For 2017 and 2018, the withholding tax and reporting obligations determined in section 871(m) apply basically to transactions issued on or after January 1, 2017 and that have a delta equal to 1. This regulation has undergone several changes in recent years and is subject to further amendment. The Desjardins Group entities concerned are putting measures in place to apply the regulation and monitor future changes.

Gradual implementation of *Regulation 93-101 on Derivatives: Business Conduct*

In April 2017, the Canadian Securities Administrators (CSA) published draft *Regulation 93-101 – Derivatives: Business Conduct* and draft *Policy Statement to Regulation 93-101 respecting Derivatives: Business Conduct* to establish a comprehensive regime for regulating the business conduct of participants in over-the-counter derivatives markets. The CSA should also publish for comment in 2018 a separate set of proposed registration rules for derivatives dealers, derivatives advisers and potentially other derivatives market participants. The various derivatives market participants are furthermore subject directly or indirectly to a certain number of national and international standards resulting from a regulatory reform that is gradually taking effect. The Desjardins Group entities concerned are closely watching this regulatory development.

Application of the new framework for European markets in financial instruments

In May 2014, European legislatures adopted a new framework for markets in financial instruments (MIF 2), in the form of the *Markets in Financial Instruments Directive* and the *Markets in Financial Instruments Regulation*. The regulatory requirements related to the MIF 2 directive have been applicable since January 3, 2018 and change the framework for carrying on market activities in Europe. One purpose of the new framework is to strengthen investor protection and make financial markets more resilient and transparent. The Desjardins Group entities concerned are closely monitoring this regulatory development and the notices issued in this regard by the CSA.

1.0 Desjardins Group

1.1 Profile and structure

WHO WE ARE

Desjardins Group is the largest financial cooperative in Canada, with assets of $275.1 billion. The organization brings together 293 caisses in Quebec and Ontario as at December 31, 2017, the *Fédération des caisses Desjardins du Québec* and its subsidiaries (including Desjardins Capital Inc.), the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of close to 46,000 employees and the commitment of over 4,300 elected officers.

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

WHAT MAKES US DIFFERENT

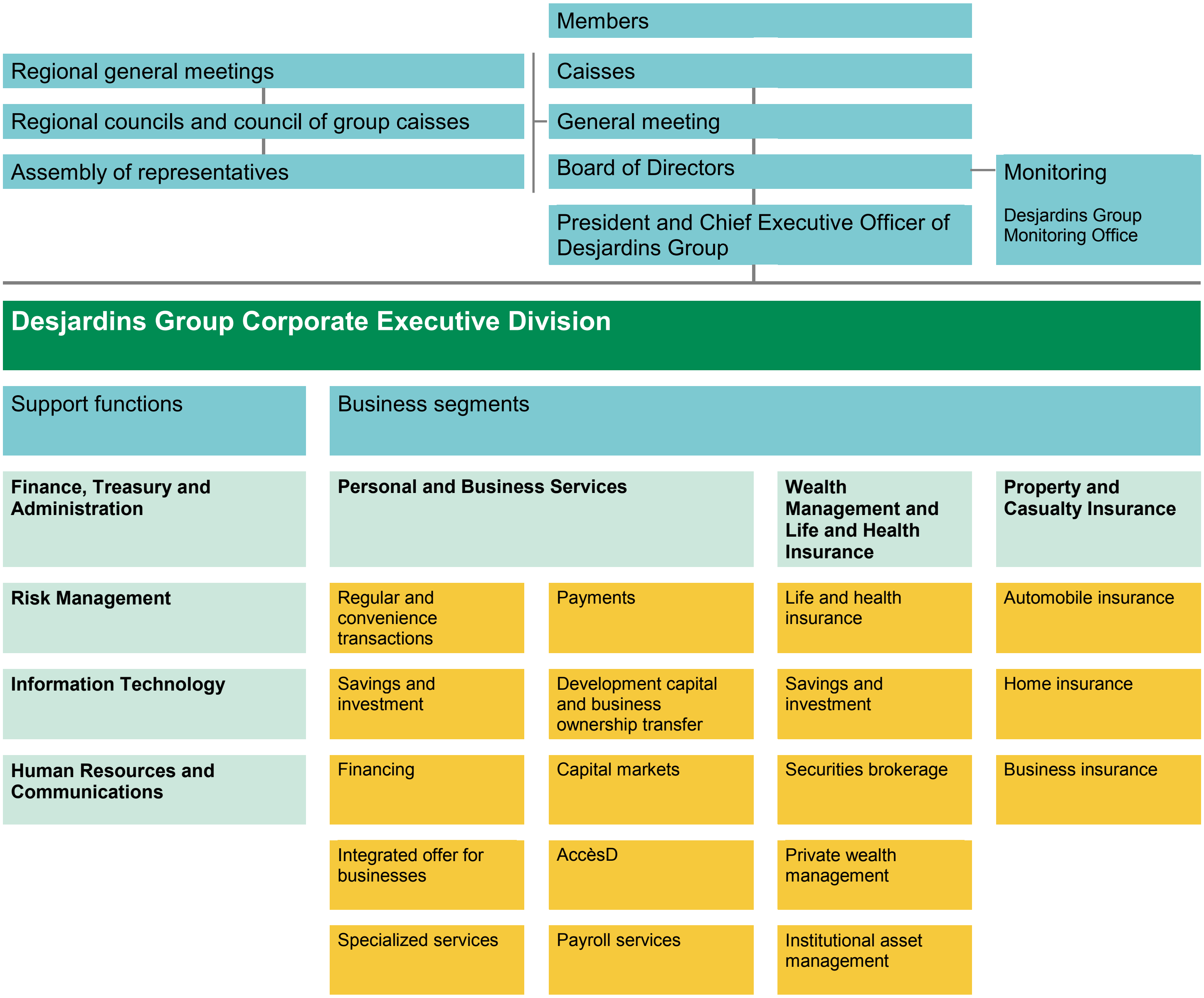
Desjardins Group stands out from other Canadian financial institutions because of its cooperative nature. The resulting mission and values are the driving force for its officers, managers and employees. They are echoed in its orientations, and help Desjardins Group achieve its vision of sustainable prosperity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

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

Another hallmark of Desjardins Group is the active participation of elected officers at the caisse level, and in the organization's decision-making structure through regional general meetings, the regional councils, the council of group caisses, the assembly of representatives and the Board of Directors of the Federation and its various commissions.

STRUCTURE OF DESJARDINS GROUP

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



Desjardins Group 2017 highlights

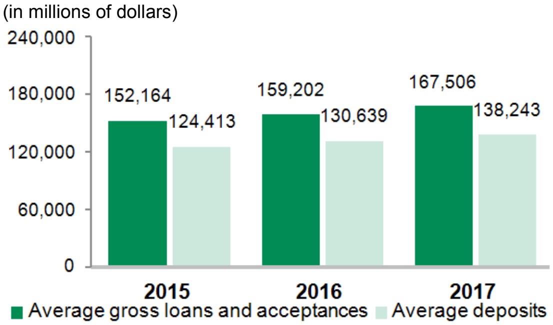
Surplus earnings before member dividends	Residential mortgages outstanding	Assets under management	Tier 1A capital ratio	Total asset growth
$2,151 million	+ $11.5 billion	+ $6.7 billion	18.0%	+ $16.8 billion

- Surplus earnings before member dividends up $379 million, or 21.4%, compared to 2016.
- Increase of $129 million, or 7.1%, in adjusted surplus earnings[(1)] before member dividends compared to 2016.
- A total of $320 million returned to members and the community, including member dividends, sponsorships, donations and bursaries.
- Operating income[(1)] of $15,413 million, including a gain on the sale of subsidiaries, up 9.5% compared to 2016.
- Adjusted operating income[(1)] of $15,135 million, up 7.5% compared to 2016.
- Sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017 to Trimont Financial Ltd., a subsidiary of The Wawanesa Mutual Insurance Company. A $249 million gain, net of expenses and after income taxes, was recorded for the third quarter of 2017.

2017 segment highlights

PERSONAL AND BUSINESS SERVICES

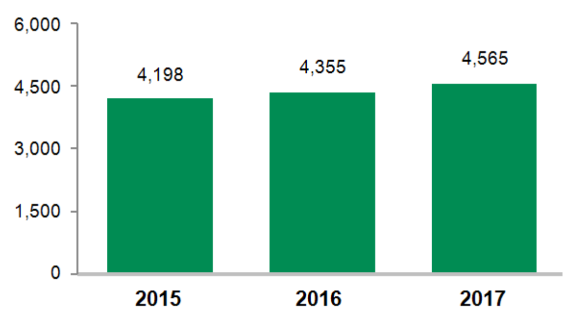
Average gross loans and acceptances and average deposits[(1)]
(in millions of dollars)



- Quebec's leader in residential mortgages and a leading player in consumer loans, including point-of-sale financing, with estimated market shares of 36.1% and 22.4%, respectively.
- Number one credit and debit card issuer in Quebec and fourth in Canada, Card and Payment Services has issued more than 6.8 million credit cards and 5.9 million debit cards in Canada.
- Leader in agricultural credit in Quebec, with a market share of 39.3%.
- Surplus earnings before member dividends totalled $1,108 million, up 8.1% compared to 2016 due to growth in activities.
- Growth of $3.8 billion in on-balance sheet savings in Quebec in 2017 for an estimated market share of 41.6%.
- Growth of 9.4% compared to 2016 in business volume related to credit card products, Accord D, and auto and durables financing.
- Growth of $8.3 billion compared to 2016 in the entire average portfolio of loans and acceptances.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

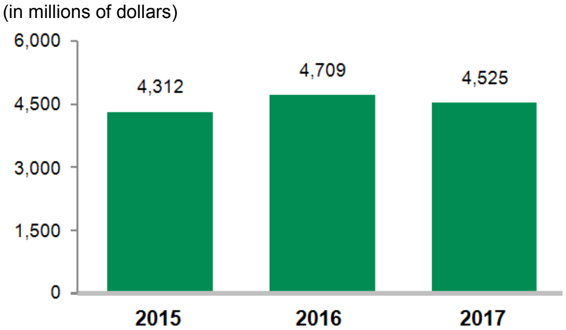
Written premiums
(in millions of dollars)



- Quebec's No. 2 life and health insurer and No. 5 in Canada (based on written premiums in 2016).
- Gross insurance premiums of $4.2 billion, up 5.2% compared to 2016.
- Record net sales of $2.5 billion for Desjardins Funds.
- Significant growth in net sales for private wealth management and for full-service and online brokerage, of 51.5% and 25.6%, respectively, in 2017.
- Net surplus earnings of $612 million, up 32.8%, compared to 2016 as a result of favourable adjustments to actuarial assumptions and the solid performance of investments.
- No. 1 for market-linked guaranteed investments and No. 2 for Desjardins Funds, in Quebec (based on 2016 assets under management).
- Announcement of the creation of Aviso Wealth, a partnership that in 2018 will result in one of the largest wealth management companies in Canada.

PROPERTY AND CASUALTY INSURANCE

Gross written premiums
(in millions of dollars)



- Quebec's No. 2 and Canada's No. 3 property and casualty insurer (based on gross direct premiums written in 2016).
- Positive underwriting results for Desjardins General Insurance Group Inc. for the 25th consecutive year.
- Sale on July 1, 2017 of Western Financial Group Inc. and Western Life Assurance Company to Trimont Financial Ltd.
- Launch of new flood coverage for all Canadians as well as the Alert program, a water damage prevention system.
- Net surplus earnings of $446 million for the year, including a $241 million gain, net of expenses and after income taxes, on the sale of subsidiaries.
- Adjusted net surplus earnings[(1)] of $237 million, down 28.0% compared to 2016, on account of the unfavourable current-year claims experience, mainly in automobile insurance
- Growth of $689 million, or 21.5%, compared to 2016, in net premiums to total $3.9 billion.
- Improvement in the expense ratio[(1)] to 24.5% in 2017, compared to 26.3% in 2016.

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

Table 1 – Financial results and indicators
For the years ended December 31

(in millions of dollars and as a percentage)	2017	2016[1]	2015[1]
Results			
Net interest income	**$ 4,405**	$ 4,273	$ 4,279
Net premiums	**8,049**	7,168	6,907
Other operating income[2]	**2,959**	2,641	2,694
Operating income[2]	**15,413**	14,082	13,880
Investment income[2]	**1,688**	1,119	1,362
Total income	**17,101**	15,201	15,242
Provision for credit losses	**349**	319	377
Claims, benefits, annuities and changes in insurance contract liabilities	**6,717**	5,446	5,431
Non-interest expense	**7,348**	7,204	6,959
Income taxes on surplus earnings	**536**	460	516
Surplus earnings before member dividends	**$ 2,151**	$ 1,772	$ 1,959
Adjusted surplus earnings before member dividends[2]	**$ 1,934**	$ 1,805	$ 1,940
Contribution to combined surplus earnings by business segment[3]			
Personal and Business Services	**$ 1,108**	$ 1,025	$ 1,071
Wealth Management and Life and Health Insurance	**612**	461	503
Property and Casualty Insurance	**446**	296	360
Other	**(15)**	(10)	25
	$ 2,151	$ 1,772	$ 1,959
Amount returned to members and the community			
Member dividends	**$ 202**	$ 144	$ 154
Sponsorships, donations and bursaries	**82**	82	81
Desjardins Member Advantages program	**36**	33	29
	$ 320	$ 259	$ 264
Indicators			
Return on equity[2]	**9.1%**	8.0%	9.1%
Adjusted return on equity[2]	**8.1**	8.1	9.0
Productivity index[2]	**70.8**	73.8	70.9
Adjusted productivity index[2]	**72.3**	73.4	70.8
Provisioning rate[2]	**0.20**	0.20	0.24

(1) Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.
(2) See "Basis of presentation of financial information".
(3) The breakdown by line item is presented in Note 33, "Segmented information", to the Combined Financial Statements.

Table 2 – Balance sheets and indicators
As at December 31

(in millions of dollars and as a percentage)	2017	2016	2015
Balance sheet			
Assets	**$ 275,095**	$ 258,367	$ 248,128
Net loans and acceptances	**177,521**	166,026	159,881
Deposits	**171,586**	160,546	156,574
Equity	**24,773**	23,293	21,725
Indicators			
Assets under administration	**$ 411,548**	$ 420,166	$ 403,350
Assets under management[1]	**58,220**	51,550	46,053
Tier 1A capital ratio	**18.0%**	17.3%	16.0%
Tier 1 capital ratio	**18.0**	17.3	16.0
Total capital ratio	**18.4**	17.9	17.2
Leverage ratio	**8.5**	8.1	7.8
Gross impaired loans /gross loans and acceptances[2]	**0.25**	0.32	0.34

(1) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.
(2) See "Basis of presentation of financial information".

1.2 Material events

Sale of subsidiaries

On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, namely Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of The Wawanesa Mutual Insurance Company, for a total consideration of $722 million. A gain of $249 million, net of expenses and after income taxes, on the sale of these subsidiaries was recognized in the Combined Statements of Income for the year ended December 31, 2017. The results of these subsidiaries were presented in the Property and Casualty Insurance segment.

It should also be recalled that the sale of Western Financial Insurance Company to Economical Insurance was completed on January 1, 2017.

Additional financial information on these subsidiaries is presented in the "Impact of the sale of subsidiaries" section.

Creation of Aviso Wealth

On December 12, 2017, Desjardins Group and a partnership comprised of Canada's five provincial credit unions (the Centrals) and The CUMIS Group announced that they had entered into an agreement to combine their subsidiaries Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments. The transaction will create Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and a partnership between the Centrals and The CUMIS Group. The transaction is expected to close in the first half of 2018, subject to obtaining the required regulatory approvals and satisfying the usual closing conditions. The results of the subsidiary Qtrade Canada Inc. and the interest held in the associate Northwest & Ethical Investments are presented in the Wealth Management and Life and Health Insurance segment.

1.3 Financial strategy and objectives

ORIENTATIONS AND STRATEGIC PRIORITIES

Fiscal 2017 marked the launch of a new strategic framework. The President and Chief Executive Officer, supported by the Board of Directors and the Management Committee, ratified the new 2020 strategic plan as well as all the master plans for Desjardins Group business sectors and support functions. The organization will therefore be guided by three major orientations until 2020. "Accelerate the shift to a member and client culture" is the first, which focuses on significantly enhancing the quality of the Desjardins member and client experience. The second, "Affirm our cooperative difference", will allow Desjardins to bring the cooperative difference up to date and live it out, as well as to strengthen its fundamental purpose, which is to enrich the lives of people and communities. The third orientation, "Capitalize on the strengths of our expansive cooperative group", will be focused on finding new growth opportunities across Canada along with group synergies. These three orientations will be based on attributes that present Desjardins as a simple, human, modern and capable cooperative for its members and clients, as well as its employees, managers and officers. The strategic priorities to be established for 2020 have been derived from these orientations and will allow Desjardins Group to achieve its ambition of being first in people's hearts. The 2018 strategic priorities for Desjardins Group's business segments may be found in Section 2.3 "Analysis of business segment results" of this MD&A.

FINANCIAL OBJECTIVES

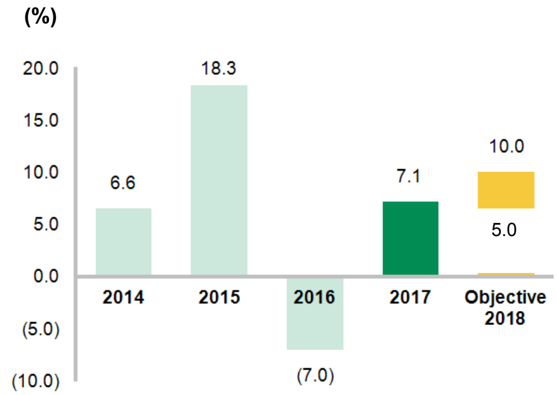
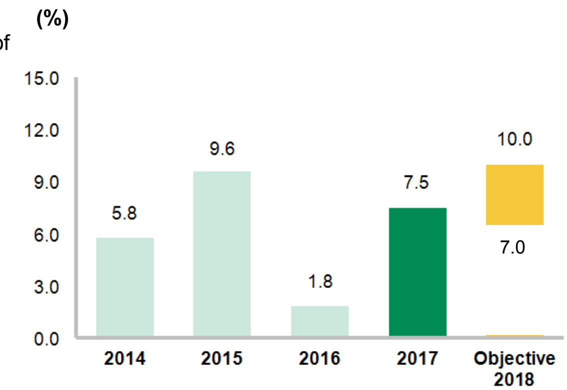
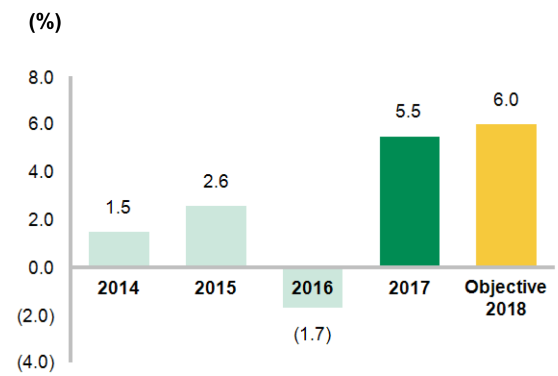
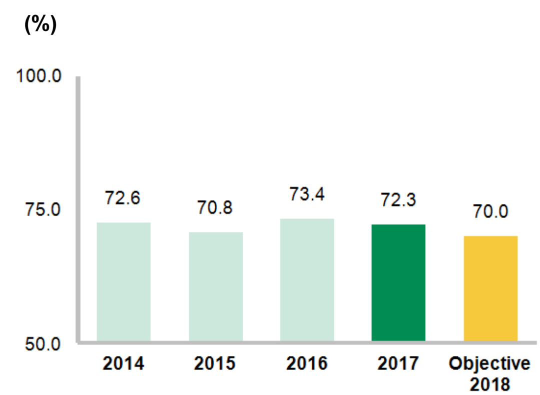
Desjardins Group sets medium-term financial objectives that provide it with the means of realizing its ambitions for members and clients by seeking new ways to increase its return to the community.

This section shows the progress made toward the objectives stated in 2017 and shows them in relation to the results achieved. Performance in 2018 will be measured using key indicators aligned with Desjardins's new ambitions according to the orientations and strategic priorities. Desjardins Group, through its members and clients, enriches the lives of people and communities in order to be first in people's hearts. Creating wealth and redistributing it to its members and their communities, constantly working in their best interests, involves Desjardins Group's financial performance, as well as other factors.

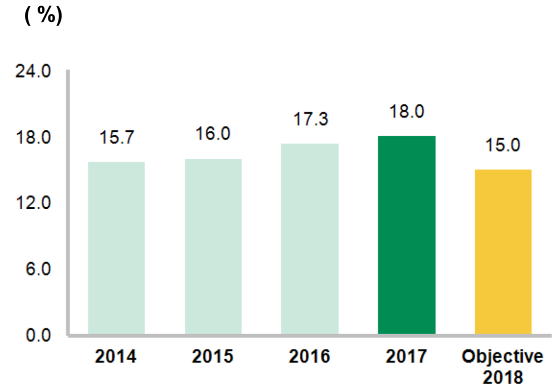
Overall performance

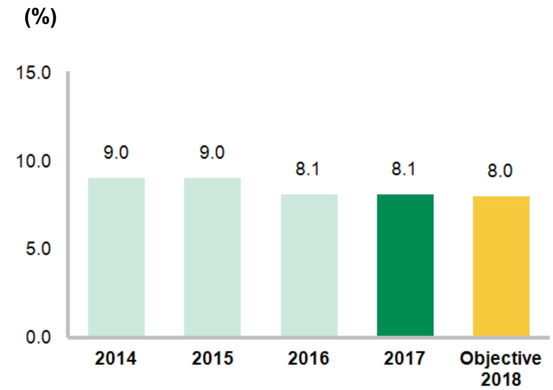
The trend in Desjardins Group's overall performance over the last few years has been positive. Surplus earnings before member dividends and operating income have grown, and the targets for return on equity and capital were met. For the coming years, senior management is aiming for an equitable return to all members and clients that is consistent with Desjardins Group's financial performance. Additional investments, particularly in innovative information technology platforms, will allow Desjardins to enhance the member and client experience and to improve productivity.

The financial objectives are monitored exclusive of the specific items as defined in the "Basis of presentation of financial information". Readers may refer to Section 2.0 "Review of financial results" for an analysis of Desjardins Group's results before the specific items.

Key indicators[1]	Results achieved in 2017	2018 objectives	Trend
Growth in adjusted surplus earnings before member dividends Desjardins Group monitors growth in surplus earnings to measure value creation for members and clients.	Growth in adjusted surplus earnings before member dividends was 7.1%, exceeding the 4% objective for 2017. The caisse network, included in the Personal and Business Services segment, continued to grow. The Wealth Management and Life and Health Insurance segment posted a solid performance for its investments and growth in its assets under management. However, the Property and Casualty Insurance segment had a higher claims experience for the current year than in 2016, and there were less favourable developments in prior-year claims in 2017 than in 2016.	For 2018, Desjardins Group's objective is to achieve growth of between 5% and 10% in adjusted surplus earnings before member dividends.	
Growth in adjusted operating income Desjardins Group monitors growth in its operating income to measure growth in its operations.	Adjusted operating income increased by 7.5% in 2017, exceeding the 7% objective for 2017. Net interest income was up as a result of growth in the entire portfolio of loans and acceptances outstanding. In addition, this growth stemmed from the increase in net premiums due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which 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.	For 2018, Desjardins Group's objective is to achieve growth of between 7% and 10% in adjusted operating income.	
Growth differential between adjusted operating income and adjusted non-interest expense Desjardins Group ensures that operating income grows faster than non-interest expense for the organization's sustainability and profitability.	The growth differential between adjusted operating income and adjusted non-interest expense was 5.5% in 2017. Growth in operations combined with productivity initiatives had an impact on non-interest expense.	For 2018, Desjardins Group's objective is to achieve a differential of 6%.	
Adjusted productivity index Desjardins Group uses the productivity index as a measure of efficiency.	The index was 72.3% at the end of fiscal 2017. This result, which did not meet the ambitious 70% objective, was mainly due to additional investments in innovative technology platforms. However, Desjardins Group's adjusted productivity index has improved compared to 2016 on account of growth in its operations and productivity initiatives that had an effect on non-interest expense.	For 2018, Desjardins Group has again set its ambitious objective of 70%.	

<table>
<tr><th>Key indicators[1]</th><th>Results achieved in 2017</th><th>2018 objectives</th><th>Trend</th></tr>
<tr><td>Tier 1A capital ratio

Desjardins Group monitors the Tier 1A capital ratio to maintain its financial strength.</td><td>As at December 31, 2017, the Tier 1A capital ratio was 18.0%, exceeding Desjardins Group's15% objective.</td><td>For 2018, Desjardins Group is maintaining its objective of exceeding 15%.</td><td>
</td></tr>
<tr><td>Adjusted return on equity

Return on equity is used to measure profitability resulting in value creation for members and clients.</td><td>Adjusted return on equity was 8.1% in 2017, in line with Desjardins's 8% objective.</td><td>For 2018, Desjardins Group has set an objective of exceeding 8%.</td><td>
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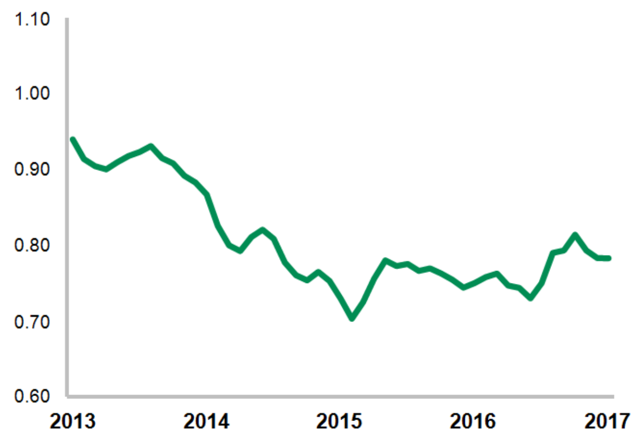
[1] See "Basis of presentation of financial information".

FINANCIAL OUTLOOK

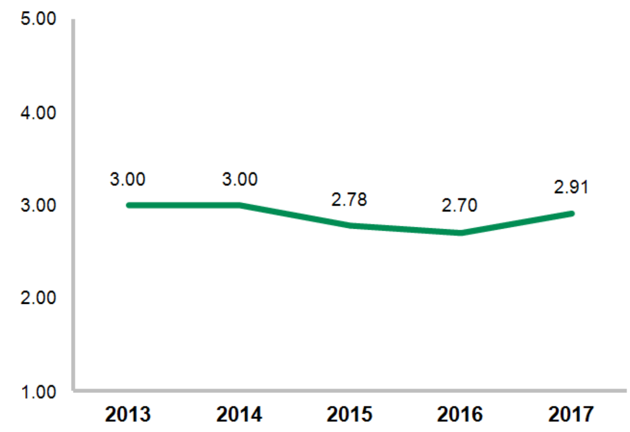
Desjardins Group will continue the year on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry as well as increasing profitability in an economic environment that should remain at a satisfactory level over the coming year. Stiff competition in the banking sector will place sustained pressure on net interest income. 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.

1.4 Changes in the economy

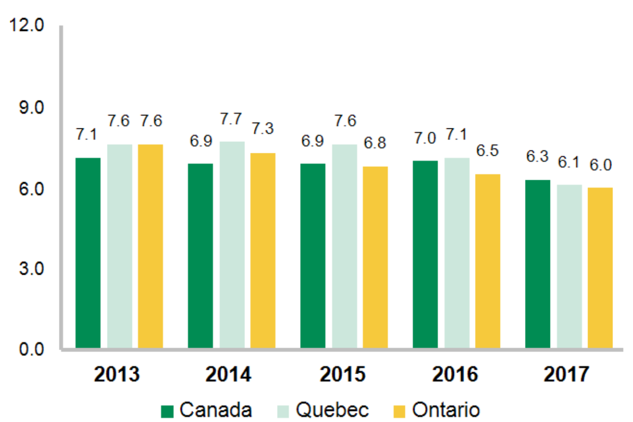
Changes in the Canadian dollar vs. the U.S. dollar (monthly average)
(Canadian dollars/U.S. dollars)



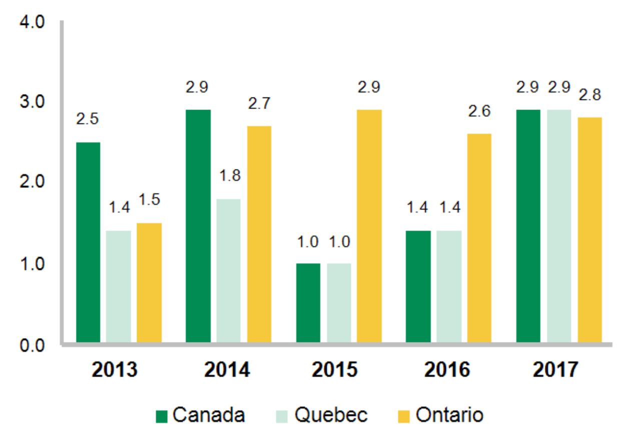
Changes in the prime rate (annual average)
(as a percentage)



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



Annual growth in GDP
(as a percentage)



ECONOMIC ENVIRONMENT IN 2017

Global economy

The global economy grew at an accelerating pace in 2017. The gain in real GDP is estimated at 3.6%, compared to 3.1% in 2016. International trade also gathered momentum. The best economic growth was in the advanced countries (2.3% compared to 1.6% in 2016) and the emerging countries (4.4% compared to 4.1%). Real GDP growth in China even picked up slightly, from 6.7% to 6.9%. In Europe there was a marked improvement in the household and business confidence indexes, which was reflected in accelerating real GDP growth in the eurozone. The annual change is estimated at 2.5% in 2017 compared to 1.8% in 2016. The uncertainties surrounding the United Kingdom's withdrawal from the European Union (Brexit) ultimately had an impact on the UK economy in 2017, while Britain's production was relatively resilient in 2016.

The improved economic environment in 2017 was good for the financial markets. The main North American indexes climbed by more than 15%, and the performance of several exchanges overseas was as impressive. In Canada, following a remarkable performance in 2016, the Toronto Stock Exchange posted mixed results in 2017 as the major sectors related to commodities experienced difficulties in the first half of the year. The year nevertheless ended on a more positive note marked by a rebound in commodity prices, allowing the Toronto Stock Exchange to close 2017 at 6% growth. The strength of the economy led the Fed to announce three 0.25% hikes in U.S. key interest rates and to begin gradually reducing its bond holdings. However, low inflation rates in most countries helped keep long-term bond rates very low. The Bank of Canada (BoC) suddenly began monetary tightening, instituting two 0.25% increases to its key interest rate during the summer, which caused interest rates and the Canadian dollar to surge. Following these hikes the BoC nevertheless adopted a more cautious tone, which brought the Canadian dollar back down to just under US$0.80.

United States

Once again, the U.S. economy struggled in the first quarter of 2017. However, the following quarters rendered rather strong real GDP growth of close to 3.0%. Real GDP growth in 2017 has been estimated at 2.3%, a clear improvement over the 1.5% gain recorded for 2016. Even the devastating hurricanes in August and September had only a limited effect on growth, and the reconstruction and rebound in production took hold quickly in their wake. A recovery in the oil sector also supported investment. Despite the concerns engendered by Donald Trump's arrival in the White House, household and business confidence remained strong. The labour market performed well, and the unemployment rate fell to its lowest level since 2000. Salary growth, much like inflation, continued to be relatively modest.

Canada

The Canadian economy got off to a strong start in 2017 with cumulative real GDP growth of 4.0% (annual rate) in the first half of the year. It was the strongest start of the year since 2002. Domestic demand was particularly vigorous, in part due to sustained growth in consumer spending. It should be noted that several favourable factors helped buoy consumer spending in the first half of 2017. The labour market registered good growth. Household confidence improved in an environment characterized by extremely low interest rates. Non-residential business investment also began to recover, following major problems faced in 2015 and 2016 after the drop in oil prices. Average residential investment also grew in the first half of 2017. Lastly, the upward trend in exports continued on the strength of growing global demand. But such a strong expansion could not last, and the second half of 2017 was marked by growth that slowed toward a more sustainable level. Several factors contributed to the slowdown. Temporary problems, in particular in the auto industry, impeded foreign trade in the summer. The slight increase in key interest rates that began in July and September 2017 somewhat discouraged consumer spending, in particular for durable goods. The housing market also began to show signs of slowing in certain regions, with the combined effects of a slight increase in interest rates and the introduction of new measures to drag on the Toronto real estate market. Ultimately, the results for 2017 as a whole should show an increase in real GDP of approximately 2.9%. This is a net improvement from the 1.4% gain recorded for 2016.

Quebec

The Quebec economy grew much faster in 2017. Real GDP rose by approximately 2.9% for the year, posting the best results in 15 years. Economy activity was lifted by household spending, through consumption and the residential sector. Retail sales experienced strong growth due to improved conditions in the labour market. In December 2017, the monthly unemployment rate even fell to 5.0%, its lowest level in 40 years. This low rate was due to job creation and an aging population, which is driving a significant wave of retirements. The residential sector had a strong year. A high volume of sales of existing homes drove up prices by approximately 5% in 2017. Despite this improvement, there have been no signs of overheating in the Montreal market, even if there have been more foreign buyers in the market since a 15% tax was implemented in Vancouver and Toronto. Business investment remained weak and export performance was disappointing, including due to the uncertainties surrounding the renegotiation of the North American Free Trade Agreement (NAFTA).

ECONOMIC OUTLOOK FOR 2018

Global economy

The favourable outlook for the global economy suggests that the bullish trend in the stock exchanges could continue in 2018. Following their remarkable performance in 2017, world exchanges are nevertheless expected to post more modest growth. Commodity prices should still rise somewhat, and the Toronto Stock Exchange is expected to perform well in 2018. The good economic performance, combined with a gradual increase in inflation, should lead the Fed and the BoC to gradually raise their key interest rates over the next few quarters. In this environment, the rates on North American bonds are also expected to trend upwards in 2018, while remaining low in historical terms. Monetary tightening in Canada and a modest increase in oil prices should provoke a slight appreciation of the Canadian dollar.

The accelerating economic activity in the global economy in 2017 should continue in 2018, but the growth is expected to be even more pronounced in the emerging countries. Faster real GDP growth is expected in India and Brazil. The Chinese economy is expected to grow at a slightly slower pace, without straying too far from the recent trend. In the eurozone, economic growth should stabilize as the economy's production over-capacity dwindles. The British economy is expected to slow again as the consequences of the uncertainties surrounding Brexit continue to emerge. Global trade may change in response to the protectionist tendencies of the Trump administration.

United States

In the U.S., the recent momentum in the economy should continue in 2018. Of course economic conditions will depend on the President's actions and benefit from the tax reform bill adopted by Congress at the end of 2017, but vast infrastructure spending programs are not expected. In addition, it is too early to predict whether any trade agreements, such as NAFTA, will be revoked. Confidence remains high enough to ensure good growth in personal consumption and corporate investment. The key interest rates in the U.S. will continue to rise gradually, with three 25-basis-point increases expected in 2018.

Canada

In Canada, economic growth is expected to continue at a satisfactory pace in 2018. On average, real GDP may grow 2.2% during the year, faster than its potential growth rate for 2018, which the BoC pegs at approximately 1.4%. Good performance by the labour market will continue to stimulate consumer spending, and non-residential business investment should continue to recover. Exports are expected to maintain their upward trend due to vigorous global demand. The benefits of the new trade agreement between Canada and the European Union may also become increasingly apparent. That being said, there is considerable uncertainty over the future of Canadian foreign trade due to the NAFTA renegotiations. In theory, residential investment should slow in 2018 with the expected increases in interest rates and the presence of several restrictive measures, including the new rules introduced by the Office of the Superintendent of Financial Institutions (OSFI) Canada in January 2018. Despite it all, the housing market has often surprised market watchers over the last few years by showing great resilience.

Quebec

The outlook for Quebec in 2018 is good, but the economy is expected to grow at a slower pace than last year. Consumer spending is unlikely to grow as fast, since job creation is expected to abate. The government of Quebec, which has generated budget surpluses of $4.6 billion over the last two years, has announced an additional $1.1 billion in cuts to personal income taxes. Beginning in 2018, the cuts will apply retroactively to January 1, 2017. The provincial government also has sufficient flexibility in its budget to accelerate growth public spending. The residential sector is expected to lose some steam due to the cumulative effect of interest rate hikes and stricter mortgage rules. The outcome of the trade negotiations with the U.S. will play a crucial role in business investment and exports. Quebec's real GDP should increase by 2.0% in 2018, but there are downside risks if the talks do not lead to an agreement.

The situation of the markets in which Desjardins Group segments are present is described in their respective analyses in Section 2.3 "Analysis of business segment results".

2.0 Review of financial results

2.1 Impact of the sale of subsidiaries

On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, namely Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of The Wawanesa Mutual Insurance Company, for a total consideration of $722 million. A gain of $249 million, net of expenses and after income taxes, on the sale of these subsidiaries was recognized in the Combined Statements of Income for the year ended December 31, 2017.

It should also be recalled that the sale of Western Financial Insurance Company to Economical Insurance was completed on January 1, 2017.

The table below presents the operating results of these three subsidiaries included in Desjardins Group's financial results in the Property and Casualty Insurance segment.

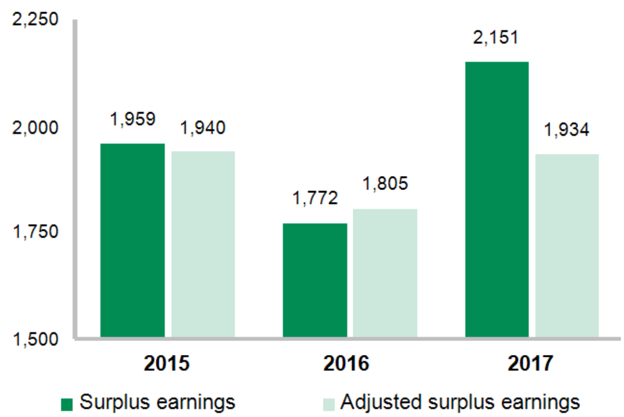
Table 3 – Impact of the sale of subsidiaries
For the years ended December 31

(in millions of dollars)	**2017[1]**	2016	2015
Net interest income	**$ 3**	$ 5	$ 5
Net premiums	**65**	213	172
Other operating income[2]	**97**	197	189
Operating income[2]	**$ 165**	$ 415	$ 366
Investment income[2]	**9**	6	7
Total income	**174**	421	373
Claims, benefits, annuities and changes in insurance contract liabilities	**22**	77	55
Non-interest expense	**124**	295	268
Income taxes on surplus earnings	**9**	16	13
Surplus earnings before member dividends	**$ 19**	$ 33	$ 37

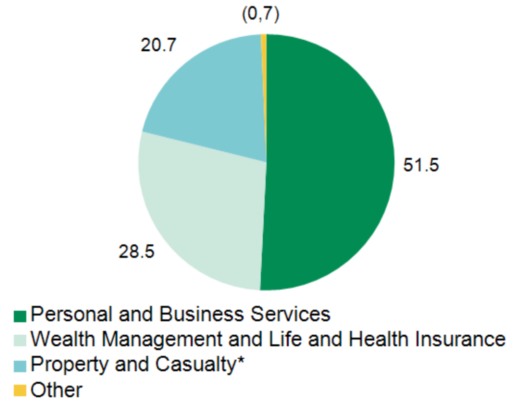
[1] Represents results for the period from January 1, 2017 to June 30, 2017 of Western Financial Group Inc. and Western Life Assurance Company considering that the sale was completed on July 1, 2017.
[2] See "Basis of presentation of financial information".

2.2 Analysis of 2017 results

Surplus earnings before member dividends
(in millions of dollars)



Segment contributions to surplus earnings before member dividends in 2017
(as a percentage)



* Includes a $241 million gain in this segment related to the sale of subsidiaries.

Table 4 – Summary of financial results
For the years ended December 31

(in millions of dollars)	2017	2016[1]	2015[1]
Results			
Net interest income	**$ 4,405**	$ 4,273	$ 4,279
Net premiums	**8,049**	7,168	6,907
Other operating income[2]	**2,959**	2,641	2,694
Operating income[2]	**15,413**	14,082	13,880
Investment income[2]	**1,688**	1,119	1,362
Total income	**17,101**	15,201	15,242
Provision for credit losses	**349**	319	377
Claims, benefits, annuities and changes in insurance contract liabilities	**6,717**	5,446	5,431
Non-interest expense	**7,348**	7,204	6,959
Income taxes on surplus earnings	**536**	460	516
Surplus earnings before member dividends	**$ 2,151**	$ 1,772	$ 1,959
Adjusted surplus earnings before member dividends[2]	**$ 1,934**	$ 1,805	$ 1,940
Contribution to combined surplus earnings by business segment[3]			
Personal and Business Services	**$ 1,108**	$ 1,025	$ 1,071
Wealth Management and Life and Health Insurance	**612**	461	503
Property and Casualty Insurance[4]	**446**	296	360
Other	**(15)**	(10)	25
	$ 2,151	$ 1,772	$ 1,959

(1) Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.
(2) See "Basis of presentation of financial information".
(3) The breakdown by line item is presented in Note 33, "Segmented information", to the Combined Financial Statements.
(4) Includes a $241 million gain in this segment related to the sale of subsidiaries.

2017 SURPLUS EARNINGS

For 2017, Desjardins Group continued to grow its operations and reported surplus earnings before member dividends of $2,151 million, a year-over-year increase of $379 million, or 21.4%. Surplus earnings adjusted for specific items totalled $1,934 million, compared to $1,805 million in 2016, for an increase of $129 million, or 7.1%.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in 2017:

- A total of $320 million returned to the community, compared to $259 million in 2016, a 23.6% increase.
  - Member dividends of $202 million for the year ended December 31, 2017, compared to $144 million for the previous year.
  - An amount of $82 million was given to various organizations in the form of sponsorships, donations and bursaries, which is stable compared to 2016.
  - Through the Desjardins Member Advantages program, $36 million was paid out, which is stable compared to 2016.

Segment contributions to surplus earnings

- Personal and Business Services: **Contribution of $1,108 million**, up $83 million, or 8.1% compared to 2016.
  - Growth in caisse network operations.
  - Growth in business volume related to credit cards and point-of-sale financing.
  - Higher income from mergers and acquisitions related to capital markets.
  - The segment contributed 51.5% to surplus earnings.
- Wealth Management and Life and Health Insurance: **Contribution of $612 million**, up $151 million, or 32.8%, compared to 2016.
  - Solid investment performance in 2017.
  - Favourable adjustments to actuarial assumptions in the normal course of business in 2017.
  - Higher income from growth in assets under management.
  - Offset by a less favourable claims experience in 2017.
  - The segment contributed 28.5% to surplus earnings.
- Property and Casualty Insurance, including the gain on the sale of subsidiaries: **Contribution of $446 million**, up $150 million compared to 2016.
  - Surplus earnings adjusted for specific items of $237 million, down $92 million compared to 2016.
  - Higher claims experience for the current year than in 2016, and favourable developments in prior-year claims, which were lower than in 2016.
  - The segment contributed 20.7% to surplus earnings.

- **Return on equity was 9.1%**, compared to 8.0% for 2016.
- **Adjusted return on equity was 8.1%**, the same as in 2016.

OPERATING INCOME

Table 5 – Operating income
For the years ended December 31

(in millions of dollars)	**2017**	2016[(1)]	2015[(1)]
Net interest income	**$ 4,405**	$ 4,273	$ 4,279
Net premiums	**8,049**	7,168	6,907
Other operating income[(2)] (see Table 8)	**2,959**	2,641	2,694
Total operating income[(2)]	**$ 15,413**	$ 14,082	$ 13,880

(1) Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.
(2) See "Basis of presentation of financial information".

Operating income totalled $15,413 million, up $1,331 million, or 9.5%, compared to 2016. Excluding the gain of $278 million before taxes on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, operating income would have been $15,135 million, up $1,053 million, or 7.5%, compared to 2016.

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

For analysis purposes, Table 6 shows the changes in net interest income for the main asset and liability classes. Table 7 details how net interest income was affected by changes in volume and interest rates for the different asset and liability classes.

- **Net interest income of $4,405 million**, up $132 million, or 3.1%, mainly because of growth in the entire average portfolio of loans and acceptances outstanding.

- **Net interest margin of 2.31%** in 2017, as a percentage of average interest-bearing assets, down 7 basis points compared to 2016, mainly on account of fierce competition in the market which continued to put pressure on interest margins.

- **Interest income of $6,246 million**, up $245 million, or 4.1%, essentially due to the following items:
  - Growth in average volume of total interest-bearing assets, mainly loans, which added $344 million to interest income.
  - However, a decline in average return on total interest-bearing assets, mainly loans, which reduced interest income by $99 million.

- **Interest expense of $1,841 million**, up $113 million, or 6.5%, primarily as a result of the following items:
  - Growth in average deposits, offset by a decline in borrowings and subordinated notes, leading to an $81 million increase in interest expense.
  - An increase in the average cost of funding, mainly from deposits, raised this expense by $32 million.

Table 6 – Net interest income on average assets and liabilities
For the years ended December 31

(in millions of dollars and as a percentage)	**2017**			2016[(1)]			2015[(1)]		
	Average balance	**Interest**	**Average rate**	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets									
Interest-bearing assets									
Securities, cash and deposits with financial institutions	**$ 22,363**	**$ 323**	**1.44%**	$ 19,977	$ 315	1.58%	$ 19,059	$ 308	1.62%
Loans	**167,944**	**5,923**	**3.53**	159,363	5,686	3.57	151,863	5,765	3.80
Total interest-bearing assets	**190,307**	**6,246**	**3.28**	179,340	6,001	3.35	170,922	6,073	3.55
Other assets	**6,126**	**-**	**-**	6,431	-	-	7,083	-	-
Total assets	**$ 196,433**	**$ 6,246**	**3.18%**	$ 185,771	$ 6,001	3.23%	$ 178,005	$ 6,073	3.41%
Liabilities and equity									
Interest-bearing liabilities									
Deposits	**$ 168,098**	**$ 1,763**	**1.05%**	$ 159,200	$ 1,643	1.03%	$ 151,093	$ 1,665	1.10%
Borrowings and subordinated notes	**1,377**	**78**	**5.66**	1,581	85	5.38	2,434	129	5.30
Total interest-bearing liabilities	**169,475**	**1,841**	**1.09**	160,781	1,728	1.07	153,527	1,794	1.17
Other liabilities	**10,147**	**-**	**-**	9,496	-	-	9,788	-	-
Equity	**16,811**	**-**	**-**	15,494	-	-	14,690	-	-
Total liabilities and equity	**$ 196,433**	**$ 1,841**	**0.94%**	$ 185,771	$ 1,728	0.93%	$ 178,005	$ 1,794	1.01%
Net interest income		**$ 4,405**			$ 4,273			$ 4,279	
As a percentage of average interest-bearing assets			**2.31%**			2.38%			2.50%

(1) Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.

Table 7 – Impact of changes in volumes and rates on net interest income
For the years ended December 31

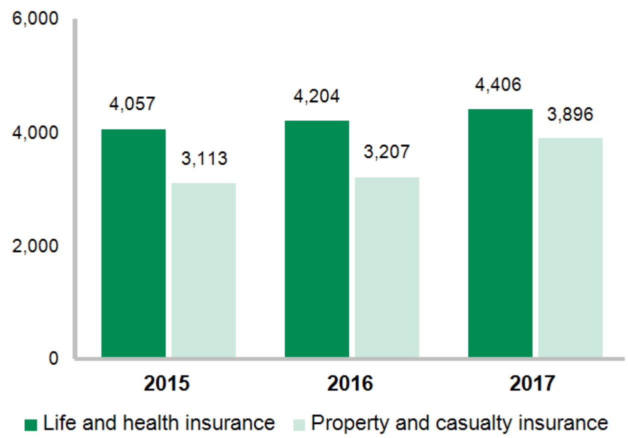
(in millions of dollars and as a percentage)	**2017**		**Increase (decrease)**			2016[(1)]		Increase (decrease)		
	Change in average volume	**Change in average rate**	**Interest**	**Average volume**	**Average rate**	Change in average volume	Change in average rate	Interest	Average volume	Average rate
Assets										
Securities, cash and deposits with financial institutions	**$ 2,386**	**(0.14)%**	**$ 8**	**$ 38**	**$ (30)**	$ 918	(0.04)%	$ 7	$ 15	$ (8)
Loans	**8,581**	**(0.04)**	**237**	**306**	**(69)**	7,500	(0.23)	(79)	285	(364)
Change in interest income			**245**	**344**	**(99)**			(72)	300	(372)
Liabilities										
Deposits	**8,898**	**0.02**	**120**	**92**	**28**	8,107	(0.07)	(22)	89	(111)
Borrowings and subordinated notes	**(204)**	**0.32**	**(7)**	**(11)**	**4**	(853)	0.08	(44)	(45)	1
Change in interest expense			**113**	**81**	**32**			(66)	44	(110)
Change in net interest income			**$ 132**	**$ 263**	**$ (131)**			$ (6)	$ 256	$ (262)

(1) Data for 2016 have been reclassified to conform to the current year's presentation.

Net premiums

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, rose by $881 million, or 12.3%, to total $8,049 million as at December 31, 2017.

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.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $4,406 million**, up $202 million, or 4.8%, due to business growth.
  - Premiums up $202 million, with group insurance accounting for $160 million and individual insurance for $40 million.
  - Annuity premiums stable compared to 2016.

Property and Casualty Insurance segment

- **Net premiums of $3,896 million**, up $689 million, or 21.5%, essentially due to the following items.
  - Increase of $660 million on account of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which 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 of $168 million due 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 resulting from the sale of Western Life Assurance Company on July 1, 2017 and Western Financial Insurance Company on January 1, 2017.

Other operating income

Table 8 – Other operating income
For the years ended December 31

(in millions of dollars)	2017	2016[1]	2015[1]
Deposit and payment service charges	**$ 458**	$ 488	$ 489
Lending fees and credit card service revenues	**660**	574	550
Brokerage and investment fund services	**1,087**	1,106	1,037
Management and custodial service fees	**428**	376	365
Foreign exchange income	**77**	70	88
Other	**249**	27	165
Total other operating income[2]	**$ 2,959**	$ 2,641	$ 2,694

[1] Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.
[2] See "Basis of presentation of financial information".

Other operating income stood at $2,959 million for 2017, which is an increase of $318 million, or 12.0%, compared to the previous year. Excluding the gain before taxes of $278 million on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, other operating income would have been $2,681 million, up $40 million, or 1.5%, compared to 2016.

- Deposit and payment service charges of $458 million, down $30 million, or 6.1%.
  - Lower income from deposits because of changes in pricing.
- Lending fees and credit card service revenues of $660 million, up $86 million, or 15.0%.
  - Growth in business volume from the various payment solutions offered by Card and Payment Services.
- Income from brokerage and investment fund services of $1,087 million, down $19 million, or 1.7%.
  - Decrease in commission income following the sale of Western Financial Group Inc., as presented in the "Impact of the sale of subsidiaries" section under other operating income.
  - Offset by growth in income from assets under management.
- Management and custodial service fees up $52 million, or 13.8%.
  - Growth in fees related to increase of $6.7 billion in assets under management.
- Other operating income of $249 million, up $222 million.
  - Gain before taxes of $278 million on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company.
  - Offset by an increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.

INVESTMENT INCOME

Table 9 – Investment income
For the years ended December 31

(in millions of dollars)	2017	2016	2015
Net income on securities at fair value through profit or loss	**$ 1,079**	$ 533	$ 809
Net income on available-for-sale securities	**408**	388	318
Net other investment income	**201**	198	235
Total investment income(1)	**$ 1,688**	$ 1,119	$ 1,362

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

Investment income totalled $1,688 million for 2017, an increase of $569 million, or 50.8%, compared to the previous year.

- Net income on securities at fair value through profit or loss up $546 million.
  - Increase primarily due to change in the fair value of assets backing liabilities related to life and health insurance operations.
    - 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.
    - Changes for the most part due to fluctuations in the fair value of the portfolio of stocks, bonds and derivative products.

  This increase was partially offset by the following:
  - Decrease in income generated by asset-backed term note (ABTN) operations, which have been substantially settled since January 2017.
  - Decrease in 2017 in the fair value of derivative financial instruments, including those associated with hedging operations for Desjardins Group as a whole.
- Net income on available-for-sale securities up $20 million, or 5.2%, primarily because of higher gains on disposal of investments in 2017.
- Net other investment income of $201 million, stable compared to 2016.

TOTAL INCOME

Total income, comprising net interest income, net premiums, other operating income and investment income, amounted to $17,101 million, an increase of $1,900 million, or 12.5%, compared to 2016.

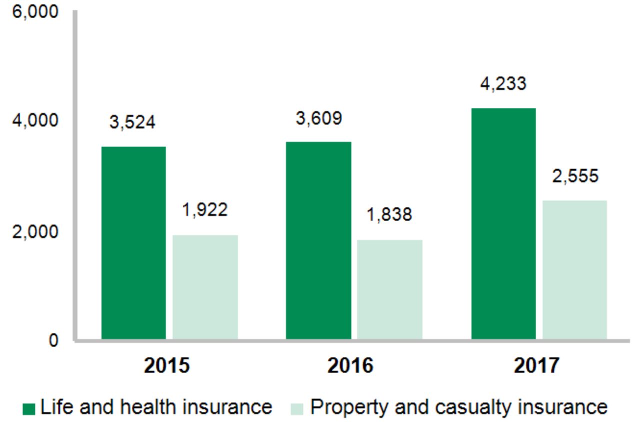
PROVISION FOR CREDIT LOSSES

Desjardins Group's loan portfolio continued to be of high quality in 2017. The provision for credit losses totalled $349 million, up $30 million, or 9.4%. In 2016, there was a recovery of the collective allowance as a result of refining the methodology used in the models for calculating the collective allowance. Favourable developments in portfolio risk curbed the increase, however.

- The provisioning rate was 0.20% as at December 31, 2017, which is comparable to 2016.
- The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.25% as at December 31, 2017, down from 0.32% a year earlier. Improved economic conditions helped to reduce the volume of gross impaired loans.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES

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.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $6,717 million, up $1,271 million, or 23.3%, compared to 2016.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $4,233 million**, up $624 million, or 17.3%. This increase was basically the result of the following:
  - Increase of $425 million in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of an increase in the fair value of matched investments.
  - Favourable effect of adjustments to the actuarial assumptions as well as the less favourable effect of the claims experience included in actuarial liabilities.
  - Increase in benefits related to growth in operations.

Property and Casualty Insurance segment

- **Cost of claims of $2,555 million**, up $717 million, or 39.0%.
  - Increase mainly 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.
  - The P&C insurers' loss ratio was 67.7% for 2017, compared to 60.2% in 2016.
    - Higher ratio partly attributable to less positive developments in 2017 than in 2016 concerning prior-year claims, (15.0%) vs. (20.2%), chiefly automobile insurance claims taken over from State Farm as at January 1, 2015, which were lower than in 2016.
    - Increased ratio also due to higher claims experience for the current year than for 2016, (80.1% vs.75.8%), primarily in automobile insurance in all geographical markets.
  - Offset by less significant impact of catastrophes and major events compared to 2016, when there had been two catastrophes related to hail and the Fort McMurray wildfire in Alberta.

NON-INTEREST EXPENSE

Table 10 – Non-interest expense
For the years ended December 31

(in millions of dollars and as a percentage)	2017	2016 (1)	2015 (1)
Salaries and fringe benefits			
Salaries	**$ 2,808**	$ 2,909	$ 2,830
Fringe benefits	**644**	639	645
	3,452	3,548	3,475
Premises, equipment and furniture, including depreciation	**727**	667	613
Service agreements and outsourcing	**319**	306	331
Communications	**284**	307	299
Other	**2,566**	2,376	2,241
Total non-interest expense	**$ 7,348**	$ 7,204	$ 6,959
Desjardins Group productivity index[2]	**70.8%**	73.8%	70.9%
Adjusted Desjardins Group productivity index[2]	**72.3**	73.4	70.8

(1) Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.
(2) See "Basis of presentation of financial information".

Non-interest expense totalled $7,348 million for 2017, up $144 million, or 2.0%, compared to 2016, mainly because of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. Effective cost control following the implementation of productivity initiatives limited the increase in a context of operations growth.

- **Salaries and fringe benefits of $3,452 million**, down $96 million, or 2.7%, compared to 2016, mainly because of the following items:
  - Severance costs incurred in 2016 following changes in Desjardins Group's senior management.
  - Lower personnel expenses as a result of this reorganization.
  - Implementation of productivity initiatives, reflected in a reduction in payroll.
  - This expense item represented 47.0% of total non-interest expense, lower than the 49.3% recorded in 2016.
  - The ratio of fringe benefits to total base compensation was 22.9% in 2017, up compared to 22.0% in 2016, primarily because of the 2016 severance costs included in 2016 salaries.

- **Expenses related to premises, equipment and furniture (including depreciation) of $727 million**, up $60 million, or 9.0%, compared to 2016.
  - The increase resulted mainly from the purchase of computer hardware.

- **Service agreements and outsourcing of $319 million**, up slightly compared to 2016.

- **Communication expenses of $284 million**, down $23 million, or 7.5%, compared to 2016.
  - The decrease resulted from the implementation of productivity initiatives.

- **Other expenses of $2,566 million**, up $190 million, or 8.0%, compared to 2016.
  - Increase due in large part to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Increased popularity of the BONUSDOLLARS Rewards Program with Card and Payment Services clients.
  - Business growth, particularly in credit card and point-of-sale financing activities and assets under management.
  - Write-off of intangible assets.
  - Offset by a decrease of $171 million in expenses following the sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017 as well as Western Financial Insurance Company on January 1, 2017, as presented in the "Impact of the sale of subsidiaries" section.

- **Productivity index at 70.8% for 2017**, compared to 73.8% in 2016.
- **Adjusted productivity index at 72.3% for 2017**, compared to 73.4% in 2016. The improvement in the 2017 productivity index in 2017 was partly due to an increase in surplus earnings, affected by growth in operations as well as by productivity initiatives that impacted non-interest expense.

INCOME TAXES AND INDIRECT TAXES

Desjardins Group is a cooperative financial group, and each of its entities that operate as a financial services cooperative—namely the caisses, the *Fédération des caisses Desjardins du Québec* and the *Fédération des caisses populaires de l'Ontario Inc.*—is considered a private and independent company for tax purposes, unlike the vast majority of other Canadian financial institutions, which are large public corporations. Each caisse is subject to the private company tax regime and benefited until December 31, 2016, when tax rules allowed it, from certain preferential tax rates under the credit union tax regime. Desjardins entities that are not financial services cooperatives are subject to the large corporation tax regime.

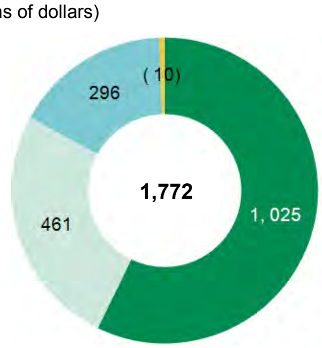
- **Income taxes on surplus earnings before member dividends of $536 million**, up $76 million compared to 2016.
  - Effective tax rate of 19.9% for the year ended December 31, 2017, down compared to 20.6% for 2016. If specific items are excluded, the effective tax rate would have been 21.2%, up slightly compared to 20.7% in 2016.

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

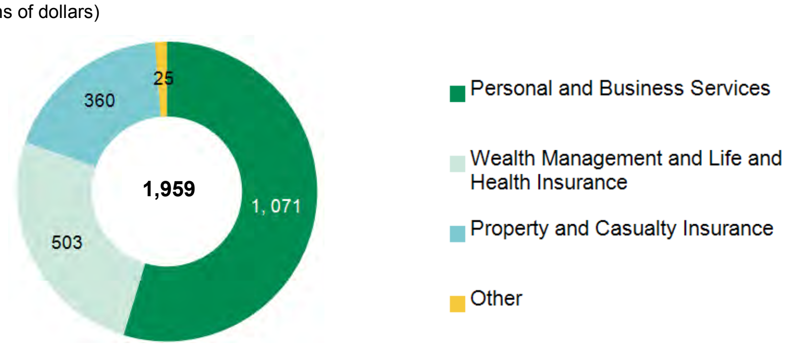
Indirect taxes consist of property and business taxes, payroll and social security taxes, the goods and services tax, and sales taxes. Indirect taxes are included in non-interest expense. For 2017, Desjardins entities paid $1,358 million in indirect taxes, compared to $1,326 million in 2016, mainly due to an increase in the compensation tax.

COMPARISON OF 2016 AND 2015

2016 surplus earnings before member dividends
(in millions of dollars)



2015 surplus earnings before member dividends
(in millions of dollars)



For 2016, Desjardins Group posted surplus earnings before member dividends of $1,772 million, compared to $1,959 million for 2015. Surplus earnings adjusted for specific items totalled $1,805 million, for a decrease of $135 million, or 7.0%. Return on equity was 8.0%, compared to 9.1% in 2015, while adjusted return on equity was 8.1% in 2016, compared to 9.0% in 2015.

Segment results

- **Personal and Business Services: Surplus earnings before member dividends of $1,025 million in 2016**, down $46 million compared to 2015, chiefly due to higher non-interest expense in 2016 as a result of:
  - Business growth, particularly in credit card and point-of-sale financing activities.
  - Investments aimed, in particular, at enhancing the service offer to members and clients.

- **Wealth Management and Life and Health Insurance: Net surplus earnings of $461 million in 2016**, down $42 million compared to 2015, essentially due to the following items:
  - Adjustments to actuarial assumptions made in the normal course of business had an unfavourable effect in 2016.
  - Higher gains on the disposal of investments in 2015.
  - Less favourable claims experience in 2016.

  This decrease was partly offset by the following:
  - Solid investment performance in 2016.
  - Limited growth in non-interest expense in 2016 on account of effective cost control in a context of operations growth.

- **Property and Casualty Insurance: Net surplus earnings of $296 million in 2016**, down $64 million compared to 2015, mainly due to the gain arising from the acquisition of State Farm's Canadian operations, recognized in 2015.

Combined results

- **Operating income of $14,082 million in 2016**, up $202 million compared to 2015.
  - Net interest income of $4,273 million in 2016, comparable to the amount in 2015.
  - Net premiums up $261 million in 2016, mainly because of the following:
    - Business growth related to Wealth Management and Life and Health Insurance segment insurance operations.
    - Increase in net premiums as a result of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Other operating income of $2,641 million, down $53 million in 2016, essentially due to the following:
    - Other income down $138 million in 2016 as a result of an increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and the gain realized at the time of this acquisition in 2015.

    This decrease was partly offset by the following:
    - Increase of $69 million in income from brokerage and investment fund services chiefly due to a larger volume of assets under management from the sale of various financial products.
    - Increase of $24 million in lending fees and credit card service revenues as a result of business volume growth.

- **Investment income of $1,119 million in 2016**, down $243 million compared to 2015.
  - Net income on securities at fair value through profit or loss down $276 million in 2016.
    - Decrease mainly due to fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
      - Decrease partly 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. These differences were mostly attributable to changes in the fair value of the bond portfolio.
    - Unfavourable changes in the fair value of derivative financial instruments associated with hedging operations for Desjardins Group as a whole, which were partially offset by the increase in the fair value of derivative financial instruments in the Property and Casualty Insurance segment in 2016.
  - Income from available-for-sale securities up $70 million in 2016.
    - A loss in share value had been recorded in 2015 as a result of strong market volatility.
  - Net other investment income down $37 million in 2016.
    - Smaller gains on the disposal of real estate investments in 2016.

- **Provision for credit losses of $319 million in 2016**, down $58 million compared to 2015.
  - Decrease mainly due to the recovery of the collective allowance as a result, in particular, of refining the methodology used in the models for calculating the allowance, combined with a high-quality loan portfolio.
  - Ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, of 0.32% as at December 31, 2016, down from 0.34% as at December 31, 2015.
  - Provisioning rate of 0.20% as at December 31, 2016, down from 0.24% as at December 31, 2015.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities**, up $15 million in 2016.
  - Wealth Management and Life and Health Insurance segment up $85 million in 2016.
    - Increase of $82 million in 2016 in the actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of a $149 million decrease in the fair value of matched investments.
    - Actuarial liabilities up $33 million due to changes in assumptions made in 2016, whereas a release of $51 million had been recognized in 2015, following changes to the investment portfolio. The $47 million increase in group annuity premiums and the claims experience also contributed to the higher actuarial liabilities.
  - Property and Casualty Insurance segment: expenses down $84 million in 2016.
    - Decrease resulted mainly from more favourable developments in prior-year claims in 2016 than in 2015, primarily in automobile insurance.
    - Offset by a higher claims experience in 2016 than in 2015.
    - Loss ratio for P&C insurers of 60.2% for 2016, compared to 62.1% in 2015.

- **Non-interest expense** up $245 million in 2016, mainly due to the following:
  - Additional investment in innovative technology platforms in 2016.
  - Payment of severance allowances in 2016.
  - Business growth, particularly in credit card, point-of-sale financing and insurance activities.
  - Offset by strict cost control that made it possible to limit the increase in non-interest expense in 2016.

2.3 Analysis of business segment results

Desjardins Group's financial reporting is organized by business segments, which are defined based on the needs of members and clients, the markets in which Desjardins operates, and on its internal management structure. In first quarter 2017, certain changes were made to the business segments to reflect senior management's decisions about the way each segment is managed, as mentioned in the respective business segment sections. Desjardins Group's financial results are divided into the following three business segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. In addition to these three segments, there is also the Other category. This section presents an analysis of results for each of these segments. Prior-period amounts have been restated to conform to these reclassifications.

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

2.3.1 Personal and Business Services

PROFILE

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

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

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

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

The operations of the *Fonds de sécurité Desjardins* and the shared services which the Federation provides to this segment, formerly presented in the Other category, have been recorded in this segment since the first quarter of 2017.

Additional information about the Personal and Business Services segment's principal risks is presented on page 71 of the "Risk management" section of this MD&A.

SERVICES

Regular and convenience transactions consist of activities related to regular and convenience transactions, including transactions carried out at the caisse counter, requests for information and specialty services, such as purchasing foreign exchange, money orders, drafts and safety deposit boxes.

Savings and investment services include activities related to savings operations, such as variable savings, including current accounts, Build-Up savings accounts like the Youth Profit account, term savings and the High-Interest S@vings Account offered exclusively through *AccèsD* Internet and mobile.

The **integrated business offer** features customized solutions to support businesses of all sizes in their expansion plans, whether on Quebec, Canadian or international markets.

Financing services include:
- **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 financial solutions;
- **Commercial credit**, which makes it possible to offer financing in the commercial and industrial, agricultural and agri-food, public and institutional sectors, as well as for commercial and multi-residential real estate.

Payment operations include debit, credit and prepaid card payment services for individuals and businesses, merchant payment acceptance services (Monetico), electronic payment services and both domestic and international funds transfers.

AccèsD operations make Desjardins caisse network products and services available at anytime, anywhere in the world, by phone, online and via applications for mobile devices.

Access to **capital markets** operations meet the financing needs of Canadian corporations, institutions and cooperatives, and provide advisory services for mergers and acquisitions, as well as intermediation and execution services on the stock and fixed income securities markets. These services are carried out by seasoned sales and trading teams who are supported by a research team that is renowned in the industry for its excellence.

Activities related to **development capital** facilitate investment, both directly and through funds, in small and medium-sized enterprises (SMEs) and cooperatives in every region of Quebec. Desjardins Capital Management Inc., which manages *Capital régional et coopératif Desjardins*, supports the growth of businesses, especially in business ownership transfers. With the backing of a team of specialists operating throughout Quebec, this segment helps to develop and maintain the highest calibre of entrepreneurship in Quebec by providing entrepreneurs with assistance at every stage of their company's growth.

Specialized services include international services, cash management services, custodial and trust services, as well as payroll and human resources solutions.

2017 ACHIEVEMENTS

- **Android Pay and Apple Pay:** From now on, Desjardins members and clients who use a compatible device can take advantage of two new secure and user-friendly payment methods to pay for purchases with their mobile device: Apple Pay, and Google's Android Pay. Desjardins Group is the first Quebec financial institution to offer such a wide range of mobile services to its members and clients.
- **SPOT transit payment system**: Launch of a pilot project with the *Société de transport de Laval* (STL) on six routes with 163 payment terminals. The aim of the project is to replace cash on buses, a Canadian first. The technology chosen is contactless payment, which is simple, fast and secure.
- **Voice signature** for online credit card applications: Members no longer have to print off the form, sign it and return it by mail to complete an online credit card application. Not only does this reduce the steps involved, it also speeds up application processing and issuing the card.
- Opening of eight **Signature Service** centres, for a total of 11 to date in different regions of Quebec. Their mandate is to provide integrated services to high-net-worth individuals.
- Launch of the **regional development fund**, for an amount of $100 million over three years, with the goal of supporting and expanding projects and initiatives related to Desjardins Group's socio-economic mission.
- Launch of the new **Desjardins Capital SME fund** designed to support the expansion of SMEs in every region of Quebec. The fund could commit up to $500 million in investments over a five-year horizon. Investments could initially range from $100,000 to $10 million per company in the form of equity or subordinated debt.
- Desjardins Group is a **leader in financial business transfers**. In 2017, this translated into a financing volume in excess of $500 million for more than 250 transfers. These interventions have made it possible to keep many jobs and businesses in every region of Quebec and Ontario, as well as ensure entrepreneurial succession.
- Introduction of the **"Click to sign"** functionality to simplify the signing of documents for the opening of a business account.
- Launch of an **investment fund entirely dedicated to the fintech sector** and artificial intelligence applications to finance, for $50 million. Desjardins Group and the *Caisse de dépôt et placement du Québec* are the two founding institutions and will be joined by other institutional partners. The fund expects to begin operations in 2018.

INDUSTRY

The Canadian financial industry did not experience any major disruptions in 2017. It comprises some 85 domestic and foreign banking institutions, as well as 570 savings and loan cooperatives, slightly more than 50% of which belong to Desjardins Group.

In the Canadian banking services industry, the outstanding volume of financing to individuals and businesses was estimated at $2,891.2 billion at year-end 2017, a year-over-year increase of 5.7%, compared to an increase of 5.3% as at December 31, 2016. Credit demand continued to be supported by a favourable economic climate. On-balance sheet and off-balance sheet personal savings was estimated at $4,187.1 billion as at December 31, 2017, for a year-over-year increase of 7.8%, compared to a 9.4% increase a year earlier. The lower rate is in large part due to more modest stock market activity, which reduced growth in off-balance sheet savings, such as investment funds and securities brokerage.

In Quebec, the outstanding volume of financing to individuals and businesses was estimated at $542.2 billion at year-end 2017, a year-over-year increase of 6.4%, compared to an increase of 8.3% as at December 31, 2016. Credit demand lost stream mainly because of the slowdown in business loans. Annual growth in financing to individuals was estimated at 5.8% as at December 31, 2017, reaching a volume of $380.5 billion at that date, compared to a rate of 4.7% a year earlier. Residential mortgages were chiefly responsible for the sustained credit demand from individuals, with a year-over-year growth rate of 5.5% at that date, compared to an increase of 4.0% a year earlier, a trend that can be traced to improved housing market activity. For instance, housing starts and resales of existing homes were up 19.4% and 5.8%, respectively, during 2017, while the average selling price increased by 4.5%. Consumer loans grew at an estimated rate of 7.2% annually as at December 31, 2017, to total $82.7 billion, compared to a 7.3% increase at year-end 2016. Robust retail sales accounted for the stronger demand in personal loans; retail sales were up close to 6% during the same period, whereas sales of new and used automobiles increased by close to 10%.

With regard to financing to businesses in Quebec, the outstanding volume was estimated at $161.7 billion as at December 31, 2017, for an estimated year-over-year increase of 7.7%, compared to growth of 18.2% at year-end 2016. This contraction was largely due to commercial and industrial loans, which posted a year-over-year increase estimated at 7.8% at that date, for a volume of $143.3 billion, compared to a rate of 19.2% a year earlier. Agricultural loans, which are also part of financing to businesses, recorded year-over-year growth estimated at 6.7% as at December 31, 2017, to total $18.4 billion, compared to an 11.0% increase a year earlier.

On-balance sheet and off-balance sheet personal savings in Quebec had an outstanding volume estimated at $791.3 billion as at December 31, 2017, for annual growth of 8.5%, compared to an increase of 9.2% at the end of 2016. Off-balance sheet savings is partly responsible for this slower growth. It posted a year-over-year increase estimated at 10.2% at the same date, to total $549.3 billion, compared to growth of 10.9% recorded a year earlier. Significantly slower growth in stock market activity, especially in Canada, where the S&P/TSX index grew by only 6.0% in 2017, compared to 17.5% in 2016, accounts for the slowdown in off-balance sheet savings products, such as investment funds and securities brokerage. On-balance sheet savings also contributed to this slowdown, with an estimated outstanding volume of $242.0 billion as at December 31, 2017, a year-over-year increase of 4.9%, compared to a 5.6% gain observed at the end of 2016.

The major industry players are deploying business models that target quality and consistency in personal services, or as partners for Quebec-based SMEs. Their strategies are based primarily on client experience, access to services and proactive advice. The fight for market share therefore continues to be very fierce. All players are adopting strategies aimed at intensifying business relations with their clients and getting to know them better. Innovation has become an absolute necessity in this fight for market share in order to satisfy customers.

At the same time, a number of technology giants, like Google, Apple, Facebook and Amazon, are competing directly with traditional financial institutions or entering major partnerships with them.

Desjardins Group is a Quebec leader in financial services to individuals and businesses. In loans to individuals, it had market shares of 36.1% and 22.4%, respectively, in residential mortgages and consumer credit as at December 31, 2017. Card and Payment Services is also the number one card issuer in Quebec, and fourth in Canada, in terms of outstandings, with more than 6.8 million credit cards and 5.9 million debit cards issued in Canada. In on-balance sheet personal savings in Quebec, Desjardins Group once again is included at the top of the list, with a market share of this industry estimated at 41.6% as at December 31, 2017. Finally, with estimated market shares of 19.7% and 39.3% as at December 31, 2017 in commercial and industrial loans and agricultural loans, respectively, Desjardins Group is also a leader.

Additional information about the Personal and Business Services' economic environment can be found in the "Changes in the economy" section of this MD&A.

2018 STRATEGY AND PRIORITIES

The 2018 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. The Personal and Business Services segment intends to strengthen its leadership position in financing, savings and, through its distribution network, life and health and P&C insurance products. Capitalizing on the strengths of the entire cooperative group in serving members and clients and increasing their satisfaction will again be Desjardins Group's key priorities in the coming year. To do so, it will facilitate interactions with members and clients across all Desjardins channels, in particular by streamlining its processes.

Reaching ambitious objectives requires the commitment of every manager, employee and officer, as well as a high-calibre, comprehensive and integrated offer that is innovative and easy to access. The segment further intends to underscore the cooperative difference 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 a sustainable development philosophy. The strategy is built on strong foundations and long-standing commitments in the regions and in various socio-economic communities.

The segment is also continuing to implement its plan to achieve profitable growth in order to remain a major player in the Quebec industry while enhancing its productivity. It seeks to grow while maximizing its synergies with other Desjardins entities and segments.

More specifically, this segment's priorities for 2018 are to:
- Accelerate the shift to a member- and client-focused culture across Desjardins Group.
- Continue the digital transformation of products and services across all distribution channels.
- Facilitate interactions with members and clients throughout Desjardins components and across all channels (mobile, website, call centres, caisses, Desjardins Business centres, online business centres, etc.).
- Offer members and clients proactive support and the expertise of the entire Desjardins Group to help them grow their businesses.
- Ensure a high level of satisfaction among members and clients.

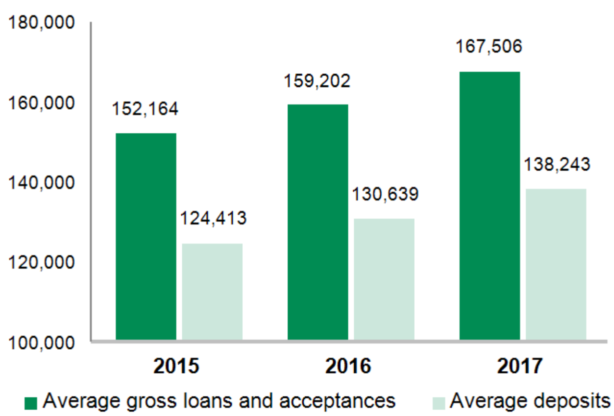
ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

Table 11 – Personal and Business Services – Segment results
For the years ended December 31

(in millions of dollars and as a percentage)	2017	2016[1]	2015[1]
Net interest income	**$ 3,916**	$ 3,743	$ 3,730
Other operating income[2]	**2,035**	1,940	1,901
Operating income[2]	**5,951**	5,683	5,631
Investment income[2]	**230**	360	386
Total income	**6,181**	6,043	6,017
Provision for credit losses	**345**	318	377
Non-interest expense	**4,365**	4,281	4,215
Income taxes on surplus earnings	**363**	419	354
Surplus earnings before member dividends	**1,108**	1,025	1,071
Member dividends, net of tax recovery	**148**	105	113
Net surplus earnings for the year after member dividends	**$ 960**	$ 920	$ 958
Of which:			
Group's share	**$ 960**	$ 918	$ 957
Non-controlling interests' share	**-**	2	1
Indicators			
Average gross loans and acceptances[2]	**$ 167,506**	$ 159,202	$ 152,164
Average deposits[2]	**138,243**	130,639	124,413
Provisioning rate[2]	**0.21%**	0.20%	0.25%
Gross impaired loans/gross loans and acceptances ratio[2]	**0.25**	0.33	0.34

[1] Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.
[2] See "Basis of presentation of financial information".

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



COMPARISON OF 2017 AND 2016 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $1,108 million**, up $83 million, or 8.1%, essentially due to the following items:
  - The caisse network performed well, related to growth in operations.
  - Growth in credit card and point-of-sale financing activities.
  - Higher income from mergers and acquisitions related to capital markets.

- **Operating income of $5,951 million**, up $268 million, or 4.7%.
  - Increase of $173 million in net interest income mainly as a result of year-over-year growth of $8.3 billion in the entire average portfolio of loans and acceptances outstanding. However, fierce competition in the market continued to put pressure on interest margins.
  - Other operating income of $2,035 million, up $95 million, or 4.9%, mainly due to the following:
    - Growth in business volume from the various payment solutions offered by Card and Payment Services.
    - Growth in income from capital markets.
    - Increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as investment funds.
    - Offset by lower deposit income on account of changes in pricing.

- **Investment income of $230 million**, down $130 million, or 36.1%, chiefly from the following items:
  - Lower income from derivatives.
  - Larger gains on the disposal of securities in 2016.
  - Offset by an increase in capital market trading income.

- **Total income of $6,181 million**, up $138 million, or 2.3%.

- **Provision for credit losses of $345 million**, up $27 million, or 8.5%. This provision had decreased significantly in 2016 as a result of refining the methodology used in calculating the collective allowance. However, favourable developments in portfolio risk curbed this increase.

- **Non-interest expense of $4,365 million**, up $84 million, or 2.0%.
  - Business growth, especially in credit card and point-of-sale financing activities that had an effect on bonus programs.
  - Offset by the favourable effect of productivity initiatives implemented.

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 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 dedicated to caisse members.
- Investment advisers and private managers.
- Exclusive agents and independent partners.
- Actuarial consulting firms and group plan representatives.

To meet members' and clients' needs and preferences, certain product lines are 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.

Additional information about the Wealth Management and Life and Health Insurance segment's principal risks is presented on page 71 of the "Risk management" section of this MD&A.

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.

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 means that individuals and businesses can find the one best suited to their needs, whether for preparing for retirement, planning a trip or any other financial goal.

Securities brokerage services include the distribution of all types of investments, including stock market securities. There are two separate brokerage models: the sound, 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.

Lastly, **institutional asset management** services are provided 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.

2017 ACHIEVEMENTS

New offers that stand out by always meeting the changing needs of Desjardins Group members and clients in the best possible way:

- Individual insurance: **New participating life insurance** that provides life insurance coverage together with tax-efficient investments, which can also entitle policyholders to dividend payments.
- Group insurance:
  - An innovative first in Canada: A **program to improve the quality of sleep and employee productivity** with three entry points: raising awareness, screening and diagnosis.
  - With **Epsylio**, Desjardins Group is the first insurer to use artificial intelligence to provide personalized support to clients who do not feel ready to use the Employee Assistance Program 360°.
- Savings and investments:
  - Desjardins Group is launching its own **fixed income and global equities Exchange Traded Funds (ETFs),** aimed at reducing the risk of losses in market downturns and making the most of upswings.
  - **New SocieTerra Canadian Equity Fund**.
  - **Market-linked guaranteed investments**: Desjardins Group ranks first in Canada (33% of the market share) for guaranteed investment products with this highly popular product because of its stock market growth potential while protecting invested capital.
  - **Virtual savings and investment assistant**: An additional tool to be used by investment advisers to support investors who want to trade on their own.
  - **Announcement of the creation of Aviso Wealth**: Desjardins Group has joined forces with the provincial credit union centrals and The CUMIS Group to create one of the largest wealth management companies in Canada. The business combination of their subsidiaries Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. will create Aviso Wealth in the first half of 2018, subject to obtaining the required regulatory approvals and satisfying the usual closing conditions.
- Group retirement savings: **Online innovative educational video clips** provided on a secure site for members of Desjardins group retirement savings plans. This first in the industry incorporates a member's data into the video and the personalized scenario provides even better support to the member in achieving retirement goals.
- Online securities brokerage: **New customizable transactional platform** that is also more agile and robust, and provides active investors with certain unique advantages, including an interface and online help tool in French.
- Desjardins Private Wealth Management: Launch of a **new private fund** with Desjardins Capital Management Inc. to support the growth of businesses across Quebec.

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 make sure that their financial future is secure.

The financial assets held by Canadian households in various savings and investment products (wealth management) totalled $4,135 billion at the end of 2016, growing annually at 7.9% on a compound basis over the past five years, and 9.7% in the past year.

All major banking groups as well as life and health insurance and investment fund companies have a wealth management division that designs and distributes diversified financial products and services to meet the investment and financial, tax and estate planning needs of our client bases, including affluent and wealthy clients. These clients have specific needs, and their expectations are high, leading major players in the industry to outdo each other in terms of ingenuity in order to win them over and build their loyalty.

Given such high and complex needs, financial advisers still play a key role in providing relevant information, making sales and maintaining relationships. Nevertheless, the industry is proactively meeting certain clients' desire for self-directed products and diversifying ways to access services by using virtual and mobile interfaces. This will continue to be a major challenge over the next few years and is why an increasing number of competitors are developing digital offers both in Canada and globally.

According to 2016 statistics, there are more than 150 life and health insurance providers doing business in Canada, and 37 are foreign owned. Five of them accounted for 78.9% of the Canadian market, clearly showing a highly consolidated industry. The industry plays a major stabilizing role in capital markets, even in difficult economic conditions, given its strong presence as a regular long-term capital provider to business and government. It has nonetheless grown by 4.2% in the past five years and in 2016, it recorded premium income of more than $106 billion as a result of life insurance, health insurance and annuities.

Desjardins Financial Security Life Assurance Company remains a leader in Quebec and ranks fifth in Canada, with written premiums of $4.3 billion. Based on 2016 figures, 22 million Canadians protect their family's financial security by taking out individual or group life insurance, amounting to insurance in effect of $4.5 trillion. In addition, the Canadian life and health insurance industry paid out $88 billion in benefits.

2018 STRATEGY AND PRIORITIES

The 2018 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 intends to build exceptional member and client relationships and ensure the excellence of its services. This segment enjoys a special place within the lives of people, groups and businesses because of its distinctive offering in life insurance, health insurance, savings and investments and securities brokerage. In order to maintain Desjardins Group's leadership role, the segment's priorities for 2018 are to accelerate the shift to a member- and client-focused culture by reducing the irritants reported by members and clients. To this end, the segment intends to optimize its product lines, further automate its processes and accelerate its digital shift. The resulting efficiency gains will enable it to provide constantly better service to members and clients, which is its raison d'être.

Another priority of the Wealth Management and Life and Health Insurance segment is to help actively promote Desjardins Group's cooperative difference. Concretely, it will therefore pursue its financial literacy initiatives with regard to savings and retirement as well as its activities to promote health management and financial security. Additional action would be to maintain its leadership in the area of responsible investing across Canada, thereby promoting the development of a sustainable and responsible economy.

The Wealth Management and Life and Health Insurance segment's third priority is to capitalize on Desjardins Group's strengths as an expansive cooperative group. It will therefore take action to maximize synergies within Desjardins Group, by unleashing, for instance, the full potential of business development, particularly in Ontario, and by expanding its product offer to all Desjardins Group distribution networks and external networks.

To summarize, the top three priorities of the Wealth Management and Life and Health Insurance segment are:
- Build exceptional member and client relationships and ensure the excellence of its services.
- Help actively promote Desjardins Group's cooperative difference.
- Capitalize on Desjardins Group's strengths as an expansive cooperative group.

In order to successfully carry out the combined actions of these three priorities, 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 12 – Wealth Management and Life and Health Insurance – Segment results
For the years ended December 31

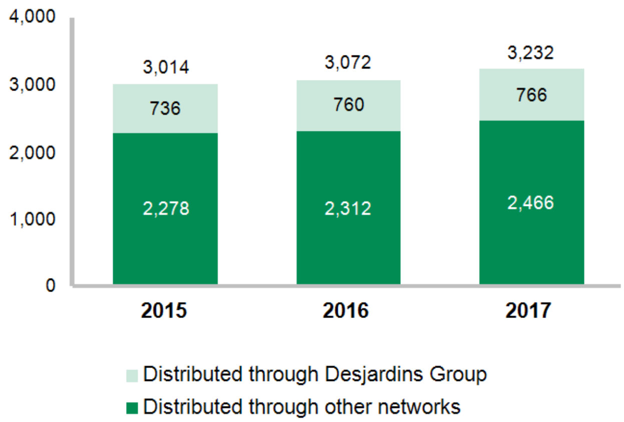
(in millions of dollars)	**2017**	2016	2015
Net interest income	**$ 1**	$ -	$ -
Net premiums	**4,406**	4,204	4,057
Other operating income(1)	**1,514**	1,386	1,263
Operating income(1)	**5,921**	5,590	5,320
Investment income(1)	**1,406**	795	942
Total income	**7,327**	6,385	6,262
Provision for credit losses	**4**	-	-
Claims, benefits, annuities and changes in insurance contract liabilities	**4,233**	3,609	3,524
Non-interest expense	**2,329**	2,208	2,104
Income taxes on surplus earnings	**149**	107	131
Net surplus earnings for the year	**$ 612**	$ 461	$ 503
Of which:			
Group's share	**$ 610**	$ 440	$ 392
Non-controlling interests' share	**2**	21	111
Indicators			
Net sales of savings products	**$ 8,755**	$ 8,465	$ 7,256
Insurance sales	**523**	471	451
Group insurance premiums	**3,232**	3,072	3,014
Individual insurance premiums	**836**	796	746
Annuity premiums	**338**	336	297
Receipts related to segregated funds	**1,840**	2,811	1,705

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

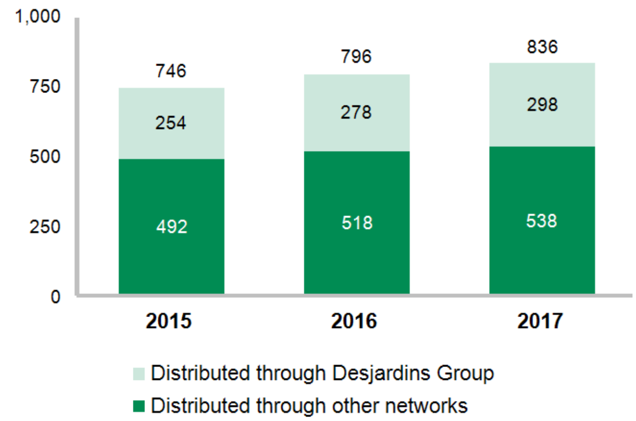
Table 13 – Expenses attributable to policyholders
For the years ended December 31

(in millions of dollars)	2017	2016	2015
Insurance and annuity benefits	**$ 3,037**	$ 2,904	$ 2,889
Change in actuarial liabilities	**984**	559	477
Policyholder dividends, experience refunds and other	**212**	146	158
Total	**$ 4,233**	$ 3,609	$ 3,524

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



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



COMPARISON OF 2017 AND 2016 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $612 million,** up $151 million, or 32.8%, mainly as a result of:
  - Solid investment performance.
  - Favourable adjustments to actuarial assumptions made in the normal course of business.
  - Higher income as a result of growth in assets under management.
  - Offset by a less favourable claims experience in 2017.

- **Operating income of $5,921 million,** up $331 million, or 5.9% basically because of:
  - Increase of $202 million in premiums, of which $160 million was from group insurance and $40 million, from individual insurance.
  - Other operating income totalled $1,514 million, up $128 million, or 9.2%.
    - Higher income from growth in assets under management.

- **Investment income of $1,406 million,** up $611 million, or 76.9%.
  - Increase primarily due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Offset by the change in actuarial liabilities leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
    - Differences due for the most part to changes in the fair value of the portfolio of stocks, bonds and derivatives.
  - Higher gains on the sale of investments in 2017.

- **Total income of $7,327 million,** up $942 million, or 14.8%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $4,233 million,** up $624 million, or 17.3%.
  - Increase of $425 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the increase in the fair value of matched investments.
  - Actuarial liabilities also included the favourable effect of the adjustments to actuarial assumptions and the less favourable effect of claims experience.
  - Increased benefits from growth in operations.

- **Non-interest expense of $2,329 million,** up $121 million, or 5.5% chiefly as a result of higher expenses for assets under management, but limited by effective cost control in a context of operations growth.

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.

Desjardins General Insurance Group Inc. offers a personal line of automobile and property insurance products across Canada and also provides businesses with insurance products.

Its products are distributed through property and casualty insurance agents in the Desjardins caisse network in Quebec, a number of client care centres (call centres) and Desjardins Business centres, through an exclusive agent network of close to 500 agencies outside Quebec distributing P&C insurance and several other financial products online and via applications for mobile devices.

Desjardins General Insurance Group Inc., which has more than 3,000,000 clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance and State Farm banners, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner. As part of its integration plan for State Farm's Canadian operations, Desjardins Group will switch from the State Farm banner to the Desjardins Insurance banner starting on May 1, 2018 until December 31, 2019. Desjardins General Insurance Group Inc. is also active on the white label market, in particular with well-established Canadian financial institutions.

On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, Western Financial Group Inc. and Western Life Assurance Company, while Western Financial Insurance Company was sold on January 1, 2017. Additional information concerning these transactions is presented in the "Impact of the sale of subsidiaries" section on page 30.

Additional information about the Property and Casualty Insurance segment's principal risks is presented on page 71 of the "Risk management" section of this MD&A.

SERVICES

Automobile insurance, including motorcycle and recreational vehicle insurance, offers insurance coverage tailored to clients' specific needs and their vehicle features. Automobile insurance 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.

2017 ACHIEVEMENTS

- Continued streamlining, modernizing and enhancing the member and client experience:
  - Since clients are of paramount concern to the P&C Insurance segment, **national flood coverage** was introduced in March 2017, thereby enhancing its line of water damage coverage.
  - The P&C Insurance segment continues to develop its mobile offer, which offers more advantages to its insureds with the **Ajusto and Alert programs**, now available in the new Desjardins Insurance Home-Auto, The Personal or State Farm apps. Alert is a brand new Canada-wide program to prevent water damage in home insurance by using a detector placed close to a potential source of leaks. The Ajusto telematics program, which provides personalized feedback on drivers' behind-the-wheel habits, continues to promote improved driving habits since its initial launch in 2013, according to the results of a recent survey of Ajusto users.
  - The P&C Insurance segment continues its **digital transformation**, in particular with quick new quotes for condo owners and tenants, and the deployment of online purchases of Desjardins Insurance auto insurance.
- **Integration of State Farm's Canadian operations** is still on schedule and should for the most part be completed in 2018.
- Continuation of the **program to modernize IT systems** for business insurance for exclusive agents in Ontario, the Atlantic region and the West.

INDUSTRY

The Canadian P&C insurance industry offers insurance coverage for vehicles, personal and commercial property, and public liability. In 2016, direct premiums written on the Canadian market totalled $49 billion, of which individual insurance accounted for 63% and business insurance accounted for 37%. Brokers across Canada hold market shares of 63%, while direct writers have 27%, and exclusive agents hold 11%. In Quebec, direct writers continue to gain significant individual market shares and now account for 64% of the market, compared to 34% for brokers, and 2% for exclusive agents.

The Canadian P&C insurance market is a mature market, with an average annual growth rate of 3.4% over the past five years. Its growth is influenced by the level of premiums, which varies in particular according to changes in the value of insured property and other factors relating to the different business lines. The industry's financial performance depends on the profitability of insurance operations, which is based on the insurance premiums collected less the cost of claims and non-interest expense, as well as on the investment portfolio return.

In this context, underwriting and pricing risk, access to consumers and customer satisfaction still play an important role in not only attracting new clients but also in building the loyalty of the existing client base. Changes in consumer preferences and the growing importance of digital channels as an addition to traditional channels affect customer habits so that most clients tend to use a variety of methods to interact with their insurer.

The entire auto insurance industry in Canada is now facing challenges associated with profitability resulting from a sharp rise in claims, which reflects in particular the cost of new technologies in motor vehicles, the increase in distractions behind the wheel and the U.S. exchange rate because numerous spare parts are built in the U.S. 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.

In addition, consolidation in the Canadian P&C insurance market continues to increase. In 2016, the top 10 P&C insurers held 69% of the market, up 5% since 2012. The trend toward consolidation in this market continues with large insurers' and distributors' transactions putting additional pressure on their smaller rivals.

The 2017 flood season significantly affected the insurance industry this year. According to the firm Catastrophe Indices and Quantification Inc. (CatIQ), the spring flooding in 2017 caused insured losses of over $223 million in Ontario and Quebec. More than 7,000 claims were filed with Desjardins General Insurance Group Inc. between April and May 2017 in Ontario and Quebec. Desjardins Insurance launched flooding coverage across Canada in March, enhancing its line of water damage coverage and reaffirming that it is a caring P&C insurer.

While the Canadian industry is developing at an unprecedented rate, the various industry players are competing simultaneously on several fronts. The Canadian market will continue to develop quickly as in recent years, driven by technological innovations, changes in expectations and consumer behaviour as well as the advent of new business models. Significant investments are also being made to create new technology infrastructure and data management capabilities. In fact, data analysis will provide important leverage for all sectors and will be facilitated by artificial intelligence. In addition, a number of insurers are working to make their interaction with consumers easier and simpler through multi-channel logic so that they can be contacted in the way consumers prefer (in person, by phone or online). These insurers are starting to position themselves in response to new trends such as Insurtech or the sharing economy, and the Desjardins Group P&C Insurance segment is proactive vis-à-vis these new trends.

Desjardins General Insurance Group Inc. relies on its operational excellence and its key competencies in terms of market access, risk segmentation and claims management to enhance the value it offers to members and clients. As at December 31, 2016, the P&C Insurance segment ranked third in the Canadian property and casualty insurance market, and it was in second place in the individual insurance market.

2018 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's 2018 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. The Property and Casualty Insurance segment will focus its efforts in 2018 on enhancing the member and client experience as well as on the digital shift and transformation and the implementation of the initiatives already under way.

As a result, in 2018, the segment will continue its efforts to be recognized as a leader in Canada in promoting the member and client experience. Enhancing this experience will involve in particular accelerating the streamlining and image process already initiated by optimizing the performance of its value chain and adapting its business practices in the interests of its members and clients.

Moreover, in order to affirm Desjardins Group's cooperative difference, the segment intends to continue to modernize its insurance model to enhance added value interactions by capitalizing on analytics and the digital transformation.

The segment will also continue to build on the strengths of the expansive cooperative group to which it belongs. In Quebec, it intends to pursue growth by maximizing its synergy in conjunction with other Desjardins Group entities and segments and by speeding up the shift to the *Caissassurance* model. Outside Quebec, it will focus on the exclusive agent network by completing the integration of State Farm's Canadian operations in tandem with the other Desjardins Group entities and will ensure that Desjardins's full potential is developed.

In short, the Property and Casualty Insurance segment's key priorities for 2018 are:
- Enhance the member and client experience.
- Continue the digital transformation.
- Effectively perform various ongoing projects.

ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

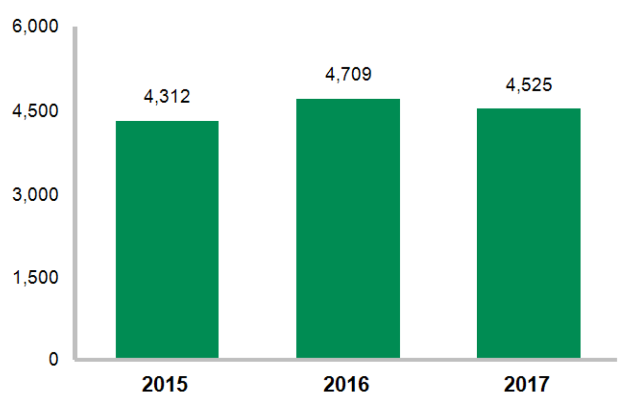
Table 14 – Property and Casualty Insurance – Segment results

For the years ended December 31

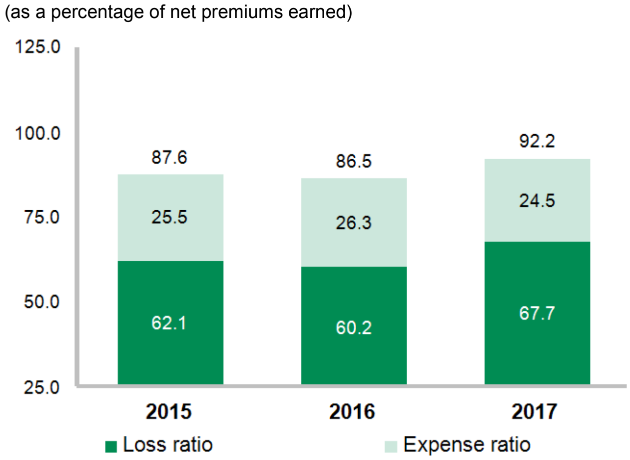
(in millions of dollars and as a percentage)	2017	2016	2015
Net interest income	$ 1	$ 1	$ 1
Net premiums	3,896	3,207	3,113
Other operating income (loss)(1)	78	(55)	104
Operating income(1)	3,975	3,153	3,218
Investment income(1)	214	206	228
Total income	4,189	3,359	3,446
Claims, benefits, annuities and changes in insurance contract liabilities	2,555	1,838	1,922
Non-interest expense	1,099	1,132	1,070
Income taxes on surplus earnings	89	93	94
Net surplus earnings for the year	$ 446	$ 296	$ 360
Specific items, net of income taxes			
Gain, net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company(2)	(241)	-	-
Gain and expenses related to the acquisition of State Farm's Canadian operations(3)	32	33	(22)
Adjusted net surplus earnings for the year(1)	$ 237	$ 329	$ 338
Of which:			
Group's share	$ 405	$ 245	$ 303
Non-controlling interests' share	41	51	57
Indicators			
Gross written premiums(4)	$ 4,525	$ 4,709	$ 4,312
Loss ratio(1)	67.7%	60.2%	62.1%
Current year loss ratio(1)	80.1	75.8	73.7
Loss ratio related to catastrophes and major events(1)	2.6	4.6	0.1
Ratio of favourable changes in prior year claims(1)	(15.0)	(20.2)	(11.7)
Expense ratio(1)	24.5	26.3	25.5
Combined ratio(1)	92.2	86.5	87.6

(1) See "Basis of presentation of financial information".
(2) The difference between the data presented in the table of Desjardins Group's adjusted surplus earnings before member dividends is due to intersegment transaction expenses.
(3) The difference between the data presented in the table of Desjardins Group's adjusted surplus earnings before member dividends is due to an amount from the Wealth Management and Life and Health Insurance segment.
(4) Includes life insurance premiums of Western Financial Group Inc.

Gross written premiums
(in millions of dollars)



Combined ratio
(as a percentage of net premiums earned)



COMPARISON OF 2017 AND 2016 – PROPERTY AND CASUALTY INSURANCE

- **Surplus earnings of $446 million,** up $150 million, or 50.7%, including a gain of $241 million, net of expenses and after income taxes, on the sale of subsidiaries.

- **Adjusted net surplus earnings of $237 million,** down $92 million, or 28.0%. This decrease was mainly due to a higher claims experience for the current year than in 2016 and less favourable developments in prior-year claims than in 2016.

- **Operating income of $3,975 million,** up $822 million, or 26.1%.

- **Net premiums of $3,896 million,** up $689 million, or 21.5%, primarily as a result of:
  - Increase of $660 million from 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.
  - Increase of $168 million due 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 and of Western Financial Insurance Company on January 1, 2017.

- **Other operating income of $78 million,** up $133 million, chiefly because of the gain on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company.
  This increase was partly offset by the following:
  - Decrease in commission income following the sale of Western Financial Group Inc.
  - Larger increase than in 2016 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.

- **Investment income of $214 million,** up $8 million, or 3.9%, basically as a result of net gains on the disposal of common shares higher than those recorded in 2016.
  This increase was partly offset by the following:
  - Less favourable results on derivative financial instruments than in 2016.
  - Decrease in the fair value of bonds as a result of the increase in interest rates on the market, which was higher than in 2016. The decrease in the value of the bonds was offset by a similar decrease in the cost of claims because of a matching strategy.

- **Total income of $4,189 million,** up $830 million, or 24.7%.

- **Cost of claims totalling $2,555 million,** up $717 million, or 39.0%.
  - Increase mainly 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.
  - Loss ratio of P&C insurers at 67.7% for 2017, compared to 60.2% in 2016.
    - Higher loss ratio partly due to a less favourable change than in 2016 concerning prior-year claims, (15.0%) vs (20.2%), mainly automobile insurance claims taken over from State Farm as at January 1, 2015.
    - Increased loss ratio also attributable to the higher claims experience for the current year than in 2016, (80.1% vs 75.8%), primarily in automobile insurance claims in all geographic markets.
  - Offset by catastrophes and major events, which were less significant than in 2016, when there had been two catastrophes caused by hail and the Fort McMurray wildfire in Alberta.

- **Non-interest expense of $1,099 million,** down $33 million, or 2.9%, mainly as a result of:
  - Decline in expenses due to the sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017, as well as the sale of the pet insurance operations of Western Financial Insurance Company on January 1, 2017.
  - Offsetting increase partly due to the effect of the previously mentioned reinsurance treaty on the charges covered by it.

2.3.4 Other category

The Other 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. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole and 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 various adjustments required to prepare the Combined Financial Statements, intersegment balance eliminations are classified in this category. The operations of the *Fonds de sécurité Desjardins* and the shared services which the Federation provides, formerly presented in the Other category, have been recorded in the Personal and Business Services segment since first quarter 2017.

Desjardins Group does not consider an item-by-item comparative analysis of the operations in this category to be relevant given the integration of various consolidation adjustments and intersegment balance eliminations. Consequently, Desjardins Group presents an analysis of these operations based on their contribution to surplus earnings.

Table 15 – Other category
For the years ended December 31

(in millions of dollars)	2017	2016[1]	2015[1]
Treasury activities	**$ 113**	$ 110	$ 111
Activities related to derivatives associated with hedging activities	**(4)**	(44)	31
Other[2]	**(124)**	(76)	(117)
Net surplus earnings (deficit) for the year	**$ (15)**	$ (10)	$ 25
Of which:			
Group's share	**$ (15)**	$ (12)	$ 22
Non-controlling interests' share	**-**	2	3

[1] Data for 2016 and 2015 have been reclassified to conform to the current year's presentation.
[2] Includes support function activities, income from asset-backed term notes, various adjustments required to prepare the Combined Financial Statements, and intersegment balance eliminations.

COMPARISON OF 2017 AND 2016 – CONTRIBUTION BY OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $15 million,** compared to a net deficit of $10 million in 2016.

- **Treasury activities of $113 million**, up slightly from 2016.
  - Growth in trading income.
  - Offset by unfavourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments used to hedge foreign currency deposits that does not qualify for hedge accounting.

- **Activities related to derivatives associated with hedging activities recorded a deficit of $4 million**, compared to a deficit of $44 million in 2016.
  - Less unfavourable fluctuation in the fair value of swaps in 2017 compared to 2016, because of higher interest rates in 2017.
  - Increased amortization related to the termination of hedges was favourable compared to 2016.

- **Other activities recorded a $124 million deficit**, compared to a $76 million deficit in 2016.
  - Other activities affected, in 2017 and 2016, by expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms, thereby enhancing the member and client experience and improving productivity. In addition, certain technology assets were written off in 2017.
  - Income tax expense in 2016 partially reduced by a tax recovery related to the remuneration of capital stock, which was not the case in 2017. This was offset in the Personal and Business Services segment.
  - Decline in income from asset-backed term notes (ABTN) activities given that substantially all ABTN were settled in January 2017. ABTM activities generated surplus earnings of $10 million in 2016.
  - Offset by severance costs incurred in 2016, following changes in Desjardins Group's senior management.

2.4 Analysis of fourth quarter results and quarterly trends

Table 16 – Results for the previous eight quarters

(unaudited, in millions of dollars and as a percentage)	2017				2016			
	Q4	Q3	Q2	Q1	Q4[1]	Q3[1]	Q2[1]	Q1[1]
Net interest income	**$ 1,125**	$ 1,136	$ 1,087	$ 1,057	$ 1,087	$ 1,071	$ 1,061	$ 1,054
Net premiums	**2,009**	1,982	2,076	1,982	1,834	1,873	1,740	1,721
Other operating income[2]								
Deposit and payment service charges	**107**	109	122	120	123	128	119	118
Lending fees and credit card service revenues	**180**	154	154	172	150	139	136	149
Brokerage and investment fund services	**261**	241	307	278	282	278	286	260
Management and custodial service fees	**117**	104	106	101	102	94	92	88
Foreign exchange income	**22**	16	20	19	12	20	22	16
Other	**(100)**	295	28	26	(42)	(42)	46	65
Operating income[2]	**3,721**	4,037	3,900	3,755	3,548	3,561	3,502	3,471
Investment income (loss)[2]								
Net income (loss) on securities at fair value through profit or loss	**786**	(484)	476	301	(1,242)	385	878	512
Net income on available-for-sale securities	**82**	65	181	80	111	99	99	79
Net other investment income	**36**	57	54	54	49	49	50	50
	904	(362)	711	435	(1,082)	533	1,027	641
Total income	**4,625**	3,675	4,611	4,190	2,466	4,094	4,529	4,112
Provision for credit losses	**89**	92	76	92	55	98	75	91
Claims, benefits, annuities and changes in insurance contract liabilities	**2,042**	1,000	1,922	1,753	(104)	1,727	2,065	1,758
Non-interest expense	**1,938**	1,685	1,878	1,847	1,871	1,706	1,854	1,773
Income taxes on surplus earnings	**127**	140	154	115	135	109	108	108
Surplus earnings before member dividends	**429**	758	581	383	509	454	427	382
Member dividends, net of tax recovery	**49**	44	29	26	42	25	16	22
Net surplus earnings for the period after member dividends	**$ 380**	$ 714	$ 552	$ 357	$ 467	$ 429	$ 411	$ 360
Of which:								
Group's share	**$ 371**	$ 699	$ 538	$ 352	$ 443	$ 419	$ 390	$ 339
Non-controlling interests' share	**9**	15	14	5	24	10	21	21
Contribution to combined surplus earnings by business segment								
Personal and Business Services	**$ 286**	$ 304	$ 272	$ 246	$ 258	$ 284	$ 251	$ 232
Wealth Management and Life and Health Insurance	**159**	121	189	143	114	126	124	97
Property and Casualty Insurance	**48**	318	98	(18)	182	26	49	39
Other	**(64)**	15	22	12	(45)	18	3	14
	$ 429	$ 758	$ 581	$ 383	$ 509	$ 454	$ 427	$ 382
Total assets	**$ 275,095**	$ 276,310	$ 271,983	$ 267,935	$ 258,367	$ 260,157	$ 260,711	$ 255,137
Indicators								
Return on equity[2]	**7.0%**	12.6%	9.9%	6.8%	8.8%	8.3%	7.8%	7.1%
Tier 1A capital ratio	**18.0**	17.8	17.1	17.2	17.3	16.3	15.9	15.8
Total capital ratio	**18.4**	18.2	17.5	17.6	17.9	16.9	16.6	16.9

[1] Prior-period data have been reclassified to conform to the current year's presentation.
[2] See "Basis of presentation of financial information".

FOURTH QUARTER COMBINED RESULTS

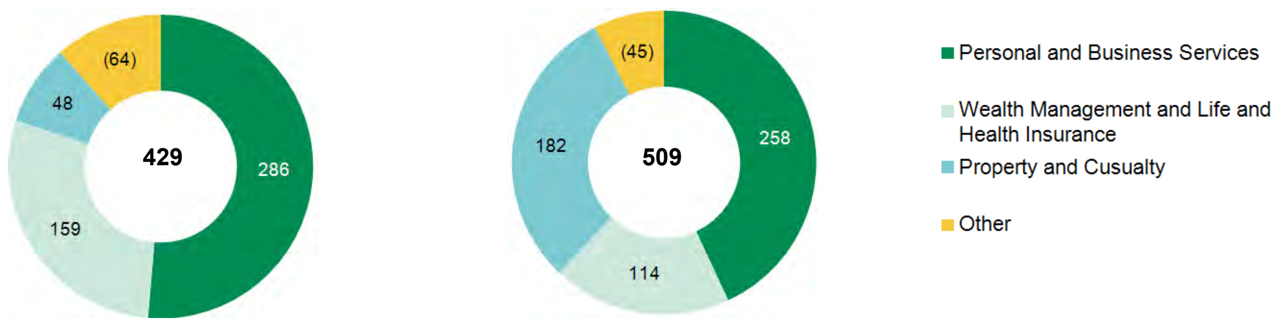
For the fourth quarter ended December 31, 2017, Desjardins Group posted surplus earnings before member dividends of $429 million, down $80 million, or 15.7%, compared to the same period in 2016.

Contribution of segments to surplus earnings

- Personal and Business Services: **Contribution of $286 million**, up $28 million compared to the same period in 2016, mainly as a result of growth in caisse network operations.
- Wealth Management and Life and Health Insurance: **Contribution of $159 million**, up $45 million compared to the same period in 2016, primarily due to favourable adjustments to actuarial assumptions made during the normal course of operations.
- Property and Casualty Insurance: **Contribution of $48 million**, down $134 million compared to the same period in 2016, mainly as a result of the following:
  - Less favourable developments in prior-year claims than in the corresponding quarter of 2016, which had been very favourable.
  - Claims experience for the current year higher than in the corresponding quarter of 2016.
  - Increase in non-interest expense caused largely by the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.

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

2016 Surplus earnings before member dividends
(in millions of dollars)



- **Return on equity of 7.0%, compared to** 8.8% for the fourth quarter of 2016.

- **Operating income of $3,721 million**, up $173 million, or 4.9%.

- **Net interest income of $1,125 million**, up $38 million, or 3.5%, chiefly as a result of the growth of $11.5 billion, or 6.9%, for the year in the entire loans and acceptances portfolio outstanding. However, fiercely competitive market still putting pressure on interest margins.

- **Net premiums of $2,009 million, up $175 million, or 9.5%.**

  - **Wealth Management and Life and Health Insurance:** Net insurance and annuity premium income of $1,088 million, up $10 million, or 0.9%, compared to the same period in 2016.
    - Increase of $51 million in insurance premiums.
      - Growth of $41 million for group insurance and of $10 million for individual insurance.
    - Decrease of $41 million in annuity premiums.

  - **Property and Casualty Insurance:** Net premiums of $983 million, up $167 million, or 20.5%, compared to the same period in 2016.
    - Increase of $168 million as a result of 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.
    - Increase due 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 resulting from the sale of Western Life Assurance Company on July 1, 2017 and of Western Financial Insurance Company on January 1, 2017.

- **Other operating income of $587 million**, down $40 million, or 6.4%, chiefly due to the following:
  - Increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
  - Lower income on account of the subsidiaries sold in 2017, as presented in the "Impact of the sale of subsidiaries" section.
  - Lower income from deposits because of pricing changes.
  - Offset by higher income from assets under management and from growth in credit card and point-of sale financing activities.

- **Investment income of $904 million**, up $1,986 million.
  - Increase mainly due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Increase offset for the most part by the change in actuarial liabilities that in turn led to an increase in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
    - Differences mostly attributable to changes in the fair value of the portfolio of stocks, bonds and derivatives.
  - Increase in the fair value of bonds in the Property and Casualty Insurance segment as a result of a slight drop in long-term interest rates on markets, while an increase had been recorded in the fourth quarter of 2016.
    - Change in the value of bonds offset by a similar increase in cost of claims because of a matching strategy.
  - Increase in the fair value of derivative financial instruments, including those associated with hedging operations for Desjardins Group as a whole.
  - Offset by lower gains on disposal of investments for the fourth quarter of 2017, than for the corresponding quarter of 2016.

- **Total income of $4,625 million**, up $2,159 million, or 87.6%.

- **Provision for credit losses of $89 million**, up $34 million, or 61.8%.
  - Recovery of the collective allowance in the fourth quarter of 2016 as a result, in particular, of refining the methodology used in the models for calculating the allowance. Desjardins Group's loan portfolio continued to be of high quality.
  - Ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.25% as at December 31, 2017, down from 0.32% as at December 31, 2016. Improved economic conditions helped to reduce the volume of gross impaired loans.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $2,042 million, up $2,146 million.**

  - **Wealth Management and Life and Health Insurance:** Expenses totalling $1,513 million, up $1,791 million compared to the same period in 2016, mainly as a result of an increase of $1,725 million in actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of an increase in the fair value of matched investments.

  - **Property and Casualty Insurance segment:** Claims expenses totalling $599 million, up $424 million compared to the same period in 2016, mainly due to the following:
    - Less favourable developments in prior-year claims, primarily in auto insurance, than in the corresponding quarter of 2016.
    - Claims experience for the current year higher than in the corresponding quarter of 2016.
    - Effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
    - Loss ratio of P&C insurers at 59.9% for the fourth quarter of 2017, compared to 37.8% for the corresponding quarter of 2016.
      - Less favourable developments in prior-year automobile insurance claims than in the corresponding quarter of 2016.
      - Claims experience for the current year unfavourable compared to the fourth quarter of 2016, mainly in automobile and property insurance.

- **Non-interest expense of $1,938 million**, up $67 million, or 3.6%, compared to 2016.
  - Increase caused for the most part by the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations as well as business growth, particularly in credit card and point-of-sale financing activities and assets under management.
  - Increase also due to purchases of computer hardware and the write-off of intangible assets.

  This increase was partly offset by the following:
  - Implementation of productivity initiatives, in particular regarding payroll, which limited the growth in expenses.
  - Decrease in non-interest expense following the sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017 as well as of Western Financial Insurance Company on January 1, 2017.

- **Productivity index at 75.0% for the fourth quarter of 2017,** compared to 72.8% for the same period in 2016. Surplus earnings for the fourth quarter of 2017 were based on stable growth in operations combined with a larger increase in non-interest expense, as previously explained. These items caused a drop in the productivity index for the fourth quarter of 2017.

QUARTERLY TRENDS

Quarterly income, expenses and surplus earnings before member dividends are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the capital markets. Desjardins Group's results for the most recent eight quarters were therefore affected by developments in the global, U.S., Canadian and Quebec economies. With expected growth of 2.9% in Canadian real GDP in 2017, compared to 1.4% in 2016, and 2.9% versus 1.4% in Quebec, Desjardins Group's results for the past eight quarters benefited from a growing GDP. Changes in the claims experience and actuarial assumptions may also cause significant variations from quarter to quarter. The past eight quarters were affected as well by the low interest rate environment that continued in 2016 and 2017. However, in the third quarter of 2017, there were two hikes in Canada's key interest rates as a result of monetary tightening.

Combined surplus earnings

- Trend in surplus earnings before member dividends was chiefly affected by the change in claims experience from one quarter to the next and by the contribution of the caisse network, which continues to grow.
- Solid investment performance in the Wealth Management and Life and Health Insurance segment, which contributed to the higher surplus earnings for the second quarter of 2017.
- Fourth quarter of 2017 affected by a higher claims experience for the current year and less favourable developments in prior-year automobile insurance claims.
- 2017 third quarter results affected by a gain of $249 million, net of expenses and after income taxes, on the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.
- Surplus earnings for the fourth quarter of 2016 were affected by very favourable developments in prior-year automobile insurance claims.
- 2016 second and third quarter results affected by the higher claims experience, primarily for automobile insurance, and because of the damage caused by the Fort McMurray wildfire. Claims experience was also higher in property insurance for the third quarter of 2016 because of major events and a catastrophe caused by hail in Alberta.

Combined results

- **Operating income – Upward trend for 2017 quarters, compared to 2016 quarters, except for the fourth quarter of 2017.**
  - Operations growth allowed Desjardins Group to grow operating income, in particular premium income.
  - Increase in net premiums due mainly to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which 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.
  - Growth in credit card and point-of-financing activities as well as in income related to 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 2017, which reduced operating income.
  - Operating income for the third quarter of 2017 affected by the gain on the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.

- **Investment income – Fluctuation mainly as a result of market volatility leading to the fluctuation 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 actuarial liabilities, the effect of which was reflected in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

- **Provision for credit losses – Relatively stable when 2017 and 2016 quarters are compared.**
  - Recovery of the collective allowance in the fourth quarter of 2016, as a result of, among other things, refining the methodology used in the models for calculating the allowance.
  - Ratio for gross impaired loans, as a percentage of the total portfolio of gross loans and acceptances, has been trending slightly down in the past eight quarters. Desjardins Group's loan portfolio has continued to be of high quality.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
  - 2017 quarters affected by increased claims resulting from the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Results of the fourth quarter of 2017 affected by the higher claims experience for the current year and the less favourable developments in prior-period automobile insurance claims.
  - Expenses mainly affected by the change in the fair value of investments associated with life and health insurance activities, whose impact was particularly strong in the fourth quarter of 2016 and the third quarter of 2017, and by the change in the loss ratios for property and casualty insurance.
  - Fourth quarter of 2016 affected by favourable developments in prior-year automobile insurance claims and an increase in actuarial liabilities due to changes in assumptions.
  - Results of the second and third quarters of 2016 affected by a higher claims experience, primarily in automobile insurance and because of the damage caused by the Fort McMurray wildfire. The claims experience was also higher in property insurance for the third quarter of 2016 on account of major events and a catastrophe caused by hail in Alberta.

- **Non-interest expense – Upward trend when 2017 and 2016 quarters compared.**
  - Increase primarily attributable to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations with regard to the charges covered by the treaty and to business growth, particularly growth in credit card and point-of-sale financing activities and assets under management.
  - Implementation of productivity initiatives, particularly regarding payroll, which limited the increase in non-interest expense.
  - Sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017, reducing non-interest expense for the third and fourth quarters of 2017.
  - Sale of Western Financial Insurance Company on January 1, 2017, reducing non-interest expense for the 2017 quarters.

Surplus earnings from business segments

- **Surplus earnings before member dividends from the Personal and Business Services segment trending up steadily over the past eight quarters.**
  - Solid performance of caisse network, particularly in the second half of 2017.
  - Net interest income up on account of growth in the entire average portfolio of loans and acceptances outstanding, despite fierce competition in the market, which is still putting pressure on interest margins.
  - Business growth as a result, in particular, of credit card and point-of-sale financing activities.
  - Growth in capital market activities.
  - Fourth quarter 2016 affected by a decline in the provision for losses following recovery of the collective allowance as a result of, among other things, refining the methodology used in the models for calculating the collective allowance.

- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the past eight quarters.**
  - Income growth related to assets under management during 2017.
  - Higher surplus earnings for fourth quarter 2017, mainly due to favourable adjustments to the actuarial assumptions and partly offset by a deterioration in claims experience.
  - More favourable claims experience for almost all business lines, which affected net surplus earnings positively over the first two quarters of 2017.
  - Solid investment performance, which also contributed to higher surplus earnings in the second quarter of 2017.

- **Net surplus earnings of the Property and Casualty Insurance segment fluctuating over the past eight quarters.**
  - Each of the quarters affected by the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Results for the fourth quarter of 2017 affected by a higher claims experience for the current year and less favourable developments in prior-year automobile insurance claims.
  - Results for the third quarter of 2017 affected by the $241 million gain, net of expenses and after income taxes, related to the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.
  - Surplus earnings for fourth quarter 2016 affected by very favourable developments in prior-year automobile insurance claims.
  - Results for the second and third quarters of 2016 affected by a higher claims experience, primarily in automobile insurance, and on account of the damage caused by the Fort McMurray wildfire. The claims experience was also higher in property insurance for the third quarter of 2016 due to major events and a catastrophe caused by hail in Alberta.

3.0 Balance sheet review

3.1 Balance sheet management

Table 17 – Combined Balance Sheets
As at December 31

(in millions of dollars and as a percentage)	**2017**		2016		2015	
Assets						
Cash and deposits with financial institutions	**$ 2,435**	**0.9%**	$ 1,876	0.7%	$ 1,716	0.7%
Securities	**56,588**	**20.6**	53,285	20.6	51,987	21.0
Securities borrowed or purchased under reverse repurchase agreements	**8,674**	**3.2**	7,690	3.0	7,881	3.2
Net loans and acceptances	**177,521**	**64.4**	166,026	64.3	159,881	64.4
Segregated fund net assets	**13,379**	**4.9**	11,965	4.6	9,781	3.9
Derivative financial instruments	**3,206**	**1.2**	3,572	1.4	4,818	1.9
Other assets	**13,292**	**4.8**	13,953	5.4	12,064	4.9
Total assets	**$ 275,095**	**100.0%**	$ 258,367	100.0%	$ 248,128	100.0%
Liabilities and equity						
Deposits	**$ 171,586**	**62.4%**	$ 160,546	62.2%	$ 156,574	63.0%
Commitments related to securities sold short	**9,112**	**3.3**	8,196	3.2	5,464	2.2
Commitments related to securities lent or sold under repurchase agreements	**10,229**	**3.7**	10,323	4.0	10,383	4.2
Derivative financial instruments	**3,094**	**1.1**	2,057	0.8	1,689	0.7
Insurance contract liabilities	**28,272**	**10.3**	27,493	10.6	26,734	10.8
Segregated fund net liabilities	**13,354**	**4.9**	11,957	4.6	9,776	3.9
Other liabilities	**13,287**	**4.8**	13,124	5.1	13,899	5.6
Subordinated notes	**1,388**	**0.5**	1,378	0.5	1,884	0.8
Equity	**24,773**	**9.0**	23,293	9.0	21,725	8.8
Total liabilities and equity	**$ 275,095**	**100.0%**	$ 258,367	100.0%	$ 248,128	100.0%

TOTAL ASSETS

As at December 31, 2017, Desjardins Group's total assets stood at $275.1 billion, up by $16.7 billion, or 6.5%, over the year, compared to growth of $10.2 billion, or 4.1%, for 2016. This growth was largely due to an increase in net loans and acceptances as well as securities, including those borrowed or purchased under reverse repurchase agreements.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at December 31, 2017, Desjardins Group's cash and deposits with financial institutions amounted to $2.4 billion, an increase of $559 million, or 29.8%, over the year, compared to an increase of $160 million, or 9.3%, in 2016. Securities, including those borrowed or purchased under reverse repurchase agreements, totalled $65.3 billion, an increase of $4.3 billion, or 7.0%, over the year, compared to an increase of $1.1 billion, or 1.8%, in 2016. Desjardins Group's market and deposit activities generated the increase.

LOANS AND CLIENTS' LIABILITY UNDER ACCEPTANCES

As at December 31, 2017, Desjardins Group's outstanding loan portfolio, including clients' liability under acceptances, net of the allowance for credit losses, was $177.5 billion, an increase of $11.5 billion, or 6.9%, over the year, compared to growth of $6.1 billion, or 3.8%, during 2016. Among the different credit categories it offers, residential mortgages hold a very important place in its financing activities, accounting for 63.6% of its portfolio at that date and largely responsible for its growth in 2017.

Table 18 – Loans and acceptances
As at December 31

(in millions of dollars and as a percentage)	2017		2016		2015	
Residential mortgages	**$ 113,146**	**63.6%**	$ 106,695	64.1%	$ 102,323	63.8%
Consumer, credit card and other personal loans	**24,044**	**13.5**	22,150	13.3	21,204	13.2
Business and government	**40,769**	**22.9**	37,637	22.6	36,809	23.0
	177,959	**100.0%**	166,482	100.0%	160,336	100.0%
Allowance for credit losses	**(438)**		(456)		(455)	
Total loans and acceptances by borrower category	**$ 177,521**		$ 166,026		$ 159,881	
Loans guaranteed or insured(1)	**$ 46,952**		$ 45,373		$ 44,817	
Loans guaranteed or insured(1) as a percentage of total gross loans and acceptances	**26.4%**		27.3%		28.0%	
Residential mortgages and consumer, credit card and other personal loans as a percentage of total gross loans and acceptances	**77.1**		77.4		77.0	

(1) Loans fully or partially guaranteed or insured by a public or private insurer or a government.

Residential mortgages

Outstanding residential mortgages totalled $113.1 billion, for growth of $6.5 billion, or 6.0%, as at December 31, 2017, compared to an increase of $4.4 billion, or 4.3%, during 2016. Desjardins Group therefore posted sustained growth in this market, mainly because of the strong performance of the housing sector in Quebec and Ontario, in both resales of existing homes and new home construction.

Considering the significant weight of residential mortgages in its total credit portfolio, it is clear that Desjardins Group has always been focused on the needs of its members and clients when they decide to buy a home. It is therefore a very active partner. What is more, its constant drive to innovate over the years has led to the marketing of high quality and very diversified products which, combined with its extensive distribution network, have enabled it to maintain its leadership status in this industry, particularly in Quebec, where its market share was estimated at 36.1% as at December 31, 2017. The reputation it has forged over the years has made it a leading industry player.

Consumer, credit card and other personal loans

As at December 31, 2017, Desjardins Group's outstanding consumer, credit card and other personal loans amounted to $24.0 billion, an increase of $1.9 million, or 8.6%, compared to growth of $946 million, or 4.5%, as at December 31, 2016. Desjardins Group was able to capitalize on stronger credit demand from households as evidenced by an increase in their spending due to a more favourable economic context. The labour market's good performance in Quebec and Ontario, together with a lightening of the tax burden for certain families, gave consumers renewed confidence. This new enthusiasm had a positive effect on their spending, especially for durable goods such as new or used automobiles, furniture, electronic devices and home appliances.

Guaranteed or insured consumer, credit card and other personal loans, including student loans and loans under the Immigrant Investor Program, totalled $3,681 million as at December 31, 2017, compared to $3,726 million a year earlier.

Desjardins Group's market share of consumer, credit card and other personal loans was estimated at 22.4% as at December 31, 2017, stable over the 12-month period.

Business loans

As at December 31, 2017, outstanding business loans totalled $39.0 billion, an increase of $2.9 billion, or 8.1%, compared to growth of $1.4 billion, or 4.0%, as at December 31, 2016. Desjardins Group's business loan portfolio is comprised mainly of commercial and industrial loans, with outstandings of $31.7 billion at year-end 2017, accounting for 81.3% of the portfolio, and with growth of $2.4 billion, or 8.2% over the year. An improved economic climate in Quebec and Ontario encouraged an increase in business spending as well as business credit demand. Over the years, Desjardins has supported many businesses in their investment project by effectively meeting their growing needs. As a result, it has become an invaluable partner for the business community, particularly in Quebec, as can be seen in its market share, estimated at close to 20.0% in commercial and industrial financing in Quebec at the end of 2017.

In the agricultural loan sector, the other component of business loans at Desjardins Group, outstandings totalled $7.3 billion, for an increase of $505 million, or 7.4% as at December 31, 2017, compared to growth of $328 million, or 5.1%, as at December 31, 2016. With an estimated market share of 39.3% as at the same date, Desjardins Group is a leader in this sector across Quebec.

Government loans

Desjardins Group's outstanding government loans, including clients' liability under acceptances, and mainly loans to municipalities, amounted to $1.8 billion as at December 31, 2017, for a year-over-year increase of $215 million, or 13.7%, compared to a decrease of $544 million, or 25.7%, as at December 31, 2016. Given the large volume of these loans in the form of lines of credit, they can vary considerably based on government financing needs.

Credit quality

As at December 31, 2017, Desjardins Group's loan portfolio continued to be of high quality. Outstanding gross impaired loans stood at $442 million, down $90 million, or 16.9%, since the end of 2016, despite a large increase in the portfolio of gross loans and acceptances. In 2016, outstanding gross impaired loans had decreased by $9 million, or 1.7%. The gross impaired loans ratio, as a percentage of the total portfolio of gross loans and acceptances, was 0.25% at the end of 2017, down from 0.32% as at December 31, 2016. Improved economic conditions helped to reduce the volume of gross impaired loans.

Loans guaranteed or insured by governments and other public and parapublic institutions accounted for 26.4% of its total loan portfolio as at December 31, 2017.

Additional information about the quality of Desjardins Group's loan portfolio is presented in section 4.2, "Risk management", on pages 83 to 86 of this MD&A.

DEPOSITS

Table 19 – Deposits
As at December 31

(in millions of dollars and as a percentage)	2017					2016		2015	
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**		Total		Total	
Individuals	**$ 46,399**	**$ 3,695**	**$ 50,484**	**$ 100,578**	**58.6%**	$ 96,278	60.0%	$ 91,243	58.2%
Business and government	**24,551**	**452**	**44,099**	**69,102**	**40.3**	62,799	39.1	63,833	40.8
Deposit-taking institutions	**1,407**	**-**	**499**	**1,906**	**1.1**	1,469	0.9	1,498	1.0
Total deposits	**$ 72,357**	**$ 4,147**	**$ 95,082**	**$ 171,586**	**100.0%**	$ 160,546	100.0%	$ 156,574	100.0%

As at December 31, 2017, Desjardins Group's outstanding deposits totalled $171.6 billion, up $11.0 billion, or 6.9%, compared to an increase of $4.0 billion, or 2.5%, as at December 31, 2016. Savings from individuals have always been Desjardins Group's preferred source of financing for its expansion, as can be seen in their weight in its total deposit portfolio, namely 58.6% as at December 31, 2017.

Savings from individuals

As at December 31, 2017, savings from individuals at Desjardins Group totalled $100.6 billion, up $4.3 billion, or 4.5%, since the end of 2016, compared to growth of $5.0 billion, or 5.5%, as at December 31, 2016. These are excellent results that have enabled Desjardins Group to report an estimated market share of 41.6% in Quebec for the year, in a fiercely competitive industry that is highly prized by most financial institutions. Desjardins has therefore maintained its leadership position in this area in Quebec in spite of a historically low interest rate environment. Stock market activity in Canada was less effervescent than in 2016: the S&P/TSX index grew 6.0% in 2017, versus a 17.5% jump the previous year, which reduced investors' appetite for off-balance sheet savings products, such as investment funds and other securities. This climate prompted a good number of investors to shift their savings to safer investment vehicles such as on-balance sheet savings products.

Savings payable on a fixed date amounted to $50.5 billion as at December 31, 2017, for an increase of $491 million, or 1.0%, since the end of 2016, compared to an increase of $569 million, or 1.2%, as at December 31, 2016. This savings category accounted for a large share of Desjardins Group's total portfolio of deposits from individuals as at the end of 2017, namely 50.2%. As evidenced by its relative size, these savings products are very popular with Desjardins Group's members and clients in this market. Savings payable on demand and upon notice, which accounted for 49.8% of deposits made by individuals. They totalled $50.1 billion outstanding as at December 31, 2017, up $3.8 billion, or 8.2%, since December 31, 2016, compared to an increase of $4.5 billion, or 10.7%, as at that date.

Savings from businesses, governments and deposit-taking institutions

As at December 31, 2017, Desjardins Group's outstanding savings from businesses and governments, which represented 40.3% of its deposit liabilities, totalled $69.1 billion, up $6.3 billion, or 10.0%, compared to a decrease of $1.0 billion, or 1.6%, at the end of 2016. This increase was due in particular to the various securities issued on U.S., Canadian and European markets, which supported the growth in Desjardins Group's funding requirements.

Outstanding savings from "Deposit-taking institutions", which accounted for 1.1% of Desjardins Group's deposit liabilities as at December 31, 2017, totalled $1.9 billion at the same date, up $437 million, or 29.7%, compared to a decrease of $29 million, or 1.9%, a year earlier.

Additional information about Desjardins Group's sources of financing can be found on pages 96 to 98, while its liquidity risk management policy is discussed on page 93.

INSURANCE CONTRACT LIABILITIES

As at December 31, 2017, Desjardins Group's insurance contract liabilities were $28.3 billion, up $779 million, or 2.8%, from December 31, 2016, compared to a $759 million, or 2.8%, increase observed a year earlier. This growth is partially due to higher actuarial liabilities as a result of life and health insurance operations, which grew by $854 million.

Note 15, "Insurance contract liabilities", to the Annual Combined Financial Statements provides additional information about these Desjardins Group liabilities.

EQUITY

As at December 31, 2017, equity totalled $24.8 billion, up $1.5 billion, or 6.4%, compared to an increase of $1.6 billion, or 7.2%, a year earlier. Net surplus earnings after member dividends, totalling $2,003 million, were a source of this growth. In addition, the Federation issued F capital shares for proceeds of $244 million, net of certain items, as well as F capital shares having a value of $125 million for the payment of interest when the holder has elected to receive remuneration in F capital shares. The redemption of permanent shares of $275 million and the remuneration on capital stock of $212 million reduced equity.

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

3.2 Capital management

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

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

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

Desjardins Group's Integrated Capital Management Framework

Broadly speaking, Desjardins Group's Integrated Capital Management Framework includes the policies and processes required to set targets for its capitalization, to establish strategies to ensure that targets are met, to quickly raise capital, to ensure that the components' performance is appropriately measured, 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 minimum capital target, as established in the capitalization plan, is adequate in view of the risks to which Desjardins Group is exposed. Additional information on the ICAAP and the stress-testing program is presented in Section 4.2 "Risk management".

Regulatory framework and internal policies

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

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

Desjardins Group's regulatory capital ratios are calculated according to the AMF's guideline on adequacy of capital base standards applicable to 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 Basel III regulatory framework increases capital requirements. Even though the Basel III regulatory framework provides for a transitional period from 2013 to 2019 to mitigate the impact of the new capitalization rules, the AMF required Desjardins Group to meet the Tier 1A Tier 1 and total capital ratio requirements for 2019 in the first quarter of 2013. The AMF may also set higher target ratios at its discretion when circumstances warrant.

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

In this regard, it should be mentioned that the life and health insurance subsidiaries under provincial jurisdiction are subject to the Capital Adequacy Requirements Guideline (CARLI) issued by the AMF. The property and casualty insurance subsidiaries under provincial jurisdiction must comply with the Guideline on Capital Adequacy Requirements issued by the AMF. The property and casualty insurance subsidiaries under federal jurisdiction must comply with the OSFI's Minimum Capital Test (MCT) Guideline for federally regulated property and casualty insurance companies. Developments in these guidelines are presented in the "Changes in the regulatory environment" section on pages 18 to 20 of this MD&A.

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 Capital Adequacy Requirements Guideline — Life and Health Insurance.

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

Table 20 – Summary of ratios regulated by the AMF under Basel III(1)(2)

	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs(3)	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at December 31, 2017
Tier 1A capital ratio	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**18.0%**
Tier 1 capital ratio	> 6.0	2.5	> 8.5	1.0	> 9.5	**18.0**
Total capital ratio	> 8.0	2.5	> 10.5	1.0	> 11.5	**18.4**
Leverage ratio	> 3.0	N/A	> 3.0	N/A	> 3.0	**8.5**

(1) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets in accordance with the guideline.
(2) The leverage ratio is calculated according to the guideline and is defined as an independent measure of risk based on 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) other off-balance sheet items.
(3) In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios.

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 January 14, 2016, the BCBS issued a revised version of the minimum capital requirements for market risk. The objective of the revised framework is to arrange that, for the treatment of market risk, the Standardized Approach and the internal models approach produce credible results regarding the capital base and promote the harmonious implementation of standards in all jurisdictions. On June 29, 2017, the BCBS issued a consultative document entitled "Simplified alternative to the standardised approach to market risk capital requirements" which offers a simplified version of the rules defined in the document issued in January 2016 concerning the Standardized Approach. On December 7, 2017, the BCBS announced that financial institutions would have to start presenting information under the Standardized Approach as of January 1, 2022.

On April 21, 2016, the BCBS issued a document entitled "Interest rate risk in the banking book", intended as an update of the document issued in 2004, "Principles for the management and supervision of interest rate risk", dealing with risk management, the treatment of capital and supervision of interest rate risk in the banking book. Its aim is to ensure that financial institutions have appropriate capital to cover potential losses in the banking book stemming from interest rate fluctuations and thereby limit capital arbitrage between the trading book and the banking book. Application is scheduled as of 2018.

In addition, an update to the AMF's guideline on adequacy of capital base standards for financial services cooperatives took effect on January 1, 2017. It features a change in the treatment of equity investments in investment funds as well as the implementation of a downturn loss given default on residential mortgages, for financial institutions applying the Internal Ratings-Based Approach on loans secured by residential real estate.

On March 29, 2017, the BCBS issued a final document entitled "Regulatory treatment of accounting provisions – interim and transitional arrangements". This document is the result of the application of IFRS 9 effective January 1, 2018, which requires provisioning for expected credit losses rather than incurred losses, as required under the present standard. The BCBS is maintaining the present regulatory treatment of provisions under the Basel Accord framework for a transitional period. Furthermore, on August 21, the OSFI issued a draft for public consultation on the revision of the Capital Adequacy Requirements Guideline to be implemented in the first quarter of 2018. The proposed changes take up the same principles as the BCBS. Authorities may adopt transitional measures in order to gradually take into account any significant future negative effect on regulatory capital as a result of the introduction of the new impairment model based on expected credit losses under IFRS 9. However, on November 29, 2017, the OSFI announced that no transitional measure would be allowed following the adoption of IFRS 9.

On July 6, 2017, the BCBS issued a consultative document entitled "Capital treatment for simple, transparent and comparable short-term securitisations," which sets out additional guidance and requirements allowing financial institutions acting as investors in or as sponsors of simple, transparent and comparable short-term securitizations to determine whether they can benefit from preferential regulatory capital treatment. The AMF has not expressed its intentions with respect to the consultative document.

On October 25, 2017, the BCBS issued a guideline on identification and management of step-in risk, aimed at measuring the risk related to the support that a financial institution could give an unconsolidated entity, should such entity find itself in financial distress, even beyond or in the absence of contractual obligations. The proposed framework does not call for capital requirements to be automatically added to those required under present Basel standards. It is scheduled to come into force in 2020.

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

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

The BCBS has scheduled the implementation of these reforms for January 1, 2022 and the transitional provisions for applying the output floor based on the revised Basel III standardized approach. The AMF may choose to implement more prudent measures and accelerated transitional provisions. In this regard, the OSFI issued a transitional measure on January 12, 2018 allowing the Basel I output floor to be replaced by a revised capital output floor as of the second quarter of 2018.

On December 7, 2017, the BCBS also issued a discussion paper on the regulatory treatment of sovereign exposures. The BCBS is receiving comments on the topic until March 9, 2018.

On November 23, 2017, the AMF issued a notice concerning the deferred implementation, until the first quarter of 2019, of the BCBS's rules related to the standardized approach for counterparty credit risk (SA-CCR) and the revised capital requirements for bank exposure to central counterparties.

The "Changes in 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, or the TLAC guideline project.

Compliance with requirements

As at December 31, 2017, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 18.0%, 18.0% and 18.4%, respectively. The leverage ratio was 8.5%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at December 31, 2017.

Regulatory capital

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

Table 21 – Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A[1]	Tier 1B[1]	
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • Federation capital shares • Permanent shares and surplus shares subject to phase-out	• Non-controlling interests[2]	• Eligible collective allowance • Subordinated notes subject to phase-out • Eligible qualifying shares
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance		
Deductions	• Mainly significant investments in financial institutions[3]		• 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] 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 22 – Regulatory capital
As at December 31

(in millions of dollars and as a percentage)	**2017**	2016
Tier 1A capital		
Federation capital shares[1]	**$ 4,518**	$ 4,142
Permanent shares and surplus shares subject to phase-out	**794**	1,078
Reserves	**16,707**	15,052
Undistributed surplus earnings	**1,336**	1,502
Eligible accumulated other comprehensive income	**410**	392
Non-controlling interests	**-**	-
Deductions[2]	**(2,780)**	(3,446)
Total Tier 1A capital	**20,985**	18,720
Non-controlling interests	**13**	12
Total Tier 1B capital	**13**	12
Total Tier 1 capital	**20,998**	18,732
Tier 2 capital		
Subordinated notes subject to phase-out	**1,032**	1,206
Eligible collective allowance	**257**	252
Other eligible instruments	**25**	25
Non-controlling interests	**-**	-
Deductions	**(876)**	(872)
Total Tier 2 capital	**438**	611
Total regulatory capital (Tiers 1 and 2)	**$ 21,436**	$ 19,343
Ratios and leverage ratio exposure		
Tier 1A capital ratio	**18.0%**	17.3%
Tier 1 capital ratio	**18.0**	17.3
Total capital ratio	**18.4**	17.9
Leverage ratio	**8.5**	8.1
Leverage ratio exposure	**$ 246,832**	$ 230,472

[1] Including capital shares held in a segregated fund.
[2] Deductions from Tier 1A are comprised of regulatory adjustments and significant investments of $651 million and $2,129 million, respectively as at December 31, 2017, and of $687 million and $2,759 million as at December 31, 2016.

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

In addition, the subordinated notes issued by Desjardins Capital Inc. are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Desjardins Group has not issued any instruments of this type as discussions concerning the application of these regulations by Desjardins Group are still in progress with the AMF.

On December 21, 2017, 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 23, 2018. During 2017, the Federation issued F capital shares for proceeds of $244 million, net of certain items. It also issued F capital shares for an amount of $125 million in order to pay interest where a holder elected to receive remuneration in capital shares.

As at December 31, 2017, the Tier 1A capital ratio was up 71 basis points compared to December 31, 2016. Growth in surplus earnings and reserves was partly offset by an increase in risk-weighted assets. On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, Western Financial Group Inc. and Western Life Assurance Company, which contributed to the increase in the Tier 1A capital ratio.

Table 23 – Change in regulatory capital
As at December 31

(in millions of dollars)	**2017**	2016
Tier 1A capital		
Balance at beginning of year	**$ 18,720**	$ 17,354
Increase in reserves and undistributed surplus earnings[1]	**1,489**	1,924
Eligible accumulated other comprehensive income	**18**	45
Federation capital shares[2]	**376**	598
Permanent shares and surplus shares subject to phase-out	**(284)**	(393)
Non-controlling interests	**-**	(15)
Deductions	**666**	(793)
Balance at end of year	**20,985**	18,720
Tier 1B capital		
Balance at beginning of year	**12**	17
Non-controlling interests	**1**	(5)
Balance at end of year	**13**	12
Total Tier 1 capital	**20,998**	18,732
Tier 2 capital		
Balance at beginning of year	**611**	1,329
Non-controlling interests	**-**	(2)
Senior notes subject to phase-out	**(174)**	(686)
Eligible collective allowance	**5**	(30)
Deductions	**(4)**	-
Balance at end of year	**438**	611
Total capital	**$ 21,436**	$ 19,343

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

Risk-weighted assets (RWA)

Desjardins Group calculates the risk-weighted assets for credit risk, market risk and operational risk. Since March 2009, Desjardins has been using the Internal Ratings-Based Approach for credit risk related to retail loan portfolios − Personal. Other exposures to credit and market risk are measured according to the Standardized Approach. On June 19, 2017, Desjardins Group received the AMF's authorization to use the Standardized Approach for calculating operational risk as of the second quarter of 2017. In addition, Desjardins Group is subject to a threshold defined under Basel I, where the threshold is determined by the difference between the minimum regulatory capital requirement in accordance with the rules of the last version of the AMF guideline based on Basel I, multiplied by an adjustment factor set by the AMF, and the minimum regulatory capital requirement calculated under Basel III.

As indicated in the table below, risk-weighted assets totalled $116.5 billion as at December 31, 2017. Of this amount, $88.1billion was for credit risk, $2.0 billion for market risk, $11.9 billion for operational risk, and $14.9 billion was for the threshold adjustment. As at December 31, 2016, risk-weighted assets stood at $108.1 billion.

Table 24 – Risk-weighted assets

(in millions of dollars and as a percentage)	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2017				Total as at December 31, 2016
	Exposure [1]	**Risk-weighted assets**	**Exposure** [1]	**Risk-weighted assets**	**Exposure** [1]	**Risk-weighted assets**	**Capital requirement** [2]	**Average risk weighting rate**	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	**$ -**	**$ -**	**$ 14,564**	**$ 28**	**$ 14,564**	**$ 28**	**$ 2**	**- %**	$ 2
Financial institutions	**-**	**-**	**10,065**	**2,094**	**10,065**	**2,094**	**168**	**21**	1,668
Businesses	**-**	**-**	**54,116**	**43,738**	**54,116**	**43,738**	**3,499**	**81**	40,355
Securitizations	**-**	**-**	**6**	**75**	**6**	**75**	**6**	**1,250**	1,138
Equities	**-**	**-**	**152**	**241**	**152**	**241**	**19**	**159**	98
SMEs similar to other retail client exposures	**-**	**-**	**6,981**	**4,687**	**6,981**	**4,687**	**375**	**67**	4,399
Mortgages	**105,681**	**9,623**	**411**	**146**	**106,092**	**9,769**	**782**	**9**	8,271
Other retail client exposures (excluding SMEs)	**9,993**	**3,753**	**279**	**222**	**10,272**	**3,975**	**318**	**39**	3,133
Qualifying revolving retail client exposures	**37,349**	**8,833**	**-**	**-**	**37,349**	**8,833**	**707**	**24**	7,590
Subtotal - Credit risk other than counterparty risk	**153,023**	**22,209**	**86,574**	**51,231**	**239,597**	**73,440**	**5,876**	**31**	66,654
Counterparty risk									
Sovereign borrowers	**-**	**-**	**8**	**-**	**8**	**-**	**-**	**-**	-
Financial institutions	**-**	**-**	**1,713**	**343**	**1,713**	**343**	**27**	**20**	317
Businesses	**-**	**-**	**6**	**5**	**6**	**5**	**-**	**83**	13
Trading portfolio	**-**	**-**	**1,268**	**365**	**1,268**	**365**	**29**	**29**	191
Credit valuation adjustment charge	**-**	**-**	**-**	**-**	**-**	**903**	**72**	**-**	807
Additional requirements for banking and trading portfolio	**-**	**-**	**-**	**-**	**68**	**1**	**-**	**-**	1
Subtotal - Counterparty risk	**-**	**-**	**2,995**	**713**	**3,063**	**1,617**	**128**	**53**	1,329
Other assets[3]	**-**	**-**	**-**	**-**	**16,705**	**11,677**	**934**	**70**	9,674
Scaling factor[4]	**-**	**1,333**	**-**	**-**	**-**	**1,333**	**107**	**-**	1,121
Total credit risk	**153,023**	**23,542**	**89,569**	**51,944**	**259,365**	**88,067**	**7,045**	**34**	78,778
Market risk									
Interest rate position risk	**-**	**-**	**-**	**1,692**	**-**	**1,692**	**135**	**-**	1,428
Currency risk	**-**	**-**	**-**	**151**	**-**	**151**	**12**	**-**	262
Additional requirements for other risks[5]	**-**	**-**	**-**	**122**	**-**	**122**	**10**	**-**	120
Total market risk	**-**	**-**	**-**	**1,965**	**-**	**1,965**	**157**	**-**	1,810
Operational risk[6]	**-**	**-**	**-**	**11,850**	**-**	**11,850**	**948**	**-**	13,315
Total risk-weighted assets before threshold	**153,023**	**23,542**	**89,569**	**65,759**	**259,365**	**101,882**	**8,150**	**-**	93,903
Risk-weighted assets (RWA) after the transitional provisions for the credit valuation adjustment charge[7]									
RWA for Tier 1A capital	**-**	**-**	**-**	**-**	**-**	**101,629**	**8,129**	**-**	93,612
RWA for Tier 1 capital	**-**	**-**	**-**	**-**	**-**	**101,674**	**8,134**	**-**	93,668
RWA for total capital	**-**	**-**	**-**	**-**	**-**	**101,710**	**8,137**	**-**	93,716
Transitional threshold adjustment[8]	**-**	**-**	**-**	**-**	**-**	**14,858**	**1,189**	**-**	14,532
Total risk-weighted assets	**$ 153,023**	**$ 23,542**	**$ 89,569**	**$ 65,759**	**$ 259,365**	**$ 116,487**	**$ 9,318**	**- %**	$ 108,144

(1) Net exposure, after credit risk mitigation (net of specific allowances under the Standardized Approach but not under the Internal Ratings-Based Approach in accordance with the AMF guideline).
(2) The capital requirement represents 8% of risk-weighted assets.
(3) Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain threshold in components 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 below 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 credit valuation adjustment (CVA) charge and additional requirements for the banking and trading portfolio, which are disclosed in the counterparty credit risk section.
(4) The scaling factor is a 6.0% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.
(5) Other risks include equities risk, commodities risk and options risk.
(6) Since second quarter 2017, the Standardized Approach has been used to assess operational risk. The Basic Indicator Approach was used in prior periods.
(7) The scaling factors used since January 1, 2014 to account for CVA charge requirements are being phased in to calculate the Tier 1A, Tier 1 and total capital ratios. They were 72%, 77% and 81%, respectively, in 2017 (64%, 71% and 77% in 2016) and will reach 100% for each class of capital by 2019.
(8) As prescribed in Section 1.6 of the AMF guideline. The threshold is presented to take into account risk-weighted assets after the transitional provisions for the CVA charge for Tier 1A capital.

Movements in risk-weighted assets

For credit risk, fluctuations in RWA during 2017 are segmented into two items, namely credit risk other than counterparty risk, and counterparty risk. In credit risk other than counterparty risk, the principal fluctuations were caused by changes in the portfolio's size, which resulted in a $7.4 billion increase in RWA, whereas the improvement in portfolio quality caused a decrease of $408 million. In addition, the updating of models generated a $2.1 billion increase. The change in procedures and policies caused a slight increase of $8 million in RWA, chiefly due to the integration of the downturn loss given default. The sale of two subsidiaries, Western Financial Group Inc. and Western Life Assurance Company, led to a $65 million increase due to the 10% capital threshold procedure applied in calculating RWA, and finally the change in exchange rates accounted for a $217 million decrease. In counterparty risk, the larger size of the portfolio mainly accounted for an increase of $328 million in 2017.

In market risk, a $155 million increase in RWA was observed due to a change in risk levels. A $1.5 billion decrease was also noted in operational risk as a result of fluctuations in the income generated and changes in the calculation methods for regulatory capital.

The threshold adjustment as previously defined increased by $326 million of RWA in 2017, basically as a result of the updating of models and the change in procedures and policies.

Table 25 – Change in risk-weighted assets
As at December 31

(in millions of dollars)	2017			2016		
	Credit risk other than counterparty risk	**Counterparty and issuer risk**	**Total**	Credit risk other than counterparty risk	Counterparty and issuer risk	Total
Credit risk						
Risk-weighted assets at beginning of year	**$ 77,449**	**$ 1,038**	**$ 78,487**	$ 73,303	$ 1,214	$ 74,517
Size of portfolio(1)	**7,431**	**282**	**7,713**	4,255	39	4,294
Quality of portfolio(2)	**(408)**	**(13)**	**(421)**	666	(215)	451
Updating of models(3)	**2,120**	**-**	**2,120**	(577)	-	(577)
Procedures and policies(4)	**8**	**59**	**67**	(123)	-	(123)
Acquisitions and transfers	**65**	**-**	**65**	-	-	-
Change in exchange rates	**(217)**	**-**	**(217)**	(71)	-	(71)
Other	**-**	**-**	**-**	(4)	-	(4)
Total changes in risk-weighted assets	**8,999**	**328**	**9,327**	4,146	(176)	3,970
Risk-weighted assets at end of year	**$ 86,448**	**$ 1,366**	**$ 87,814**	$ 77,449	$ 1,038	$ 78,487

(in millions of dollars)	2017	2016
Market risk		
Risk-weighted assets at beginning of year	**$ 1,810**	$ 2,157
Change in risk levels(5)	**155**	(347)
Updating of models(3)	**-**	-
Procedures and policies(4)	**-**	-
Acquisitions and transfers	**-**	-
Change in exchange rates	**-**	-
Other	**-**	-
Total changes in risk-weighted assets	**155**	(347)
Risk-weighted assets at end of year	**$ 1,965**	$ 1,810
Operational risk		
Risk-weighted assets at beginning of year	**$ 13,315**	$ 13,032
Revenue generated	**126**	283
Procedures and policies(4)	**(1,591)**	-
Acquisitions and transfers	**-**	-
Total changes in risk-weighted assets	**(1,465)**	283
Risk-weighted assets at end of year	**$ 11,850**	$ 13,315
Transitional threshold adjustment		
Risk-weighted assets at beginning of year	**$ 14,532**	$ 18,778
Size of portfolio(1)	**83**	(177)
Quality of portfolio(2)	**456**	(317)
Updating of models(3)	**(2,076)**	519
Procedures and policies(4)	**1,864**	(4,271)
Acquisitions and transfers	**(1)**	-
Change in exchange rates	**-**	-
Other	**-**	-
Total changes in risk-weighted assets	**326**	(4,246)
Risk-weighted assets at end of year	**$ 14,858**	$ 14,532

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

3.3 Off-balance sheet arrangements

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization.

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

As at December 31, 2017, Desjardins Group administered, for the account of its members and clients, assets totalling $411.5 billion. This represented an annual decrease of $8.6 billion, or 2.1%, compared to an increase of $16.8 billion, or 4.2%, recorded as at December 31, 2016. The decrease was mainly due to custodial services for institutional securities. Financial assets placed with Desjardins Group as wealth manager amounted to $58.2 billion at the close of 2017, for an increase of $6.7 billion, or 12.9% on an annual basis, compared to an increase of $5.5 billion, or 11.9%, a year earlier. The increase was chiefly due to growth in Desjardins Funds.

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

Table 26 – Assets under management and under administration
As at December 31

(in millions of dollars)	2017	2016	2015
Assets under management			
Institutions and individuals	**$ 15,263**	$ 12,205	$ 11,595
Investment funds(1)	**42,957**	39,345	34,458
Total assets under management	**$ 58,220**	$ 51,550	$ 46,053
Assets under administration			
Individual and institutional trust and custodial services	**$ 313,517**	$ 326,798	$ 321,401
Investment funds(1)	**98,031**	93,368	81,949
Total assets under administration	**$ 411,548**	$ 420,166	$ 403,350

(1) Including Desjardins Funds and Northwest and Ethical Funds.

CREDIT INSTRUMENTS

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

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

GUARANTEES

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

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of business, Desjardins Group holds financial assets as collateral as a result of transactions involving securities borrowed or those purchased under reverse repurchase agreements. Note 29, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides additional information about assets held as collateral.

STRUCTURED ENTITIES

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

Master Asset Vehicle (MAV) trusts

Desjardins Group holds financial interests in MAV trusts, which are structured entities not included in its Combined Balance Sheets. These trusts were created for the specific purpose of aggregating the restructured notes arising from asset-backed commercial paper held by Canadian institutional investors. Substantially all of the asset-backed term notes were settled during the first quarter of 2017.

Securitization of Desjardins Group's financial assets

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

4.0 Risk management

The shaded areas and tables marked with an asterisk (*) in this section contain information about credit, market and liquidity risks in accordance with IFRS 7, "Financial Instruments: Disclosures". They also contain an analysis of how Desjardins Group assesses its risks as well as a description of its risk management objectives, policies and methods. IFRS 7 provides that risk disclosures may be included in the MD&A. Consequently, the shaded areas and tables marked with an asterisk (*) are an integral part of the Combined Financial Statements, as explained in Note 31, "Financial instrument risk management", to the Combined Financial Statements.

4.1 Risk factors that could impact future results

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

Principal risks and emerging risks

Principal risks and emerging risks are risks or risk factors that could have a significant impact on Desjardins Group's financial health 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 or developing risk factors. 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 risks and emerging risks	Description
Cyber threats	The faster pace of virtual business environments and their complexity, whether in banking, insurance or wealth management operations, are increasing the organization's exposure to the risk of cyber threats. For instance, the trend toward interactive and virtual payment methods increases the risk of external fraud involving data integrity, while the instability of transactional platforms for members and clients could lead to a breach of trust, with negative repercussions on business operations. These factors could result in litigation and adversely affect financial results as well as Desjardins Group's reputation. Desjardins remains vigilant and proactive in identifying and managing such risks by adopting cyber defence techniques to safeguard its systems and data in order to protect its members and clients.
Technological developments	Technological development risks are growing because of the increased use of technology by the financial services sector, as well as by other sectors of the economy. The financial services industry is in a state of flux. The business environment has changed very quickly in recent years with the advent of unconventional rivals from the world of technology offering efficient, alternative payment and financing services. These competitors have flexible technology tools and a less restrictive regulatory framework. With the advent of fintech, traditional players from the financial sector have had to position themselves in these new markets and overhaul their operating methods to promote innovation and deploy new solutions. Desjardins Group has been no exception and remains active in managing this strategic risk, among others, by investing in financial technology and by reviewing and diversifying its products, services and distribution channels to meet the needs of its members and clients.

Principal risks and emerging risks	Description
Regulatory developments	Desjardins Group is subject to a complex, varied and changing regulatory environment as well as to increased supervision from regulatory authorities, particularly because of its status as a domestic systemically important financial institution and its operations across Canada and the United States. Regulatory changes and their complexity expose Desjardins to a higher risk of non-compliance and uncertainty regarding the impact of such changes on business practices and financial results. Note in particular the work to update the Quebec *Act respecting financial services cooperatives* and the Quebec *Deposit Insurance Act*, the publication of the OSFI's final version of Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* (effective January 1, 2018), and the AMF's draft guideline on granting residential mortgages. Also of note is the upcoming compliance with IFRS 17, which has just amended the measurement rules for actuarial liabilities in insurance (scheduled implementation in 2021). The organization has significant resources allocated to monitoring, analyzing and applying the different legal and regulatory requirements related to its operations and cooperative nature.
Household indebtedness and changes in the housing market	An economic slowdown, which is felt more acutely in times of geopolitical uncertainty, could substantially affect households whose debt levels are still high. This economic situation could lead to a decline in the housing market, which is still strong despite some signs of losing steam, and to the expected impact of tighter mortgage granting rules, including a stress test involving interest rates for mortgage financing. Desjardins Group has a large portfolio mainly concentrated in Quebec, making it vulnerable to a decline in the housing market. However, Desjardins has sound practices in granting and managing mortgage financing which should allow it to circumvent this risk.
Low interest rate environment	Interest rates have remained at very low levels since the recovery from the 2008 financial crisis. This low rate environment puts pressure on financial intermediation margins, resulting in lower interest income and fiercer competition for deposits as a number of investors in search of higher returns abandon traditional bank products for high interest savings accounts and investment vehicles. This situation also affects Desjardins Group's insurer and pension plan matching activities while the valuation of liabilities increases and returns on assets decrease. Desjardins Group is still actively involved in its matching strategies and effectively manages these risks. However, the Bank of Canada's key interest rate is trending gradually upward, which together with tighter mortgage rules, could impact households' financial health. Desjardins nevertheless remains alert and is monitoring the credit quality of its loan and credit card portfolio to mitigate this risk.
Geopolitical uncertainties	The geopolitical landscape is changing. The adoption of protectionist measures by the U.S. administration increases global uncertainty, especially for the Canadian economy because of the North American Free Trade Agreement (NAFTA) negotiations and the withdrawal of the U.S. from the Trans-Pacific Partnership Agreement. The European political landscape is also undergoing significant change because of Great Britain's negotiations to withdraw from the European Union (Brexit) or even Catalonia's attempted separation. In addition, the outlook for militarization of international relations with North Korea is fuelling fears of political instability. Aware of the strong global economic integration, Desjardins Group remains vigilant and continues to rely on its robust risk management framework to identify, measure and mitigate risk.

Other risk factors that could impact future results

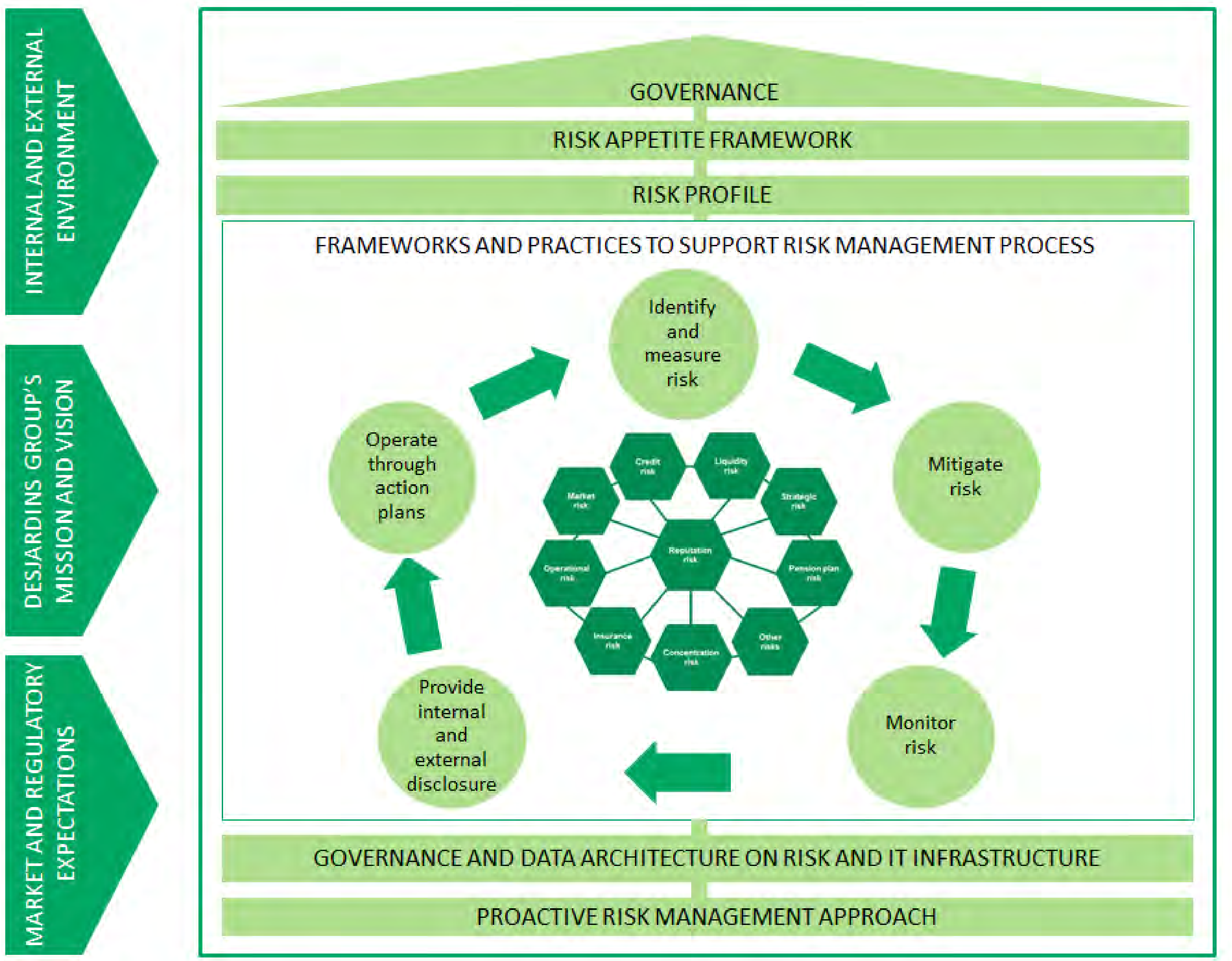
Risk factors	Description
General economic and business conditions in regions in which Desjardins Group operates	General economic and business conditions in the regions in which Desjardins Group operates may significantly affect its revenues and surplus earnings. These conditions include short and long-term 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.
Monetary policies	The monetary policies of the Bank of Canada and the Fed, as well as other 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 on its clients and counterparties. When deciding to authorize a loan or other transactions with clients or counterparties, Desjardins Group may use information provided by them, including financial statements and other financial information. It may also rely on representations made by clients and counterparties regarding the completeness and accuracy of such information, and on auditors' reports regarding the financial statements. The financial position and income of Desjardins Group could be adversely affected if the financial statements on which it relies fail to comply with accounting standards, are misleading or do not present fairly, in all material respects, the financial position, performance and cash flows of its members, clients and counterparties. Desjardins Group trains its employees and implements procedures to mitigate the risks related to the use of inaccurate, incomplete or fraudulent information from its members, clients or counterparties.

Risk factors	Description
Critical accounting estimates and accounting standards	The Combined Financial Statements were prepared in accordance with the IFRS. The accounting policies used by Desjardins Group determine how it reports its financial position and results of operations, and management may be required to make estimates or rely on assumptions about matters that are inherently uncertain. Any change in these estimates and assumptions may have a significant impact on Desjardins Group's financial position and results of operations. Also note the upcoming compliance with IFRS 9, which incorporates a forward-looking perspective in calculating allowances for credit losses (2018 implementation), and IFRS 17, which has just amended the measurement rules for actuarial liabilities in insurance (scheduled implementation in 2021). These new standards may affect the organization's financial results.
New products and services to maintain or increase market share	Strong competitive pressures from Canadian financial institutions and the emergence of new competitors have led Desjardins Group to develop new products and services at a faster pace to maintain or increase its attractiveness as a financial institution with its clients. Developing these new products and services could require large investments by Desjardins or involve risks not identified at the time of their development. Desjardins cannot be certain that the new products and services it offers will result in the anticipated financial benefits.
Geographic concentration	Desjardins Group's operations are heavily concentrated in Quebec. As at December 31, 2017, Desjardins Group's loans to Quebec members and clients therefore accounted for 92.1% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results largely depend on economic conditions in Quebec. Any deterioration in these conditions could adversely impact: • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in 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. The integration of State Farm's Canadian operations within Desjardins Group is progressing satisfactorily, particularly with regard to the consolidation of the functions related to the use of State Farm banners and trademark during a certain period of time after the closing. Similarly, the agreement regarding the rendering of certain transitional services to Desjardins Group by State Farm during the period agreed upon after the closing is working out as scheduled. However, fully achieving the benefits anticipated by Desjardins Group will depend on its ability to capitalize on growth opportunities. Desjardins Group still risks experiencing problems up to the end of the integration and transition process, which could have an unfavourable impact on its operations, financial position, results of operations and cash flows.
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.
Catastrophes and climate change	Catastrophes are events whose unforeseeable nature and severity may have a material impact on Desjardins Group's results. More specifically, the financial results of Desjardins P&C insurance subsidiaries, given the nature of their operations, are more significantly affected by natural disasters. The risks associated with catastrophes and climate change are subject to specific governance within the P&C insurance subsidiaries as well as to mitigation measures, the most important of which is still the catastrophe reinsurance treaty, under which the volatility of financial results can be reduced. Desjardins Group understands the challenge posed by climate change to its P&C insurance operations and is an active participant in various industry initiatives. Moreover, Desjardins and its P&C insurance subsidiaries have set up a management structure to coordinate their activities and promote the rapid deployment of personnel in order to provide the best possible support to their insureds given the sufficiently high frequency of such extreme weather events.
Other factors	Other factors that may have an impact on Desjardins Group's future results include changes in tax laws, unexpected changes in consumer spending and saving habits, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact of international conflicts on operations, and Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment. Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

4.2 Risk management

Integrated risk management framework

Desjardins Group's objective in risk management is to optimize the risk-return trade-off, within set tolerance limits, by developing and applying integrated risk management strategies, frameworks, practices and procedures to all its operations. To this end, Desjardins developed an Integrated Risk Management Framework aimed, among other things, at giving its senior management and the Federation's Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of the full spectrum of risks associated with the achievement of its objectives.



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 risks to which it is exposed. Desjardins Group has a risk log that sets out the main categories and subcategories of risks to which Desjardins Group is exposed and which could affect results. The log is updated at least annually and is used as a basis to make a quantitative and qualitative assessment of risk materiality, to determine Desjardins Group's risk profile and to implement appropriate strategies to mitigate risk.

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

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

In addition to strategic, operational, liquidity and reputation risks inherent in operations, the top risks of Desjardins Group's business segments are:

- Personal and Business Services: Credit and market risk
- Wealth Management and Life and Health Insurance: Insurance, market and credit risk
- Property and Casualty Insurance: Insurance and market risk

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 profitability 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 risks. These scenarios are then submitted to senior management for approval of an enterprise-wide assessment. More than 20 macroeconomic variables, including GDP, 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 three-year horizon. The exercise's results are also used to establish capitalization targets and to update risk appetite and tolerance indicators.

During Desjardins-wide stress testing in 2017, the scenarios developed separately considered the possibility of a global economic crisis followed by a real estate decline in Canada, a crisis stemming from U.S. economic policies and increased protectionism and a crisis resulting from a cyber attack affecting international capital markets. 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 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 oversee the use of Desjardins Group risk models, activities such as the development, 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 team, 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. 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 the automatic replication of certain results obtained by the modelling team and the review of some aspects affecting implementation of the model. 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. The validation team is also responsible for determining the importance level of each of Desjardins Group's risk assessment models. A model's importance level often dictates how often the model will be validated during its lifetime. Even though the governance structure overseeing design and performance monitoring activities mitigates 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 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, financial 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 by promoting a better understanding of the effect of principal risks and emerging risks 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 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 appetite framework also provides a system of qualitative and quantitative risk indicators that are monitored on a regular basis to ensure that Desjardins Group's risk profile remains within the risk appetite limits set by senior management and the Board of Directors. Desjardins Group's risk profile is analyzed quarterly by the Risk Management Executive Division and presented to senior management and the Board of Directors. In the event a level or limit for a risk appetite indicator is exceeded, a mechanism to implement an action plan is deployed and information is transmitted to 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 Desjardins Group 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 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. First and foremost, the Board of Directors, senior management and the Risk Management Executive Division set the tone by promoting risk-taking behaviour in line with Desjardins Group's risk management frameworks and its risk appetite. 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 education 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.

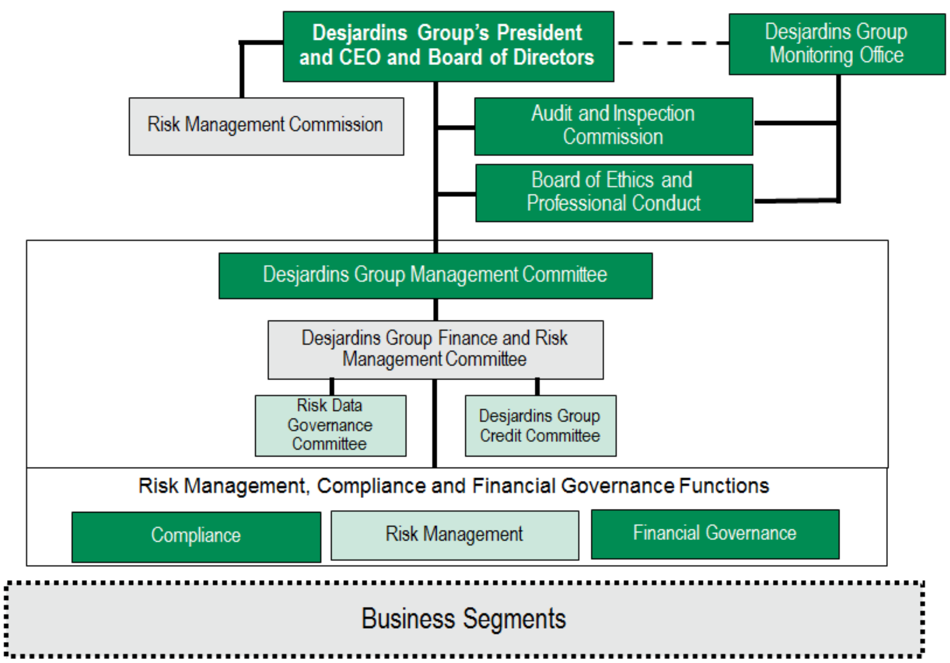
Compensation in relation to risk management

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 senior executives, members of the Management Committee and all employees. In this regard, it establishes an annual salary review, sets the objectives and measures the results of the general incentive plan. Acting as a subcommittee of the Board of Directors, the Human Resources Commission periodically reviews Desjardins Group's position with regard to total compensation so that it can remain competitive.

Incentive plans for senior executives, which are consistent with risk-taking at Desjardins Group, provide, as a general rule, 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 results. This formula encourages key stakeholders to have a long-term vision of Desjardins Group's development, which is beneficial for the organization's members and clients.

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 2017 Desjardins Group Annual Report.

The **Desjardins Group Management Committee** must, in particular, make recommendations to the Board of Directors concerning risk management policies and strategies and ensure that they are implemented effectively and efficiently. The Management Committee can rely on the Finance and Risk Management Committee, made up of the heads of Desjardins Group's strategic functions and Desjardins experts.

The **Desjardins Group Finance and Risk Management Committee** is responsible for analyzing the key elements of the risk appetite framework and, where needed, for making recommendations to the Desjardins Group Management Committee, 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 assessing the potential impact of identified risks on business strategies. This committee is supported by the Desjardins Group Credit Committee and by the Risk Data Governance Committee, which provides guidance and exercises authority in establishing and monitoring risk data governance in accordance with Desjardins Group's needs and regulatory requirements. In addition, it prioritizes the actions to improve risk data quality. The Desjardins Group Credit Committee is also supported by a risk supervision function in charge of ensuring the integrated governance of risk segmentation models and tools as well as regulatory models.

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 risk-taking. In this regard, the roles and responsibilities relating to operations management and their risks must be clearly identified.

3rd Line of Defence	
Desjardins Group Monitoring Office	Responsible for conducting a periodic, independent and objective assessment of the First and Second Lines of Defence.
2nd Line of Defence	
Risk management,compliance and control functions	Responsible for providing risk management support to the First Line of Defence: develop frameworks and tools, mentor and train the First Line of Defence and ensure the orientations proposed are applied.
1st Line of Defence	
Process owner (Business Segments and support functions)	Accountable for the performance of the process, and works with agents and the team to ensure the consistent development of the process in line with member's needs and Desjardins Group's strategic vision.
Agent	Responsible for the performance of his area in order to attain the targets set by the owner and ensure the proper conduct of operations.

1st Line of Defence

The first line of defence is more specifically accountable for the overall performance of the activities assigned to it in the process and for managing the resulting risks. Its responsibility is therefore to:
- identify, measure, monitor and mitigate the risks arising from the activities assigned to it in the process;
- identify and analyze the controls in place and issue a conclusion on their adequacy and quality;
- design and set up controls, and then implement and monitor them;
- identify the changes that could affect the risk level of the activities assigned to it in the process and measure the impact;
- identify, design and monitor indicators that permit managing the risks of the activities assigned to it in the process;
- produce a risk profile for the processes assigned to it and report thereon;
- participate in critical review activities performed by the second and third lines of defence and take corrective action, if required;
- comply with regulatory requirements for risk data, risk disclosure and the governance framework, taking this into account during the budgetary and strategic planning process and when designing and carrying out new initiatives.

2nd Line of Defence

The **Risk Management Executive Division** is a strategic function whose main purpose is to partner with the business segments and Desjardins as a whole in their development by identifying, measuring and managing risks while ensuring Desjardins's sustainability. In partnership with the business segments, the Desjardins Group risk management function is responsible for recommending and establishing risk management frameworks, and setting up the appropriate risk management infrastructure, processes and practices to target all major Desjardins-wide risks.

The second line of defence can rely on the work performed by specialized programs for targeted risk assessment, which are also part of this line of defence. Although each specialized program has a separate mandate based on its expertise, they all help to regulate and properly manage certain issues inherent to Desjardins Group's operations. These expert programs are financial governance, business continuity, risk data quality and governance, compliance, technology risk, outsourcing and financial crime.

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 responsibilities. It also oversees and advises management with respect to its duty to manage in a sound and prudent manner. In so doing, it contributes to improving Desjardins Group's overall performance and maintaining the confidence of its members, the public and the 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; and the third pillar stipulates financial disclosure requirements.

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, subject to conditions, for credit risk related to the retail loan portfolios − Personal. Other exposures to credit, market and operational risk are currently measured according to the Standardized Approach. These provisions are used to calculate Desjardins Group's capital ratios, among other things.

In accordance with the AMF guideline on adequacy of capital base standards, 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.

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

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

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

Table 27 – Economic capital and risk-weighted assets[1] by business segment and by risk type
As at December 31, 2017

(in millions of dollars and as a percentage)

Desjardins Group

Economic capital	
Banking activities	
Credit risk	27.3%
Market risk	1.6
Operational risk	6.6
Other risks[2]	21.1
Total banking activities	56.6
Insurance activities	37.1
Risk related to goodwill and other intangible assets[3]	6.3

Risk-weighted assets	
Credit risk	$ 87,814
Market risk	1,965
Operational risk	11,850
Threshold adjustment	14,858

		Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other
Balance sheet[4]	Assets	$ 211,447	$ 42,005	$ 13,138	$ 8,505
Economic capital	Proportion of total for Desjardins Group	41.8%	30.0%	16.5%	11.7%
	Banking activities				
	Credit risk	60.7	0.7	-	14.1
	Market risk	1.9	-	-	8.4
	Operational risk	15.2	2.7	-	1.2
	Other risks[5]	21.4	3.8	-	61.5
	Total banking activities	99.2	7.1	-	85.3
	Insurance activities[6]	-	87.2	88.8	-
	Risk related to goodwill and other intangible assets[3]	0.8	5.7	11.2	14.7
Risk-weighted assets	Credit risk	$ 75,542	$ 5,263	$ 2,437	$ 4,572
	Market risk	1,265	10	-	690
	Operational risk	8,885	719	-	2,246

Risk profile: Desjardins Group is exposed to credit risk, market risk, operational risk and other risks, including in particular defined benefit plan risk, liquidity risk, interest rate risk, strategic risk, reputation risk and insurance risk.

(1) The amount of risk-weighted assets is the risk-weighted asset amount used to calculate the Tier 1A capital ratio.
(2) Includes defined benefit plan risk, liquidity risk, interest rate risk, strategic risk, reputation risk and the diversification effect.
(3) The economic capital amount for the risk related to goodwill and other intangible assets is the carrying amount of these assets. It is considered that in a worst-case scenario for economic capital, the value of these assets would become nil.
(4) The different adjustments required to prepare the Combined Financial Statements as well as intersegment balance eliminations are classified in the asset amount of the Other category.
(5) Includes liquidity risk, interest rate risk, strategic risk and reputation risk. The risk related to other credit assets and deferred tax assets, defined benefit plan risk and the diversification effect are not allocated to business segments.
(6) For insurance operations, economic capital is the amount of capital equal to each insurance subsidiary's internal target ratio. Such economic capital covers all risks.

Again this year, numerous efforts were made throughout Desjardins Group to reinforce the implementation of sound risk management practices and to align regulatory capital requirements more closely with risk exposure. Desjardins Group is continuing to invest in improving its tools and systems and aligning them with sound practices in the industry for the principal types of risk. In recent years, the Bank for International Settlements has issued new requirements (Basel III) for the global regulation of capital standards. These new rules, in effect since January 1, 2013, have increased not only capital requirements but also risk management requirements. In addition to the changes made to the level and definition of eligible capital and the measurement of risk-weighted assets, Basel III has, under the second pillar, introduced new liquidity requirements and raised expectations for a number of management practices. Disclosure standards, which fall under the third pillar, have also been enhanced. These new requirements under the third pillar will become effective for Desjardins Group on December 31, 2018. Desjardins Group will continue its development by integrating these new regulatory requirements into its Integrated Risk Management Framework.

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

Credit risk

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

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans, which accounted for 64.5% of assets on the Combined Balance Sheets as at December 31, 2017, comparable to the ratio recorded a year earlier. 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. This framework defines the responsibilities and powers of the parties involved, the limits imposed by risk tolerance, 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 credit and counterparty risk

The AMF has authorized two credit risk assessment approaches to be included in calculating regulatory capital, namely the Standardized Approach and the Internal Ratings-Based Approach. RWA calculations are used to measure Desjardins Group's credit risk, as well as market risk and operational risk. Desjardins has adopted the Internal Ratings-Based Approach for credit risk related to loan portfolios of retail clients – Personal. In order to apply this method, Desjardins Group had to make internal estimates to calculate the probability of default (PD), loss given default (LGD) and exposure at default (EAD) on loan products. Other credit risk exposures are measured using the Standardized Approach.

For purposes of measuring credit and counterparty risk, Desjardins Group calculates EAD by exposure category and by counterparty category.

Credit and counterparty risk exposure are classified according to 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, 2017, the EAD was $264.4 billion before using CRM techniques, and $242.6 billion after using CRM techniques. The complete results of the credit risk assessment, depending on the type of risk exposure, asset class and the calculation method used (the Standardized Approach or the Internal Ratings-Based Approach (Basel III), as required by the AMF), are found in the table below.

Table 28 – Risk exposure by asset class (Exposure at default [EAD])[(1)]*
As at December 31

(in millions of dollars)	2017 Used exposure	2017 Unused exposure	2017 Repo-style transactions	2017 OTC derivatives	2017 Off-balance sheet exposure	2017 Total	2017 Net exposure[(2)]
Standardized Approach							
Sovereign borrowers	$ 13,745	$ 678	$ 16	$ 8	$ 141	$ 14,588	$ 14,572
Financial institutions	7,475	2,478	483	3,287	524	14,247	11,778
Businesses	49,094	4,823	283	2	639	54,841	54,122
SMEs similar to other retail client exposures	6,822	188	-	-	34	7,044	6,981
Mortgages	411	-	-	-	-	411	411
Other retail client exposures (excluding SMEs)	1,438	67	-	-	-	1,505	279
Securitization	6	-	-	-	-	6	6
Equities	152	-	-	-	-	152	152
Trading portfolio	-	-	17,840	750	-	18,590	1,268
Internal Ratings-Based approach							
Mortgages	93,067	12,614	-	-	-	105,681	105,681
Revolving retail client exposures	11,239	26,110	-	-	-	37,349	37,349
Other retail client exposures	9,577	395	-	-	21	9,993	9,993
Total	**$ 193,026**	**$ 47,353**	**$ 18,622**	**$ 4,047**	**$ 1,359**	**$ 264,407**	**$ 242,592**

(in millions of dollars)	2016 Used exposure	2016 Unused exposure	2016 Repo-style transactions	2016 OTC derivatives	2016 Off-balance sheet exposure	2016 Total	2016 Net exposure[(2)]
Standardized Approach							
Sovereign borrowers	$ 14,321	$ 457	$ 861	$ 2	$ 89	$ 15,730	$ 14,909
Financial institutions	4,849	2,618	957	3,786	781	12,991	9,260
Businesses	45,398	4,498	517	-	935	51,348	50,135
SMEs similar to other retail client exposures	6,922	56	-	-	42	7,020	6,951
Mortgages	143	-	-	-	-	143	143
Other retail client exposures (excluding SMEs)	1,521	17	-	-	-	1,538	247
Securitization	807	-	-	-	-	807	807
Equities	98	-	-	-	-	98	98
Trading portfolio	-	-	14,563	844	-	15,407	915
Internal Ratings-Based approach							
Mortgages	88,199	8,500	-	-	-	96,699	96,699
Revolving retail client exposures	10,682	23,920	-	-	-	34,602	34,602
Other retail client exposures	8,332	326	-	-	18	8,676	8,676
Total	$ 181,272	$ 40,392	$ 16,898	$ 4,632	$ 1,865	$ 245,059	$ 223,442

(1) The definition of exposure classes related to regulatory capital requirements differs from the accounting classification.
(2) After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

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

Table 29 – Exposure at default - Businesses, sovereign borrowers and financial institutions by industry*
As at December 31

	2017						
(in millions of dollars)	**Used exposure**	**Unused exposure**	**Repo-style transactions**	**OTC derivatives**	**Off-balance sheet exposure**	**Total**	**Net exposure[(1)]**
Agriculture	**$ 6,492**	**$ 144**	**$ -**	**$ -**	**$ 12**	**$ 6,648**	**$ 6,640**
Mining, oil and gas	**308**	**460**	**-**	**-**	**52**	**820**	**819**
Utilities	**13,306**	**1,404**	**16**	**-**	**174**	**14,900**	**14,877**
Construction	**2,066**	**583**	**-**	**-**	**78**	**2,727**	**2,678**
Manufacturing	**2,601**	**597**	**-**	**-**	**96**	**3,294**	**3,280**
Wholesale trade	**1,256**	**192**	**-**	**-**	**45**	**1,493**	**1,484**
Retail trade	**2,592**	**328**	**-**	**-**	**8**	**2,928**	**2,910**
Transportation	**1,090**	**463**	**-**	**-**	**53**	**1,606**	**1,600**
Information industry	**333**	**345**	**-**	**-**	**-**	**678**	**677**
Finance and insurance	**7,345**	**1,053**	**766**	**3,297**	**683**	**13,144**	**10,247**
Real estate	**23,863**	**623**	**-**	**-**	**42**	**24,528**	**24,466**
Professional services	**445**	**133**	**-**	**-**	**14**	**592**	**586**
Management of companies	**817**	**224**	**-**	**-**	**18**	**1,059**	**982**
Administrative services	**206**	**15**	**-**	**-**	**7**	**228**	**219**
Education	**1,621**	**926**	**-**	**-**	**4**	**2,551**	**2,550**
Health care	**2,716**	**216**	**-**	**-**	**1**	**2,933**	**2,926**
Arts and entertainment	**729**	**41**	**-**	**-**	**3**	**773**	**772**
Accommodation	**1,020**	**33**	**-**	**-**	**2**	**1,055**	**1,046**
Other services	**635**	**34**	**-**	**-**	**7**	**676**	**669**
Other businesses	**873**	**165**	**-**	**-**	**5**	**1,043**	**1,044**
Total business loans	**$ 70,314**	**$ 7,979**	**$ 782**	**$ 3,297**	**$ 1,304**	**$ 83,676**	**$ 80,472**

	2016						
(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[(1)]
Agriculture	$ 5,768	$ 105	$ -	$ -	$ 11	$ 5,884	$ 5,872
Mining, oil and gas	312	457	-	-	3	772	771
Utilities	15,159	1,121	838	-	144	17,262	16,446
Construction	1,956	432	-	-	84	2,472	2,421
Manufacturing	2,476	538	-	-	88	3,102	3,092
Wholesale trade	1,094	169	-	-	34	1,297	1,283
Retail trade	2,283	695	-	-	9	2,987	2,974
Transportation	1,041	289	-	-	48	1,378	1,376
Information industry	368	308	-	-	19	695	694
Finance and insurance	3,905	1,084	1,497	3,788	1,232	11,506	6,845
Real estate	21,475	746	-	-	34	22,255	22,183
Professional services	401	97	-	-	17	515	510
Management of companies	784	139	-	-	17	940	865
Administrative services	278	2	-	-	5	285	275
Education	1,185	959	-	-	3	2,147	2,147
Health care	2,577	151	-	-	1	2,729	2,724
Arts and entertainment	638	46	-	-	4	688	687
Accommodation	915	14	-	-	1	930	921
Other services	658	128	-	-	5	791	784
Other businesses	1,295	93	-	-	46	1,434	1,434
Total business loans	$ 64,568	$ 7,573	$ 2,335	$ 3,788	$ 1,805	$ 80,069	$ 74,304

(1) After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

Credit granting

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

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

Retail loans

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

Under the Internal Ratings-Based Approach, credit risk is measured according to three parameters: Probability of default (PD), loss given default (LGD) and exposure at default (EAD).

PD is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. Behavioural scoring models, estimated using logistic regressions, produce risk levels monthly. The predictive features of these models include in particular 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 scoring models is:

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

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, EAD of off-balance sheet exposures is adjusted upward to take into account the possible effects of an economic slowdown.

In general, credit decisions concerning retail customers 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. If necessary, i.e. 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.

The table below shows the quality of the retail loan portfolio by asset class using the Internal Ratings-Based Approach.

Table 31 – Exposure to credit risk of retail loan portfolios[(1)]*
As at December 31

	2017				2016
	EAD				
(in millions of dollars)	Exposures related to residential mortgage loans	Qualifying revolving retail client exposures	Other retail client exposures	Total	Total
Excellent	$ 36,776	$ 14,122	$ 1,076	$ 51,974	$ 54,855
Very low	27,814	13,246	1,267	42,327	30,757
Low	35,669	7,386	3,626	46,681	43,426
Average	4,183	1,291	3,603	9,077	7,776
High	882	1,187	345	2,414	2,518
Default	357	117	76	550	645
Total	$ 105,681	$ 37,349	$ 9,993	$ 153,023	$ 139,977

(1) Exposures depend on the regulatory scope, which excludes insurance operations.

The table below presents the quality of the retail loan portfolio subject to the Standardized Approach by risk tranche.

Table 32 – Exposures to retail clients by risk tranche[(1)]*
As at December 31

	2017								2016
	Risk tranches								
(in millions of dollars)	0%	20%	35%	50%	75%	100%	Other	Total	Total
Residential mortgages	$ -	$ -	$ 408	$ -	$ -	$ 3	$ -	$ 411	$ 143
Other retail client exposures (except for SMEs)	-	-	-	-	1,456	49	1	1,506	1,538
Total	$ -	$ -	$ 408	$ -	$ 1,456	$ 52	$ 1	$ 1,917	$ 1,681

(1) Exposures depend on the regulatory scope, which excludes insurance operations.

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. Work is in progress to switch these portfolios to the Internal Ratings-Based Approach.

The following table presents the credit quality of the portfolio of loans and acceptances to businesses, sovereign borrowers and financial institutions by risk tranche.

Table 33 – Exposures to businesses, sovereign borrowers and financial institutions by risk tranche[(1)]*
As at December 31

	2017								2016
	Risk tranches								
(in millions of dollars)	0%	20%	35%	50%	75%	100%	Other	Total	Total
Sovereign borrowers	$ 938	$ -	$ -	$ -	$ -	$ 2	$ -	$ 940	$ 729
Financial institutions	-	5,746	-	15	-	390	3	6,154	5,734
Businesses	-	-	-	566	-	52,341	707	53,614	49,235
SMEs similar to other retail client exposures	-	-	-	-	5,354	1,506	113	6,973	7,051
Total	$ 938	$ 5,746	$ -	$ 581	$ 5,354	$ 54,239	$ 823	$ 67,681	$ 62,749

(1) Exposures depend on the regulatory scope, which excludes insurance operations.

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

The terms and conditions of credit risk mitigation are set out in the credit policies, rules and practices established by the Risk Management Executive Division.

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

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, 2017, guaranteed or insured loans represented 26.4% of Desjardins Group's total gross loans, compared to 27.3% at the end of 2016.

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

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

Loan debt relief

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

Loans with debt relief totalled $242 million as at December 31, 2017, compared to $144 million at the end of 2016. Of these loans, $77 million were classified as gross impaired loans as at December 31, 2017, compared to $75 million as at December 31, 2016.

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

A borrower or counterparty is considered to be in default in certain situations defined by the frameworks. Such situations include in particular any past due payment of more than 90 days, unauthorized overlimits of over 90 days, forced restructuring, bankruptcies or insolvencies, or any other reason which would lead one to believe that a borrower will be unable to repay his debt in full unless the appropriate action is taken. A borrower ceases to be considered in default once certain conditions have been met.

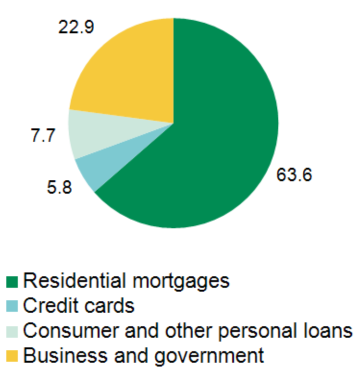
Monitoring of portfolio and reporting

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

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

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

Breakdown of loans and acceptances
As at December 31, 2017
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2017, the main sectors of the business loan portfolio were real estate, agriculture and retail trade, which accounted for 51.2% of the business loan portfolio amounting to $37.1 billion. The main industries are the same as they were as at December 31, 2016.

Table 34 – Loans by borrower category and by industry
As at December 31

(in millions of dollars)	**2017**		2016[1]		2015[1]	
	Gross loans	**Gross impaired loans**	Gross loans	Gross impaired loans	Gross loans	Gross impaired loans
Residential mortgages	**$113,146**	**$ 141**	$ 106,695	$ 174	$ 102,323	$ 182
Consumer, credit card and other personal loans	**24,044**	**89**	22,150	102	21,204	99
Public bodies[2]	**3,621**	**-**	2,925	-	3,729	-
Business						
Agriculture	**7,988**	**24**	7,506	37	6,584	36
Mining, oil and gas	**306**	**1**	321	1	451	-
Utilities	**410**	**6**	518	-	360	-
Construction	**2,168**	**35**	2,109	45	2,034	37
Manufacturing	**2,750**	**38**	2,640	41	2,479	45
Wholesale trade	**1,261**	**5**	1,118	7	1,014	12
Retail trade	**2,933**	**22**	2,737	22	2,263	17
Transportation	**1,277**	**9**	1,307	10	1,164	10
Information industry	**344**	**6**	387	7	328	11
Finance and insurance	**753**	**-**	649	1	720	-
Real estate	**8,099**	**10**	7,195	13	6,103	13
Professional services	**614**	**4**	550	5	425	4
Management of companies	**927**	**1**	907	2	896	2
Administrative services	**255**	**4**	231	6	227	3
Education	**183**	**-**	324	2	163	-
Health care	**2,511**	**17**	2,306	13	1,945	18
Arts and entertainment	**722**	**4**	733	7	647	13
Accommodation	**1,267**	**16**	1,217	26	1,078	27
Other services	**803**	**8**	887	11	694	9
Other businesses	**1,546**	**2**	1,059	-	3,129	3
Total business loans	**$ 37,117**	**$ 212**	$ 34,701	$ 256	$ 32,704	$ 260
Total loans	**$177,928**	**$ 442**	$ 166,471	$ 532	$ 159,960	$ 541

(1) As a result of a change in methodology, the amounts for 2016 and 2015 have been restated.
(2) Including loans to governments.

Loans by geographic distribution are presented in the table below. Desjardins Group's operations are highly concentrated in Quebec. Therefore, as at December 31, 2017, the loans granted by Desjardins to members and clients in Quebec accounted for 92.1% of the total loan portfolio, compared to 92.8% as at December 31, 2016.

Table 35 – Loans by geographic distribution
As at December 31

(in millions of dollars)	**2017**		2016		2015	
	Gross loans	**Gross impaired loans**	Gross loans	Gross impaired loans	Gross loans	Gross impaired loans
Canada						
Quebec	**$ 163,921**	**$ 389**	$ 154,551	$ 480	$ 151,435	$ 481
Other Canadian provinces	**13,667**	**50**	11,587	51	8,190	58
Total – Canada	**$ 177,588**	**$ 439**	$ 166,138	$ 531	$ 159,625	$ 539
Other countries	**340**	**3**	333	1	335	2
Total	**$ 177,928**	**$ 442**	$ 166,471	$ 532	$ 159,960	$ 541

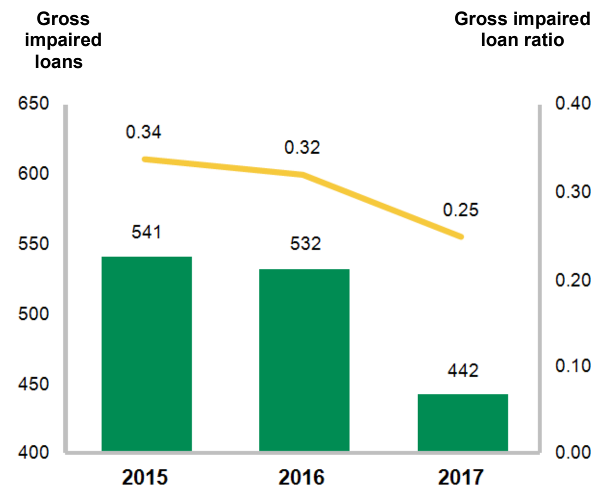
The chart below presents gross impaired loans. As at December 31, 2017, gross impaired loans outstanding stood at $442 million, down $90 million since December 31, 2016. The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.25% at the end of 2017, down from the ratio of 0.32% as at December 31, 2016. Improved economic conditions helped to reduce the volume of gross impaired loans. Desjardins Group's loan portfolio continues to be of high quality.

Individual allowances for credit losses, which totalled $104 million as at December 31, 2017, made it possible to obtain a total coverage ratio of 23.5% of the gross impaired loan portfolio, compared to a ratio of 22.7% at the end of 2016.

The collective allowance stood at $334 million as at December 31, 2017, which was down slightly from $335 million recorded at the end of 2016. In addition, an allowance for risk related to off-balance sheet arrangements of $49 million was recognized as at December 31, 2017 under "Other liabilities – Other" on the Combined Balance Sheets, down $7 million compared to the amount posted as at December 31, 2016. The collective allowance reflects the best estimate of the allowance for credit losses that have not yet been designated individually as impaired loans.

The methods for measuring the collective allowance and individual allowances, as well as the method for determining an impaired loan, are described in Section 5.3, "Critical accounting policies and estimates – Impairment of financial assets", of this MD&A.

Gross impaired loans
(in millions of dollars and as a percentage)



Tables 36 and 37 present the gross impaired loans by Desjardins Group borrower category and the change in the gross impaired loan balance.

Table 36 – Gross impaired loans by borrower category
As at December 31

(in millions of dollars and as a percentage)	**2017**					2016		2015	
	Gross loans and acceptances	**Gross impaired loans**		**Individual allowances for credit losses**	**Net impaired loans**	Gross impaired loans	Net impaired loans	Gross impaired loans	Net impaired loans
Residential mortgages	**$ 113,146**	**$ 141**	**0.12%**	**$ 19**	**$ 122**	$ 174	$ 155	$ 182	$ 164
Consumer, credit card and other personal loans	**24,044**	**89**	**0.37**	**12**	**77**	102	87	99	81
Business and government	**40,769**	**212**	**0.52**	**73**	**139**	256	169	260	175
Total	**$ 177,959**	**$ 442**		**$ 104**	**$ 338**	$ 532	$ 411	$ 541	$ 420
As a percentage of gross loans and acceptances[1]			**0.25%**		**0.19%**	0.32%	0.25%	0.34%	0.26%

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

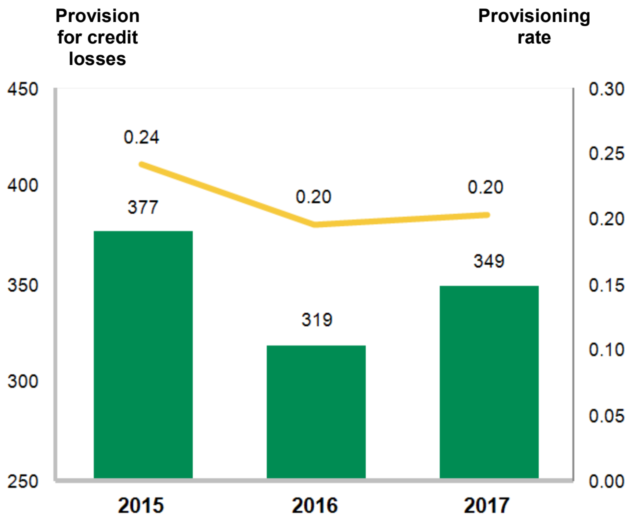
Table 37 – Change in gross impaired loan balance
As at December 31

(in millions of dollars)	**2017**	2016	2015
Gross impaired loans at the beginning of the year	**$ 532**	$ 541	$ 511
Gross impaired loans since the last year	**901**	1,023	989
Loans returned to unimpaired status	**(668)**	(697)	(606)
Write-offs and recoveries	**(374)**	(367)	(364)
Other changes	**51**	32	11
Gross impaired loans at the end of the year	**$ 442**	$ 532	$ 541

Provision for credit losses

Desjardins Group's provision for credit losses totalled $349 million for 2017, up $30 million compared to 2016. A recovery of the collective allowance resulted in 2016 owing to refinements of the methodology used in models for calculating this allowance. Favourable developments in the risk related to this portfolio nevertheless mitigated the increase. The provisioning rate was 0.20% at the end of 2017, unchanged from what it was as at December 31, 2016.

Provision for credit losses
(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.

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

To properly manage its risk exposure, Desjardins Group assigns a credit rating to each counterparty and issuer, based on the ratings of four external credit rating agencies (DBRS, Moody's, Standard & Poor's and Fitch). The four credit rating agencies meet the eligibility criteria of the Basel Accord and are authorized by the AMF and OSFI. Desjardins uses this credit rating to establish exposure limits and to calculate capital requirements using the Standardized Approach. In addition, to help establish exposure limits, the credit rating may also take internal models into account, depending on the category of the counterparty or issuer. These limits cannot exceed a certain percentage of Tier 1A capital, based on the category of the counterparties and issuers.

A large proportion of Desjardins Group's risk exposure is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. In addition, Desjardins Group's exposure to U.S. and European financial institutions is low, and its exposure to sovereign debt is concentrated in Canada and the United States.

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 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 19, "Derivative financial instruments and hedging activities", to the Combined Financial Statements.

Desjardins Group also limits its risk by doing business with counterparties that have a high credit rating. Note 19, "Derivative financial instruments and hedging activities", to the Combined Financial Statements presents derivative financial instruments by credit risk rating and type of counterparty. Based on replacement cost, this note indicates that substantially all of Desjardins Group's counterparties have credit ratings ranging from AAA to A-. Furthermore, by purchasing hedges through credit derivatives, such as credit default swaps and total return swaps, Desjardins Group can transfer credit risk to a counterparty or hedge itself against various types of risk.

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.

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 19, "Derivative financial instruments and hedging activities", and Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

Market risk

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

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

GOVERNANCE

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

Link between market risk and the Combined Balance Sheets

Table 38 presents the link between the main Combined Balance Sheet data and the positions included in its trading activities and non-trading activities. The principal market risks associated with non-trading activities are also indicated in the table.

Table 38 – Link between market risk and the Combined Balance Sheets
As at December 31, 2017

		Exposed to market risk			
(in millions of dollars)	Combined Balance Sheets	Trading activities[(1)]	Non trading activities[(2)]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 2,435	$ -	$ 2,435	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	31,654	13,112	18,542	-	Interest rate
Available-for-sale securities	24,934	-	24,934	-	Interest rate, FX, price
Securities borrowed or purchased under reverse repurchase agreements	8,674	8,320	354	-	Interest rate
Net loans and acceptances	177,521	-	177,521	-	Interest rate
Segregated fund net assets	13,379	-	13,379	-	Interest rate, price
Derivative financial instruments	3,206	248	2,958	-	Interest rate, FX, price
Other assets	13,292	-	-	13,292	
Total assets	$ 275,095	$ 21,680	$ 240,123	$ 13,292	
Liabilities and equity					
Deposits	$ 171,586	$ -	$ 171,586	$ -	Interest rate
Commitments related to securities sold short	9,112	9,112	-	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	10,229	9,566	663	-	Interest rate
Derivative financial instruments	3,094	296	2,798	-	Interest rate, FX, price
Insurance contract liabilities	28,272	-	28,272	-	Interest rate
Segregated fund net liabilities	13,354	-	13,354	-	Interest rate, price
Other liabilities	13,287	-	2,624	10,663	Interest rate
Subordinated notes	1,388	-	1,388	-	Interest rate
Total equity	24,773	-	-	24,773	
Total liabilities and equity	$ 275,095	$ 18,974	$ 220,685	$ 35,436	

Table 38 – Link between market risk and the Combined Balance Sheets (continued)
As at December 31, 2016

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[1]	Exposed to market risk: Non trading activities[2]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 1,876	$ -	$ 1,876	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	31,005	12,131	18,874	-	Interest rate
Available-for-sale securities	22,280	-	22,280	-	Interest rate, FX, price
Securities borrowed or purchased under reverse repurchase agreements	7,690	7,134	556	-	Interest rate
Net loans and acceptances	166,026	-	166,026	-	Interest rate
Segregated fund net assets	11,965	-	11,965	-	Interest rate, price
Derivative financial instruments	3,572	192	3,380	-	Interest rate, FX, price
Other assets	13,953	-	-	13,953	
Total assets	$ 258,367	$ 19,457	$ 224,957	$ 13,953	
Liabilities and equity					
Deposits	$ 160,546	$ -	$ 160,546	$ -	Interest rate
Commitments related to securities sold short	8,196	8,196	-	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	10,323	8,293	2,030	-	Interest rate
Derivative financial instruments	2,057	160	1,897	-	Interest rate, FX, price
Insurance contract liabilities	27,493	-	27,493	-	Interest rate
Segregated fund net liabilities	11,957	-	11,957	-	Interest rate, price
Other liabilities	13,124	-	2,267	10,857	Interest rate
Subordinated notes	1,378	-	1,378	-	Interest rate
Equity	23,293	-	-	23,293	
Total liabilities and equity	$ 258,367	$ 16,649	$ 207,568	$ 34,150	

(1) Trading activity positions for which the risk measure is VaR and SVaR.
(2) Positions mainly related to non-trading banking activities and insurance activities.

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

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

The main tool used to measure this risk is "Value at Risk" (VaR). VaR is an estimate of the potential loss over a certain 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. 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.

Table 39 presents the aggregate VaR and the aggregate SVaR for Desjardins Group's trading activities by risk category as well as the diversification effect. Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four risk categories to which Desjardins Group is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

Table 39 – VaR by risk category (trading portfolio)*

(in millions of dollars)	**As at December 31, 2017**	**For the year ended December 31, 2017**			As at December 31, 2016	For the year ended December 31, 2016		
		Average	**High**	**Low**		Average	High	Low
Equities	**$ 0.5**	**$ 0.3**	**$ 1.6**	**$ 0.1**	$ 0.3	$ 0.2	$ 2.4	$ -
Foreign exchange	**0.4**	**0.3**	**1.8**	**-**	0.1	0.3	1.9	0.1
Interest rate	**2.1**	**3.0**	**5.1**	**1.8**	3.0	3.2	5.2	1.7
Specific interest rate risk(1)	**4.3**	**5.2**	**8.2**	**2.5**	3.0	4.6	7.3	2.3
Diversification effect(2)	**(5.1)**	**(5.7)**	**N/A(3)**	**N/A(3)**	(3.4)	(5.0)	N/A(3)	N/A(3)
Aggregate VaR	**$ 2.2**	**$ 3.1**	**$ 5.1**	**$ 2.0**	$ 3.0	$ 3.3	$ 5.2	$ 1.7
Aggregate SVaR	**$ 11.1**	**$ 11.9**	**$ 19.7**	**$ 8.2**	$ 8.7	$ 9.1	$ 13.3	$ 4.2

(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 $3.1 million for 2017, down $0.2 million compared to 2016, 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 $11.9 million for 2017, up $2.8 million compared to 2016. It should be noted that there was no change in the model or assumption in the past fiscal year.

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.

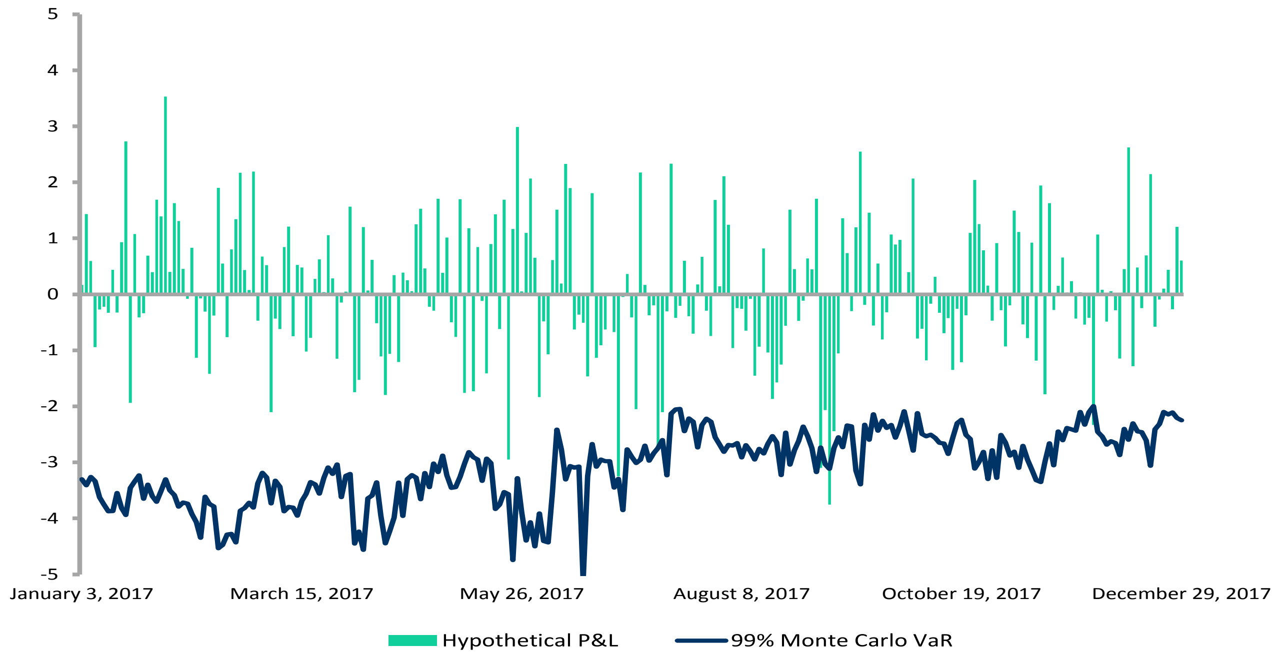
Back testing

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 hypothetical 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 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 2017. Hypothetical P&L was exceeded four times during the year. Three overages of $0.04 million, $0.4 million and $0.6 million of hypothetical P&L were observed on July 11, September 1 and September 6, respectively. These overages were due in particular to exposure to a reduction in the Canadian government's 30-year interest rate. Another overage of $0.3 million of hypothetical P&L was observed on November 30 as a result of interest rate fluctuations. In spite of these overages, the VaR model remains adequate.

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



Stress testing

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

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

STRUCTURAL INTEREST RATE RISK MANAGEMENT

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

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

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

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

In order to mitigate risk factors, sound and prudent management is applied to optimize net interest income while minimizing 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 and liability management committee (the Asset/Liability Committee) 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 40 presents the potential impact before income taxes, with regard to structural interest rate risk management associated with banking activities, of a sudden and sustained 100 basis point increase or decrease in interest rates on net interest income and the economic value of equity for Desjardins Group. The impact related to insurance activities is presented in Note 1 of this table.

Table 40 – Interest rate sensitivity (before income taxes)[(1)]*
As at December 31

(in millions of dollars)	**2017**		2016	
	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	**$ (11)**	**$ 60**	$ (47)	$ 4
Impact of a 100-basis-point decrease in interest rates [(4)]	**(27)**	**(79)**	(21)	77

(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 $226 million decrease in the economic value of equity before taxes as at December 31, 2017, and a $205 million decrease as at December 31, 2016. A 100-basis-point decrease in interest rates would result in an increase of $205 million in the economic value of equity before taxes as at December 31, 2017, and of $177 million as at December 31, 2016. Additional information is provided in the " Interest rate risk management" section of Note 15, " Insurance contract liabilities", to the Combined Financial Statements.
(2) Represents the interest rate sensitivity of net interest income for the next 12 months.
(3) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.
(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

PRICE RISK MANAGEMENT

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

Management of price risk related to real estate activities

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

Management of price risk related to stock markets

The insurance components may also be exposed to price risk related to stock markets, particularly through the equity securities and derivative financial instruments they hold as well as the minimum guarantees provided under segregated fund contracts, whose value is affected by market fluctuations. They manage this risk using the different limits set in policies and a hedging program to mitigate the effect of market volatility. For additional information, see Note 15, "Insurance contract liabilities", to the Combined Financial Statements.

Liquidity risk

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

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

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

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

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

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF. The effective date of the regulatory requirements concerning the NSFR has been postponed to January 1, 2019, and Desjardins Group intends to comply with the NSFR requirements once they become effective.

Applying the calculation rules established by the Basel Committee on Banking Supervision and incorporated in the AMF's Liquidity Adequacy Guideline, Desjardins Group's average LCR was 121.4% for the quarter ended December 31, 2017, compared to 119.9% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

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

Liquid assets

Table 41 presents a summary of Desjardins Group's liquid assets, which do not include assets held by the insurance subsidiaries because these assets are committed to covering insurance liabilities and not the liquidity needs of Desjardins Group's other components. Liquid assets constitute Desjardins Group's primary liquidity reserve for all its operations. Encumbered liquid assets mainly include liquid assets that are pledged as collateral or cannot be used as a result of regulatory requirements or internal policies.

Table 41 – Liquid assets[1]
As at December 31, 2017

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	**$ 1,453**	**$ -**	**$ 1,453**	**$ -**	**$ 1,453**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**27,112**	**8,644**	**35,756**	**19,773**	**15,983**
Other securities in Canada	**3,441**	**82**	**3,523**	**49**	**3,474**
Issued or guaranteed by foreign issuers	**58**	**-**	**58**	**-**	**58**
Loans					
Insured residential mortgage-backed securities	**6,733**	**-**	**6,733**	**1,240**	**5,493**
Total	**$ 38,797**	**$ 8,726**	**$ 47,523**	**$ 21,062**	**$ 26,461**

As at December 31, 2016

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	$ 1,532	$ -	$ 1,532	$ -	$ 1,532
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	25,986	8,544	34,530	18,899	15,631
Other securities in Canada	1,381	21	1,402	9	1,393
Issued or guaranteed by foreign issuers	46	-	46	-	46
Loans					
Insured residential mortgage-backed securities	4,018	-	4,018	1,254	2,764
Total	$ 32,963	$ 8,565	$ 41,528	$ 20,162	$ 21,366

(1) Excluding assets held by insurance subsidiaries.

Table 42 – Unencumbered liquid assets by entity[1]
As at December, 31

(in millions of dollars)	2017	2016[2]
Federation	**$ 7,556**	$ 8,286
Caisse network	**14,456**	10,098
Desjardins Securities[2]	**1,217**	676
Other entities	**3,232**	2,306
Total	**$ 26,461**	$ 21,366

(1) Excluding assets held by insurance subsidiaries. Substantially all unencumbered liquid assets presented in this table are issued in Canadian dollars.
(2) Does not take into consideration amounts payable and receivable related to the settlement of securities lending and borrowing transactions.

Liquidity risk indicators

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

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

Encumbered assets

In the normal course of its operations, Desjardins Group pledges securities, loans and other assets as collateral, mainly with regard to financing operations, participation in clearing and payments systems and operations related to provisions for claims and adjustment expenses. Table 43 presents, for all assets on the Combined Balance Sheets and securities held as collateral, those that are encumbered as well as those that may be pledged as collateral as part of financing or other transactions.

Table 43 – Encumbered assets
As at December 31, 2017

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 2,435	$ -	$ 2,435	$ -	$ 42	$ 1,499	$ 894
Securities	56,588	2,255	58,843	21,371	2,614	11,494	23,364
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	8,674	-	-	8,532	142
Net loans and acceptances	177,521	-	177,521	19,477	-	67,526	90,518
Segregated fund net assets	13,379	-	13,379	-	-	-	13,379
Other assets	16,498	-	16,498	-	-	-	16,498
Total	$ 275,095	$ 2,255	$ 277,350	$ 40,848	$ 2,656	$ 89,051	$ 144,795

As at December 31, 2016

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 1,876	$ -	$ 1,876	$ -	$ 33	$ 1,528	$ 315
Securities	53,285	1,332	54,617	18,544	4,182	10,199	21,692
Securities borrowed or purchased under reverse repurchase agreements	7,690	-	7,690	-	-	7,509	181
Net loans and acceptances	166,026	-	166,026	19,117	-	75,227	71,682
Segregated fund net assets	11,965	-	11,965	-	-	-	11,965
Other assets	17,525	-	17,525	-	-	-	17,525
Total	$ 258,367	$ 1,332	$ 259,699	$ 37,661	$ 4,215	$ 94,463	$ 123,360

(1) Assets that cannot be used for legal or other reasons, such as ABTN.
(2) "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.

Liquidity coverage ratio

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

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

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

Table 44 – Liquidity coverage ratio(1)

(in millions of dollars and as a percentage)	For the quarter ended December 31, 2017 – Total non-weighted value(2) (average(4))	For the quarter ended December 31, 2017 – Total weighted value(3) (average(4))	For the quarter ended September 30, 2017 – Total weighted value(3) (average(4))
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 22,342**	$ 22,366
Cash outflows			
Retail deposits and small business deposits, including:	**$ 67,626**	**$ 4,458**	$ 4,377
Stable deposits	**32,923**	**988**	1,001
Less stable deposits	**34,703**	**3,470**	3,376
Unsecured wholesale funding, including:	**21,890**	**12,947**	13,658
Operational deposits (all counterparties) and deposits in cooperative bank networks	**4,559**	**1,053**	1,139
Non-operational deposits (all counterparties)	**9,220**	**3,783**	3,699
Unsecured debt	**8,111**	**8,111**	8,820
Secured wholesale funding	**N/A**	**-**	-
Additional requirements, including:	**11,528**	**3,105**	2,808
Outflows related to exposures on derivatives and other collateral required	**1,614**	**1,496**	1,411
Outflows related to funding loss on debt products	**206**	**206**	-
Credit and liquidity facilities	**9,708**	**1,403**	1,397
Other contractual funding liabilities	**918**	**93**	30
Other contingent funding liabilities	**64,217**	**1,720**	1,658
Total cash outflows	**N/A**	**$ 22,323**	$ 22,531
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 4,274**	**$ 79**	$ 129
Inflows related to completely effective exposures	**3,025**	**1,515**	1,514
Other cash inflows	**2,324**	**2,324**	2,232
Total cash inflows	**$ 9,623**	**$ 3,918**	$ 3,875

	Total adjusted value(5) (December 31, 2017)	Total adjusted value(5) (September 30, 2017)
Total high-quality liquid assets	**$ 22,342**	$ 22,366
Total net cash outflows	**18,405**	18,656
Liquidity coverage ratio	**121.4%**	119.9%

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

SOURCES OF FINANCING

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $171.6 billion as at December 31, 2017, up $11.0 billion since December 31, 2016. 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 2017, 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 45 – Main financing programs
As at December 31, 2017

Financing program	Maximum authorized amount
Medium-term notes (Canadian)	**$7 billion**
Covered bonds (multi-currency)	**$10 billion**[(1)]
Short-term notes (European)	**€3 billion**
Short-term notes (U.S.)	**US$15 billion**
Medium-term notes (multi-currency)	**€7 billion**

(1) This maximum authorized amount covers the Federation's Structured Covered Bond Program and its Legislative Covered Bond Program.

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

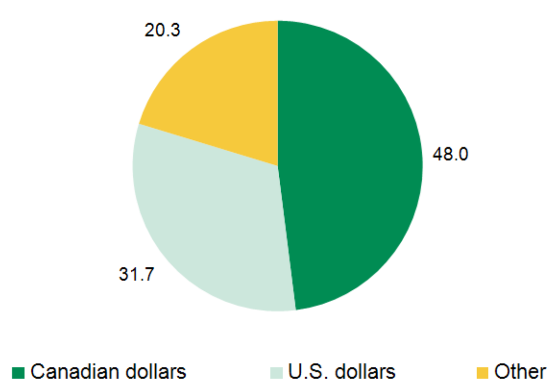
Table 46 – Remaining contractual term to maturity of wholesale funding
As at December 31

(in millions of dollars)	2017								2016
	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	$ 2,011	$ 757	$ 17	$ 17	$ 2,802	$ -	$ -	$ 2,802	$ 1,908
Commercial paper	3,856	2,614	1,101	1,705	9,276	-	-	9,276	5,842
Medium-term notes	2,764	-	-	1,249	4,013	688	6,329	11,030	10,938
Mortgage securitization	-	383	556	814	1,753	1,626	5,751	9,130	7,975
Covered bonds	-	-	-	-	-	3,012	1,505	4,517	6,255
Subordinated notes	-	-	-	-	-	-	1,388	1,388	1,378
Total	$ 8,631	$ 3,754	$ 1,674	$ 3,785	$ 17,844	$ 5,326	$ 14,973	$ 38,143	$ 34,296
Including:									
Secured	$ -	$ 383	$ 556	$ 814	$ 1,753	$ 4,638	$ 8,644	$ 15,035	$ 15,608
Unsecured	8,631	3,371	1,118	2,971	16,091	688	6,329	23,108	18,688

Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up $3.8 billion compared to December 31, 2016, mainly because of an increase in commercial paper.

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

Wholesale funding by currency
As at December 31, 2017
(as a percentage)



In 2017, the Federation also participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $2.4 billion. During the same period, it also completed two issues under its Canadian medium-term note program for a total amount of $1.9 billion and an issue of US$300 million under its multi-currency medium-term note program. Also note that on October 31, 2017, the Federation launched a new issue of US$1.5 billion under its multi-currency medium-term note program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $24.7 billion as at December 31, 2017, compared to $25.2 billion a year earlier. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Combined Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled $1.4 billion as at December 31, 2017, unchanged from a year earlier. Furthermore, to round out its financing and increase its capital base, in 2017, Desjardins Group, through the Federation, issued F capital shares for proceeds of $244 million, net of certain items, as well as F capital shares having a value of $125 million for the payment of interest when the holder has elected to receive remuneration in F capital shares.

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

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

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

During 2017, the credit ratings and outlooks for the securities issued by Desjardins Group remained unchanged and were affirmed by the rating agencies Moody's, Standard & Poor's (S&P), DBRS and Fitch.

In addition, on May 10, 2017, Moody's lowered the long-term debt ratings of the six major Canadian banks by a notch, pointing out in particular that an increase in private sector debt could affect the asset quality and profitability of Canadian banks. In its press release, Moody's nevertheless affirmed the credit ratings of Desjardins Group since it considers Desjardins's operations less exposed to the risks it mentioned.

The ratings outlooks for Desjardins Group from S&P and Fitch are stable, but DBRS's and Moody's outlooks for Desjardins Group and several major Canadian banks have remained negative since May 20, 2015 and June 11, 2014, respectively. However, Moody's ratings outlook for Desjardins Capital Inc. remains stable. DBRS and Moody's justified their decision to assign a negative ratings outlook for Desjardins Group as well as for several major Canadian banks due to uncertainty about continued government support to systemically important financial institutions on account of the "bail-in" regime proposed by the Canadian government.

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 47 – Credit ratings of securities issued

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
Fédération des caisses Desjardins du Québec				
Short-term	**R-1 (high)**	**A-1**	**P-1**	**F1+**
Medium- and long-term, senior	**AA**	**A+**	**Aa2**	**AA-**
Desjardins Capital Inc.				
Medium- and long-term, senior	**AA (low)**	**A**	**A2**	**A+**

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.

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS

Table 48 presents assets and liabilities recorded on the Combined 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 Desjardins Group to determine the expected maturity of the items for liquidity risk management purposes. Many factors other than contractual maturity are taken into consideration to measure expected future cash flows and liquidity risk.

The value of the credit commitments presented in this table represents the maximum amount of additional credit that Desjardins Group 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 Desjardins Group could be required to make in the event of complete default of the parties to the guarantees, without taking any possible recovery into account. These commitments and guarantees do not necessarily represent future liquidity needs, because a large portion of these instruments will expire or be cancelled without giving rise to any cash outflows.

The table below will henceforth present contractual maturities of on-balance sheet items and off-balance sheet commitments in accordance with the EDTF's recommendations for comparison purposes with other financial institutions. Note 15, "Insurance contract liabilities", provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

Table 48 – Residual contractual maturities of on-balance sheet items and off-balance sheet commitments*
As at December 31, 2017

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 2,038	$ 378	$ -	$ -	$ -	$ -	$ -	$ -	$ 19	$ 2,435
Securities										
Securities at fair value through profit or loss[1]	45	541	1,152	835	2,112	2,195	7,181	15,881	1,712	31,654
Available-for-sale securities[1]	2,361	625	948	520	1,576	2,291	10,481	2,854	3,278	24,934
Securities borrowed or purchased under reverse repurchase agreements	8,279	257	123	15	-	-	-	-	-	8,674
Loans										
Residential mortgages[2]	1,793	2,580	6,467	7,356	6,417	20,878	58,935	1,645	7,075	113,146
Consumer, credit card and other personal loans[2]	70	100	221	239	304	1,264	5,007	7,116	9,723	24,044
Business and governments[2]	9,360	3,852	4,166	3,807	3,894	3,014	5,749	2,019	4,877	40,738
Allowance for credit losses	-	-	-	-	-	-	-	-	(438)	(438)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,379	13,379
Clients' liability under acceptances	31	-	-	-	-	-	-	-	-	31
Premiums receivable	170	62	13	3	-	-	-	-	1,847	2,095
Derivative financial instruments	100	115	172	153	158	652	1,723	133	-	3,206
Amounts receivable from clients, brokers and financial institutions	1,518	3	-	-	-	(8)	-	-	41	1,554
Reinsurance assets	35	71	72	63	60	213	423	1,038	227	2,202
Investment property	-	-	-	-	-	-	-	-	832	832
Property, plant and equipment	-	-	-	-	-	-	-	-	1,411	1,411
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	466	466
Deferred tax assets	-	-	-	-	-	-	-	-	992	992
Other assets	540	57	163	3	5	8	21	-	1,941	2,738
Assets of the disposal group held to be transferred	-	-	-	-	-	-	-	-	881	881
Total assets	$ 26,340	$ 8,641	$ 13,497	$ 12,994	$ 14,526	$ 30,507	$ 89,520	$ 30,686	$ 48,384	$ 275,095

See page 102 for footnotes.

Table 48 – Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)*
As at December 31, 2017

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals(3)	$ 5,288	$ 2,916	$ 5,291	$ 4,671	$ 5,225	$ 12,145	$ 14,424	$ 565	$ 50,053	$ 100,578
Business and governments(3)	11,096	4,047	2,110	2,126	2,727	6,523	13,507	1,878	25,088	69,102
Deposit-taking institutions(3)	482	2	3	-	1	4	7	-	1,407	1,906
Acceptances	31	-	-	-	-	-	-	-	-	31
Commitments related to securities sold short(4)	155	595	114	108	21	1,366	2,225	4,526	2	9,112
Commitments related to securities lent or sold under repurchase agreements	10,229	-	-	-	-	-	-	-	-	10,229
Derivative financial instruments	151	117	176	126	146	431	1,809	138	-	3,094
Amounts payable to clients, brokers and financial institutions	2,628	1	-	-	-	-	-	-	1,618	4,247
Insurance contract liabilities	411	730	893	831	763	1,879	4,113	16,378	2,274	28,272
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,354	13,354
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	2,624	2,624
Deferred tax liabilities	-	-	-	-	-	-	-	-	155	155
Other liabilities	1,944	518	771	80	61	168	177	747	1,102	5,568
Liabilities of the disposal group held to be transferred	-	-	-	-	-	-	-	-	662	662
Subordinated notes	-	-	-	-	-	-	898	490	-	1,388
Total equity	-	-	-	-	-	-	-	-	24,773	24,773
Total liabilities and equity	$ 32,415	$ 8,926	$ 9,358	$ 7,942	$ 8,944	$ 22,516	$ 37,160	$ 24,722	$ 123,112	$ 275,095
Off-balance sheet commitments										
Credit commitments(5)	$ 3,568	$ 110	$ 149	$ 225	$ 337	$ 2,957	$ 7,031	$ 243	$ 83,850	$ 98,470
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,024	2,024
Commitments under lease contracts	8	16	23	23	22	82	185	287	-	646
Documentary letters of credit	1	2	2	-	2	-	-	-	-	7
Guarantees and standby letters of credit	64	128	134	268	289	15	20	84	1	1,003
Credit default swaps	-	-	-	-	-	-	540	-	-	540

See page 102 for footnotes.

Table 48 – Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)*
As at December 31, 2016[6]

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 1,615	$ 241	$ 3	$ -	$ -	$ -	$ -	$ -	$ 17	$ 1,876
Securities										
Securities at fair value through profit or loss[1]	818	317	1,094	577	1,263	2,564	7,410	15,566	1,396	31,005
Available-for-sale securities[1]	358	321	601	153	410	5,115	8,726	3,494	3,102	22,280
Securities borrowed or purchased under reverse repurchase agreements	7,626	64	-	-	-	-	-	-	-	7,690
Loans										
Residential mortgages[2]	2,075	2,527	5,685	5,792	4,599	20,412	56,485	1,912	7,208	106,695
Consumer, credit card and other personal loans[2]	77	86	191	203	285	1,306	4,629	6,239	9,134	22,150
Business and governments[2]	8,083	3,669	4,228	3,937	4,272	2,374	4,419	1,900	4,744	37,626
Allowance for credit losses	-	-	-	-	-	-	-	-	(456)	(456)
Segregated fund net assets	-	-	-	-	-	-	-	-	11,965	11,965
Clients' liability under acceptances	7	4	-	-	-	-	-	-	-	11
Premiums receivable	165	60	12	2	-	-	-	-	1,718	1,957
Derivative financial instruments	73	696	154	408	414	620	1,186	21	-	3,572
Amounts receivable from clients, brokers and financial institutions	1,895	4	3	-	-	-	-	-	630	2,532
Reinsurance assets	39	78	72	60	56	190	454	1,072	561	2,582
Investment property	-	-	-	-	-	-	-	-	823	823
Property, plant and equipment	-	-	-	-	-	-	-	-	1,435	1,435
Goodwill	-	-	-	-	-	-	-	-	471	471
Intangible assets	-	-	-	-	-	-	-	-	690	690
Deferred tax assets	-	-	-	-	-	-	-	-	874	874
Other assets	626	78	93	20	12	14	32	11	1,703	2,589
Total assets	$ 23,457	$ 8,145	$ 12,136	$ 11,152	$ 11,311	$ 32,595	$ 83,341	$ 30,215	$ 46,015	$ 258,367

See page 102 for footnotes.

Table 48 – Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)*
As at December 31, 2016[6]

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[3]	$ 5,686	$ 2,534	$ 5,077	$ 4,025	$ 4,516	$ 12,374	$ 15,176	$ 592	$ 46,298	$ 96,278
Business and governments[3]	7,032	6,129	1,132	3,391	1,720	6,862	12,994	1,239	22,300	62,799
Deposit-taking institutions[3]	109	-	1	-	-	8	6	-	1,345	1,469
Acceptances	7	4	-	-	-	-	-	-	-	11
Commitments related to securities sold short[4]	418	62	315	92	-	1,012	2,208	4,089	-	8,196
Commitments related to securities lent or sold under repurchase agreements	10,323	-	-	-	-	-	-	-	-	10,323
Derivative financial instruments	56	87	118	134	136	502	983	41	-	2,057
Amounts payable to clients, brokers and financial institutions	2,399	4	-	-	-	-	-	-	2,256	4,659
Insurance contract liabilities	406	717	873	783	792	1,917	4,292	15,581	2,132	27,493
Segregated fund net liabilities	-	-	-	-	-	-	-	-	11,957	11,957
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	2,256	2,256
Deferred tax liabilities	-	-	-	-	-	-	-	-	179	179
Other liabilities	1,283	658	800	95	90	232	246	50	2,565	6,019
Subordinated notes	-	-	-	-	-	-	1,378	-	-	1,378
Total equity	-	-	-	-	-	-	-	-	23,293	23,293
Total liabilities and equity	$ 27,719	$ 10,195	$ 8,316	$ 8,520	$ 7,254	$ 22,907	$ 37,283	$ 21,592	$ 114,581	$ 258,367
Off-balance sheet commitments										
Credit commitments[5]	$ 3,591	$ 340	$ 388	$ 816	$ 236	$ 2,438	$ 6,165	$ 256	$ 76,981	$ 91,211
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,772	1,772
Commitments under lease contracts	8	16	24	24	24	77	167	174	-	514
Documentary letters of credit	5	9	6	2	3	-	-	-	-	25
Guarantees and standby letters of credit	82	157	210	157	242	44	12	76	2	982
Credit default swaps	-	-	-	-	-	-	644	-	-	644

(1) Equity securities are classified under "No stated maturity".
(2) Amounts repayable on demand and impaired loans are classified under "No stated maturity".
(3) Deposits payable on demand or after notice are considered as having "No stated maturity".
(4) Amounts are presented by remaining contractual maturity of the underlying security.
(5) 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 Desjardins Group's discretion.
(6) Data for 2016 have been reclassified to conform to the current year's presentation.

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 activities in other risk areas (credit, market, liquidity, etc.) as well as outsourced activities. 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 a set of policies, directives and rules. These frameworks 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 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 internal and external events (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 of data on operational losses	The collection of internal data on operational losses is carried out to list and quantify losses according to predetermined thresholds. Operational losses are indexed in a database. Through analysis, causes are better understood, trends are determined, and corrective measures are taken when necessary. 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. The main trends identified through analysis of operational losses are reported to the various committees on a regular basis. During 2017, operational losses were consistent with the limits set for risk appetite by senior management and the Board of Directors. Contingent liabilities, including the impact of litigation, are presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.
Key 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.

	Description
Specialized risk assessment programs	Complementing the operational risk management framework are certain programs that are the responsibility of specialized groups. These programs supervise specific risks and track them using their oversight process. They are as follows: - financial disclosure risk management; - technology risk management; - business continuity risk management; - outsourcing risk management; - risk management related to financial crime; - 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 accountable 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 15, "Insurance contract liabilities", to the Combined Financial Statements, as well as other risk factors identified in Section 4.1 "Risk factors that could impact future results".

Strategic risk

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

It is first up to senior management and the Board of Directors to address, define and monitor developments in the strategic orientations of Desjardins Group according to its risk appetite and the consultation processes specific to Desjardins. Events that could compromise the achievement of Desjardins Group's strategic objectives are systematically and periodically monitored by Desjardins Group's officers 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 of the Board of Directors of the Federation and representatives of active participants and retirees, is the administrator of the DGPP. It is responsible for managing pension fund assets and administering the benefits promised by the plan. It sees to it that the rules specified in the plan are applied and ensures legal compliance as well as 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*.

To properly manage DGPP risks, the Desjardins Group Retirement Committee has set up a Risk Management Advisory Committee. This committee, under the responsibility of the Desjardins Group Retirement Committee, is tasked with analyzing the main risks associated with management of DGPP operations. In this regard, it examines the integrated risk profile and the asset allocation strategy every year. It also issues opinions on new investments which are submitted to the Investment Committee. In addition, a risk management dashboard for the DGPP, made up of risk indicators identified in the profile, is updated quarterly.

Environmental risk

Environmental risk is the risk of financial, operational or reputational loss for Desjardins Group as a result of the impact of environmental issues, whether they occur through Desjardins Group's credit or investment activities or its operations.

In addition to the potential financial losses that could be incurred through poor management of environmental risk, there is increased credit risk through the impairment of assets pledged as security. Given the nature of their operations, Desjardins Group's property and casualty insurance subsidiaries are particularly exposed to catastrophes and climate change, which are defined in Section 4.1 "Risk factors that could impact future results". In addition, business relations with entities whose operations could involve social or environmental issues could lead to reputation risk.

Environmental risk is an integral part of Desjardins Group's Integrated Risk Management Framework. In December 2017, Desjardins Group announced the introduction of four management practices aimed at strengthening environmental risk mitigation in the short term and making reduction of Desjardins's carbon footprint a reality:

- Offsetting greenhouse gas emissions generated by its activities.
- For its own investments, focusing its direct energy infrastructure investments on renewable energy. The Desjardins Group Pension Plan has made the same commitment.
- For its own investments, reducing its carbon footprint by 25% by 2020 with regard to its portfolios invested in public markets compared to the benchmark indexes.
- Integrating Environmental, Social and Governance (ESG) factors into its business decisions (financing, investment, placement and insurance). Tools are being developed to support teams in phasing in this positioning, as the objective is to be consistent across the organization.

Given that sustainable development is considered a strategic risk for Desjardins, it has equipped itself with an oversight policy for all its activities and has incorporated orientations to support the development of a sustainable and responsible economy 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. The related reporting is filed annually in its social and cooperative responsibility report based on Global Reporting Initiative (GRI) indicators. Furthermore, in accordance with the GRI-G4, Desjardins Group consulted a number of stakeholders about its sustainable development priorities. These stakeholders included employees, member officers (including members of the Youth Advisory Committee), caisse general managers and Desjardins Business centre managers, representatives of the business community, civil society organizations, representatives of public authorities, members of senior management and members of the Board of Directors. Desjardins Group also periodically updates its analysis of climate change risk to its operations and annually makes disclosures of its strategy and risk management related to climate change to the CDP (formerly known as the Carbon Disclosure Project). In 2017, Desjardins received a B rating from CDP, above the industry average of C, which clearly demonstrates that its actions are producing results.

Legal and regulatory environment risk

Legal and regulatory environment risk refers to the risk arising from Desjardins Group's non-compliance with the laws, regulations, standards and practices in effect wherever Desjardins Group operates, as well as its various internal codes of conduct and its contractual commitments, which could lead in particular to financial losses, penalties, harm to its reputation, legal recourse or heightened monitoring by regulators.

Legal and regulatory environment 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 financial penalties or sanctions. Present and future judicial decisions and legislative activity 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.

On October 5, 2017, the Quebec Minister of Finance tabled 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 Bill). The Bill, once it takes effect, will have significant impacts on all institutions and intermediaries operating in Quebec's financial sector. For further information, see page 18 in the "Changes in the regulatory environment" section, which presents changes in the regulations applicable to Desjardins Group.

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 49 – Asset-backed securities
As at December 31

(in millions of dollars)	**2017**		2016	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Commercial mortgage-backed securities(1)	**$ -**	**$ -**	$ 15	$ 15
Financial asset-backed and mortgage-backed securities(2)	**146**	**148**	170	174

(1) These securities are presented in the Combined Balance Sheets under "Securities at fair value through profit or loss".
(2) None of the securities held is directly backed by subprime residential mortgage loans. These securities are presented in the Combined Balance Sheets under "Securities at fair value through profit or loss" and under "Available-for-sale securities".

Table 50 – Derivative financial instruments
As at December 31

(in millions of dollars)	**2017**			2016		
	Notional amounts	**Positive value**	**Negative value**	Notional amounts	Positive value	Negative value
Credit default swaps(1)	**$ 616**	**$ 13**	**$ 2**	$ 644	$ 10	$ -
Total return swaps(2)	**86**	**-**	**1**	66	-	-

(1) Credit default swaps are presented in the Combined Balance Sheets as derivative financial instruments.
(2) These amounts do not include any amounts realized as part of securitization activities. Total return swaps are presented in the Combined Balance Sheets as derivative financial instruments.

Table 51 – Leveraged finance loans and subprime loans
As at December 31

(in millions of dollars)	**2017**	2016
Leveraged finance loans(1)	**$ 149**	$ 179
Alt-A mortgage loans(2)	**19**	23
Subprime residential mortgage loans(3)	**1**	2

(1) Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
(2) Alt-A mortgages are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.
(3) These loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

5.0 Additional information

5.1 Controls and procedures

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

During fiscal 2017, Desjardins Group carried out work so that it could provide certification as at December 31, 2017 of the design and effectiveness of its disclosure controls and procedures, as well as of its internal control over financial reporting.

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) designed, or caused to be designed, disclosure controls and procedures, which are supported in particular by a process for periodic certification of financial disclosures in annual and interim filings. All information collected as part of the financial governance process is reviewed on a quarterly and annual basis by the members of the Desjardins Group Disclosure Committee and of the Audit and Inspection Commission, who play a lead role in overseeing and assessing the adequacy of disclosure controls and procedures.

As at December 31, 2017, Desjardins Group management assessed the design and effectiveness of its disclosure controls and procedures. Based on the results of this assessment, the President and CEO, and the CFO concluded that disclosure controls and procedures were adequately designed and effective. These controls and procedures are designed to provide reasonable assurance that the information presented in annual, interim or other reports filed or transmitted under securities legislation is recorded, processed, summarized and reported within the time periods prescribed by such legislation. These controls and procedures are also designed to warrant that such information is assembled and disclosed to the management of Desjardins Group, including its signing officers, in accordance with what is appropriate to make timely decisions regarding disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Desjardins Group management caused an adequate internal control over financial reporting process to be designed and has maintained it. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of combined financial statements for external purposes in accordance with IFRS.

The design and effectiveness of internal control over financial reporting were assessed 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.

Because of its inherent limitations, internal control over financial reporting 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 assessment of the design and effectiveness of internal control over financial reporting was performed by Desjardins Group management under the supervision of the President and CEO, and of the CFO. Based on the results of this assessment, these senior officers concluded that as at December 31, 2017, internal control over financing reporting was adequately designed and effective, and did not contain any material weakness.

There are two Desjardins Group components subject to NI 52-109 requirements, namely the Federation and Desjardins Capital Inc.

Under the supervision of the certifying officers, the respective management of the Federation and Desjardins Capital Inc. therefore assessed the design and effectiveness of disclosure controls and procedures and of internal control over financial reporting. These controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2017, Desjardins Group did not make any changes to its internal control over financial reporting that had materially affected, or may materially affect, its operations.

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the 2017 Desjardins Group Annual Report.

5.2 Related party disclosures

In the normal course of business, Desjardins Group 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.

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

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

Additional information about related party transactions is presented in Note 34, "Related party disclosures", to the Annual Combined Financial Statements.

5.3 Critical accounting policies and estimates

A description of the accounting policies used by Desjardins Group is essential to understanding the Combined Financial Statements as at December 31, 2017. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

STRUCTURED ENTITIES

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

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

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

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Loans

The fair value of 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. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of impaired loans is assumed to be equal 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. The fair value of derivative financial instruments is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements.

Financial instruments whose fair value equals their carrying amount

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

Additional information on the fair value of financial instruments is presented in Note 4, "Fair value of financial instruments", to the Combined Financial Statements.

DERECOGNITION OF FINANCIAL ASSETS

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

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

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, Desjardins Group derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Balance Sheets to the extent of its continuing involvement in said asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates Desjardins Group's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

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

IMPAIRMENT OF FINANCIAL ASSETS

At the reporting date, Desjardins Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Allowance for credit losses

Objective evidence of impairment results from a loss event that occurred after a loan was granted but before the reporting date, and that has an impact on the estimated future cash flows of the loan.

The impairment of a loan or a group of loans is determined by estimating the recoverable amount of these financial assets. The allowance is equal to the difference between this amount and the carrying amount. To determine the estimated recoverable amount of a loan, Desjardins Group discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the collateral underlying the loan, net of expected costs of realization, or the observable market price for the loan. The collateral may vary depending on the type of loan.

The allowance for credit losses represents management's best estimate for loan impairment at the reporting date. As part of its evaluation, management must make judgments to determine the data, assumptions and estimates to be used, including determining when a loan is considered impaired and the amount that could be recovered. Changing these estimates and assumptions would have an impact on the allowance for credit losses and the provision for credit losses for the year.

The allowance for credit losses related to impaired loans is measured either individually or collectively for loans that are not individually material, while the allowance for credit losses is measured collectively for unimpaired loans.

For individual allowances, Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which there is no objective evidence of impairment are included in groups of financial assets having similar credit risk characteristics and are subject to a collective allowance.

For certain impaired loan portfolios comprised of a large number of homogeneous balances that are not individually material, Desjardins Group establishes a collective allowance for these impaired loans based on the portfolio's historical net loss rate.

The method used by Desjardins Group to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as the probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and risk rating of each loan. The measurement of the collective allowance relies heavily on management's judgment and depends on management's assessment of current credit quality trends for business segments, the impact of changes in its credit policies and economic conditions.

Additional information about loans and the allowance for credit losses is presented in Note 7, "Loans and allowance for credit losses", to the Combined Financial Statements.

Available-for-sale securities

Securities classified in the "Available-for-sale" category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the impairment loss, Desjardins Group takes into account many factors specific to each investment and all the factors that could indicate such a 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 will enter bankruptcy or a restructuring and the disappearance of an active market for the financial asset in question. Management also uses judgment to determine when to recognize an impairment loss.

Desjardins Group individually assesses debt securities classified as "Available-for-sale", including preferred shares with characteristics and behaviour similar to those of debt instruments, to determine whether there is any objective evidence of impairment. For equity securities classified in the "Available-for-sale" category, the objective evidence would also include a "significant" or "prolonged" decline in fair value below cost.

Additional information about the recognition of available-for-sale securities and fair value measurement is presented in Note 3, "Carrying amount of financial instruments", Note 4, "Fair value of financial instruments", and Note 6, "Securities", to the Combined Financial Statements.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires that management make estimates and assumptions, and 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 and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested for impairment once a year and when there is possible evidence of impairment.

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

When the recoverable amount of the asset or the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statements of Income for the year and is first recorded as a reduction of the intangible asset with an indefinite useful life or, in the case of a CGU, 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.

Note 11, "Goodwill and intangible assets", to the Combined Financial Statements provides further information about the impairment of non-financial assets.

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 life and health insurance subsidiary is required to determine the actuarial liabilities needed to meet its future commitments. The actuarial liabilities of these subsidiaries are determined using the Canadian Asset Liability Method (CALM), in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

Property and casualty insurance contract liabilities

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

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

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

Note 15, "Insurance contract liabilities", to the Combined Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS

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

Provisions are based on management's best estimate of the amounts required to settle the obligation on the reporting date, taking into account the relevant risks and uncertainties. As these estimates are forward-looking in nature, management must use its judgment to forecast the timing and amount of future cash flows. Actual results may differ significantly from these forecasts.

CONTINGENT LIABILITIES

In the normal course of its operations, Desjardins Group is involved in various litigation and legal proceedings.

Additional information about contingent liabilities is presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

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

Note 28, "Income taxes on surplus earnings", to the Combined Financial Statements provides additional information on income taxes on surplus earnings.

MEMBER DIVIDENDS

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends are estimated based on, among other things, the surplus earnings recorded for the year by the caisses, taking into consideration the financial framework for the appropriation of surplus earnings in relation to the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid following general meetings held by the caisses and the estimated amount of the provision is charged to combined profit or loss for the year in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. The caisses can pay out member dividends when legal and regulatory requirements have been met. The provision for member dividends is mainly allocated to the Personal and Business Services segment.

EMPLOYEE BENEFITS

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

Group pension plans are plans whose risks are shared by entities under common control. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a pro rata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the Consumer Price Index, up to a maximum of 3% for years of service accumulated before 2013, and of 1% for a period of 10 years starting at age 65 for years of service accumulated after 2013.

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are in general actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to differ materially from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the participants' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit reduce the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over a part of the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

Note 16, "Net defined benefit plan liabilities", to the Combined Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2017 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 15, "REVENUE FROM CONTRACTS WITH CUSTOMERS"

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which introduces a single, comprehensive revenue recognition model for all contracts with customers other than those within the scope of other standards, such as financial instruments, insurance contracts and leases. The majority of Desjardins Group's revenues will not be affected by the adoption of this standard. IFRS 15 supersedes IAS 18, "Revenue" and related interpretations. The core principle of this standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services.

In April 2016, the IASB issued amendments to IFRS 15 to further clarify revenue recognition and transition provisions with respect to the initial application.

Desjardins Group will have to adopt IFRS 15 retrospectively as at January 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 15 will be recognized in the opening Combined Balance Sheets. Desjardins Group decided not to restate comparative periods upon adopting the provisions of IFRS 15. Consequently, the retrospective impact of applying IFRS 15 will be recognized in the Combined Balance Sheets as at January 1, 2018, which is the effective date of the new standard.

Desjardins Group estimates that adopting IFRS 15 should result in a decrease in the "Equity – Group's share" of approximately $35 million, net of taxes, as at January 1, 2018.

IFRS 9, "FINANCIAL INSTRUMENTS"

In July 2014, the IASB issued the complete and final version of IFRS 9, "Financial Instruments", which will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 includes the requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets, as well as general requirements for hedge accounting. Concurrently with the issuance of IFRS 9, IFRS 7, "Financial Instruments: Disclosures", was amended to enhance the required qualitative and quantitative disclosures, which will have to be provided for the years beginning on or after January 1, 2018.

Desjardins Group will have to adopt IFRS 9 retrospectively as at January 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 9 will be recognized in the opening Combined Balance Sheets. Desjardins Group decided not to restate comparative periods upon adopting the provisions of IFRS 9. Consequently, the retrospective impact of applying IFRS 9 will be recognized in the Combined Balance Sheets as at January 1, 2018, which is the effective date of the new standard on financial instruments.

Desjardins Group estimates that adopting IFRS 9 should result in a decrease in "Equity – Group's share" of approximately $175 million, net of taxes, as at January 1, 2018 and in a decrease of approximately 16 basis points in regulatory capital ratios. This impact is mainly due to the increase in the allowance for credit losses resulting from the application of the new financial asset impairment model. Desjardins Group continues to refine its processes relating to the new impairment model in preparation for reporting its financial information for the first quarter of 2018.

Governance and project management

The adoption of IFRS 9 is a major initiative for Desjardins Group, which developed an organization-wide project based on a formal governance structure including various committees comprised of key members from the Finance Executive Division and Office of the CFO as well as Risk Management, and a structured implementation plan. This plan is divided into three main components, corresponding to the three sections of the new standard on financial instruments:
- classification and measurement;
- impairment;
- hedge accounting.

A multidisciplinary team made up of stakeholders from various sectors, such as risk management, including modelling, accounting standardization and information technology, has been assigned to the project and focuses on the following items for each of the above-mentioned components: changes in disclosure and financial reporting as well as in systems, controls and procedures, communications and training. Reports on the progress of the project as well as the main orientations implemented have been presented to the Audit and Inspection Commission, the Risk Management Commission and senior management.

The progress of each of the components of the implementation plan is monitored, and the project continues to advance according to schedule.

Following is a summary of the new IFRS 9 concepts and the progress of the work for each of the above-mentioned components.

Classification and measurement

IFRS 9 sets out a new classification and measurement model for financial assets to determine whether a financial asset should be classified as at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held.

The classification of debt instruments giving rise to cash flows that are solely payments of principal and interest will be determined, at initial recognition, based on the business model for managing these financial assets:
- Financial assets held within a business model whose objective is to collect contractual cash flows will be classified as at amortized cost.
- Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets will be classified as at fair value through other comprehensive income.
- Financial assets managed either for trading purposes or on a fair value basis will be classified as at fair value through profit or loss.

In all cases, if a debt instrument does not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest, the financial asset will be classified as at fair value through profit or loss.

Lastly, Desjardins Group may make, at initial recognition, an irrevocable election to classify a debt instrument as at fair value through profit or loss if such designation eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset and if regulatory requirements are met.

Equity instruments will be classified as at fair value through profit or loss unless, at initial recognition, an irrevocable election is made, on an instrument-by-instrument basis, to classify them as at fair value through other comprehensive income. If such election is made, gains and losses will be recognized in other comprehensive income with no subsequent reclassification to profit or loss.

Certain financial assets that will be reclassified upon adopting IFRS 9 will be designated for purposes of applying the overlay approach. For more details, see IFRS 4, "Insurance Contracts", below.

Derivative financial instruments will continue to be recognized at fair value through profit or loss.

For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements of IAS 39, without any significant difference, except for financial liabilities designated as at fair value through profit or loss, for which the change in fair value related to a change in the issuing entity's own credit risk will have to be recognized in other comprehensive income. Since Desjardins Group does not hold any financial liabilities designated as at fair value through profit or loss at the transition date, the new standard will have no impact on the classification and measurement of financial liabilities.

Impairment

Overall comparison of the IFRS 9 and the IAS 39 impairment models

IFRS 9 introduces a new single financial asset impairment model requiring the recognition of expected credit losses instead of incurred losses, as the impairment model under IAS 39 requires. Under the current standard, loss allowances are recognized solely when there is objective evidence of impairment (identified on an individual or collective basis), which is when a loss event occurred after initial recognition, but before the reporting date, and this has an impact on the estimated cash flows from the financial asset. Under IFRS 9, credit losses will be recognized before a loss event occurs, which should result in faster recognition of credit losses than is actually the case with the current model.

The impairment model under IFRS 9 is therefore more forward-looking in nature than the impairment model under IAS 39. Under IFRS 9, assessing changes in credit risk since initial recognition and estimating expected credit losses must take into account the relevant information available at the reporting date, including information about past events and current conditions, as well as reasonable and supportable forward-looking information about economic conditions and future events.

Scope

The impairment model applies to all financial assets as well as loan commitments and financial guarantee contracts, except financial instruments measured or designated as at fair value through profit or loss and those designated as at fair value through other comprehensive income.

General expected credit loss impairment model

The general expected credit loss impairment model 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 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 assets considered as credit-impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

The credit-impaired financial asset definition under IFRS 9 will correspond to the internal default definition used for credit risk management purposes, which takes relevant qualitative factors into consideration. Under IAS 39, loans are considered impaired financial assets when they meet the criteria for classification as "impaired loans" set out in Note 2, "Basis of presentation and significant accounting policies" to the Combined Financial Statements. Consequently, the concept of credit-impaired financial asset will differ from the concept currently used under IAS 39.

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

Expected life

The expected life of most financial instruments is equal to the maximum contractual term during which Desjardins Group is exposed to a credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit exposures, which consist of personal and business lines of credit and credit card loans. The life of these instruments is estimated as being the period, as of the reporting date, over which there is exposure to credit risk without mitigation of the expected credit losses through normal credit risk management measures.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Group must base its assessment on the change in default risk over the expected life of the financial instrument in accordance with the requirements of IFRS 9, which will require a high degree of judgment.

In order to determine whether there has been a significant increase in credit risk since initial recognition, Desjardins Group will compare the probability of default (PD) on the financial instrument at the reporting date with the PD at the date of initial recognition, also taking into consideration reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition, including information about future economic conditions, to the extent that such information affects the assessment of the instrument's PD. In order to determine the PD of an instrument, PD assessment models for calculating regulatory capital according to the Internal Ratings-Based Approach will be used, but will be adjusted to comply with IFRS 9. The criteria used to determine a significant increase in credit risk will be mainly based on a relative change combined with an absolute change in the PD and will vary depending on the type of client base.

Desjardins Group has also elected not to rebut the presumption that the credit risk has increased significantly when payments on loans are more than 30 days past due. This would be the latest date on which a financial instrument will be deemed to have experienced a significant increase in credit risk.

Measurement of loss allowances for expected credit losses

Loss allowances for expected credit losses will reflect an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, which will take into consideration reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Loss allowances for expected credit losses will be measured on a collective or individual basis. For financial instruments included in stage 1 and stage 2 of the general impairment model, the loss allowance for expected credit losses will be measured on a collective basis. For financial assets included in stage 3, the loss allowance for expected credit losses will be measured on an individual or collective basis.

Loss allowances for expected credit losses measured on a collective basis will be based mainly on the parameters used to calculate regulatory capital under the Internal Ratings-Based Approach, namely PD, LGD and EAD, as defined under "Credit risk" in Section 4.2, "Risk management". However, these parameters will be adjusted to comply with IFRS 9.

The following table presents the main differences between the parameters used to calculate regulatory capital and those used to calculate loss allowances for expected credit losses under IFRS 9.

	Regulatory capital	IFRS 9
PD	• Estimated using a long-term average for a full economic cycle. • Projected over the next 12 months. • Definition of default associated with an instrument for which payments have been past due for over 90 days, plus certain other criteria.	• Estimated at a point in time for the next 12 months or for the lifetime of the instrument. • Based on past experience, current conditions and relevant forward-looking information. • Will correspond to the definition of default used for regulatory capital purposes.
LGD	• Based on losses that would be expected during an economic downturn. • Subject to certain regulatory floors. • Takes into account all direct and indirect recovery costs . • Discounted to account for the recovery period until default using the discount rate required for regulatory capital purposes.	• Based on past experience, current conditions and relevant forward-looking information. • Excessive conservatism and floors are excluded. • Takes into account only direct recovery costs. • Discounted to account for the recovery period until default using the initial effective interest rate.
EAD	• Corresponds to drawn amounts plus expected use of undrawn amounts before default. • Amount may not be lower than the balance of drawn amounts.	• Based on the expected balance of amounts in default projected over the next 12 months or the lifetime of the instrument based on forward-looking expectations.
Discounting	• No discounting between the date of default and the reporting date.	• Discounted from the date of default to the reporting date using the initial effective interest rate.

Three different economic scenarios prepared by Desjardins Group economists, namely, a base case scenario and two alternative scenarios (bull and bear) to be probability-weighted, will be incorporated into the calculation process for the loss allowance for expected credit losses. The main variables for future economic conditions to be used for establishing the loss allowance for expected credit losses include, in particular, gross domestic product (GDP), unemployment rate, the Consumer Price Index, housing prices and the corporate financing spread. Significant judgment will be required in using forward-looking information and the necessary estimates. Given the forward-looking nature of the IFRS 9 impairment model, Desjardins Group expects that the loss allowance for expected credit losses established according to this standard may be more volatile than that established according to the current model.

The technology solution retained for calculating expected credit losses, which was implemented in fiscal 2017, will track financial asset classification included in each of the stages under the new expected credit loss (ECL) model, handle the impact of expected economic variables and incorporate risk parameters and certain credit risk modelling processes.

In fiscal 2017, Desjardins Group also finalized the development and validation of the impairment model for purposes of calculating expected credit losses, and calculations were simulated. In addition, internal documentation relating to accounting policies, internal controls and procedures were updated, and business and financial reporting processes were modified. Changes were also made to the existing governance process with respect to the allowance for credit losses under IAS 39, in particular by revising the role of the Governance Committee – Collective Allowance, composed of officers from the Finance Executive Division and Office of the CFO as well as Risk Management and Economic Studies and in charge of approving work related to the determination of collective allowances and evaluating the relevance of the amounts to be included in the Combined Financial Statements.

Documents issued by regulatory authorities

In December 2015, the BCBS issued the final version of *Guidance on credit risk and accounting for expected credit losses*, which sets out supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss accounting frameworks. In September 2016, the AMF issued a notice relating to the application of IFRS 9. This notice states that the AMF adheres to the principles and guidance published by the BCBS and expects financial services cooperatives, such as Desjardins Group, to comply with them. Desjardins is taking into consideration this guidance in the implementation and ongoing application of the expected credit loss impairment model under IFRS 9.

Documents regarding the regulatory treatment of accounting provisions were also issued. More information about these documents is found in Section 3.2, "Capital management".

Hedge accounting

IFRS 9 sets out a new hedge accounting model to align hedge accounting more closely with risk management activities.

However, as permitted by IFRS 9, Desjardins Group decided to continue applying the hedge accounting requirements of IAS 39 instead of adopting the provisions of IFRS 9. Nevertheless, the new disclosures resulting from amendments to IFRS 7, "Financial Instruments: Disclosures", will have to be provided.

IFRS 4, "INSURANCE CONTRACTS"

In September 2016, the IASB issued amendments to IFRS 4, "Insurance Contracts", which are designed to address the concerns of insurers and their representative bodies about the different effective dates of IFRS 9, "Financial Instruments", which is January 1, 2018, and of new IFRS 17, "Insurance Contracts".

The amendments permit, but do not require, an entity that issues insurance contracts to elect to use one of two options in connection with adopting IFRS 9: deferring the initial application date of IFRS 9 to January 1, 2021 or applying the overlay approach.

Desjardins Group elected to apply the overlay approach, which is the only option proposed by these amendments that it may apply, to financial assets that are eligible and designated in accordance with certain specific criteria. The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported in the Combined Statements of Income if Desjardins Group had continued to apply IAS 39 in such a way that net surplus earnings related to designated financial instruments reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39.

Desjardins Group will have to adopt the amendments to IFRS 4 as at January 1, 2018, which is the date of initial application of IFRS 9. According to the transition approach used for adopting IFRS 9, the retrospective impact of the overlay approach will be recognized in the Combined Balance Sheets as at January 1, 2018, and comparative periods will not be restated.

For financial assets reclassified from the "Available for sale" category under IAS 39 to financial assets "Classified as at fair value through profit or loss" under IFRS 9 that have been designated for purposes of applying the overlay approach, Desjardins Group estimates that adopting the amendments to IFRS 4 should result in a reclassification of approximately $405 million, after taxes, from "Undistributed surplus earnings" to "Accumulated other comprehensive income" as at January 1, 2018.

IFRS 16, "LEASES"

In January 2016, the IASB issued IFRS 16, "Leases", to replace the current standard IAS 17, "Leases". IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single recognition model for the lessee that requires recognizing lease assets and liabilities for most leases on the balance sheet, thereby eliminating the current distinction between operating and finance leases. For the lessor, the distinction between operating and finance leases remains similar.

Desjardins Group is currently assessing the impact of adopting IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

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 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on current value. This general model 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 a separate liability and recognized in profit or loss over the contract term as services are provided.

Desjardins Group is currently assessing the impact of adopting IFRS 17, which will be effective for annual periods beginning on or after January 1, 2021.

5.5 Five-year statistical review

Table 52 – Combined Balance Sheets
For the years ended December 31

(in millions of dollars)	2017	2016	2015	2014	2013
ASSETS					
Cash and deposits with financial institutions	**$ 2,435**	$ 1,876	$ 1,716	$ 1,781	$ 1,320
Securities					
Securities at fair value through profit or loss	**31,654**	31,005	28,715	24,845	23,536
Available-for-sale securities	**24,934**	22,280	23,272	19,890	19,041
	56,588	53,285	51,987	44,735	42,577
Securities borrowed or purchased under reverse repurchase agreements	**8,674**	7,690	7,881	9,959	7,710
Loans					
Residential mortgages	**113,146**	106,695	102,323	97,512	91,389
Consumer, credit card and other personal loans	**24,044**	22,150	21,204	20,495	19,549
Business and government	**40,738**	37,626	36,433	32,903	30,013
	177,928	166,471	159,960	150,910	140,951
Allowance for credit losses	**(438)**	(456)	(455)	(456)	(418)
	177,490	166,015	159,505	150,454	140,533
Segregated fund net assets	**13,379**	11,965	9,781	8,695	7,252
Other assets					
Clients' liability under acceptances	**31**	11	376	858	985
Premiums receivable	**2,095**	1,957	1,662	1,127	1,123
Derivative financial instruments	**3,206**	3,572	4,818	3,133	2,322
Amounts receivable from clients, brokers and financial institutions	**1,554**	2,532	2,033	1,742	1,891
Reinsurance assets	**2,202**	2,582	1,964	785	648
Investment property	**832**	823	683	571	475
Property, plant and equipment	**1,411**	1,435	1,451	1,374	1,322
Goodwill	**121**	471	472	472	456
Intangible assets	**466**	690	661	569	507
Deferred tax assets	**992**	874	784	1,043	810
Other	**2,738**	2,589	2,354	2,089	2,074
Assets of the disposal group held to be transferred	**881**	-	-	-	-
	16,529	17,536	17,258	13,763	12,613
TOTAL ASSETS	**$ 275,095**	$ 258,367	$ 248,128	$ 229,387	$ 212,005

Table 52 – Combined Balance Sheets (continued)
For the years ended December 31

(in millions of dollars)	2017	2016	2015	2014	2013
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 100,578**	$ 96,278	$ 91,243	$ 88,463	$ 86,730
Business and government	**69,102**	62,799	63,833	56,516	49,792
Deposit-taking institutions	**1,906**	1,469	1,498	1,345	224
	171,586	160,546	156,574	146,324	136,746
Other liabilities					
Acceptances	**31**	11	376	858	985
Commitments related to securities sold short	**9,112**	8,196	5,464	6,304	7,754
Commitments related to securities lent or sold under repurchase agreements	**10,229**	10,323	10,383	13,072	9,579
Derivative financial instruments	**3,094**	2,057	1,689	1,675	1,719
Amounts payable to clients, brokers and financial institutions	**4,247**	4,659	4,713	3,713	3,752
Insurance contract liabilities	**28,272**	27,493	26,734	19,435	17,070
Segregated fund net liabilities	**13,354**	11,957	9,776	8,706	7,260
Defined benefit plan liabilities	**2,624**	2,256	2,428	2,700	1,825
Deferred tax liabilities	**155**	179	163	329	303
Other	**5,568**	6,019	6,219	4,814	4,717
Liabilities of the disposal group held to be transferred	**662**	-	-	-	-
	77,348	73,150	67,945	61,606	54,964
Subordinated notes	**1,388**	1,378	1,884	2,564	3,063
TOTAL LIABILITIES	**250,322**	235,074	226,403	210,494	194,773
EQUITY					
Capital stock	**5,361**	5,292	5,158	4,777	3,881
Share capital	**90**	88	86	85	82
Undistributed surplus earnings	**1,360**	1,529	1,793	1,468	1,400
Accumulated other comprehensive income	**445**	514	589	615	420
Reserves	**16,707**	15,052	12,864	11,476	11,005
Equity – Group's share	**23,963**	22,475	20,490	18,421	16,788
Non-controlling interests' share	**810**	818	1,235	472	444
TOTAL EQUITY	**24,773**	23,293	21,725	18,893	17,232
TOTAL LIABILITIES AND EQUITY	**$ 275,095**	$ 258,367	$ 248,128	$ 229,387	$ 212,005

Table 53 – Combined Statements of Income
For the years ended December 31

(in millions of dollars)	2017	2016(1)	2015(1)	2014(1)	2013(1)
Interest income					
Loans	**$ 5,923**	$ 5,686	$ 5,765	$ 5,563	$ 5,456
Securities	**323**	315	308	335	313
	6,246	6,001	6,073	5,898	5,769
Interest expense					
Deposits	**1,763**	1,643	1,665	1,753	1,708
Subordinated notes and other	**78**	85	129	137	157
	1,841	1,728	1,794	1,890	1,865
Net interest income	**4,405**	4,273	4,279	4,008	3,904
Net premiums	**8,049**	7,168	6,907	5,916	5,558
Other income					
Deposit and payment service charges	**458**	488	489	498	498
Lending fees and credit card service revenues	**660**	574	550	530	481
Brokerage and investment fund services	**1,087**	1,106	1,037	970	855
Management and custodial service fees	**428**	376	365	348	300
Net income (loss) on securities at fair value through profit or loss	**1,079**	533	809	2,005	(667)
Net income on available-for-sale securities	**408**	388	318	343	221
Net other investment income	**201**	198	235	233	229
Foreign exchange income	**77**	70	88	84	61
Other	**249**	27	165	265	273
	4,647	3,760	4,056	5,276	2,251
Total income	**17,101**	15,201	15,242	15,200	11,713
Provision for credit losses	**349**	319	377	351	277
Claims, benefits, annuities and changes in insurance contract liabilities	**6,717**	5,446	5,431	6,303	3,259
Non-interest expense					
Salaries and fringe benefits	**3,452**	3,548	3,475	3,200	3,125
Premises, equipment and furniture, including depreciation	**727**	667	613	598	570
Service agreements and outsourcing	**319**	306	331	256	232
Communications	**284**	307	299	283	287
Other	**2,566**	2,376	2,241	2,182	1,994
	7,348	7,204	6,959	6,519	6,208
Operating surplus earnings	**2,687**	2,232	2,475	2,027	1,969
Income taxes on surplus earnings	**536**	460	516	434	439
Surplus earnings before member dividends	**2,151**	1,772	1,959	1,593	1,530
Member dividends	**202**	144	154	217	171
Tax recovery on member dividends	**(54)**	(39)	(41)	(57)	(45)
Net surplus earnings for the year after member dividends	**$ 2,003**	$ 1,667	$ 1,846	$ 1,433	$ 1,404
Of which:					
Group's share	**$ 1,960**	$ 1,591	$ 1,674	$ 1,376	$ 1,384
Non-controlling interests' share	**43**	76	172	57	20

(1) Prior-period data have been reclassified to conform to the current year's presentation.

Table 54 – Selected financial measures
For the years ended December 31

(in millions of dollars and as a percentage)	**2017**	2016[1]	2015[1]	2014[1]	2013[1]
Tier 1A capital ratio	**18.0%**	17.3%	16.0%	15.7%	15.7%
Tier 1 capital ratio	**18.0**	17.3	16.0	15.8	15.7
Total capital ratio	**18.4**	17.9	17.2	17.9	18.4
Leverage ratio[2]	**8.5**	8.1	7.8	N/A	N/A
Return on equity[3]	**9.1**	8.0	9.1	8.7	9.4
Productivity index[3]	**70.8**	73.8	70.9	73.3	73.4
Gross impaired loans / gross loans and acceptances ratio[3]	**0.25**	0.32	0.34	0.34	0.32
Average assets[3]	**$ 269,938**	$ 256,500	$ 246,694	$ 222,542	$ 205,051
Average net loans and acceptances[3]	**171,361**	162,630	155,449	146,542	137,266
Average deposits[3]	**169,219**	160,176	152,140	141,833	133,518

(1) Prior-year data have been reclassified to conform to the current year's presentation.
(2) Effective since January 1, 2015.
(3) See "Basis of presentation of financial information".

Combined Financial Statements of Desjardins Group

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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 Desjardins Group's interim and annual financial statements, related press releases, and its interim and annual Management's Discussion and Analysis. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, asset protection, 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 caisse network and Desjardins Group. The AIC analyzes the information resulting from this financial governance process every quarter.

The AIC also examines various files relating to developments in the caisse network, including information on the financial position of the caisses and any special circumstances detected, follow-up measures, credit losses, and the application of certain accounting policies and practices, such as the method of managing the collective allowance.

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 the key players involved. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Desjardins Group 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 action plan is carried out, reviews the executive summaries of internal audit reports 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. At the end of the fiscal year, the AIC studies the annual report from the Monitoring Office and recommends it to the Board of Directors.

With respect to Desjardins Group's relations with the *Autorité des marchés financiers* (AMF) in Quebec, 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; the Chief Monitoring Officer of Desjardins Group; and AMF representatives. 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 five independent directors and three 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. 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 as well as the impact of changes to the normative and regulatory frameworks to which capital management and corporate governance are subject. Accordingly, 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 eight meetings and one training session for its members in fiscal 2017. During the year, Jacques Baril, Serges Chamberland, Luc Forand and Benoît Turcotte left the AIC and Louis Babineau, Jean-François Laporte, Michel Tourangeau and Serge Tourangeau became members. As at December 31, 2017, the five independent directors who are members of the AIC are: Louis Babineau, Stéphane Corbeil, Jean-François Laporte, Michel Tourangeau and Serge Tourangeau. The three observers are: Michel Magnan, FCPA, FCA; Robert St-Aubin, FCPA, FCA; and Neil Hawthorn.

Louis Babineau
Chair

Montreal, Quebec
February 23, 2018

Management's responsibility for financial reporting

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

These combined 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 Quebec, which do not differ from IFRS. These combined 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 insurance segments. All financial information in the annual Management's Discussion and Analysis is consistent with the audited combined financial statements.

Federation management is responsible for the accuracy of Desjardins Group's combined 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. Such controls include an organizational structure that ensures effective segregation of duties, a code of ethics, 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 to ensure the controls and disclosure procedures for financial information presented in the annual and interim filings of Desjardins Group are adequately designed and effective. As at December 31, 2017, in our capacities as Chief Executive Officer and Chief Financial Officer of Desjardins Group, we concluded that internal control over financial reporting is effective.

The AMF examines the affairs of certain components of Desjardins Group under its authority on a regular basis.

For the purposes of approving the financial information contained in the Desjardins Group 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 Desjardins Group's combined financial statements and its Management's Discussion and Analysis. In addition, the Audit and Inspection Commission, comprising independent directors and three observers who are neither management nor staff of Desjardins Group, 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 combined 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 issues related thereto, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Réal Bellemare
Executive Vice-President Finance, Treasury, Administration and Chief Financial Officer
Desjardins Group

Lévis, Quebec
February 26, 2018

Independent auditor's report

TO THE MEMBERS OF THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

We have audited the accompanying combined financial statements of Desjardins Group, which comprise the combined balance sheets as at December 31, 2017 and 2016, and the combined statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and the accompanying notes, including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP(1)
(1) FCPA auditor, FCA, public accountancy permit No. A108517

Montreal, Quebec
February 26, 2018

Combined Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2017	As at December 31, 2016
ASSETS			
Cash and deposits with financial institutions		**$ 2,435**	$ 1,876
Securities	6 and 8		
Securities at fair value through profit or loss		**31,654**	31,005
Available-for-sale securities		**24,934**	22,280
		56,588	53,285
Securities borrowed or purchased under reverse repurchase agreements		**8,674**	7,690
Loans	7 and 8		
Residential mortgages		**113,146**	106,695
Consumer, credit card and other personal loans		**24,044**	22,150
Business and government		**40,738**	37,626
		177,928	166,471
Allowance for credit losses	7	**(438)**	(456)
		177,490	166,015
Segregated fund net assets	9	**13,379**	11,965
Other assets			
Clients' liability under acceptances		**31**	11
Premiums receivable		**2,095**	1,957
Derivative financial instruments	19	**3,206**	3,572
Amounts receivable from clients, brokers and financial institutions		**1,554**	2,532
Reinsurance assets	15	**2,202**	2,582
Investment property	10	**832**	823
Property, plant and equipment	10	**1,411**	1,435
Goodwill	11	**121**	471
Intangible assets	11	**466**	690
Deferred tax assets	28	**992**	874
Other	12	**2,738**	2,589
Assets of the disposal group held to be transferred	21	**881**	-
		16,529	17,536
TOTAL ASSETS		**$ 275,095**	$ 258,367
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	14		
Individuals		**$ 100,578**	$ 96,278
Business and government		**69,102**	62,799
Deposit-taking institutions		**1,906**	1,469
		171,586	160,546
Other liabilities			
Acceptances		**31**	11
Commitments related to securities sold short		**9,112**	8,196
Commitments related to securities lent or sold under repurchase agreements		**10,229**	10,323
Derivative financial instruments	19	**3,094**	2,057
Amounts payable to clients, brokers and financial institutions		**4,247**	4,659
Insurance contract liabilities	15	**28,272**	27,493
Segregated fund net liabilities	9	**13,354**	11,957
Net defined benefit plan liabilities	16	**2,624**	2,256
Deferred tax liabilities	28	**155**	179
Other	17	**5,568**	6,019
Liabilities of the disposal group held to be transferred	21	**662**	-
		77,348	73,150
Subordinated notes	18	**1,388**	1,378
TOTAL LIABILITIES		**250,322**	235,074
EQUITY			
Capital stock	22	**5,361**	5,292
Share capital	23	**90**	88
Undistributed surplus earnings		**1,360**	1,529
Accumulated other comprehensive income	24	**445**	514
Reserves		**16,707**	15,052
Equity - Group's share		**23,963**	22,475
Non-controlling interests	13 and 15	**810**	818
TOTAL EQUITY		**24,773**	23,293
TOTAL LIABILITIES AND EQUITY		**$ 275,095**	$ 258,367

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

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

Guy Cormier
Chair of the Board

Yvon Vinet, LL.L., D.D.N.
Vice-Chair of the Board

Combined Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	2017	2016
INTEREST INCOME			
Loans		**$ 5,923**	$ 5,686
Securities		**323**	315
		6,246	6,001
INTEREST EXPENSE			
Deposits		**1,763**	1,643
Subordinated notes and other		**78**	85
		1,841	1,728
NET INTEREST INCOME		**4,405**	4,273
NET PREMIUMS	15	**8,049**	7,168
OTHER INCOME			
Deposit and payment service charges		**458**	488
Lending fees and credit card service revenues		**660**	574
Brokerage and investment fund services		**1,087**	1,106
Management and custodial service fees		**428**	376
Net income on securities at fair value through profit or loss	26	**1,079**	533
Net income on available-for-sale securities		**408**	388
Net other investment income		**201**	198
Foreign exchange income		**77**	70
Other		**249**	27
		4,647	3,760
TOTAL INCOME		**17,101**	15,201
PROVISION FOR CREDIT LOSSES	7	**349**	319
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	15	**6,717**	5,446
NON-INTEREST EXPENSE			
Salaries and fringe benefits		**3,452**	3,548
Premises, equipment and furniture, including depreciation		**727**	667
Service agreements and outsourcing		**319**	306
Communications		**284**	307
Other	27	**2,566**	2,376
		7,348	7,204
OPERATING SURPLUS EARNINGS		**2,687**	2,232
Income taxes on surplus earnings	28	**536**	460
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS(1)		**2,151**	1,772
Member dividends		**202**	144
Tax recovery on member dividends	28	**(54)**	(39)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		**$ 2,003**	$ 1,667
of which:			
Group's share		**$ 1,960**	$ 1,591
Non-controlling interests' share	13	**43**	76

(1) The Group's share of "Surplus earnings before member dividends" is presented in Note 33, "Segmented information".

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

Combined Statements of Comprehensive Income

For the years ended December 31

(in millions of Canadian dollars)	2017	2016
Net surplus earnings for the year after member dividends	**$ 2,003**	$ 1,667
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**(269)**	126
Share of associates and joint ventures accounted for using the equity method	**(2)**	1
	(271)	127
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**196**	177
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(170)**	(147)
	26	30
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	**(16)**	(73)
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(72)**	(55)
	(88)	(128)
	(62)	(98)
Total other comprehensive income, net of income taxes	**(333)**	29
COMPREHENSIVE INCOME FOR THE YEAR	**$ 1,670**	$ 1,696
of which:		
Group's share	**$ 1,623**	$ 1,613
Non-controlling interests' share	**47**	83

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

Income taxes on other comprehensive income

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

For the years ended December 31

(in millions of Canadian dollars)	2017	2016
Item that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ (96)**	$ 47
	(96)	47
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**34**	56
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(35)**	(32)
	(1)	24
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	**(6)**	(29)
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(25)**	(18)
	(31)	(47)
	(32)	(23)
Total income tax expense (recovery)	**$ (128)**	$ 24

Combined Statements of Changes in Equity

For the years ended December 31

(in millions of Canadian dollars)	Capital				Reserves						
	Capital stock (Note 22)	Share capital (Note 23)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 24)	Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves	Equity - Group's share	Non-controlling interests (Notes 13 and 15)	Total equity
BALANCE AS AT DECEMBER 31, 2015	$ 5,158	$ 86	$ 1,793	$ 589	$ 983	$ 479	$ 11,402	$ 12,864	$ 20,490	$ 1,235	$ 21,725
Net surplus earnings for the year after member dividends	-	-	1,591	-	-	-	-	-	1,591	76	1,667
Other comprehensive income for the year	-	-	131	(109)	-	-	-	-	22	7	29
Comprehensive income for the year	-	-	1,722	(109)	-	-	-	-	1,613	83	1,696
Issuance of F capital shares	598	-	-	-	-	-	-	-	598	-	598
Other net change in capital stock	(464)	-	-	-	-	-	-	-	(464)	(60)	(524)
Issuance of share capital	-	2	-	-	-	-	-	-	2	10	12
Redemption of share capital	-	-	-	-	-	-	-	-	-	(3)	(3)
Remuneration on capital stock	-	-	(158)	-	-	-	-	-	(158)	-	(158)
Transfer from participating contract holders	-	-	-	34	-	-	362	362	396	(396)	-
Dividends	-	-	(4)	-	-	-	-	-	(4)	(40)	(44)
Transfer from undistributed surplus earnings (to reserves)	-	-	(1,820)	-	-	(20)	1,840	1,820	-	-	-
Transactions related to put options	-	-	-	-	-	-	8	8	8	(6)	2
Other	-	-	(4)	-	-	-	(2)	(2)	(6)	(5)	(11)
BALANCE AS AT DECEMBER 31, 2016	$ 5,292	$ 88	$ 1,529	$ 514	$ 983	$ 459	$ 13,610	$ 15,052	$ 22,475	$ 818	$ 23,293
Net surplus earnings for the year after member dividends	**-**	**-**	**1,960**	**-**	**-**	**-**	**-**	**-**	**1,960**	**43**	**2,003**
Other comprehensive income for the year	**-**	**-**	**(268)**	**(69)**	**-**	**-**	**-**	**-**	**(337)**	**4**	**(333)**
Comprehensive income for the year	**-**	**-**	**1,692**	**(69)**	**-**	**-**	**-**	**-**	**1,623**	**47**	**1,670**
Issuance of F capital shares	**375**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**375**	**-**	**375**
Other net change in capital stock	**(306)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(306)**	**-**	**(306)**
Issuance of share capital	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Redemption of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Remuneration on capital stock	**-**	**-**	**(212)**	**-**	**-**	**-**	**-**	**-**	**(212)**	**-**	**(212)**
Dividends	**-**	**-**	**(4)**	**-**	**-**	**-**	**-**	**-**	**(4)**	**(42)**	**(46)**
Transfer from undistributed surplus earnings (to reserves)	**-**	**-**	**(1,650)**	**-**	**31**	**(12)**	**1,631**	**1,650**	**-**	**-**	**-**
Transactions related to put options	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**5**	**5**	**(3)**	**2**
Other	**-**	**-**	**5**	**-**	**-**	**-**	**-**	**-**	**5**	**(2)**	**3**
BALANCE AS AT DECEMBER 31, 2017	**$ 5,361**	**$ 90**	**$ 1,360**	**$ 445**	**$ 1,014**	**$ 447**	**$ 15,246**	**$ 16,707**	**$ 23,963**	**$ 810**	**$ 24,773**

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

Combined Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)	Note	2017	2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Operating surplus earnings		**$ 2,687**	$ 2,232
Non-cash adjustments:			
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets		**290**	299
Net change in insurance contract liabilities		**945**	759
Provision for credit losses		**349**	319
Net realized gains on available-for-sale securities		**(210)**	(202)
Impairment loss on available-for-sale securities recognized in profit or loss		**6**	24
Other		**(60)**	112
Change in operating assets and liabilities:			
Securities at fair value through profit or loss		**(852)**	(2,290)
Securities borrowed or purchased under reverse repurchase agreements		**(984)**	191
Loans		**(11,824)**	(6,829)
Derivative financial instruments, net amount		**1,313**	1,457
Net amounts receivable from and payable to clients, brokers and financial institutions		**606**	(553)
Deposits		**11,040**	3,972
Commitments related to securities sold short		**916**	2,732
Commitments related to securities lent or sold under repurchase agreements		**(94)**	(60)
Other		**41**	(1,229)
Payment of the contingent consideration		**(243)**	(121)
Income taxes paid on surplus earnings		**(586)**	(459)
Payment of member dividends		**(145)**	(157)
		3,195	197
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Redemption of subordinated notes		**-**	(500)
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market		**10**	(7)
Issuance of F capital shares		**250**	498
Other net change in capital stock		**(306)**	(524)
Remuneration on capital stock		**(87)**	(58)
Issuance of share capital		**2**	12
Redemption of share capital		**(8)**	(3)
Dividends paid		**(46)**	(44)
Exercise of put options written on non-controlling interests		**(15)**	(17)
		(200)	(643)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of available-for-sale securities		**(60,954)**	(57,284)
Proceeds from disposals of available-for-sale securities		**23,907**	26,177
Proceeds from maturities of available-for-sale securities		**34,332**	32,251
Disposals of subsidiaries, net of cash and cash equivalents sold		**684**	-
Payment of the contingent consideration recognized at acquisition date		**(23)**	(34)
Acquisitions of property, plant and equipment, intangible assets and investment property		**(378)**	(539)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		**22**	35
		(2,410)	606
Net increase in cash and cash equivalents		**585**	160
Cash and cash equivalents at beginning of year		**1,876**	1,716
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,461**	1,876
Less :			
Cash and cash equivalents of the disposal group held to be transferred	21	**26**	-
CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS AT END OF YEAR		**$ 2,435**	$ 1,876
Supplemental information on cash flows from (used in) operating activities			
Interest paid		**$ 1,989**	$ 2,063
Interest and dividends received		**7,437**	7,321

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

Notes to the Combined Financial Statements

NOTE 1 – INFORMATION ON DESJARDINS GROUP

Nature of operations

Desjardins Group is made up of the Desjardins caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, the *Fédération des caisses populaires de l'Ontario* and the *Fonds de sécurité Desjardins*. A number of the subsidiaries are active across Canada. The various business segments in which Desjardins Group operates are described in Note 33, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

Combined Financial Statements

As an integrated financial services group, Desjardins Group is a complete economic entity. These Combined Financial Statements have been prepared to present the financial position, the financial performance and the cash flows of this economic entity. The Desjardins caisses exercise a collective power over the Federation, which is the cooperative entity responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. The role of the Federation is also to protect the interests of Desjardins Group members.

As Desjardins caisses and the Federation are financial services cooperatives, these Combined Financial Statements differ from the consolidated financial statements of a group with a traditional organizational structure. Consequently, the Combined Financial Statements of Desjardins Group are a combination of the accounts of the Desjardins caisses, the caisses populaires of Ontario, the Federation, the *Fédération des caisses populaires de l'Ontario* and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The capital stock of Desjardins Group represents the aggregate of the capital stock issued by the caisses, the Federation and the *Fédération des caisses populaires de l'Ontario*.

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

The Combined Financial Statements for the year ended December 31, 2017 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 26, 2018.

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

Significant judgments, estimates and assumptions

The preparation of combined 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, allowance for credit losses, impairment of available-for-sale securities, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, member dividends, employee benefits as well as goodwill and intangible assets. Consequently, actual results could differ from those estimates and assumptions.

Scope of the Group

The Combined Financial Statements of Desjardins Group include the assets, liabilities, operating results and cash flows of the Desjardins caisses in Quebec and Ontario, the Federation, the *Fédération des caisses populaires de l'Ontario* and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The financial statements of all Group entities have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give Desjardins Group 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 a Group entity. A Group entity 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 Desjardins Group. They are presented separately in the Combined Statements of Income, the Combined Statements of Comprehensive Income and in equity, in the Combined Balance Sheets.

Associates

An associate is an entity over which Desjardins Group exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. Desjardins Group's investments in associates are presented under "Other assets – Other" in the Combined 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 Desjardins Group's share in the relevant entities' equity.

Joint arrangements

A joint arrangement is an arrangement of which Desjardins Group 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. Desjardins Group's investments in joint ventures are presented under "Other assets – Other" in the Combined Balance Sheets.

Presentation and functional currency

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

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

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date Desjardins Group 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 and liabilities are classified based on their characteristics and the intention of management upon their acquisition. Their classification in the categories defined in the financial instrument standards is presented in Note 3, "Carrying amount of financial instruments".

The classification of financial assets can be summarized as follows:

<table>
<tr><th colspan="2" rowspan="2">Categories</th><th rowspan="2">Classes</th><th colspan="2">Recognition</th></tr>
<tr><th>Initial</th><th>Subsequent</th></tr>
<tr><td rowspan="5">Financial assets</td><td rowspan="2">At fair value through profit or loss (i)</td><td>Held for trading (ii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through profit or loss (iii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">Loans and receivables (iv)</td><td>Fair value</td><td>Amortized cost</td></tr>
<tr><td colspan="2">Available for sale (v)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">Held to maturity (vi)</td><td>Fair value</td><td>Amortized cost</td></tr>
</table>

(i) Financial assets classified in the "At fair value through profit or loss" category include financial assets "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities classified in this category are recorded in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".

- Interest and dividend income from securities classified in the "At fair value through profit or loss" category of the Personal and Business Services segment and the Other category is recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net income on securities at fair value through profit or loss" using the effective interest method.

(ii) Financial assets classified as "Held for trading" include the following:

- Securities acquired for resale purposes 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; and

- Derivative financial instruments.

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

(iii) Financial assets classified as "Designated as at fair value through profit or loss" are essentially securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.

- The assets are part of a group of financial assets or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.

- The assets are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group's financial assets classified in this category comprise certain investments made in connection with derivative instruments that are not designated as part of a hedging relationship, thereby significantly reducing a recognition inconsistency. In addition, Desjardins Group has designated the asset-backed term notes (ABTN) as part of this category. ABTNs are composed of certain hybrid financial instruments containing embedded derivatives, while some others are considered to be part of a group of assets that are managed and whose performance is evaluated on a fair value basis. Lastly, certain securities in this category that back the life and health insurance actuarial liabilities and the property and casualty provisions for claims have been classified as "Designated as at fair value through profit or loss" to eliminate or significantly reduce a recognition inconsistency.

(iv) Securities classified in the "Loans and receivables" category are non-derivative financial assets with fixed or determinable income that are not quoted in an active market and that are not held for sale upon their acquisition or their granting.

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

Outstanding securities classified in this category are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities classified in the "Loans and receivables" category is presented under "Interest income – Loans" in the Combined Statements of Income when it is recognized by the Personal and Business Services segment and the Other category. Income for the other segments is recognized under "Other income – Other" in the Combined Statements of Income.

(v) Securities classified in the "Available for sale" category are non-derivative financial assets that are initially designated as available for sale or that are not classified in the "At fair value through profit or loss", "Held to maturity" or "Loans and receivables" categories. Available-for-sale securities can be sold further to or in view of fluctuations in interest rates, exchange rates or prices of equity instruments or changes in financing sources or terms, or to meet the liquidity needs of Desjardins Group.

Gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Combined Statements of Comprehensive Income under "Net unrealized gains on available-for-sale securities" until the financial asset is derecognized. Premiums and discounts on the purchase of available-for-sale securities 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 and, for the other segments, are mainly recognized under "Net income on available-for-sale securities".

(vi) Securities classified in the "Held to maturity" category are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intention and ability to hold to maturity. These securities are recognized at amortized cost using the effective interest method. Desjardins Group held no instruments in this category at the reporting dates.

The classification of financial liabilities can be summarized as follows:

<table>
<tr><th colspan="2" rowspan="2">Categories</th><th rowspan="2">Classes</th><th colspan="2">Recognition</th></tr>
<tr><th>Initial</th><th>Subsequent</th></tr>
<tr><td rowspan="3">Financial liabilities</td><td rowspan="2">At fair value through profit or loss (i)</td><td>Held for trading (ii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through profit or loss (iii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">At amortized cost (iv)</td><td>Fair value</td><td>Amortized cost</td></tr>
</table>

(i) Financial liabilities classified in the "At fair value through profit or loss" category include financial liabilities "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities classified in this category are recorded in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".

- Interest expense related to financial liabilities classified in the "At fair value through profit or loss" category is recognized under "Net income on securities at fair value through profit or loss".

(ii) Financial liabilities classified as "Held for trading" are 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 m), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial liabilities classified as "Designated as at fair value through profit or loss" have been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.

- The liabilities are part of a group of financial liabilities or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.

- The liabilities are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group held no instruments in this category at the reporting dates.

(iv) Financial liabilities that are not classified in the "At fair value through profit or loss" category are classified in the "At amortized cost" category.

Financial liabilities classified in this category are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities classified in the "At amortized cost" category is recognized under "Interest expense" in the Combined Statements of Income for the Personal and Business Services segment and the Other category. Income for the other segments is mainly recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income.

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

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.

Loans

The fair value of 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. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of impaired loans is assumed to be equal 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 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. The fair value of derivative financial instruments is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 19, "Derivative financial instruments and hedging activities", specifies the nature of derivative financial instruments held by Desjardins Group.

Financial instruments whose fair value equals their carrying amount

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

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method, except if such instruments are classified or designated as part of the "At fair value through profit or loss" category, in which case they 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 Desjardins Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

Derecognition of financial assets and liabilities

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

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

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, Desjardins Group derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Balance Sheets to the extent of its continuing involvement in that asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates Desjardins Group's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

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 Combined Statements of Income.

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

Securities are instruments classified based on their characteristics and management's intention in the various categories presented 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 Combined 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 Combined Balance Sheets.

As part of securities borrowings, Desjardins Group 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 Combined 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 Combined 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 Combined Balance Sheets.

As part of securities loans, Desjardins Group 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 Combined 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.

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

Securities sold short

Securities sold short as part of trading activities, which represent Desjardins Group'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 in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".

d) Loans

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

The fees collected and the direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loan. 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 cash, government securities, shares, receivables, inventory or capital assets.

Restructured loans are loans for which Desjardins Group 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 and treated as a new loan.

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 loan's initial effective interest rate (the rate prior to the restructuring). Restructured loans remain classified as performing loans when they do not meet the criteria requiring their classification as impaired loans. In addition, management assesses whether such restructured loans are impaired in accordance with its impairment policies.

e) Impairment of financial assets

Impaired loans

At the reporting date, Desjardins Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A loan is considered impaired when there is such evidence, and more specifically when one of the following conditions is met:

- There is reason to believe that a portion of the principal or interest cannot be collected; or
- The interest or principal repayment is contractually 90 days past due, unless the loan is fully secured and in the process of collection; or
- The interest or principal is more than 180 days past due.

A loan is not classified as impaired when it is fully guaranteed or insured by a Canadian government (federal or provincial) or an agency of a Canadian government.

A loan is considered past due when the borrower has failed to make a payment by the contractual due date.

When a loan becomes impaired, the interest previously accrued but not collected is capitalized to the loan. Payments received subsequently are recorded as a deduction of the principal. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no doubt as to its collection or when it is restructured and is treated as a new loan and there is no doubt as to the collection of principal and interest.

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

A loan classified as "Loans and receivables" is written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Combined Statements of Income. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days.

Changes in the individual allowance for credit losses due to the passage of time are recognized under "Interest income − Loans", while those that are due to a revision of expected receipts are recognized under "Provision for credit losses" in the Combined Statements of Income.

Allowance for credit losses

Objective evidence of impairment results from a loss event that occurred after the loan was granted but before the reporting date and that has an impact on the estimated future cash flows of loans.

The impairment of a loan or a group of loans is determined by estimating the recoverable amount of these financial assets. The allowance is equal to the difference between this amount and the carrying amount. This allowance is presented in deduction of assets under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, Desjardins Group discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the collateral underlying the loan, net of expected costs of realization, or the observable market price for the loan. The collateral may vary depending on the type of loan.

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

The allowance for credit losses represents management's best estimate for loan impairment at the reporting date. As part of its evaluation, management must make judgments to determine the data, assumptions and estimates to be used, including determining when a loan is considered impaired and the amount that could be recovered. Changing these estimates and assumptions would have an impact on the allowance for credit losses and the provision for credit losses for the year.

The allowance for credit losses related to impaired loans is measured either individually or collectively for loans that are not individually material, while the allowance for credit losses is measured collectively for unimpaired loans.

Individual allowances

Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which there is no objective evidence of impairment are included in groups of assets having similar credit characteristics and are subject to a collective allowance.

Collective allowance on impaired loans

Certain consumer, credit card and other personal loan portfolios comprise a large number of homogeneous balances that are not individually material and for which a collective allowance is established based on the portfolio's historical net loss rate.

Collective allowance

The method used by Desjardins Group to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as the probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and risk rating of each loan. The measurement of the collective allowance relies heavily on management's judgements and depends on management's assessment of current credit quality trends with respect to business sectors, the impact of changes in its credit policies, and economic conditions.

The collective allowance for the loans of the life and health insurance subsidiaries is included in actuarial liabilities, under "Insurance contract liabilities".

The allowance related to off-balance sheet items, such as letters of guarantee and certain unrecognized credit commitments, is recognized under "Other liabilities – Other" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

Available-for-sale securities

Securities classified in the "Available for sale" category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring an impairment loss, Desjardins Group takes into account many facts specific to each investment and all the factors that could indicate that there has been impairment. 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 will enter bankruptcy or a restructuring, and the disappearance of an active market for the financial asset in question. Management also uses its judgment to determine when to recognize an impairment loss.

Desjardins Group individually assesses debt securities classified in the "Available for sale" category, including preferred shares with characteristics and behaviour similar to those of debt securities, to determine whether there is any objective evidence of impairment. The impairment loss represents the cumulative loss, which is the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income is calculated on the reduced carrying amount using the interest rate used to discount future cash flows in order to measure the impairment loss. 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 had been recognized in the Combined Statements of Income, the impairment loss is reversed through the Combined Statements of Income.

For equity securities classified in the "Available for sale" category, when evidence of impairment exists, the cumulative loss—which corresponds to the difference between acquisition cost and current fair value, less any impairment loss previously recognized—is transferred out of other comprehensive income, in the Combined Statements of Comprehensive Income, and recognized in the Combined Statements of Income. Impairment losses on equity securities are not reversed to the Combined Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded directly in other comprehensive income, in the Combined Statements of Comprehensive Income. Any impairment loss on securities previously impaired is directly recognized in the Combined Statements of Income.

f) 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. These assets 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 Combined Statements of Income.

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

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 Desjardins Group 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 other investment income" in the Combined 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	1 to 10 years
Furniture, fixtures and other	3 to 10 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 Combined 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 other investment income" for investment property.

g) 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.

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.

Desjardins Group 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. Intangible assets with indefinite useful lives include mainly trademarks and licenses.

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 Combined Statements of Income upon derecognition of the asset.

h) Impairment of non-financial assets

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of 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.

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

Any impairment loss recognized in the Combined 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 Combined 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, and 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 and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill and intangible assets with indefinite useful lives is performed based on the recoverable amount of the asset or each CGU (or each group of CGUs) to which goodwill or the intangible asset with an indefinite useful life 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 intangible asset with an indefinite useful life or each CGU.

When the recoverable amount of the asset or the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statement of Income for the year and is first recorded as a reduction of the intangible asset with an indefinite useful life or, in the case of a CGU, 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.

i) 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 Desjardins Group under acceptances is recognized under "Acceptances", in "Other liabilities". Desjardins Group 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".

j) 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 the insurance 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, and they are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

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 life and health insurance subsidiary is required to determine the actuarial liabilities needed to meet its future commitments. The actuarial liabilities of these subsidiaries are determined using the Canadian Asset Liability Method (CALM) in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

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.

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

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Combined 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 Combined Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under “Reinsurance assets” in the Combined Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These reinsurance 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.

k) 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 Combined 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.

l) Provisions

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

Provisions are based on management’s best estimate of the amounts required to settle the obligation on the reporting date, taking into account the relevant uncertainties and risks. As these estimates are forward-looking in nature, management must use its judgment to forecast the timing and amount of future cash flows. 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.

m) 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 Desjardins Group’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 19, “Derivative financial instruments and hedging activities”.

Derivative financial instruments, including embedded derivatives which are required to be recognized separately, are recognized at fair value on the Combined Balance Sheets.

Embedded derivative financial instruments are separated from their host contract and accounted for as derivatives if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative has the same terms as a separate instrument; (c) the hybrid instrument or contract is not measured at fair value with changes in fair value recognized in combined profit or loss. Embedded derivatives that are required to be recognized separately are measured at fair value, and changes in their fair value are recognized under “Net income on securities at fair value through profit or loss” in the Combined Statements of Income.

Desjardins Group 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 members and clients, and to allow Desjardins Group to generate income on its own trading activities. These derivative financial instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under “Net income on securities at fair value through profit or loss” in the Combined Statements of Income.

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

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

Hedging activities

Desjardins Group 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, Desjardins Group 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.

Desjardins Group 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 Desjardins Group 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

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. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. Desjardins Group uses fair value hedge strategies for its securities, loan and deposit portfolios.

In a fair value hedge transaction, changes in the fair value of the hedging derivative financial instrument are recognized under “Net income on securities at fair value through profit or loss” in the Combined 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 income on securities at fair value through profit or loss” in the Combined Statements of Income.

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. Adjustments previously recorded in the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Combined 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 income on securities at fair value through profit or loss” in the Combined Statements of Income.

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. Desjardins Group uses cash flow hedge strategies for its loan, deposit and securities portfolios.

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 in other comprehensive income under “Net losses on derivative financial instruments designated as cash flow hedges” until the hedged item is recognized in the Combined Statements of Income, at which time such changes are recognized in net interest income in the Combined Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized in the Combined Statements of Income under “Net income on securities at fair value through profit or loss”.

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues such accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Combined 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 income on securities at fair value through profit or loss”.

n) Financial guarantees

A financial guarantee is a contract or an indemnification agreement that could contingently require Desjardins Group to make payments to the guaranteed party following a loss resulting from the default by a specified third party to make a payment upon maturity in accordance with the original or modified provisions of the borrowing instrument.

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

Financial guarantees are initially recognized as liabilities in the Combined Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, the guarantee is measured at the higher of the following amounts:

i) The amount initially recorded less, when appropriate, cumulative amortization of costs recognized in the Combined Statements of Income; or

ii) The best estimate of cash outflows required to settle any financial obligation resulting from the guarantee.

If a financial guarantee meets the definition of a derivative, it is measured at fair value 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 value of guarantees does not reflect the maximum potential amount of future payments under guarantees. Desjardins Group considers the difference between these two amounts as off-balance sheet credit instruments.

o) Reserves

Reserves included in equity are mainly from the caisses. They are based on the balance of the reserves as at December 31 of the prior year and the surplus earnings distribution plans for such year, which must be approved by the general meeting of each caisse within the first four months following year-end.

The stabilization reserve of a caisse and the Federation's stabilization reserve consist of amounts appropriated from the surplus earnings for the year by the caisse or the Federation, as appropriate. Amounts appropriated to the stabilization reserve of a caisse are essentially used for the payment of interest on permanent shares it issued when the annual surplus earnings of such caisse are not sufficient. Amounts appropriated to the Federation's stabilization reserve are essentially used for the payment of interest on permanent shares issued by a caisse when the amounts appropriated to such caisse's stabilization reserve are not sufficient, and for the payment of interest on F capital shares issued by the Federation when the annual surplus earnings of the Federation are not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the caisses. This reserve allows them to manage over time the impact of changes in annual surplus earnings on the payment of member dividends.

The general reserve is essentially made up of amounts appropriated by the caisses, the Federation and the *Fonds de sécurité Desjardins*. This reserve can only be used to eliminate a deficit and cannot be divided amongst members nor used to pay a member dividend. Other reserves are mainly made up of amounts appropriated by the caisses that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized by the caisses.

p) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Desjardins Group and that it can be measured reliably. 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.

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 in the "Available for sale" category and for financial instruments classified in the "At fair value through profit or loss" category.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period, to obtain the net carrying amount of the financial instrument.

When calculating the effective interest rate, Desjardins Group estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but 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.

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as these premiums are recognized, an actuarial provision is established and recognized in liabilities under "Insurance contract liabilities". Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Combined 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. Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Combined Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under "Insurance contract liabilities" in the Combined Balance Sheets.

Service charges, commissions, brokerage fees and other

Desjardins Group earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its members and clients.

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

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 “Deposit and payment service charges” and “Brokerage and investment fund services” in the Combined Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by Desjardins Group 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 Combined 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 Combined Statements of Income. Income from lending fees and credit card service revenue is recorded under “Lending fees and credit card service revenues” in the Combined 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 Combined 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 Combined Statements of Income.

Dividend income is recognized when Desjardins Group’s right to receive payment of the dividend is established.

q) 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 Combined Balance Sheets of Desjardins Group. Income from these management services is recognized under “Management and custodial service fees” in the Combined Statements of Income when the service is provided.

r) 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 in the Combined Statements of Income under “Foreign exchange income”. However, unrealized gains and losses on non-monetary financial instruments classified as “Available for sale”, and gains and losses on derivatives designated as cash flow hedging instruments are presented in other comprehensive income in the Combined Statements of Comprehensive Income.

s) Leases

Under a finance lease, the lessor transfers to the lessee substantially all the risks and rewards inherent to the asset. This type of lease is analyzed as financing granted to the lessee to purchase the asset. In contrast, under an operating lease, the lessor retains substantially all the risks and rewards inherent to the leased asset. Desjardins Group mainly enters into operating leases. The recognition of operating leases depends on Desjardins Group’s position as a lessor or as a lessee:

Lessor

When Desjardins Group is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under “Net other investment income” and the leased asset remains recognized in the Combined 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.

Lessee

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

t) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

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

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 Desjardins Group'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 Desjardins Group 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 Combined 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); and

ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the temporary difference reverses can be controlled and it is probable that the temporary difference 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 deductible temporary differences, tax loss carryforwards and unused 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); and

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 temporary difference will reverse in the foreseeable future and that a taxable profit will be available against which the temporary 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.

u) Member dividends

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends are estimated based on, among other things, the surplus earnings recorded for the year by the caisses, taking into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid following the general meetings held by the caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. Member dividends are recognized under "Member dividends" in the Combined Statements of Income. The caisses can pay out member dividends when legal and regulatory requirements have been met.

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.

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

Post-employment benefits

Pension and post-retirement benefit plans

Desjardins Group 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 Combined 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 Combined 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 Combined Statements of Income and are immediately reclassified to undistributed surplus earnings. Remeasurements of net defined benefit plan liabilities 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 Combined 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.

Net pension plan and other post-retirement benefit plan liabilities are recognized under "Net defined benefit plan liabilities" in the Combined Balance Sheets.

FUTURE ACCOUNTING CHANGES

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2017 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which introduces a single, comprehensive revenue recognition model for all contracts with customers other than those that are within the scope of other standards, such as financial instruments, insurance contracts and leases. The majority of Desjardins Group's revenues will therefore not be affected by the adoption of this standard. IFRS 15 supersedes IAS 18, "Revenue", and related interpretations. The core principle of this standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services.

In April 2016, the IASB issued amendments to IFRS 15 to further clarify revenue recognition and transition provisions with respect to initial application.

Desjardins Group will have to adopt retrospectively IFRS 15 as at January 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 15 will be recognized in the opening Combined Balance Sheet. Desjardins Group decided not to restate comparative periods upon adopting the provisions of IFRS 15. Consequently, the retrospective impact of applying IFRS 15 will be recognized in the Combined Balance Sheet as at January 1, 2018, which is the effective date of the new standard.

Desjardins Group estimates that adopting IFRS 15 should result in a decrease in the Group's share of equity of approximately $35 million, net of taxes, as at January 1, 2018.

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the complete and final version of IFRS 9, "Financial Instruments", which will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 includes the requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets as well as the general requirements for hedge accounting. Concurrently with the issuance of IFRS 9, IFRS 7, "Financial Instruments: Disclosures", was amended to enhance the required qualitative and quantitative disclosures, which will have to be provided for the years beginning on or after January 1, 2018.

Desjardins Group will have to adopt retrospectively IFRS 9 as at January 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 9 will be recognized in the opening Combined Balance Sheet. Desjardins Group decided not to restate comparative periods upon adopting the provisions of IFRS 9. Consequently, the retrospective impact of applying IFRS 9 will be recognized in the Combined Balance Sheet as at January 1, 2018, which is the effective date of the new standard on financial instruments.

Desjardins Group estimates that adopting IFRS 9 should result in a decrease in the Group's share of equity of approximately $175 million, net of taxes, as at January 1, 2018 and in a decrease of approximately 16 basis points in regulatory capital ratios. This impact is mainly due to the increase in the allowance for credit losses resulting from the application of the new financial asset impairment model. Desjardins Group continues to refine its processes relating to the new impairment model in preparation for reporting its financial information for the first quarter of 2018.

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

Following is a summary of the new IFRS 9 concepts.

Classification and measurement

IFRS 9 sets out a new classification and measurement model for financial assets to determine whether a financial asset should be classified as at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held.

The classification of debt instruments giving rise to cash flows that are solely payments of principal and interest will be determined, at initial recognition, based on the business model for managing these financial assets:

- Financial assets held within a business model whose objective is to collect contractual cash flows will be classified as at amortized cost.
- Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets will be classified as at fair value through other comprehensive income.
- Financial assets managed either for trading purposes or on a fair value basis will be classified as at fair value through profit or loss.

In all cases, if a debt instrument does not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest, the financial asset will be classified as at fair value through profit or loss.

Lastly, Desjardins Group may make, at initial recognition, an irrevocable election to classify a debt instrument as at fair value through profit or loss if such designation eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset and if regulatory requirements are met.

Equity instruments will be classified as at fair value through profit or loss unless, at initial recognition, an irrevocable election is made, on an instrument-by-instrument basis, to classify them as at fair value through other comprehensive income. If such election is made, gains and losses will be recognized in other comprehensive income with no subsequent reclassification to profit or loss.

Certain financial assets that will be reclassified upon adopting IFRS 9 will be designated for purposes of applying the overlay approach. For more details, see the section on IFRS 4, “Insurance Contracts”, below.

Derivative financial instruments will continue to be recognized at fair value through profit or loss.

For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements of IAS 39, without any significant difference, except for financial liabilities designated as at fair value through profit or loss, for which the change in fair value related to a change in the issuing entity’s own credit risk will have to be recognized in other comprehensive income. Since Desjardins Group does not hold any financial liabilities designated as at fair value through profit or loss at the transition date, the new standard will have no impact on the classification and measurement of financial liabilities.

Impairment

IFRS 9 introduces a new single financial asset impairment model requiring the recognition of expected credit losses instead of incurred losses, as the current impairment model requires. Under the current standard, loss allowances are recognized solely when there is objective evidence of impairment (identified on an individual or collective basis), which is when a loss event occurred after initial recognition, but before the reporting date, and this has an impact of the estimated cash flows from the financial asset. Under IFRS 9, credit losses will be recognized before a loss event occurs. The impairment model under IFRS 9 is therefore more forward-looking in nature than the current impairment model. Under IFRS 9, assessing changes in credit risk since initial recognition and estimating expected credit losses must take into account the relevant information available at the reporting date, including information about past events and current conditions, as well as reasonable and supportable forward-looking information about economic conditions and future events. In addition, loss allowances for expected credit losses will reflect an unbiased amount, based on a probability-weighted present value of cash flow shortfalls.

The impairment model applies to all financial assets as well as loan commitments and financial guarantee contracts, except financial instruments measured or designated as at fair value through profit or loss and those designated as at fair value through other comprehensive income. The new expected credit loss impairment model comprises three different stages: 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; 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; 3) for financial assets considered as credit-impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Hedge accounting

IFRS 9 sets out a new hedge accounting model to align hedge accounting more closely with risk management activities. However, as permitted by IFRS 9 Desjardins Group decided to continue applying the hedge accounting requirements of IAS 39 instead of adopting the provisions of IFRS 9. However, the new disclosures resulting from amendments to IFRS 7, “Financial Instruments: Disclosures”, will have to be provided.

IFRS 4, “Insurance Contracts”

In September 2016, the IASB issued amendments to IFRS 4, “Insurance Contracts”, which are designed to address the concerns of insurers and their representative bodies about the different effective dates of IFRS 9, “Financial Instruments”, which is January 1, 2018, and of new IFRS 17, “Insurance Contracts”.

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

The amendments permit, but do not require, an entity that issues insurance contracts to elect to use one of two options in connection with adopting IFRS 9: deferring the initial application date of IFRS 9 to January 1, 2021 or applying the overlay approach.

Desjardins Group elected to apply the overlay approach, which is the only option proposed by these amendments that it may apply, to financial assets that are eligible and designated in accordance with certain specific criteria. The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported in the Combined Statements of Income if Desjardins Group had continued to apply IAS 39 in such a way that net surplus earnings related to designated financial instruments reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39.

Desjardins Group will have to adopt the amendments to IFRS 4 as at January 1, 2018, which is the date of initial application of IFRS 9. According to the transition approach used for adopting IFRS 9, the retrospective impact of the overlay approach will be recognized in the Combined Balance Sheet as at January 1, 2018 and comparative periods will not be restated.

For financial assets reclassified from the “Available for sale” category under IAS 39 to financial assets “Classified as at fair value through profit or loss” under IFRS 9 that have been designated for purposes of applying the overlay approach, Desjardins Group estimates that adopting the amendments to IFRS 4 should result in a reclassification of approximately $405 million, after taxes, from “Undistributed surplus earnings” to “Accumulated other comprehensive income” as at January 1, 2018.

IFRS 16, “Leases”

In January 2016, the IASB issued IFRS 16, “Leases”, which will replace the current standard, IAS 17, “Leases”. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single recognition model for the lessee that requires recognizing lease assets and liabilities for most leases on the balance sheet, thereby eliminating the current distinction between operating and finance leases. For the lessor, the distinction between operating and finance leases remains similar.

Desjardins Group is currently assessing the impact of adopting IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

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 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on current value. This general model 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 a separate liability and recognized in profit or loss over the contract term as services are provided.

Desjardins Group is currently assessing the impact of adopting IFRS 17, which will be effective for annual periods beginning on or after January 1, 2021.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss				
As at December 31, 2017	**Held for trading**	**Designated as at fair value through profit or loss**	**Available for sale**	**Loans and receivables, and financial liabilities at amortized cost**	**Total**
Financial assets					
Cash and deposits with financial institutions	$ 23	$ 298	$ 639	$ 1,475	$ 2,435
Securities					
Securities at fair value through profit or loss	13,312	18,342	-	-	31,654
Available-for-sale securities	-	-	24,934	-	24,934
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	8,674	8,674
Loans[(1)]	-	-	-	177,490	177,490
Other financial assets					
Clients' liability under acceptances	-	-	-	31	31
Premiums receivable	-	-	-	2,095	2,095
Derivative financial instruments[(2)]	3,206	-	-	-	3,206
Amounts receivable from clients, brokers and financial institutions	-	-	-	1,554	1,554
Other	-	-	-	1,249	1,249
Total financial assets	$ 16,541	$ 18,640	$ 25,573	$ 192,568	$ 253,322
Financial liabilities					
Deposits	$ -	$ -	$ -	$ 171,586	$ 171,586
Other financial liabilities					
Acceptances	-	-	-	31	31
Commitments related to securities sold short	9,112	-	-	-	9,112
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,229	10,229
Derivative financial instruments[(2)]	3,094	-	-	-	3,094
Amounts payable to clients, brokers and financial institutions	-	-	-	4,247	4,247
Other	452	-	-	3,508	3,960
Subordinated notes	-	-	-	1,388	1,388
Total financial liabilities	$ 12,658	$ -	$ -	$ 190,989	$ 203,647

(1) For more information, see Note 7, "Loans and allowance for credit losses".

(2) Include derivative financial instruments related to fair value and cash flow hedging activities amounting to $325 million in assets and $411 million in liabilities. For details on derivatives designated as hedging instruments, see Note 19, "Derivative financial instruments and hedging activities".

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

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

	At fair value through profit or loss				
As at December 31, 2016	Held for trading	Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total
Financial assets					
Cash and deposits with financial institutions	$ 21	$ 122	$ 195	$ 1,538	$ 1,876
Securities					
Securities at fair value through profit or loss	12,363	18,642	-	-	31,005
Available-for-sale securities	-	-	22,280	-	22,280
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,690	7,690
Loans(1)	-	-	-	166,015	166,015
Other financial assets					
Clients' liability under acceptances	-	-	-	11	11
Premiums receivable	-	-	-	1,957	1,957
Derivative financial instruments(2)	3,572	-	-	-	3,572
Amounts receivable from clients, brokers and financial institutions	-	-	-	2,532	2,532
Other	-	-	-	1,173	1,173
Total financial assets	$ 15,956	$ 18,764	$ 22,475	$ 180,916	$ 238,111
Financial liabilities					
Deposits	$ -	$ -	$ -	$ 160,546	$ 160,546
Other financial liabilities					
Acceptances	-	-	-	11	11
Commitments related to securities sold short	8,196	-	-	-	8,196
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,323	10,323
Derivative financial instruments(2)	2,057	-	-	-	2,057
Amounts payable to clients, brokers and financial institutions	-	-	-	4,659	4,659
Other	432	-	-	3,870	4,302
Subordinated notes	-	-	-	1,378	1,378
Total financial liabilities	$ 10,685	$ -	$ -	$ 180,787	$ 191,472

(1) For more information, see Note 7, "Loans and allowance for credit losses".
(2) Include derivative financial instruments related to fair value and cash flow hedging activities amounting to $1,319 million in assets and $432 million in liabilities. For details on derivatives designated as hedging instruments, see Note 19, "Derivative financial instruments and hedging activities".

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

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

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

TRANSFERS BETWEEN LEVELS

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

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

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 8	$ 313	$ -	$ 321
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,620	1,247	-	8,867
Provincial governmental entities and municipal corporations in Canada	15,232	1,176	-	16,408
School or public corporations in Canada	14	94	-	108
Foreign public administrations	312	-	-	312
Other securities				
Financial institutions	29	800	58	887
Other issuers	-	2,497	867	3,364
Equity securities	1,236	236	236	1,708
	24,451	6,363	1,161	31,975
Derivative financial instruments				
Interest rate contracts	-	1,049	-	1,049
Foreign exchange contracts	-	399	-	399
Other contracts	-	1,758	-	1,758
	-	3,206	-	3,206
Total financial assets at fair value through profit or loss	24,451	9,569	1,161	35,181
Available-for-sale financial assets				
Cash and deposits with financial institutions	36	603	-	639
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,760	2,262	-	8,022
Provincial governmental entities and municipal corporations in Canada	8,039	1,426	-	9,465
School or public corporations in Canada	15	-	-	15
Foreign public administrations	7	28	-	35
Other securities				
Financial institutions	-	3,268	-	3,268
Other issuers	5	752	95	852
Equity securities	2,367	631	279	3,277
Total available-for-sale financial assets	16,229	8,970	374	25,573
Financial instruments of segregated funds	5,859	7,456	60	13,375
Total financial assets	$ 46,539	$ 25,995	$ 1,595	$ 74,129
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 8,951	$ 161	$ -	$ 9,112
Other	-	-	452	452
	8,951	161	452	9,564
Derivative financial instruments				
Interest rate contracts	-	1,052	-	1,052
Foreign exchange contracts	-	349	-	349
Other contracts	-	1,693	-	1,693
	-	3,094	-	3,094
Total financial liabilities	$ 8,951	$ 3,255	$ 452	$ 12,658

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

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

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 7	$ 136	$ -	$ 143
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,569	1,026	-	8,595
Provincial governmental entities and municipal corporations in Canada	14,790	1,165	-	15,955
School or public corporations in Canada	19	97	-	116
Foreign public administrations	231	-	-	231
Other securities				
Financial institutions	29	1,009	60	1,098
Other issuers	-	2,624	996	3,620
Equity securities	1,066	227	97	1,390
	23,711	6,284	1,153	31,148
Derivative financial instruments				
Interest rate contracts	-	1,049	-	1,049
Foreign exchange contracts	-	1,183	-	1,183
Other contracts	-	1,340	-	1,340
	-	3,572	-	3,572
Total financial assets at fair value through profit or loss	23,711	9,856	1,153	34,720
Available-for-sale financial assets				
Cash and deposits with financial institutions	19	176	-	195
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	4,749	2,184	-	6,933
Provincial governmental entities and municipal corporations in Canada	8,971	1,311	-	10,282
School or public corporations in Canada	15	-	-	15
Foreign public administrations	10	23	-	33
Other securities				
Financial institutions	-	1,317	-	1,317
Other issuers	5	493	101	599
Equity securities	2,384	587	130	3,101
Total available-for-sale financial assets	16,153	6,091	231	22,475
Financial instruments of segregated funds	5,331	6,627	20	11,978
Total financial assets	$ 45,195	$ 22,574	$ 1,404	$ 69,173
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 8,069	$ 127	$ -	$ 8,196
Other	-	-	432	432
	8,069	127	432	8,628
Derivative financial instruments				
Interest rate contracts	-	402	-	402
Foreign exchange contracts	-	371	-	371
Other contracts	-	1,284	-	1,284
	-	2,057	-	2,057
Total financial liabilities	$ 8,069	$ 2,184	$ 432	$ 10,685

During the year ended December 31, 2017, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value. During the year ended December 31, 2016, ABTNs having a carrying amount of $800 million were transferred from Level 3 to Level 2 as they were settled during the first quarter of 2017 and the unobservable inputs with respect to the related illiquidity premium were not deemed significant to the measurement of fair value. No other material transfers attributable to changes in the observability of market data were made between hierarchy levels for financial instruments measured at fair value during the year ended December 31, 2016.

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

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

The following tables present, by hierarchy level, financial instruments whose carrying amount does not equal fair value.

As at December 31, 2017	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Loans	**$ 177,490**	**$ 177,178**	**$ -**	**$ 6,034**	**$ 171,144**
Financial liabilities					
Deposits	**171,586**	**169,626**	**1,169**	**168,457**	**-**
Subordinated notes	**1,388**	**1,488**	**-**	**1,488**	**-**

As at December 31, 2016	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans	$ 166,015	$ 166,246	$ -	$ 6,215	$ 160,031
Financial liabilities					
Deposits	160,546	160,895	1,065	159,830	-
Subordinated notes	1,378	1,521	-	1,521	-

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriate 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 Desjardins Group are mortgage bonds, equity securities, the financial liability related to put options written on certain non-controlling interests as well as 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, Desjardins Group 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.

Desjardins Group measures the majority of equity securities based on brokers' valuations obtained from independent third parties. Data obtained are reviewed and approved by Desjardins Group.

In connection with the acquisition of Qtrade Canada Inc., which was completed in 2013, Desjardins Group wrote in favour of certain holders of non-controlling interests put options that give them the right to sell their interests at predetermined dates at a price representing fair value as at such date (hereinafter referred to as “Financial liability related to put options”). The main inputs used in the measurement of this financial liability are derived from internal forecasts prepared by the management of the acquiree and estimates made by Desjardins Group. The internal forecasts and assumptions on which this valuation technique is based have been prepared by an independent third party and have been reviewed and approved by Desjardins Group.

In connection with the acquisition of the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), Desjardins Group recognized a contingent consideration resulting from the price adjustment clause of the agreement. State Farm will compensate Desjardins Group 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 Desjardins Group will have to give State Farm 90% of the favourable development of such provision.

Sensitivity of financial instruments categorized within Level 3

Desjardins Group 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)*

Changes in fair value of financial instruments categorized within Level 3

The following tables present the changes in fair value for 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.

2017	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	Sales / Settlements	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 60	$ -	$ (2)	$ -	$ -	$ -	$ -	$ 58
Other issuers								
Hedge funds	7	-	5	-	-	-	(8)	4
Asset-backed term notes	8	-	1	-	-	-	(3)	6
Mortgage bonds	981	-	(22)	-	-	-	(102)	857
Equity securities	97	(1)	13	-	(7)	172	(38)	236
Total financial assets at fair value through profit or loss	1,153	(1)	(5)	-	(7)	172	(151)	1,161
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	101	-	-	(3)	-	-	(3)	95
Equity securities	130	-	3	24	-	130	(8)	279
Total available-for-sale financial assets	231	-	3	21	-	130	(11)	374
Financial instruments of segregated funds	20	-	3	-	(4)	44	(3)	60
Total financial assets	$ 1,404	$ (1)	$ 1	$ 21	$ (11)	$ 346	$ (165)	$ 1,595
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 68	$ -	$ 7	$ -	$ -	$ -	$ (11)	$ 64
Financial liability related to the contingent consideration	364	-	290	-	-	-	(266)	388
Total financial liabilities	$ 432	$ -	$ 297	$ -	$ -	$ -	$ (277)	$ 452

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss". Realized gains or losses on available-for-sale financial assets are recognized under "Net income on available-for-sale securities".
(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss".
(3) Unrealized gains or losses on available-for-sale financial assets are recognized under "Net unrealized gains on available-for-sale securities" in the Combined Statements of Comprehensive Income.

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

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

2016	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	Sales / Settlements	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 72	$ -	$ (2)	$ -	$ -	$ -	$ (10)	$ 60
Other issuers								
Hedge funds	8	-	(1)	-	-	-	-	7
Asset-backed term notes	801	-	10	-	(800)	-	(3)	8
Mortgage bonds	1,043	-	(20)	-	-	13	(55)	981
Financial asset-backed securities	27	-	1	-	-	-	(28)	-
Equity securities	68	1	(1)	-	-	48	(19)	97
Total financial assets at fair value through profit or loss	2,019	1	(13)	-	(800)	61	(115)	1,153
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	(2)	-	-	(3)	101
Equity securities	131	-	(2)	27	(38)	29	(17)	130
Total available-for-sale financial assets	237	-	(2)	25	(38)	29	(20)	231
Financial instruments of segregated funds	8	-	-	-	-	12	-	20
Total financial assets	$ 2,264	$ 1	$ (15)	$ 25	$ (838)	$ 102	$ (135)	$ 1,404
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 79	$ -	$ 8	$ -	$ -	$ -	$ (19)	$ 68
Financial liability related to the contingent consideration	258	-	261	-	-	-	(155)	364
Derivative financial instruments								
Other contracts	38	-	-	-	(38)	-	-	-
Total financial liabilities	$ 375	$ -	$ 269	$ -	$ (38)	$ -	$ (174)	$ 432

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss”. Realized gains or losses on available-for-sale financial assets are recognized under “Net income on available-for-sale securities”.

(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss"

(3) Unrealized gains or losses on available-for-sale financial assets are recognized under “Net unrealized gains on available-for-sale securities” in the Combined 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, 2017	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
			Credit spread[(B,C)]	0 bp	to	300 bp	
Mortgage bonds	$ 1,010	Discounted cash flows	Comparable inputs[(B,C)]	0 bp	to	410 bp	
	54	Brokers' valuations	Brokers' inputs	-		-	[(1)]
Equity securities	461	Adjusted net asset value	Adjusted net asset value[(A,C)]	-		-	[(1)]
Other financial assets[(2)]	70						
Total financial assets	$ 1,595						
Financial liabilities							
Other liabilities - Other							
			Enterprise value[(A,C)]	-		-	[(3)]
			Discount rate[(B,C)]		7.5%		
Financial liability related to put options	$ 64	Discounted cash flows	Put option exercise date[(B,C)]	6 months	to	2 years	
Financial liability related to the contingent consideration	388	Actuarial techniques[(4)]	Provision for claims and adjustment expenses[(B)]	-		-	[(5)]
Total financial liabilities	$ 452						

As at December 31, 2016	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
			Credit spread[(B,C)]	0 bp	to	300 bp	
Mortgage bonds	$ 1,142	Discounted cash flows	Comparable inputs[(B,C)]	0 bp	to	520 bp	
	35	Brokers' valuations	Brokers' inputs	-		-	[(1)]
Equity securities	192	Adjusted net asset value	Adjusted net asset value[(A,C)]	-		-	[(1)]
Other financial assets[(2)]	35						
Total financial assets	$ 1,404						
Financial liabilities							
Other liabilities - Other							
			Enterprise value[(A,C)]	-		-	[(3)]
			Discount rate[(B,C)]		7.5%		
Financial liability related to put options	$ 68	Discounted cash flows	Put option exercise date[(B,C)]	6 months	to	3 years	
Financial liability related to the contingent consideration	364	Actuarial techniques[(4)]	Provision for claims and adjustment expenses[(B)]	-		-	[(5)]
Total financial liabilities	$ 432						

(1) Due to the nature of this type of investment, no input value range is presented.
(2) Include other financial assets such as financial instruments of segregated funds.
(3) Due to the wide-ranging operations of the underlying business lines associated with the enterprise value, no input value range is presented.
(4) 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 15, "Insurance contract liabilities".
(5) Due to the nature of this financial liability, no input value range is presented.

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 Combined Balance Sheets when, and only when, Desjardins Group 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. Desjardins Group 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 Combined 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 Combined 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 Combined 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, Desjardins Group 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 Combined 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 Combined Balance Sheets.

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

				Associated amounts not set off in the Combined Balance Sheets[1]		
As at December 31, 2017	**Gross recognized amounts**	**Set off amounts**	**Net amounts presented in the Combined Balance Sheets[2]**	**Financial instruments[3]**	**Financial collateral held / pledged**	**Residual amounts not set off**
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	**$ 10,605**	**$ 1,931**	**$ 8,674**	**$ 4,538**	**$ 4,136**	**$ -**
Derivative financial instruments	**3,179**	**-**	**3,179**	**1,312**	**1,848**	**19**
Amounts receivable from clients, brokers and financial institutions and other	**33**	**24**	**9**	**5**	**-**	**4**
Total financial assets	**$ 13,817**	**$ 1,955**	**$ 11,862**	**$ 5,855**	**$ 5,984**	**$ 23**
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	**$ 12,160**	**$ 1,931**	**$ 10,229**	**$ 4,538**	**$ 5,687**	**$ 4**
Derivative financial instruments	**1,469**	**-**	**1,469**	**1,312**	**111**	**46**
Amounts payable to clients, brokers and financial institutions	**90**	**24**	**66**	**5**	**-**	**61**
Total financial liabilities	**$ 13,719**	**$ 1,955**	**$ 11,764**	**$ 5,855**	**$ 5,798**	**$ 111**

(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 Combined 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)*

As at December 31, 2016	Gross recognized amounts	Set off amounts	Net amounts presented in the Combined Balance Sheets[2]	Associated amounts not set off in the Combined Balance Sheets[1]: Financial instruments[3]	Associated amounts not set off in the Combined Balance Sheets[1]: Financial collateral held / pledged	Residual amounts not set off
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 8,654	$ 964	$ 7,690	$ 3,588	$ 4,101	$ 1
Derivative financial instruments	3,542	-	3,542	597	2,938	7
Amounts receivable from clients, brokers and financial institutions and other	16	7	9	5	-	4
Total financial assets	$ 12,212	$ 971	$ 11,241	$ 4,190	$ 7,039	$ 12
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 11,287	$ 964	$ 10,323	$ 3,588	$ 6,735	$ -
Derivative financial instruments	726	-	726	597	107	22
Amounts payable to clients, brokers and financial institutions and other	24	7	17	5	3	9
Total financial liabilities	$ 12,037	$ 971	$ 11,066	$ 4,190	$ 6,845	$ 31

(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 Combined 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 table presents an analysis of the maturities of Desjardins Group's securities.

	Terms to maturity							
	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, 2017	As at December 31, 2016
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Debt securities issued or guaranteed by								
Canadian governmental entities	**$ 2,403**	**$ 1,471**	**$ 3,035**	**$ 375**	**$ 1,583**	**$ -**	**$ 8,867**	$ 8,595
Provincial governmental entities and municipal corporations in Canada	**1,677**	**2,251**	**1,546**	**2,843**	**8,091**	**-**	**16,408**	15,955
School or public corporations in Canada	**-**	**-**	**-**	**22**	**86**	**-**	**108**	116
Foreign public administrations	**81**	**-**	**178**	**27**	**26**	**-**	**312**	231
Other securities								
Financial institutions	**293**	**313**	**55**	**113**	**113**	**-**	**887**	1,098
Other issuers	**231**	**178**	**349**	**489**	**2,113**	**4**	**3,364**	3,620
Equity securities	**-**	**-**	**-**	**-**	**-**	**1,708**	**1,708**	1,390
Total financial assets at fair value through profit or loss	**4,685**	**4,213**	**5,163**	**3,869**	**12,012**	**1,712**	**31,654**	31,005
Available-for-sale financial assets								
Available-for-sale securities								
Debt securities issued or guaranteed by								
Canadian governmental entities	**1,188**	**1,549**	**5,063**	**210**	**12**	**-**	**8,022**	6,933
Provincial governmental entities and municipal corporations in Canada	**2,196**	**2,799**	**2,342**	**1,334**	**794**	**-**	**9,465**	10,282
School or public corporations in Canada	**8**	**7**	**-**	**-**	**-**	**-**	**15**	15
Foreign public administrations	**9**	**-**	**1**	**10**	**15**	**-**	**35**	33
Other securities								
Financial institutions	**2,427**	**515**	**222**	**92**	**12**	**-**	**3,268**	1,317
Other issuers	**268**	**70**	**138**	**362**	**13**	**1**	**852**	599
Equity securities	**-**	**-**	**-**	**-**	**6**	**3,271**	**3,277**	3,101
Total available-for-sale financial assets	**6,096**	**4,940**	**7,766**	**2,008**	**852**	**3,272**	**24,934**	22,280
Total securities	**$ 10,781**	**$ 9,153**	**$ 12,929**	**$ 5,877**	**$ 12,864**	**$ 4,984**	**$ 56,588**	$ 53,285

NOTE 6 – SECURITIES *(continued)*

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

The following tables present unrealized gains and losses on available-for-sale securities.

As at December 31, 2017	**Amortized cost**	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying amount**
Debt securities issued or guaranteed by				
Canadian governmental entities	**$ 8,110**	**$ 5**	**$ 93**	**$ 8,022**
Provincial governmental entities and municipal corporations in Canada	**9,413**	**115**	**63**	**9,465**
School or public corporations in Canada	**15**	**-**	**-**	**15**
Foreign public administrations	**35**	**-**	**-**	**35**
Other securities				
Financial institutions	**3,272**	**2**	**6**	**3,268**
Other issuers	**847**	**10**	**5**	**852**
Equity securities	**2,738**	**578**	**39**	**3,277**
	$ 24,430	**$ 710**	**$ 206**	**$ 24,934**

As at December 31, 2016	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 6,928	$ 20	$ 15	$ 6,933
Provincial governmental entities and municipal corporations in Canada	10,186	122	26	10,282
School or public corporations in Canada	15	-	-	15
Foreign public administrations	33	-	-	33
Other securities				
Financial institutions	1,314	4	1	1,317
Other issuers	583	17	1	599
Equity securities	2,711	436	46	3,101
	$ 21,770	$ 599	$ 89	$ 22,280

Impairment losses recognized

During the years ended December 31, 2017 and 2016, Desjardins Group concluded that there was no objective evidence of material impairment.

SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

Desjardins Group holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of $6 million and $35 million, respectively, as at December 31, 2017 ($807 million and $839 million as at December 31, 2016).

During the first quarter of 2017, substantially all of MAV 1's ABTNs were settled, and a cash consideration of $799 million, corresponding to the nominal value of these ABTNs, was received.

Impact on profit or loss

A gain of $1 million related to the fair value of ABTNs was recognized in Desjardins Group's Combined Statement of Income for the year ended December 31, 2017 (gain of $10 million for the year ended December 31, 2016).

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following tables present the credit quality of loans.

As at December 31, 2017	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance[1]	Net loans
Residential mortgages	$ 110,812	$ 2,193	$ 141	$ 19	$ 47	$ 113,080
Consumer, credit card and other personal loans	23,081	874	89	12	157	23,875
Business and government	40,228	298	212	73	130	40,535
	$ 174,121	$ 3,365	$ 442	$ 104	$ 334	$ 177,490

[1] Includes the collective allowance on impaired loans of $23 million.

As at December 31, 2016	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance[1]	Net loans
Residential mortgages	$ 104,344	$ 2,177	$ 174	$ 19	$ 48	$ 106,628
Consumer, credit card and other personal loans	21,213	835	102	15	158	21,977
Business and government	36,780	590	256	87	129	37,410
	$ 162,337	$ 3,602	$ 532	$ 121	$ 335	$ 166,015

[1] Includes the collective allowance on impaired loans of $22 million.

GROSS LOANS PAST DUE BUT NOT IMPAIRED

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

As at December 31, 2017	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 1,887	$ 167	$ 52	$ 87	$ 2,193
Consumer, credit card and other personal loans	644	150	58	22	874
Business and government	160	73	13	52	298
	$ 2,691	$ 390	$ 123	$ 161	$ 3,365

As at December 31, 2016	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 1,823	$ 183	$ 60	$ 111	$ 2,177
Consumer, credit card and other personal loans	598	149	60	28	835
Business and government	447	53	7	83	590
	$ 2,868	$ 385	$ 127	$ 222	$ 3,602

ALLOWANCES FOR CREDIT LOSSES

The following table presents the changes in the allowances for credit losses for the years ended December 31.

	Residential mortgages		Consumer, credit card and other personal loans		Business and government		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance at beginning of year	$ 68	$ 65	$ 190	$ 188	$ 254	$ 307	$ 512	$ 560
Provision for credit losses	23	26	312	319	14	(26)	349	319
Write-offs and recoveries	(24)	(23)	(315)	(317)	(35)	(27)	(374)	(367)
Balance at end of year	$ 67	$ 68	$ 187	$ 190	$ 233	$ 254	$ 487	$ 512
Composed of:								
Allowance for credit losses	$ 66	$ 66	$ 169	$ 173	$ 203	$ 217	$ 438	$ 456
Allowance for off-balance sheet items[1]	1	2	18	17	30	37	49	56

[1] The allowance for off-balance sheet items is presented under “Other liabilities – Other”.

NOTE 8 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of its liquidity and capital management strategy, Desjardins Group participates in the National Housing Act (NHA) Mortgage-Backed Securities Program. Under this program, Desjardins Group bundles residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (NHA MBSs) and transfers them to the Canada Housing Trust (CHT) where they are legally held on behalf of Desjardins Group. However, as part of these transactions, Desjardins Group 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. Consequently, these loans continue to be recognized in the Combined Balance Sheets. Furthermore, Desjardins Group 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 Combined 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 Desjardins Group in order to receive all cash flows related to the mortgage loans underlying the NHA MBSs every month. Desjardins Group 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, Desjardins Group 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.

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, Desjardins Group transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Combined Balance Sheets as Desjardins Group 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 Desjardins Group but not derecognized as well as the related liabilities recognized in the Combined Balance Sheets.

	As at December 31, 2017		As at December 31, 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 9,255**	**$ 9,319**	$ 8,085	$ 8,181
Securities sold under repurchase agreements	**6,704**	**6,704**	9,214	9,214
Securities lent	**2**	**2**	2	2
	$ 15,961	**$ 16,025**	$ 17,301	$ 17,397
Related liabilities	**$ 15,737**	**$ 15,558**	$ 17,106	$ 17,045

NOTE 9 – SEGREGATED FUNDS

Segregated fund net assets

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

	As at December 31, 2017	As at December 31, 2016
Investments		
Bonds	**$ 541**	$ 523
Shares and mutual fund units	**12,789**	11,418
Money market securities	**45**	37
Securities borrowed or purchased under reverse repurchase agreements	**30**	48
Other assets	**74**	121
Commitments related to securities lent or sold under repurchase agreements	**(6)**	(40)
Liabilities	**(63)**	(112)
Net assets held for segregated fund contract holders	**$ 13,410**	$ 11,995
Assets held for the insurer	**(31)**	(30)
Total segregated fund net assets(1)	**$ 13,379**	$ 11,965

(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 Group scope of Desjardins Group. These eliminations amounted to $25 million as at December 31, 2017 ($8 million as at December 31, 2016).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. Desjardins Group classifies financial instruments recognized at fair value 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, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Bonds	**$ 305**	**$ 236**	**$ -**	**$ 541**
Shares and mutual fund units	**5,518**	**7,211**	**60**	**12,789**
Money market securities	**36**	**9**	**-**	**45**
Total financial instruments recognized at fair value	**$ 5,859**	**$ 7,456**	**$ 60**	**$ 13,375**

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 301	$ 222	$ -	$ 523
Shares and mutual fund units	5,004	6,394	20	11,418
Money market securities	26	11	-	37
Total financial instruments recognized at fair value	$ 5,331	$ 6,627	$ 20	$ 11,978

During the years ended December 31, 2017 and 2016, no 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 Combined Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2017 and 2016, the carrying amount and the fair value of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets were $6 million and $6 million, respectively.

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 $6 million as at December 31, 2017 ($6 million as at December 31, 2016). 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 $5 million ($7 million as at December 31, 2016). No financial assets held as collateral had been sold or repledged in 2017 and 2016. These financial assets were received as collateral as part of transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

Desjardins Group 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, 2017	As at December 31, 2016
Balance at beginning of year – Net liabilities to segregated fund contract holders	**$ 11,987**	$ 9,804
Additions		
Amounts received from contract holders	**1,840**	2,811
Net investment income	**1,183**	804
	3,023	3,615
Deductions		
Withdrawals and redemptions	**1,479**	1,297
Management fees	**146**	135
	1,625	1,432
Balance at end of year – Net liabilities to segregated fund contract holders	**$ 13,385**	$ 11,987
Liabilities to the insurer	**(31)**	(30)
Total segregated fund net liabilities(1)	**$ 13,354**	$ 11,957

(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 Group scope of Desjardins Group. These eliminations amounted to $25 million as at December 31, 2017 ($8 million as at December 31, 2016).

NOTE 10 – 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, 2015	$ 111	$ 1,398	$ 481	$ 608	$ 493	$ 3,091	$ 135	$ 769	$ 904
Additions	2	34	69	26	46	177	57	139	196
Disposals	(1)	(23)	(46)	(53)	(19)	(142)	(3)	(8)	(11)
Other	(4)	15	13	6	8	38	1	(29)	(28)
As at December 31, 2016	$ 108	$ 1,424	$ 517	$ 587	$ 528	$ 3,164	$ 190	$ 871	$1,061
Additions	**-**	**33**	**61**	**31**	**70**	**195**	**1**	**36**	**37**
Disposals	**(1)**	**(24)**	**(86)**	**(71)**	**(53)**	**(235)**	**(6)**	**-**	**(6)**
Other	**(3)**	**(12)**	**-**	**(3)**	**-**	**(18)**	**-**	**4**	**4**
As at December 31, 2017	**$ 104**	**$ 1,421**	**$ 492**	**$ 544**	**$ 545**	**$ 3,106**	**$ 185**	**$ 911**	**$1,096**

	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, 2015	$ -	$ 557	$ 384	$ 446	$ 253	$ 1,640	$ 4	$ 217	$ 221
Depreciation	-	45	52	34	36	167	-	28	28
Disposals	-	(22)	(40)	(44)	(16)	(122)	-	(2)	(2)
Other	-	5	14	14	11	44	-	(9)	(9)
As at December 31, 2016	$ -	$ 585	$ 410	$ 450	$ 284	$ 1,729	$ 4	$ 234	$ 238
Depreciation	**-**	**44**	**57**	**29**	**35**	**165**	**-**	**31**	**31**
Disposals	**-**	**(17)**	**(78)**	**(61)**	**(39)**	**(195)**	**(4)**	**-**	**(4)**
Other	**-**	**(5)**	**1**	**1**	**(1)**	**(4)**	**-**	**(1)**	**(1)**
As at December 31, 2017	**$ -**	**$ 607**	**$ 390**	**$ 419**	**$ 279**	**$ 1,695**	**$ -**	**$ 264**	**$ 264**

	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, 2017	**$ 104**	**$ 814**	**$ 102**	**$ 125**	**$ 266**	**$ 1,411**	**$ 185**	**$ 647**	**$ 832**
As at December 31, 2016	$ 108	$ 839	$ 107	$ 137	$ 244	$ 1,435	$ 186	$ 637	$ 823

As at December 31, 2017, an amount of $4 million ($22 million as at December 31, 2016) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $3 million ($4 million as at December 31, 2016) related to the acquisition of these buildings.

As at December 31, 2017, the fair value of investment property was $1,535 million ($1,416 million as at December 31, 2016). 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, 2017, rental income from investment property amounted to $156 million ($144 million in 2016). Amounts recognized in profit or loss for operating expenses related to investment property that generated rental income during the year totalled $103 million ($102 million in 2016), while no amount has been recognized for those that did not generate rental income. These amounts are presented under “Net other investment income” in the Combined Statements of Income.

NOTE 11 – GOODWILL AND INTANGIBLE ASSETS

GOODWILL

The following table presents goodwill allocated to CGUs and groups of CGUs.

	Property and Casualty Insurance segment	Wealth Management and Life and Health Insurance segment	Total
Cost			
As at December 31, 2015	$ 416	$ 56	$ 472
Other[(1)]	(1)	-	(1)
As at December 31, 2016	$ 415	$ 56	$ 471
Disposals[(2)] / retirements[(3)]	**(315)**	**(35)**	**(350)**
As at December 31, 2017	**$ 100**	**$ 21**	**$ 121**

[(1)] During the year ended December 31, 2016, Desjardins Group recognized a $1 million loss as a deduction to goodwill to measure the assets and liabilities of Western Financial Insurance Company at fair value less costs to sell. This subsidiary was sold on January 1, 2017.
[(2)] For more information, see Note 20, " Significant disposals ".
[(3)] For more information, see Note 21, " Disposal group held to be transferred ".

The Property and Casualty Insurance segment includes Desjardins General Insurance Group Inc. The Western Financial Group Inc. and Western Financial Insurance Company subsidiaries, which were previously included in this segment, were sold during the year ended December 31, 2017, as described in Note 13, “Interests in other entities”. The Wealth Management and Life and Health Insurance segment includes notably Desjardins Financial Security Life Assurance Company, Desjardins Securities Inc. and Desjardins Financial Corporation Inc. Goodwill attributable to Qtrade Canada Inc., which was previously presented in this segment, is presented under “Assets of the disposal group held to be transferred” as at December 31, 2017.

Test results show that the recoverable amount of CGUs and groups of CGUs represented by each of these segments exceeds its carrying amount and, consequently, no goodwill impairment losses have been recognized for the year ended December 31, 2017 and prior periods.

The recoverable amount of CGUs and groups of CGUs has been determined based on a calculation of value in use, using cash flow projections based on the budget and financial plan approved by the Board of Directors and covering a four-year period. The key assumptions used in the budget and financial plan are based on past performance and management's expectations of the evolution of the market. The growth rate used to extrapolate cash flow projections beyond the five-year period was 2.5% (2.5% in 2016) for the Property and Casualty Insurance segment and 2.0% (2.0% in 2016) for the Wealth Management and Life and Health Insurance segment. In addition, the discount rate used to discount the projected cash flows was 11.5% (10.6% in 2016) for the Property and Casualty Insurance segment and 6.9% (6.9% in 2016) for the Wealth Management and Life and Health Insurance segment. These rates represented the weighted average cost of capital of Desjardins Financial Corporation Inc. as at September 30 for the Property and Casualty Insurance segment and the Wealth Management and Life and Health Insurance segment, respectively.

Desjardins Group believes that no reasonably possible change in any of the above-mentioned key assumptions would cause the carrying amount of these CGUs and groups of CGUs to exceed their recoverable amount. The carrying amount of each of these CGUs and groups of CGUs would be lower than their recoverable amount even with a decrease of 10% (10% as at December 31, 2016) in budgeted margins or a decrease of 3% (3% as at December 31, 2016) in the growth rate.

NOTE 11 – GOODWILL AND INTANGIBLE ASSETS *(continued)*

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software	Client relationships	Other[1]	Total
Cost				
As at December 31, 2015	$ 747	$ 191	$ 248	$ 1,186
Acquisitions / additions	163	3	2	168
Disposals / retirements	(67)	(3)	(3)	(73)
Other	5	6	(19)	(8)
As at December 31, 2016	$ 848	$ 197	$ 228	$ 1,273
Acquisitions / additions	**142**	**-**	**4**	**146**
Disposals[2] / retirements[3]	**(158)**	**(178)**	**(108)**	**(444)**
Other	**(3)**	**-**	**-**	**(3)**
As at December 31, 2017	**$ 829**	**$ 19**	**$ 124**	**$ 972**

	Software	Client relationships	Other [1]	Total
Accumulated amortization				
As at December 31, 2015	$ 426	$ 45	$ 54	$ 525
Amortization	83	10	11	104
Disposals / retirements	(44)	-	(2)	(46)
Other	12	6	(18)	-
As at December 31, 2016	$ 477	$ 61	$ 45	$ 583
Amortization	**82**	**5**	**7**	**94**
Disposals[2] / retirements[3]	**(107)**	**(59)**	**(12)**	**(178)**
Other	**7**	**-**	**-**	**7**
As at December 31, 2017	**$ 459**	**$ 7**	**$ 40**	**$ 506**

	Software	Client relationships	Other [1]	Total
Net carrying amount				
As at December 31, 2017	**$ 370**	**$ 12**	**$ 84**	**$ 466**
As at December 31, 2016	$ 371	$ 136	$ 183	$ 690

[1] The "Other" category mainly includes trademarks, licenses and the amount related to the acquisition of insurance contract portfolios and a distribution network. As at December 31, 2017, Desjardins Group held no intangible assets with indefinite useful lives in this category ($93 million as at December 31, 2016).
[2] For more information, see Note 20, "Significant disposals".
[3] For more information, see Note 21, "Disposal group held to be transferred".

NOTE 12 – OTHER ASSETS – OTHER

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

	As at December 31, 2017	As at December 31, 2016
Accounts receivable	**$ 574**	$ 628
Investments in companies accounted for using the equity method (Note 13)	**515**	567
Interest receivable	**508**	491
Prepaid expenses	**330**	429
Taxes receivable	**158**	48
Other	**653**	426
	$ 2,738	$ 2,589

NOTE 13 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries included in the Group scope of Desjardins Group 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 Desjardins Group in each of them.

	Nature of operations	As at December 31, 2017[1]	As at December 31, 2016[1]
Caisse centrale Desjardins[2]	Desjardins Group's treasurer and financial agent on the Canadian and international markets	**N/A**	100 %
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	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
Western Financial Group Inc.[4]	Insurance brokerage and financial services	**-**	100
Western Life Assurance Company[4]	Life and health insurance	**-**	100
Western Financial Insurance Company[5]	Property and casualty insurance	**-**	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
Qtrade Canada Inc.[6]	Online brokerage and wealth management services	**80.8**	77.2
Desjardins Securities Inc.	Securities brokerage	**100**	100

[1] Represents also the proportion of voting rights held by Desjardins Group in these subsidiaries, except for Qtrade Canada Inc., in which Desjardins Group holds 100% of the voting rights.
[2] On January 1, 2017, the Federation amalgamated with *Caisse centrale Desjardins* by absorption thereof. As a result of this amalgamation, the Federation holds all the rights and assumes all the obligations of *Caisse centrale Desjardins,* in addition to its own rights and obligations. This transaction had no material impact on Desjardins Group's Combined Balance Sheet on the date it was completed.
[3] Represents a group of six property and casualty insurance subsidiaries.
[4] Subsidiary sold on July 1, 2017. For more information, see Note 20, " Significant disposals ".
[5] Subsidiary sold on January 1, 2017. This transaction had no material impact on Desjardins Group's Combined Balance Sheet.
[6] Subsidiary classified as disposal group held to be transferred as at December 31, 2017. For more information, see Note 21, "Disposal group held to be transferred".

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

Subsidiaries that have material non-controlling interests

As at December 31, 2017 and 2016, 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 financial 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, 2017	As at December 31, 2016
Assets[(1)]	**$ 14,672**	$ 14,980
Liabilities	**11,861**	12,122
Equity[(1)]	**$ 2,811**	$ 2,858
Non-controlling interests	**$ 776**	$ 782

[(1)] Include goodwill of $100 million as at December 31, 2017 ($100 million as at December 31, 2016).

	For the years ended December 31	
	2017	2016
Total income	**$ 3,945**	$ 3,104
Net surplus earnings for the year after member dividends	**162**	260
Comprehensive income for the year	**$ 199**	$ 352
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	**$ 41**	$ 50
Dividends/distributions paid to holders of non-controlling interests	**$ 42**	$ 40

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. A structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as this entity is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted it financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bonds issued. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by this structured entity. The assets, totalling $6,197 million as at December 31, 2017 ($8,133 million as at December 31, 2016), are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to $4,517 million as at December 31, 2017 ($6,255 million as at December 31, 2016), are presented under "Deposits – Business and government".

JOINT VENTURE

Information about the material joint venture

RPADS LP, an entity that acquires and develops real estate portfolios, is the only material joint venture in which Desjardins Group holds an interest. RPADS LP has been incorporated in Canada and its principal place of business is in this country.

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

The following tables present summarized financial information about this joint venture, namely the amounts included in its IFRS financial statements adjusted to reflect adjustments made by Desjardins Group 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, 2017	As at December 31, 2016
Proportion of ownership interest held	**50.10%**	50.10%
Assets	**$ 474**	$ 440
Liabilities[1]	**37**	48
Equity	**$ 437**	$ 392
Interest in the joint venture[2]	**$ 219**	$ 197

[1] Consisting primarily of financial liabilities other than accounts payable and provisions.
[2] Represents the carrying amount of the interest in the joint venture recognized in the Combined Balance Sheets.

	For the years ended December 31	
	2017	2016
Total income	**$ 95**	$ 78
Net income and comprehensive income for the year	**$ 23**	$ 18

JOINT OPERATION

Desjardins Group participates in joint arrangement with Fonds Immobilier Cogir 1 to invest in undivided co-ownership in commercial buildings in the Province of Quebec. This joint arrangement is a joint operation giving the joint operators rights to the assets and obligations for the liabilities based on their ownership interests, and Desjardins Group has an ownership interest of 80% in the arrangement. All decisions about the relevant activities require the unanimous consent of the joint operators. The joint operation has been incorporated in Canada and its principal place of business is in this country. It is the only material joint operation in which Desjardins Group holds an interest.

ASSOCIATES

Information about material associates

Desjardins Group holds interests in two material associates: Fiera Holdings Inc. and Northwest & Ethical Investments L.P. (Northwest & Ethical). These entities operate in the investment management industry. They have been incorporated in Canada and their principal place of business is in this country. Although Desjardins Group holds a 50% ownership interest in Northwest & Ethical and 50% of the voting rights, it does not have the ability to direct the relevant operations that significantly affect the returns of this entity and there are no agreements giving Desjardins Group joint control of this entity.

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 Desjardins Group 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, 2017		As at December 31, 2016	
	Fiera Holdings Inc.	Northwest & Ethical[1]	Fiera Holdings Inc.	Northwest & Ethical
Proportion of ownership interest held[2,3]	**37.18%**	**50.00%**	36.67%	50.00%
Assets[4,5]	**$ 1,113**	**$ 204**	$ 1,018	$ 200
Liabilities[5]	**566**	**54**	472	51
Equity[4,5]	**$ 547**	**$ 150**	$ 546	$ 149
Interests in associates[6]	**$ 52**	**$ 85**	$ 55	$ 85

[1] As at December 31, 2017, the interest in Northwest & Ethical was classified as an asset of the disposal group held to be transferred. For more information, see Note 21, "Disposal group held to be transferred".
[2] Represents also the proportion of voting rights held by Desjardins Group in the associates.
[3] As at December 31, 2017, Desjardins Group indirectly held an 8.09% ownership interest (9.00% as at December 31, 2016) in Fiera Capital Corporation through its interest in Fiera Holdings Inc.
[4] Include goodwill of $10 million and $19 million, respectively, related to Fiera Holdings Inc. and Northwest & Ethical ($10 million and $19 million as at December 31, 2016).
[5] The assets, liabilities and equity of Fiera Holdings Inc. and Northwest & Ethical for 2017 and 2016 are as at September 30.
[6] Represents the carrying amount of the interests in associates recognized in the Combined Balance Sheets.

	For the years ended December 31			
	2017		2016	
	Fiera Holdings Inc.	Northwest & Ethical	Fiera Holdings Inc.	Northwest & Ethical
Total income[1]	**$ 427**	**$ 111**	$ 294	$ 108
Net income and comprehensive income for the year[1]	**$ 15**	**$ 11**	$ 26	$ 10

[1] Total income, net income and comprehensive income of Fiera Holdings Inc. and Northwest & Ethical are based on data for the twelve-month periods ended September 30, 2017 and 2016.

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

UNCONSOLIDATED STRUCTURED ENTITIES

Mutual funds

Desjardins Group 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 Desjardins Group power over the relevant operations of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

Investments 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. Desjardins Group's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

MAV 1

MAV 1 is considered as an unconsolidated structured entity. For more information about this entity, see the "Securities – Asset-backed term notes" section of Note 6, "Securities".

NOTE 14 – 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 Desjardins Group does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which Desjardins Group 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, 2017				As at December 31, 2016			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	**$ 46,399**	**$ 3,695**	**$ 50,484**	**$ 100,578**	$ 42,513	$ 3,772	$ 49,993	$ 96,278
Business and government	**24,551**	**452**	**44,099**	**69,102**	21,866	322	40,611	62,799
Deposit-taking institutions	**1,407**	**-**	**499**	**1,906**	1,343	-	126	1,469
	$ 72,357	**$ 4,147**	**$ 95,082**	**$ 171,586**	$ 65,722	$ 4,094	$ 90,730	$ 160,546

NOTE 15 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2017			2016		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Gross premiums	**$ 4,443**	**$ 4,271**	**$ 8,714**	$ 4,359	$ 4,150	$ 8,509
Premiums ceded under reinsurance treaties	**(198)**	**(467)**	**(665)**	(217)	(1,124)	(1,341)
Net premiums	**$ 4,245**	**$ 3,804**	**$ 8,049**	$ 4,142	$ 3,026	$ 7,168

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2017	As at December 31, 2016
Insurance contract liabilities		
Actuarial liabilities — Life and health insurance	**$ 18,428**	$ 17,574
Provisions for claims and adjustment expenses — Property and casualty insurance	**6,457**	6,679
Unearned premiums	**2,274**	2,132
Policyholder deposits	**646**	638
Provisions for benefits, policyholder dividends and experience refunds	**480**	394
Other	**(13)**	76
	$ 28,272	$ 27,493

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

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

	As at December 31, 2017	As at December 31, 2016
Gross actuarial liabilities		
Non-participating policies	**$ 14,326**	$ 13,814
Participating policies	**4,102**	3,760
	18,428	17,574
Amounts ceded to reinsurers	**(915)**	(935)
Net actuarial liabilities	**$ 17,513**	$ 16,639

	As at December 31, 2017	As at December 31, 2016
Composition of assets backing net actuarial liabilities		
Bonds	**$ 10,884**	$ 10,411
Mortgage and business loans	**2,536**	2,783
Investment property	**1,040**	1,006
Equities	**1,531**	1,242
Other	**1,522**	1,197
	$ 17,513	$ 16,639

The fair value of assets backing net actuarial liabilities was $18,117 million as at December 31, 2017 ($17,291 million as at December 31, 2016).

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 Combined Statements of Income.

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 Combined Statements of Income.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

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 the life and health insurance 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, the life and health insurance subsidiaries 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 provisions for non-performing investments recognized through a write-down of the carrying amount of the assets, a provision amounting to $345 million as at December 31, 2017 ($355 million as at December 31, 2016) 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 15 – 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 member dividends" of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2017	2016
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (49)**	$ (47)
Products for which a rate decrease increases actuarial liabilities	**(23)**	(21)
5% increase in future morbidity rates	**(75)**	(73)
10% negative change in future contract cancellation rates	**(138)**	(149)
5% increase in future operating expenses	**(44)**	(42)

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:

	2017			2016		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 17,574**	**$ (935)**	**$ 16,639**	$ 16,895	$ (822)	$ 16,073
Change due to						
Passage of time	**556**	**(29)**	**527**	92	(54)	38
New business	**538**	**(24)**	**514**	514	(23)	491
Changes in actuarial assumptions	**(84)**	**34**	**(50)**	31	1	32
Disposals(1)	**(162)**	**53**	**(109)**	-	-	-
	848	**34**	**882**	637	(76)	561
Other changes	**6**	**(14)**	**(8)**	42	(37)	5
Balance at end of year	**$ 18,428**	**$ (915)**	**$ 17,513**	$ 17,574	$ (935)	$ 16,639

(1) For more information, see Note 20, " Significant disposals ".

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 member dividends" for the years ended December 31.

	2017	2016
Changed assumptions		
Mortality	**$ 119**	$ 21
Morbidity	**1**	11
Contract cancellation rates	**(166)**	(169)
Investment return	**59**	18
Operating expenses	**17**	(20)
Methods and other	**6**	115
	$ 36	$ (24)

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.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

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.

	2017			2016		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 6,679**	**$ (1,080)**	**$ 5,599**	$ 6,936	$ (598)	$ 6,338
Claims incurred during the year	**3,538**	**(364)**	**3,174**	3,479	(1,028)	2,451
Development of claims incurred in prior years	**(620)**	**35**	**(585)**	(630)	12	(618)
Changes in discount rates	**(64)**	**10**	**(54)**	(33)	2	(31)
Claims paid during the year	**(3,073)**	**343**	**(2,730)**	(3,073)	532	(2,541)
Disposals	**(3)**	**-**	**(3)**	-	-	-
Balance at end of year	**$ 6,457**	**$ (1,056)**	**$ 5,401**	$ 6,679	$ (1,080)	$ 5,599

Changes in assumptions had no material impact on the Combined Financial Statements as at December 31, 2017 and 2016.

Assumption sensitivity analysis

The following table shows the impact on the Combined 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 member dividends"**	
		2017	2016
Average claims settlement cost	+5%	**$ (227)**	$ (225)

NOTE 15 – 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.

	2007 and before	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	Total
Estimated ultimate claims amount												
At the end of the accident year		$ 1,141	$ 1,076	$ 1,101	$ 1,272	$ 1,375	$ 1,471	$ 1,536	$ 2,186	$ 2,417	**$ 3,158**	
1 year later		1,096	1,063	1,103	1,272	1,322	1,447	2,453	2,168	2,387		
2 years later		1,097	1,077	1,091	1,238	1,328	2,186	2,349	2,165			
3 years later		1,097	1,072	1,071	1,221	1,967	2,086	2,272				
4 years later		1,083	1,062	1,055	1,781	1,839	1,977					
5 years later		1,074	1,049	1,577	1,657	1,769						
6 years later		1,077	1,466	1,515	1,568							
7 years later		1,277	1,379	1,434								
8 years later		1,241	1,330									
9 years later		1,213										
Cumulative payments to date		1,115	1,133	1,195	1,328	1,420	1,485	1,585	1,581	1,650	**1,658**	
Net provisions for claims and adjustment expenses	$ 278	$ 98	$ 197	$ 239	$ 240	$ 349	$ 492	$ 687	$ 584	$ 737	**$ 1,500**	$ 5,401
Reinsurers' share in provisions for claims and adjustment expenses	7	-	-	-	-	3	-	-	370	462	**214**	1,056
Gross provisions for claims and adjustment expenses	$ 285	$ 98	$ 197	$ 239	$ 240	$ 352	$ 492	$ 687	$ 954	$ 1,199	**$ 1,714**	$ 6,457

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 life and health insurance subsidiaries may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose the life and health insurance 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.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

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.

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 the life and health and property and casualty insurance 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 Combined Statements of Income items presented in the table below by the following amounts:

	2017			2016		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 198**	**$ 467**	**$ 665**	$ 217	$ 1,124	$ 1,341
Claims, benefits, annuities and changes in insurance contract liabilities	**153**	**319**	**472**	203	1,015	1,218

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 minimal 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 minimal 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 unfavourable stock market movements 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. These programs cover 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 Combined 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. The life and health 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 apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Combined 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 Combined 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 Combined Statements of Income. However, the life and health insurance 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 Combined Statements of Income.

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

	2017	2016
1% increase in interest rates	**$ 43**	$ 43
1% decrease in interest rates	**(60)**	(69)

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 15 – 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 member dividends" 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.

	2017	2016
1% increase in interest rates	**$ 5**	$ 1
1% decrease in interest rates	**(6)**	1

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 the life and health insurance 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 Combined 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, 2017	As at December 31, 2016
Less than 1 year	**$ 2,615**	$ 2,510
1 to 5 years	**5,425**	5,608
Over 5 years	**34,579**	32,774
Total	**$ 42,619**	$ 40,892

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS

Group pension plans

Group pension plans are plans whose risks are shared by entities under common control. Desjardins Group offers a majority of its employees group pension plans and group supplemental pension plans, which provide pension benefits in excess of statutory limits. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a prorata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the consumer price index, up to a maximum of 3% for years of service accumulated before 2013 and 1% for a period of 10 years starting at age 65 for years of service accumulated subsequently.

The DGPP is governed by the *Supplemental Pension Plans Act* (SPPA). The SPPA requires that a retirement committee that assumes the role of administrator and trustee for the plan be formed. The Federation, through its Board of Directors, assumes the responsibilities of the DGPP's sponsor and ensures that the plan is well administered in accordance with the laws and regulations in effect. In addition, the Federation guarantees the obligations resulting from the participation in the plan of all the Desjardins Group employers. The Federation's Board of Directors, acting as the representative for all Desjardins Group employers, is the only governing body with the authority to amend or terminate the plan.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Group post-retirement benefit plan

Desjardins Group also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents through an unfunded defined benefit group plan.

Other plans

The other defined benefit plans offered are pension plans as well as another post-retirement benefit plan that provides medical, dental and life insurance plans whose risks are not shared by entities under common control.

Pension and post-retirement benefit plan risks

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are generally actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to materially differ from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the members' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit decrease the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over a portion of the service lives of employees using accounting policies comparable to those used for defined benefit pension plans.

Risk management

The Retirement Committee has set up a Risk Management Advisory Committee whose mandate is to analyze the main risks associated with managing the DGPP's operations. To that effect, it recommends every year the integrated risk profile and the asset allocation strategy to the Retirement Committee. The mandate of the Advisory Committee also includes issuing opinions on new investments to the DGPP's Investment Committee. The asset allocation strategy is based on the liability-driven investment principle. This approach provides for better management of the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in the volatility of contributions. The liability-driven investment principle takes into account changes in the liability recorded on the Combined Balance Sheets and generating sufficient returns to ensure the plan's long-term funding.

In addition, the Retirement Committee adopts every year an investment policy that may be amended based on the long-term risk/return relationship on the markets, the DGPP's commitments and financial position, risk tolerance or the legislative environment. This policy provides for market risk mitigation mechanisms. Among other things, the policy establishes limits for each type of investments and limits for the allocation of assets between the various classes, as well as risk parameters for asset allocation. The actual mix of asset portfolios is regularly reviewed, and the rebalancing policy is applied when the actual allocation is outside the allowed limits. Foreign exchange risk is controlled through the adoption of a hedging policy approved by the Investment Committee. Lastly, the Retirement Committee has delegated to the Investment Committee the responsibility for ensuring that the investment policy is applied, complied with and followed.

Funding requirements

The DGPP is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employers' contributions must be equal to the amount that, added to the employees' contributions, is sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan as well as special contributions required to amortize any deficit and cover the stabilization provision. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan. The plan's annual cost comprises contributions for current service, administrative management fees and special contributions required to fund the plans' stabilization provision and deficit, if any.

Pursuant to the SPPA requirements, the DGPP's minimum funding is determined on a going-concern basis. A stabilization provision must be funded through special current service contributions and special amortization payments. Funding and stabilization deficits must be funded over a maximum period of 10 years.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

RECOGNIZED AMOUNTS

Change in defined benefit plan liabilities

Defined benefit plan liabilities are as follows:

	Group pension plans			Group post-retirement benefit plan	Other plans			
	Obligation	**Fair value of assets**	**Total**	**Obligation**	**Obligation**	**Fair value of assets**	**Total**	**Total**
As at December 31, 2015	$ 11,925	$ 10,524	$ 1,401	$ 751	$ 736	$ 460	$ 276	$ 2,428
Amounts recognized in the Combined Statements of Income								
Current service cost	267	-	267	14	27	-	27	308
Net interest expense/income	440	382	58	27	28	18	10	95
Past service cost	(5)	-	(5)	-	7	-	7	2
	702	382	320	41	62	18	44	405
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	-	382	(382)	-	-	13	(13)	(395)
Actuarial gains arising from changes in demographic assumptions	(453)	-	(453)	(25)	(5)	-	(5)	(483)
Actuarial losses arising from changes in financial assumptions	549	-	549	29	26	-	26	604
Experience losses	86	-	86	8	7	-	7	101
	182	382	(200)	12	28	13	15	(173)
Other changes								
Participants' contributions	193	193	-	-	-	-	-	-
Employers' contributions	-	348	(348)	-	-	26	(26)	(374)
Benefits paid	(470)	(467)	(3)	(18)	(24)	(15)	(9)	(30)
Other changes	(5)	(5)	-	-	(1)	(1)	-	-
	(282)	69	(351)	(18)	(25)	10	(35)	(404)
As at December 31, 2016	$ 12,527	$ 11,357	$ 1,170	$ 786	$ 801	$ 501	$ 300	$ 2,256
Amounts recognized in the Combined Statements of Income								
Current service cost	**282**	**-**	**282**	**16**	**30**	**-**	**30**	**328**
Net interest expense/income	**440**	**392**	**48**	**27**	**29**	**18**	**11**	**86**
Past service cost	**(4)**	**-**	**(4)**	**-**	**(1)**	**-**	**(1)**	**(5)**
	718	**392**	**326**	**43**	**58**	**18**	**40**	**409**
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	**-**	**976**	**(976)**	**-**	**-**	**35**	**(35)**	**(1,011)**
Actuarial losses (gains) arising from changes in demographic assumptions	**125**	**-**	**125**	**(13)**	**1**	**-**	**1**	**113**
Actuarial losses arising from changes in financial assumptions	**1,006**	**-**	**1,006**	**43**	**62**	**-**	**62**	**1,111**
Experience losses	**141**	**-**	**141**	**9**	**2**	**-**	**2**	**152**
	1,272	**976**	**296**	**39**	**65**	**35**	**30**	**365**
Other changes								
Participants' contributions	**190**	**190**	**-**	**-**	**-**	**-**	**-**	**-**
Employers' contributions	**-**	**345**	**(345)**	**-**	**-**	**27**	**(27)**	**(372)**
Benefits paid	**(491)**	**(488)**	**(3)**	**(20)**	**(26)**	**(15)**	**(11)**	**(34)**
Other changes	**(10)**	**(10)**	**-**	**-**	**(1)**	**(1)**	**-**	**-**
	(311)	**37**	**(348)**	**(20)**	**(27)**	**11**	**(38)**	**(406)**
As at December 31, 2017	**$ 14,206**	**$ 12,762**	**$ 1,444**	**$ 848**	**$ 897**	**$ 565**	**$ 332**	**$ 2,624**

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Funding status

	As at December 31, 2017				As at December 31, 2016			
	Group pension plans	Group post-retirement benefit plan	Other plans	Total	Group pension plans	Group post-retirement benefit plan	Other plans	Total
Funded plans								
Defined benefit plan obligation	**$ 14,076**	**$ -**	**$ 628**	**$ 14,704**	$ 12,408	$ -	$ 551	$ 12,959
Fair value of plan assets	**12,762**	**-**	**565**	**13,327**	11,357	-	501	11,858
	$ (1,314)	**$ -**	**$ (63)**	**$ (1,377)**	$ (1,051)	$ -	$ (50)	$ (1,101)
Unfunded plans								
Defined benefit plan obligation	**$ 130**	**$ 848**	**$ 269**	**$ 1,247**	$ 119	$ 786	$ 250	$ 1,155
	$ (130)	**$ (848)**	**$ (269)**	**$ (1,247)**	$ (119)	$ (786)	$ (250)	$ (1,155)

Allocation of the main group pension plan assets

The fair value of the main group pension plan assets is detailed as follows:

	As at December 31, 2017[(1)]		As at December 31, 2016[(1)]	
	Non-quoted in an active market	Quoted in an active market	Non-quoted in an active market	Quoted in an active market
Bonds				
Government of Canada	**$ -**	**$ 210**	$ -	$ 117
Provinces, municipal corporations and other public administrations	**177**	**4,840**	125	3,346
Other issuers	**2,134**	**3**	1,848	-
Shares	**381**	**2,856**	339	2,630
Real estate investments	**1,410**	**130**	1,232	128
Infrastructure investments	**1,348**	**67**	1,382	63
Cash and money market securities	**529**	**163**	235	173
Other	**974**	**112**	621	278
Total	**$ 6,953**	**$ 8,381**	$ 5,782	$ 6,735

(1) Commitments related to securities lent or sold under repurchase agreements deducted from the main group pension plan assets are excluded from this table.

As at December 31, 2017, the DGPP held eligible investments in money market securities and segregated funds issued by Desjardins Group entities having a total fair value of $52 million ($104 million as at December 31, 2016).

IMPACT ON CASH FLOWS

Principal actuarial assumptions

The principal actuarial assumptions used to measure the defined benefit plan obligation and cost are as follows:

	As at December 31, 2017		As at December 31, 2016	
	Group pension plans	Group post-retirement benefit plan	Group pension plans	Group post-retirement benefit plan
Discount rate for the obligation[(1)]	**3.60 %**	**3.60 %**	4.00 %	3.95 %
Discount rate for service cost[(1)]	**3.70**	**3.70**	4.30	4.30
Expected rate of salary increases	**3.00**	**3.00**	3.00	3.00
Rate used to calculate interest expense on the obligation and assets[(1)]	**3.44**	**3.37**	3.62	3.52
Rate used to calculate interest expense on service cost[(1)]	**3.80**	**3.96**	3.97	4.12
Estimated annual growth rate for covered healthcare cost	**-**	**4.05**	-	4.05

(1) Weighted average rate for all plans.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Sensitivity of key assumptions

Because of the long-term nature of employee benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used. The following table shows the impact of a one percentage point change in key assumptions on the defined benefit plan obligation and cost, with all other assumptions remaining constant. In reality, there may be correlations between these assumptions. However, to show the impact of changes in assumptions, they have been modified on an individual basis.

	As at December 31, 2017		As at December 31, 2016	
	Change in obligation	**Change in cost recognized**	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	**$ (2,236)**	**$ (126)**	$ (1,919)	$ (95)
1% decrease	**2,708**	**127**	2,579	120
Expected rate of salary increases				
1% increase	**624**	**43**	488	41
1% decrease	**(528)**	**(36)**	(414)	(34)
Group post-retirement benefit plan				
Discount rate				
1% increase	**(126)**	**(2)**	(112)	(2)
1% decrease	**164**	**2**	145	2
Expected rate of salary increases				
1% increase	**7**	**1**	8	1
1% decrease	**(8)**	**(1)**	(8)	(1)
Healthcare costs				
1% increase	**86**	**7**	75	7
1% decrease	**(68)**	**(5)**	(61)	(6)

Expected contributions for 2018

Desjardins Group expects to contribute $396 million to its defined benefit pension plans in the next year.

Pension plan obligation maturity profile

For 2017, the weighted average financial duration was approximately 17 years (17 years in 2016) for the main group pension plan and approximately 17 years (16 years in 2016) for the group post-retirement benefit plan.

NOTE 17 – OTHER LIABILITIES – OTHER

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

	As at December 31, 2017	As at December 31, 2016
Accounts payable	**$ 1,990**	$ 2,403
Interest payable	**736**	839
Deferred income related to loyalty programs	**309**	288
Provisions for risks and expenses	**240**	252
Taxes payable	**64**	227
Borrowings from financial institutions	**30**	30
Other	**2,199**	1,980
	$ 5,568	$ 6,019

NOTE 18 – SUBORDINATED NOTES

The subordinated notes presented in Desjardins Group's Combined Balance Sheets are senior notes issued by Desjardins Capital Inc. whose gross proceeds are invested in notes issued by the Desjardins caisses in Quebec 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 Quebec.

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, 2017	As at December 31, 2016
Senior Series G notes (par value of $900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer.	**$ 898**	$ 892
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.	**490**	486
	$ 1,388	$ 1,378

Redemption

In 2016, all of the outstanding Series F subordinated notes, amounting to $500 million, have been called.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Desjardins Group'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. Desjardins Group 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. Desjardins Group uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

Other financial derivative contracts

Other derivative financial contracts used by Desjardins Group 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. Desjardins Group 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.

DERIVATIVE FINANCIAL INSTRUMENTS MATURITIES

The following table presents the maturities of the notional amounts of derivative financial instruments.

	Terms to maturity				As at December 31, 2017	As at December 31, 2016
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	Notional amount
Interest rate contracts						
Over-the-counter contracts						
Interest rate swaps	$ 42,475	$ 57,411	$ 32,871	$ 5,765	$ 138,522	$ 98,564
Forward rate agreements	2,258	-	-	-	2,258	1,255
Options purchased	1,708	754	-	-	2,462	3,438
Options written	400	-	-	-	400	550
Contracts traded through a clearing house						
Interest rate swaps	2,453	5,796	2,078	224	10,551	3,240
Exchange-traded contracts						
Futures	6,512	425	-	-	6,937	7,883
Options purchased	8,238	-	-	-	8,238	8,313
Options written	7,755	-	-	-	7,755	11,341
	71,799	64,386	34,949	5,989	177,123	134,584
Foreign exchange contracts						
Over-the-counter contracts						
Forward contracts	22,908	887	37	-	23,832	15,129
Currency swaps	5,988	8,575	-	300	14,863	14,432
Options purchased	581	62	6	-	649	743
Options written	612	83	6	-	701	845
Exchange-traded contracts						
Forward contracts	1	-	-	-	1	11
	30,090	9,607	49	300	40,046	31,160
Other contracts[(1)]						
Over-the-counter contracts						
Swaps	-	125	47	-	172	133
Options purchased	2,910	8,014	9,336	50	20,310	17,236
Options written	2,772	7,620	8,053	-	18,445	14,971
Contracts traded through a clearing house						
Swaps	-	-	616	-	616	644
Exchange-traded contracts						
Futures	1,037	-	-	-	1,037	1,111
Options purchased	-	-	-	-	-	2
	6,719	15,759	18,052	50	40,580	34,097
Total derivative financial instruments	$108,608	$ 89,752	$ 53,050	$ 6,339	$ 257,749	$ 199,841

(1) Includes contracts related to indexed term savings products.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

	As at December 31, 2017			As at December 31, 2016		
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges						
Interest rate contracts						
Swaps - Other	**$ 17,191**	**$ 49**	**$ 262**	$ 18,413	$ 235	$ 92
	17,191	**49**	**262**	18,413	235	92
Foreign exchange contracts						
Forward contracts	**255**	**2**	**-**	109	-	1
Currency swaps	**10,347**	**219**	**101**	12,534	937	251
	10,602	**221**	**101**	12,643	937	252
Total – Fair value hedges	**27,793**	**270**	**363**	31,056	1,172	344
Cash flow hedges						
Interest rate contracts						
Swaps	**9,962**	**55**	**49**	20,961	143	88
	9,962	**55**	**49**	20,961	143	88
Foreign exchange contracts						
Forward contracts	**-**	**-**	**-**	37	4	-
	-	**-**	**-**	37	4	-
Total – Cash flow hedges	**9,962**	**55**	**49**	20,998	147	88
Total – Designated as hedging instruments	**37,755**	**325**	**412**	52,054	1,319	432
Trading purposes						
Interest rate contracts						
Swaps traded through a clearing house	**10,550**	**18**	**33**	3,240	7	19
Swaps - Other	**111,370**	**906**	**699**	59,190	657	187
Forward rate agreements	**2,258**	**19**	**7**	1,259	1	9
Futures	**6,937**	**-**	**-**	7,879	-	-
Options purchased	**10,700**	**3**	**-**	11,751	7	-
Options written	**8,155**	**-**	**2**	11,891	-	6
	149,970	**946**	**741**	95,210	672	221
Foreign exchange contracts						
Forward contracts	**23,578**	**165**	**204**	14,994	136	85
Currency swaps	**4,516**	**5**	**29**	1,898	85	14
Options purchased	**649**	**6**	**-**	743	20	-
Options written	**701**	**2**	**15**	845	-	20
	29,444	**178**	**248**	18,480	241	119
Other contracts						
Swaps traded through a clearing house	**616**	**13**	**2**	644	10	-
Swaps - Other	**172**	**1**	**1**	133	1	1
Futures	**1,037**	**-**	**-**	1,111	-	-
Options purchased	**20,310**	**1,743**	**-**	17,238	1,329	42
Options written	**18,445**	**-**	**1,690**	14,971	-	1,242
	40,580	**1,757**	**1,693**	34,097	1,340	1,285
Total – Trading purposes	**219,994**	**2,881**	**2,682**	147,787	2,253	1,625
Total derivative financial instruments before impact of master netting agreements	**$ 257,749**	**$ 3,206**	**$ 3,094**	$ 199,841	$ 3,572	$ 2,057
Less:						
Impact of master netting agreements[1]	**-**	**1,312**	**1,312**	-	597	597
Total derivative financial instruments after impact of master netting agreements	**$ 257,749**	**$ 1,894**	**$ 1,782**	$ 199,841	$ 2,975	$ 1,460

[1] Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The following table presents the gross amounts related to the ineffectiveness of fair value hedges and cash flow hedges that are recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income for the years ended December 31.

	2017	2016
Gains on hedged items	**$ 807**	$ 1,260
Losses on derivative instruments	**(823)**	(1,261)
Fair value hedge ineffectiveness	**$ (16)**	$ (1)
Cash flow hedge ineffectiveness	**$ -**	$ (14)

Cash flows

The following tables present the expected dates of occurrence of hedged cash flows.

2017	**Terms to maturity**				
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Total**
Cash inflows (assets)	**$ 117**	**$ 246**	**$ 150**	**$ 8**	**$ 521**
Cash outflows (liabilities)	**197**	**312**	**59**	**23**	**591**
Net cash flows	**$ (80)**	**$ (66)**	**$ 91**	**$ (15)**	**$ (70)**

2016	Terms to maturity				
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Cash inflows (assets)	$ 392	$ 660	$ 233	$ 1	$ 1,286
Cash outflows (liabilities)	194	268	177	4	643
Net cash flows	$ 198	$ 392	$ 56	$ (3)	$ 643

The net impact on excess cash flows related to interest is recognized using the effective interest method over the life of the underlying instrument. During the years ended December 31, 2017 and 2016, the main hedging transactions occurred as expected.

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 Desjardins Group at a time when the fair value of the instrument is positive for Desjardins Group. The manner in which Desjardins Group 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 Combined 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 the Bank for International Settlements (BIS), excluding items prescribed by the BIS, such as the replacement cost of forward exchange contracts with an original maturity of less than 14 days and exchange-traded derivatives subject to daily cash margining.
Risk-weighted balance	The balance weighted by the risk related to the creditworthiness of the counterparty calculated at the rates prescribed by the BIS.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

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

	As at December 31, 2017				As at December 31, 2016			
	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Swaps	$ 149,073	$ 1,028	$ 1,600	$ 415	$ 101,804	$ 1,042	$ 1,470	$ 367
Forward rate agreements	2,258	19	41	41	1,255	1	10	10
Futures	6,937	-	-	-	7,883	-	-	-
Options purchased	10,700	3	5	2	11,751	7	16	5
Options written	8,155	-	-	-	11,891	-	-	-
	177,123	1,050	1,646	458	134,584	1,050	1,496	382
Foreign exchange contracts								
Forward contracts	23,833	167	440	226	15,140	140	323	151
Currency swaps	14,863	224	736	233	14,432	1,022	1,486	372
Options purchased	649	6	15	10	743	20	35	16
Options written	701	2	3	1	845	-	-	-
	40,046	399	1,194	470	31,160	1,182	1,844	539
Other contracts								
Swaps	788	14	22	3	777	11	17	3
Futures	1,037	-	-	-	1,111	-	-	-
Options purchased	20,310	1,743	3,324	1,109	17,238	1,329	2,637	858
Options written	18,445	-	-	-	14,971	-	-	-
	40,580	1,757	3,346	1,112	34,097	1,340	2,654	861
Total derivative financial instruments before impact of master netting agreements	$ 257,749	$ 3,206	$ 6,186	$ 2,040	$ 199,841	$ 3,572	$ 5,994	$ 1,782
Less:								
Impact of master netting agreements(1)	-	1,312	-	844	-	597	-	824
Total derivative financial instruments after impact of master netting agreements	$ 257,749	$ 1,894	$ 6,186	$ 1,196	$ 199,841	$ 2,975	$ 5,994	$ 958

(1) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

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

	As at December 31, 2017		As at December 31, 2016	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating(1)				
AAA, AA+, AA, AA-	$ 1,942	$ 932	$ 1,963	$ 864
A+, A, A-	1,128	824	1,334	745
BBB, B, BB-, BBB-	54	138	50	91
Not rated	82	146	225	83
Total	3,206	2,040	3,572	1,783
Less:				
Impact of master netting agreements(2)	1,312	844	597	824
Total after impact of master netting agreements	$ 1,894	$ 1,196	$ 2,975	$ 959
Type of counterparty				
Financial institutions	$ 3,041	$ 1,748	$ 3,476	$ 1,635
Other	165	292	96	148
Total	3,206	2,040	3,572	1,783
Less:				
Impact of master netting agreements(2)	1,312	844	597	824
Total after impact of master netting agreements	$ 1,894	$ 1,196	$ 2,975	$ 959

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group.
(2) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – SIGNIFICANT DISPOSALS

DISPOSALS

Year ended December 31, 2017

On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, Western Financial Group Inc., a financial services company and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of the Wawanesa Mutual Insurance Company.

The assets and liabilities of the two subsidiaries sold were as follows as at the date of disposal.

	As at July 1, 2017
Net assets sold	
Cash and deposits with financial institutions	$ 82
Securities at fair value through profit or loss	123
Available-for-sale securities	59
Amounts receivable from clients, brokers and financial institutions	17
Reinsurance assets	55
Property, plant and equipment	17
Goodwill	293
Intangible assets	155
Deferred tax assets	3
Other assets	110
Insurance contract liabilities	(161)
Deferred tax liabilities	(40)
Other liabilities	(288)
	$ 425
Proceeds from disposal	
Cash	$ 722
Less: Costs directly attributable to the disposal	19
Net proceeds from disposal	$ 703

A gain of $278 million on the disposal of these subsidiaries was recognized under "Other income – Other" in the Combined Statement of Income for the year ended December 31, 2017.

The operations of these two subsidiaries were presented in the Property and Casualty Insurance segment.

Year ended December 31, 2016

Desjardins Group made no significant disposal during the year.

NOTE 21 – DISPOSAL GROUP HELD TO BE TRANSFERRED

On December 12, 2017, Desjardins Group and a partnership comprised of five provincial credit union centrals (the Centrals) and The CUMIS Group announced that they had entered into an agreement to merge the businesses of their subsidiaries Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments. This transaction will result in the creation of Aviso Wealth, a wealth management company, in which Desjardins Group and the partnership formed by the Centrals and The CUMIS Group will each hold a 50% interest. The interest in Aviso Wealth will be an interest in a joint venture for Desjardins Group and will be accounted for using the equity method. The transaction is expected to close in the first six-month period of 2018, subject to approvals from regulators and compliance with customary closing conditions.

The Qtrade Canada Inc. subsidiary and the interest in the Northwest & Ethical Investments associate are classified as disposal group held to be transferred, as their carrying amount will not be recovered through continuing use. A disposal group held to be transferred is measured at the lower of its carrying amount and fair value less costs to sell.

The assets and liabilities of the disposal group held to be transferred presented separately in the Combined Balance Sheet are as follows:

	As at December 31, 2017
Assets	
Cash and deposits with financial institutions	**$ 26**
Securities at fair value through profit or loss	**80**
Amounts receivable from clients, brokers and financial institutions	**577**
Property, plant and equipment	**3**
Goodwill	**32**
Intangible assets	**65**
Deferred tax assets	**1**
Other assets	**97**
Total assets of the disposal group held to be transferred	**$ 881**
Liabilities	
Deferred tax liabilities	**$ 14**
Amounts payable to clients, brokers and financial institutions	**631**
Other liabilities	**17**
Total liabilities of the disposal group held to be transferred	**$ 662**

The operations of this subsidiary and interest in an associate are presented in the Wealth Management and Life and Health Insurance segment.

On January 23, 2018, Desjardins Group exercised its option to buy out Qtrade Canada Inc.'s non-controlling interests for $44 million in order to hold a 100% interest in this subsidiary at the transaction's closing date.

NOTE 22 – CAPITAL STOCK

AUTHORIZED

Capital stock comprises qualifying shares, permanent shares, surplus shares and capital shares.

The caisses may issue an unlimited number of qualifying shares with a par value of $5, redeemable in the cases set forth in the Act. Members have only one vote each, no matter how many qualifying shares they own.

The Act authorizes the issuance of an unlimited number of permanent and surplus shares with a par value of $10 and $1, respectively. These shares do not carry any voting rights and cannot be redeemed except under certain conditions stipulated by the Act. The interest is determined annually by the general meeting of each caisse. Interest is recognized under “Remuneration on capital stock” in the Combined Statements of Changes in Equity after being approved by the general meeting of each caisse, which is held in the four months following year-end.

The Federation may issue an unlimited number of F capital shares with a par value of $10. These shares do not carry any voting rights. F capital shares may be issued only to members of Desjardins caisses in Quebec, including their auxiliary members. 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, F capital shares at any time. The Federation may also purchase, in whole or in part, F capital shares by private agreement, at any time, with the authorization of the AMF. The interest rate on F capital shares is determined by the Federation’s Board of Directors. Interest is recognized under “Remuneration on capital stock” in the Combined Statements of Changes in Equity after being approved by the general meeting. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2017	As at December 31, 2016
Qualifying shares	**$ 25**	$ 25
Permanent shares	**750**	1,026
Surplus shares	**82**	106
F capital shares	**4,504**	4,135
	$ 5,361	$ 5,292

ISSUANCE OF SHARES

During the year ended December 31, 2017, the Federation issued 24,967,040 F capital shares for a cash consideration of $244 million, which represents the gross proceeds of this issuance of $250 million less certain items totalling $6 million. In addition, the Federation issued 12,535,746 F capital shares having a value of $125 million as interest payments when the holders elected to receive their remuneration in F capital shares.

In 2016, the Federation had issued 49,776,013 F capital shares for a cash consideration of $498 million. In addition, the Federation had issued 10,062,747 F capital shares having a value of $100 million as interest payments when the holders elected to receive their remuneration in F capital shares.

REDEMPTION OF SHARES

Permanent shares

During the year ended December 31, 2017, the AMF extended its authorization for the redemption for cancellation of a predetermined amount of permanent shares, subject to certain conditions, over a period ending December 31, 2018.

Surplus shares

In 2014, the AMF authorized the redemption for cancellation of all surplus shares subject to certain conditions.

NOTE 23 – SHARE CAPITAL

AUTHORIZED

There is an unlimited number of Class A preferred shares, offered only to member of caisses populaires of Ontario, non-voting, without par value, redeemable at the option of the issuer at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative.

There is an unlimited number of Class B preferred shares, non-voting, without par value, redeemable at the option of the issuer, i.e. the *Fédération des caisses populaires de l'Ontario Inc.* or the caisses populaires of Ontario, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

There is an unlimited number of Class C preferred shares, non-voting, without par value, redeemable at the option of the issuer, i.e. the *Fédération des caisses populaires de l'Ontario Inc.*, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

SPECIFIC CHARACTERISTICS OF ISSUED AND PAID CLASS B PREFERED – SERIES 2000, 2002 AND 2003 AND CLASS C PREFERRED SHARES – SERIES 2010 ISSUED AND PAID

The dividend rate will be equal to the higher of: the average interest rate for the year on non-redeemable term deposits of five years plus 0.50% or 6.00% for Class B – Series 2000; plus 1.00% or 5.25% for Class B – Series 2002; plus 1.00% or 4.00% for Class B – Series 2003; and plus 0.5% or 4.25% for Class C – Series 2010, i.e., the minimum rate. Should the issuer be unable to pay the dividend in full, a partial dividend may be declared. A dividend may be declared every time the issuer's surplus earnings allow it and that all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the Board of Directors' approval, up to a maximum of 10% of the issued and outstanding shares of the prior year. They have been redeemable at the option of the issuer since September 30, 2005 for Class B – Series 2000; since July 1, 2007 for Class B – Series 2002; since March 1, 2008 for Class B – Series 2003; and since January 1, 2015 for Class C – Series 2010. Shares can be redeemed only if the issuer does not or will not violate section 84 of the Ontario *Credit Unions and Caisses Populaires Act, 1994*, regarding capital adequacy.

ISSUED AND PAID SHARES

	As at December 31, 2017		As at December 31, 2016	
	Number of shares	**Amount**	Number of shares	Amount
Class A preferred shares	**493,200**	**$ 5**	528,900	$ 5
Class B preferred shares – Series 2000	**58,700**	**1**	56,900	1
Class B preferred shares – Series 2002	**477,000**	**5**	462,200	5
Class B preferred shares – Series 2003	**752,900**	**7**	732,000	7
Class C preferred shares – Series 2010	**7,248,000**	**72**	7,002,200	70
		$ 90		$ 88

During fiscal 2017, the issuer paid a dividend in the form of Class C preferred shares – Series 2010 (260,600 shares) and redeemed 14,800 Class C preferred shares – Series 2010, for an aggregate amount of $2 million. In addition, it redeemed 35,700 Class A preferred shares and issued 1,800 Class B preferred shares – Series 2000, 14,800 Class B preferred shares – Series 2002 and 20,900 Class B preferred shares – Series 2003 for an immaterial aggregate amount.

During fiscal 2016, the issuer had paid a dividend in the form of Class C preferred shares – Series 2010 (252,900 shares) and redeemed 68,200 Class C preferred shares – Series 2010, for an aggregate amount of $2 million. In addition, it had redeemed 51,800 Class A preferred shares for an amount of $1 million and issued 3,600 Class B preferred shares – Series 2000, 32,100 Class B preferred shares – Series 2002 and 37,000 Class B preferred shares – Series 2003 for an aggregate amount of $1 million.

NOTE 24 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2017		As at December 31, 2016	
	Group's share	**Non-controlling interests' share**	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains on available-for-sale securities	**$ 395**	**$ 21**	$ 376	$ 14
Net gains on derivative financial instruments designated as cash flow hedges	**49**	**-**	136	1
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**1**	**-**	2	-
Accumulated other comprehensive income	**$ 445**	**$ 21**	$ 514	$ 15

NOTE 25 – CAPITAL MANAGEMENT

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.

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The regulatory capital adequacy and composition of Desjardins Group as a whole are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF. The AMF requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components. 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. In addition, 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.

Some subsidiaries included in the scope of Desjardins Group are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements. The capital adequacy of Quebec caisses is governed by the Federation's standards, which draw on those of the AMF and address capital base adequacy, items comprising capital base and proportions between those items. The capital adequacy of the *Fédération des caisses populaires de l'Ontario* and associated caisses is governed by a regulation and guidelines issued by the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario.

Desjardins Group's capital management is the responsibility of the Federation's Board of Directors. To support it with this task, it has mandated the Management Committee, through the Finance and Risk Management Committee to ensure that Desjardins Group has an adequate capital base considering 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.

BASEL III

Desjardins Group's capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets. As it was designated by the AMF as a domestic systemically important financial institution, Desjardins Group must maintain a minimum Tier 1A capital ratio of 8.0%. In addition, the Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively.

NOTE 25 – CAPITAL MANAGEMENT *(continued)*

The regulatory capital of Desjardins Group differs from the equity disclosed in the Combined 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.

Since January 1, 2014, the measures and requirements related to the credit valuation adjustment (CVA) charge have been phased in as set out in the guideline. This phased-in charge will reach 100% by 2019 for each of the capital ratios. As at December 31, 2017, the CVA charge applied to the Tier 1A capital ratio, the Tier 1 capital ratio and the total capital ratio was 72%, 77% and 81%, respectively.

In addition, Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3%. The leverage ratio is defined as an independent risk measurement corresponding to 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) other off-balance sheet exposures.

The following table presents the composition of Desjardins Group's regulatory capital, risk-weighted assets and the leverage ratio exposure measure.

	As at December 31, 2017	As at December 31, 2016
Tier 1A capital		
F capital shares	**$ 4,518**	$ 4,142
Permanent shares and surplus shares subject to phase-out	**794**	1,078
Reserves	**16,707**	15,052
Undistributed surplus earnings	**1,336**	1,502
Eligible accumulated other comprehensive income	**410**	392
Deductions(1)	**(2,780)**	(3,446)
Total Tier 1A capital	**20,985**	18,720
Non-controlling interests	**13**	12
Total Tier 1B capital	**13**	12
Total Tier 1 capital	**$ 20,998**	$ 18,732
Tier 2 capital		
Subordinated notes subject to phase-out	**$ 1,032**	$ 1,206
Eligible collective allowance	**257**	252
Other eligible instruments	**25**	25
Deductions(2)	**(876)**	(872)
Total Tier 2 capital	**$ 438**	$ 611
Total regulatory capital (Tier 1 and 2)	**$ 21,436**	$ 19,343
Total risk-weighted assets	**$ 116,487**	$ 108,144
Leverage ratio exposure measure	**246,832**	230,472

(1) Represent essentially 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. The non-deducted balance will be subject to risk-weighting at a rate of 250%.
(2) Represent mainly an investment in preferred shares of one of the life and health insurance subsidiaries deconsolidated for regulatory capital purposes.

NOTE 25 – CAPITAL MANAGEMENT *(continued)*

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. However, 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 January 1, 2013. These instruments include permanent shares and surplus shares issued before September 12, 2010, which total $2.1 billion.

In addition, the subordinated notes described in Note 18, "Subordinated notes", are also subject to the 10% amortization. In order to be fully eligible as Tier 2 capital, such notes must meet Non-Viability Contingent Capital requirements. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group has not issued any instruments subject to these rules, as discussions on their application by Desjardins Group are still underway with the AMF.

In terms of developing the Integrated Capital Management Framework, the financial goal for Desjardins Group's Tier 1 capital ratio was maintained at a minimum of 15% under Basel III, given the global economic context and the new AMF regulatory requirements with respect to Basel III.

Desjardins Group's regulatory capital amounted to $21,436 million as at December 31, 2017, up $2,093 million from December 31, 2016. This increase is mainly explained by the growth of $1,489 million in reserves and undistributed surplus earnings and the issue of $376 million of capital shares of the Federation. However, the phase-out of capital instruments that no longer meet the Basel III eligibility criteria reduced capital by approximately $284 million.

As mentioned in Note 22, "Capital stock", in 2017, the Federation issued shares for net proceeds of $244 million. In addition, the Federation issued shares having a value of $125 million as interest payments to holders who elected to receive their remuneration in shares. Furthermore, on December 21, 2017, the Federation was authorized by the AMF to file a new prospectus for the issuance of additional shares totalling $125 million. This new issuance has started on January 23, 2018.

COMPLIANCE WITH REQUIREMENTS

Desjardins Group and all its components that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2017, as they were in the previous year. As at such date, Desjardins Group's Tier 1A, Tier 1 and total capital ratios, calculated under the Basel III requirements, were 18.0%, 18.0% and 18.4%, respectively. The leverage ratio amounted to 8.5%.

NOTE 26 – NET INCOME ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL INSTRUMENTS HELD FOR TRADING

The following table presents the impact of income from financial instruments held for trading on the Combined Statements of Income for the years ended December 31.

	2017	2016
Income		
Net interest income	**$ 40**	$ 38
Net income on securities at fair value through profit or loss	**(35)**	15
	$ 5	$ 53

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table presents the impact of income from financial instruments designated as at fair value through profit or loss on the Combined Statements of Income for the years ended December 31.

	2017	2016
Income		
Net interest income	**$ 10**	$ 2
Net income on securities at fair value through profit or loss	**1,114**	518
	$ 1,124	$ 520

NOTE 27 – NON-INTEREST EXPENSE – OTHER

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

	2017	2016
Commissions	$ 759	$ 778
Recovery of expenses related to reinsurance	(133)	(292)
Professional fees	533	503
Business and capital taxes	325	309
Other employee expenses	200	203
Amortization of intangible assets	94	102
Sponsorships and donations	82	82
Expenses related to deposits, services and other	67	69
Other	639	622
	$ 2,566	$ 2,376

NOTE 28 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense (recovery) recognized in the Combined Financial Statements for the years ended December 31 is detailed as follows:

	2017	2016
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	$ 504	$ 596
Adjustments for current tax of prior years	(3)	(9)
Current tax recovery on remuneration on capital stock	(13)	(54)
Tax recovery on member dividends	(54)	(39)
	434	494
Deferred income taxes		
Origination and reversal of temporary differences	51	(74)
Changes in tax rates	(3)	1
	48	(73)
	$ 482	$ 421
Combined Statements of Comprehensive Income		
Current income taxes	$ 13	$ 34
Deferred income taxes	(141)	(10)
	(128)	24
Total income tax expense	$ 354	$ 445

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

	2017	2016
Income taxes on surplus earnings	$ 536	$ 460
Tax recovery on member dividends	(54)	(39)
Income taxes on surplus earnings	$ 482	$ 421

NOTE 28 – INCOME TAXES ON SURPLUS EARNINGS *(continued)*

TAX RATE RECONCILIATION

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

	2017	2016
Income taxes at the combined Canadian federal and provincial statutory rate of 26.70% (26.84% in 2016)	**$ 718**	$ 599
Tax recovery on member dividends	**(54)**	(39)
Small business deduction and additional credit for credit unions	**(2)**	(5)
Non-taxable investment income and other items	**(90)**	(79)
Changes in tax rates	**(3)**	1
Non-deductible expenses	**14**	15
Adjustment for current tax of prior years	**(3)**	(9)
Tax recovery on remuneration on capital stock	**(57)**	(54)
Tax rate differential applicable to the gain on disposal of subsidiaries	**(47)**	-
Other	**6**	(8)
	$ 482	$ 421

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		**Combined Statements of Income**	
	As at December 31, 2017	As at December 31, 2016	**2017**	2016
Deferred tax assets				
Insurance contract liabilities	**$ -**	$ 14	**$ 14**	$ 25
Allowance for credit losses	**70**	72	**2**	12
Net defined benefit plan liabilities	**695**	598	**(2)**	(1)
Tax losses	**97**	131	**32**	(62)
Other	**135**	70	**(1)**	(6)
	997	885	**45**	(32)
Deferred tax liabilities				
Property, plant and equipment and investment property	**132**	122	**(3)**	(20)
Securities and other financial instruments	**16**	68	**(6)**	(21)
Insurance contract liabilities	**12**	-	**12**	-
	160	190	**3**	(41)
Net deferred income tax assets	**$ 837**	$ 695	**$ 48**	$ (73)

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

	As at December 31, 2017	As at December 31, 2016
Deferred tax assets[(1)]	**$ 992**	$ 874
Deferred tax liabilities[(1)]	**155**	179
	$ 837	$ 695

(1) Deferred income taxes will reverse mainly in the long term.

The amount of deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Combined Balance Sheets was $22 million ($22 million as at December 31, 2016).

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, Desjardins Group uses credit instruments and off-balance sheet guarantees to meet the financing needs of its members 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 Desjardins Group granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that Desjardins Group could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that Desjardins Group 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 Combined 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 Combined Balance Sheets expose Desjardins Group to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2017	As at December 31, 2016
Commitments		
Credit commitments	**$ 98,470**	$ 91,211
Indemnification commitments related to securities lending	**2,024**	1,772
Documentary letters of credit	**7**	25
Financial guarantees		
Guarantees and standby letters of credit	**1,003**	982
Credit default swaps	**540**	644

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 members 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, Desjardins Group enters into securities lending agreements with clients. Desjardins Group 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 member or a client and represent Desjardins Group’s agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. Desjardins Group 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 Desjardins Group to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group’s policy with respect to collateral received for these instruments is generally the same as for loans.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

Credit default swaps

In the normal course of its investment operations, Desjardins Group 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.

Other indemnification agreements

In the normal course of its operations, Desjardins Group 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, Desjardins Group 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 Desjardins Group 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, Desjardins Group enters into asset pledge agreements and receives from its members and 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 Desjardins Group'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, 2017	As at December 31, 2016
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	**$ 197**	$ 229
Securities	**15,509**	14,525
Loans	**18,798**	18,422
	34,504	33,176
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**10,861**	9,946
Less: Assets not sold or not repledged	**1,861**	2,099
	9,000	7,847
	$ 43,504	$ 41,023
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 11,948**	$ 10,223
Transactions involving commitments related to securities sold short	**9,237**	8,151
Securitization transactions	**9,255**	8,085
Covered bonds	**6,197**	8,133
Transactions on derivative financial instruments	**137**	145
Clearing systems, payment systems and depositories[1]	**4,067**	2,932
Transactions involving provisions for claims and adjustment expenses[2]	**2,501**	3,222
Caisse network money supply from the Bank of Canada	**162**	132
	$ 43,504	$ 41,023

(1) In the normal course of its operations, Desjardins Group 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) Represents 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 Desjardins Group.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

LITIGATION

In the normal course of its business, Desjardins Group 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 Desjardins Group's financial position. 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 Desjardins Group's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 30 – LEASES

LEASES – AS LESSEE

Operating leases

The minimum future commitments under leases for premises and equipment for the years ended December 31 are presented in the following table.

	2017	2016
Under 1 year	**$ 92**	$ 94
1 to 5 years	**267**	245
Over 5 years	**287**	175
Total minimum future commitments	**$ 646**	$ 514

Lease payments recognized as expenses for the year ended December 31, 2017 totalled $105 million ($98 million in 2016).

LEASES – AS LESSOR

Operating leases

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

	2017	2016
Under 1 year	**$ 72**	$ 73
1 to 5 years	**214**	228
Over 5 years	**391**	253
Total future minimum payments	**$ 677**	$ 554

No contingent rents were recognized as income for the years ended December 31, 2017 and 2016.

NOTE 31 – FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is 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 Desjardins Group 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 Combined Financial Statements.

NOTE 32 – INTEREST RATE RISK EXPOSURE

The following table presents the exposure to interest rate risk. Financial instruments are presented based on their maturity date or repricing date, whichever is earlier. Certain maturity or contractual repricing dates may be adjusted based on behavioural assumptions with respect to early repayment or redemption. In addition, certain financial instruments are presented in the "Non-interest-sensitive and provisions" column while they are actually managed using a different risk profile. Behavioural assumptions and models are internally developed using historical analyses, among others.

	Floating rate	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive and provisions	As at December 31, 2017
Assets								
Cash and deposits with financial institutions	$ 172	$ 956	$ 13	$ -	$ -	$ -	$ 1,294	$ 2,435
Effective interest rate		*1.26 %*	*1.30 %*					
Securities	722	7,792	1,359	3,347	18,370	18,624	6,374	56,588
Effective interest rate		*1.50 %*	*1.51 %*	*1.87 %*	*1.89 %*	*3.66 %*		
Securities borrowed or purchased under reverse repurchase agreements	-	8,674	-	-	-	-	-	8,674
Effective interest rate		*0.96 %*						
Loans	41,369	25,898	19,756	27,067	60,175	2,831	394	177,490
Effective interest rate		*3.31 %*	*3.19 %*	*3.37 %*	*3.59 %*	*4.18 %*		
Segregated fund assets and other assets[(1)]	-	-	-	-	-	-	29,908	29,908
	$ 42,263	$ 43,320	$ 21,128	$ 30,414	$ 78,545	$ 21,455	$ 37,970	$ 275,095
Liabilities and equity								
Deposits	$ 34,678	$ 24,715	$ 7,144	$ 14,082	$ 47,021	$ 1,836	$ 42,110	$ 171,586
Effective interest rate		*1.36 %*	*1.61 %*	*1.92 %*	*1.71 %*	*2.38 %*		
Commitments related to securities sold short	232	113	18	76	3,513	4,490	670	9,112
Effective interest rate		*3.25 %*	*1.19 %*	*1.35 %*	*1.62 %*	*2.79 %*		
Commitments related to securities lent or sold under repurchase agreements	-	10,229	-	-	-	-	-	10,229
Effective interest rate		*1.02 %*						
Insurance contract liabilities	-	-	-	-	-	-	28,272	28,272
Other liabilities[(1)]	2	-	-	-	14	13	30,516	30,545
Subordinated notes	-	-	-	-	1,388	-	-	1,388
Effective interest rate					*5.10 %*			
Equity	-	-	-	-	-	-	23,963	23,963
	$ 34,912	$ 35,057	$ 7,162	$ 14,158	$ 51,936	$ 6,339	$ 125,531	$ 275,095
Gap – Combined Balance Sheet items	$ 7,351	$ 8,263	$ 13,966	$ 16,256	$ 26,609	$ 15,116	$ (87,561)	$ -
Gap – Derivative financial instruments, based on notional amounts	-	(11,475)	(406)	(3,525)	12,090	3,316	-	-
Total gap	$ 7,351	$ (3,212)	$ 13,560	$ 12,731	$ 38,699	$ 18,432	$ (87,561)	$ -

(1) Segregated fund assets and liabilities have no impact on Desjardins Group's interest rate risk exposure. For more information, see the "Segregated fund risk management" section of Note 15, "Insurance contract liabilities".

NOTE 33 – SEGMENTED INFORMATION

Desjardins Group's financial reporting is grouped by activities, which are defined based on the needs of its members and clients and the markets in which Desjardins Group operates and reflect Desjardins Group's internal management method. During the first quarter of 2017, certain changes were made to business segments to reflect management's decisions as to how each segment is managed. Accordingly, Desjardins Group's financial results are grouped in three business segments, namely Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty insurance, plus an Other category. Prior period comparative amounts have been restated to reflect these reclassifications.

The Personal and Business Services segment offers Desjardins Group's members and clients a comprehensive, integrated offering designed to meet the needs of individuals, businesses, institutions, not-for-profit organizations and cooperatives through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. This offering meets a range of needs including day-to-day and convenience transactions, savings, card and payment services, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice and, through its distribution network, life and health and property and casualty insurance products. This segment also offers its products and services through complementary distribution networks and mortgage representatives, by phone, online and via applications for mobile devices, as well as ATMs. The operations of *Fonds de sécurité Desjardins* and certain support functions provided by the Federation to this segment, which were previously presented in the Other category, have been presented in this segment since the first quarter of 2017.

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 distributing 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. The products and services of the Wealth Management and Life and Health Insurance segment 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.

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. and Western Financial Group Inc. until its disposal by Desjardins Group on July 1, 2017. 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 Quebec and outside Quebec, online and via applications for mobile devices.

The Other 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. This category also includes the results of the support functions provided by the Federation to Desjardins Group as a whole and 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 various adjustments necessary to prepare the Combined 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 Combined Financial Statements of Desjardins Group.

NOTE 33 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of Desjardins Group'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		Other		Combined	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Net interest income	**$ 3,916**	$ 3,743	**$ 1**	$ -	**$ 1**	$ 1	**$ 487**	$ 529	**$ 4,405**	$ 4,273
Net premiums	**-**	-	**4,406**	4,204	**3,896**	3,207	**(253)**	(243)	**8,049**	7,168
Other income	**2,265**	2,300	**2,920**	2,181	**292**	151	**(830)**	(872)	**4,647**	3,760
Total income	**6,181**	6,043	**7,327**	6,385	**4,189**	3,359	**(596)**	(586)	**17,101**	15,201
Provision for credit losses	**345**	318	**4**	-	**-**	-	**-**	1	**349**	319
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**4,233**	3,609	**2,555**	1,838	**(71)**	(1)	**6,717**	5,446
Non-interest expense	**4,365**	4,281	**2,329**	2,208	**1,099**	1,132	**(445)**	(417)	**7,348**	7,204
Operating surplus earnings	**1,471**	1,444	**761**	568	**535**	389	**(80)**	(169)	**2,687**	2,232
Income taxes on surplus earnings	**363**	419	**149**	107	**89**	93	**(65)**	(159)	**536**	460
Surplus earnings before member dividends[(1)]	**1,108**	1,025	**612**	461	**446**	296	**(15)**	(10)	**2,151**	1,772
Member dividends, net of income tax recovery	**148**	105	**-**	-	**-**	-	**-**	-	**148**	105
Net surplus earnings for the year after member dividends	**$ 960**	$ 920	**$ 612**	$ 461	**$ 446**	$ 296	**$ (15)**	$ (10)	**$ 2,003**	$ 1,667
of which:										
Group's share	**$ 960**	$ 918	**$ 610**	$ 440	**$ 405**	$ 245	**$ (15)**	$ (12)	**$ 1,960**	$ 1,591
Non-controlling interests' share	**-**	2	**2**	21	**41**	51	**-**	2	**43**	76

(1) For the year ended December 31, 2017, the Group's share of "Surplus earnings before member dividends" was $1,108 million ($1,023 million in 2016) for the Personal and Business Services segment $610 million ($440 million in 2016) for the Wealth Management and Life and Health Insurance segment, $405 million ($245 million in 2016) for the Property and Casualty Insurance segment and $(15) million ($(12) million in 2016) for the Other category.

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at December 31, 2017	**$ 211,447**	**$ 42,005**	**$ 13,138**	**$ 8,505**	**$ 275,095**
As at December 31, 2016	$ 196,749	$ 38,616	$ 14,568	$ 8,434	$ 258,367

NOTE 34 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and benefit plans for the benefit of employees, as well as certain entities for which the substance of the relationship indicates that they are related to Desjardins Group, including the Desjardins Funds. They also include Desjardins Group's 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 DESJARDINS GROUP'S RELATED PARTIES

Transactions with Desjardins Group's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The main transactions are associated with fund management and custody fees. They are also associated with management income from pension plans and interest expense paid to the Desjardins Group Pension Plan.

These transactions and balances as at the reporting dates are as follows:

	2017			2016		
	Associates	**Other related parties**	**Total**	Associates	Other related parties	Total
Combined Statements of Income						
Brokerage and investment fund services	**$ 1**	**$ 503**	**$ 504**	$ -	$ 440	$ 440
Other income	**14**	**25**	**39**	13	(9)	4
Other expenses	**(7)**	**1**	**(6)**	(10)	(4)	(14)
Combined Balance Sheets						
Securities	**$ 16**	**$ 403**	**$ 419**	$ 9	$ 267	$ 276
Securities borrowed or purchased under reverse repurchase agreements	**-**	**676**	**676**	-	1,124	1,124
Segregated fund net assets	**-**	**1,234**	**1,234**	-	988	988
Loans	**65**	**-**	**65**	127	-	127
Other assets	**2**	**23**	**25**	2	22	24
Deposits	**69**	**334**	**403**	64	331	395
Commitments related to securities lent or sold under repurchase agreements	**-**	**50**	**50**	-	234	234
Other liabilities	**1**	**(12)**	**(11)**	2	36	38
Other						
Credit commitments given	**$ -**	**$ 198**	**$ 198**	$ -	$ 203	$ 203
Guarantees given	**-**	**50**	**50**	-	234	234
Guarantees received	**-**	**676**	**676**	-	1,124	1,124

KEY MANAGEMENT PERSONNEL COMPENSATION

Desjardins Group'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 Desjardins Group. In the normal course of operations, Desjardins Group 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 Desjardins Group entities. 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 Desjardins Group's key management personnel was as follows:

	2017	2016
Short-term benefits	**$ 12**	$ 16
Other long-term and post-employment benefits	**5**	6
Termination benefits	**2**	9
	$ 19	$ 31

A modern and people-focused democratic governance structure

At Desjardins Group (Desjardins), we're actively working to build a sustainable and responsible economy. That means being close to our members, clients and communities, which is made possible by our unique democratic structure. Our priority: to always work in the best interests of our members and clients and strive to make Desjardins their #1 choice. That's the foundation of the strategic plan we built to take us through to 2020. We've also set up funds to drive socio-economic development in our communities, develop entrepreneurship and foster innovation.

What stood out for us in 2017 was the engagement of our members, elected officers, managers and employees in setting new priorities for the coming years. These priorities will guide our governance, our organizational culture and our efforts to help make the transition to a green economy. We spent over a year on this consultation process, which included our 23rd Congress and stakeholder consultations on social responsibility issues following international guidelines.

Our officers are dedicated to evolving our governance structure and strengthening our cooperative roots everywhere we do business: locally, regionally and nationally. Organization-wide, we see our cooperative nature as a powerful asset that sets us apart. It's why we value human relationships, remain connected to our communities and always put our members' and clients' interests first.

Highlights

Here is an overview of the main governance issues addressed by Desjardins's governing bodies in 2017:

1- The 23rd Congress and the consultation process on cooperative life and governance

We undertook a consultation process to update Desjardins's cooperative life and governance framework. The idea was to get feedback from members, officers and general managers in the caisse network on the strengths and challenges of associative life and governance at Desjardins. This process culminated in our 23rd Congress in the fall of 2017, where caisse delegates voted on the following issues:

1. Member participation in cooperative life
2. Changes to caisse supervision
3. Changes to the regional councils and group caisse council
4. The roles of CEO and Chair of the Board
5. The leadership transition process

Congress delegates adopted some important priorities, for example confirming the importance of caisse officers listening to their members and deciding to adopt an enhanced collective profile for board appointments, not just in the caisses but also at the Fédération des caisses Desjardins du Québec (the Federation) to improve diversity and expertise on our boards. Delegates also adopted priorities to make officer training mandatory, to impose a 12-year term limit for caisse chairs, to include external seats on the Federation's board, to maintain the combined role of CEO and Chair of the Board, and to keep the leadership transition process unchanged for the future.

At the end of the Congress, an action plan was drawn up. We'll be implementing this plan over the coming months, bringing significant governance changes to both the Federation and the caisse network. Some of what's in store: updating how members participate in the democratic process, reviewing caisse supervision structures, making changes to the regional councils and group caisse council, and adjusting the makeup of the Desjardins Group Board of Directors.

2- An ever-evolving corporate culture

Supported by a clear, consistent and well-structured strategic framework and driven by the creative forces in our organization, our corporate culture continues to evolve. As part of this process, we aim to strike a balance between strategy and action to ensure we're always able to put our members' and clients' interests first. This year the President and CEO continued to hold regular meetings with employees, managers and elected officers to share Desjardins's strategic vision and set out the expectations for the organization. These have now been formalized in initiatives such as the Youth Advisory Board, which is giving young people a platform to share their points of view with Desjardins's Board of Directors and management committee. And to further advance the organization's vision, the performance appraisal process for all Desjardins employees now also includes objectives designed to ingrain the Desjardins behaviours.

3- Professional development for Board members

The Board of Directors has been diligent about following its professional development plan. This year, training sessions were held on IT governance, risk management, corporate social responsibility, sustainable development and pan-Canadian development.

4- Review of IT governance

With technology such a strategic driver of member/client satisfaction, and digital strategies and sound technology risk management so vital to our organization’s success, the Board of Directors has decided to exercise more control over IT across Desjardins in terms of strategic direction, oversight and development. The Board will now assume the responsibilities of the Board of Directors of Desjardins Technology Group Inc., with functional responsibility assigned to Desjardins’s Executive Vice-President of Information Technology.

5- *Act Respecting Financial Services Cooperatives* and AMF guidelines

With Bill 141, the Quebec government will update the *Act Respecting Financial Services Cooperatives* and repeal the *Act Respecting the Mouvement Desjardins*, designed to reinforce Desjardins’s financial stability. Following the bill’s introduction, we got to work to ensure a smooth transition to the new legislative rules. We also responded to updates that the Autorité des marchés financiers (AMF) made to a number of its guidelines, which involved, among other things, updating our governance policy.

6- Elected officer and subsidiary board member compensation

Following an exhaustive study of elected officer compensation within cooperative groups in Quebec, across Canada and around the world, the results were submitted to our governing bodies and we were able to benchmark our officer compensation against comparable organizations. The next step will be deciding what to do with this benchmarking data, which we will undertake in early 2018.

Governance framework

The purpose of Desjardins Group's corporate governance practices is to enable us to carry out our mission, which is to contribute to improving the economic and social well-being of people and communities. The Federation oversees the development and application of a Desjardins-wide governance framework that takes into account its cooperative nature, its social responsibility objectives, the complexity of its activities, and AMF guidelines. This framework covers the activities of the Federation, the Fonds de sécurité Desjardins, 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 framework 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 structure are in place for it to play its role as the organization that guides, plans, coordinates, monitors and controls all Desjardins Group operations. As part of its fiduciary role, it makes the necessary decisions and coordinates the actions of the components to ensure Desjardins Group's long-term viability. 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 of Directors is responsible for promoting the corporate culture based on the values of Desjardins Group: 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 of members and clients in their financial services cooperative. The Board is also responsible for enforcing Desjardins Group'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 the values that set us apart: always putting our members' and clients' interests first and striving to be their #1 choice.

The Federation has a Board of Ethics and Professional Conduct, the members of which are all independent from management and from the Board of Directors. For the Desjardins caisses, the body responsible for ethics and professional conduct is called a board of supervision in Quebec. In Ontario, this responsibility is assumed by an audit committee comprising caisse directors. Desjardins Group also has a policy for reporting regulatory violations and violations of the *Desjardins Group Code of Professional Conduct* (the Code). This policy is combined with a confidential reporting mechanism that protects the anonymity of those who use it.

The Code, which is available to the public on Desjardins.com, is applicable to all Desjardins Group components. It includes a section on ethics and Desjardins Group's mission and values, and a section that describes all the rules of professional conduct. In addition, all Desjardins employees and officers are given online training on professional conduct, and must sign an annual acknowledgement that they have read the Code.

b. Strategic and financial planning process

The Board of Directors has an ongoing strategic and financial planning process for Desjardins Group that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. This process is the basis for all other plans (for the caisse network, business sectors and support functions) and focuses on maintaining business continuity, putting priorities first and fostering commitment. The Board adopts a rolling strategic plan that is updated periodically. For this process, it requests the participation of the caisses, Desjardins Group's democratic bodies and business sectors, as well as the decision-making bodies of its subsidiaries. Once this plan is adopted, each region and caisse in the cooperative network is responsible for developing its own annual business plan.

The respective boards of directors of Desjardins Financial Security Life Assurance Company, Desjardins General Insurance Group Inc., Desjardins Securities Inc., Capital Desjardins Inc. and Desjardins Trust Inc. each adopts strategic and financial plans specific to their own sector, which tie in with the overall Desjardins Group strategic plan.

A unique trait of Desjardins Group, the strategic planning process allows those responsible for the planning exercise to occasionally call on the Congress of Elected Officers to define certain key priorities. The Congress is an assembly of more than 1,000 caisse delegates. It is also an opportunity to consult the Assembly of Representatives, made up of members of the regional councils and the group caisse council, as well as the President and CEO, which ensures the legitimacy and agility of decision-making on major Desjardins Group issues. With regard to consistency, mechanisms are in place to ensure that all components are aligned with key strategic directions.

The Board plays a supervisory and monitoring role in this process, for which it also receives support from the Desjardins Group Management Committee. To do this, the Management Committee also produces regular reports via the performance review so the Board can monitor the progress of Desjardins's strategic plan and the business plans and make any changes, as needed.

c. Identification and management of main risks

The Board is responsible for identifying the main risks for the Federation and Desjardins Group, setting 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, the Board works with the Audit and Inspection Commission, which is responsible for risks related to the financial disclosure process. The Management Committee also supports the Board in carrying out its financial disclosure responsibilities. At every one of their sessions, the members of the Risk Management Commission hold closed-door meetings with the Executive Vice-President, Risk Management, as well as closed-door meetings which are not attended by management. The Board can count on the contribution of the Desjardins Group Finance and Risk Management Committee, which mainly comprises managers from finance, risk management, compliance, and IT, as well as the business sectors.

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 67.

The complete mandate and composition of the commissions and committees that support the Federation's Board of Directors in the performance of its duties are available on the Desjardins Group website, at www.desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp. Additional information specifically about the Risk Management Commission and its governance practices can also be found there.

d. Succession planning

The Board oversees the Management Succession and Development Program and is supported in this task by 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 Desjardins Group Management Committee, 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 qualification and diversity among Desjardins Group staff.

President and CEO

In keeping with Desjardins's cooperative nature, the President and CEO of Desjardins Group is chosen by a 255-person electoral college made up of representatives from Quebec and Ontario caisses (the members of the regional councils and the group caisse council), plus the sitting President and CEO of Desjardins Group. Although the Board of Directors does not appoint the incumbent, it oversees the succession process, by determining the main parameters for the mandate of the Desjardins Group President and CEO.

The electoral process is governed by a Federation By-Law and the *Desjardins Group Code of Professional Conduct*, and is overseen by an election committee made up of elected officers, independent from the Board of Directors, whose responsibility is to establish the rules of the electoral process and the rules of conduct to which the electoral college, candidates, employees and elected officers must adhere. There is a two-term limit for the position of President and CEO of Desjardins Group. In addition to these parameters, the Board of Directors also establishes the profile for the function of President and CEO, and develops a candidate evaluation guide based on this profile to be used by the members of the electoral college.

Senior Executive Vice-President and Chief Operating Officer

To bolster independence, stability and succession planning, and pursuant to applicable legislation, the Board approves the appointment of the Senior Executive Vice-President and Chief Operating Officer who assumes, for the purposes of the law and the Internal By-Laws, the role of General Manager of the Federation. The Board also recommends a working organizational structure for Federation and Desjardins Group senior executives to the President and CEO.

e. Integrity of internal control and management reporting systems

Supported by its Audit and Inspection Commission, the Board ensures the implementation of effective accounting, administrative and management control systems to safeguard the integrity of its operations and obtain the required reporting information from management. The Board is supported in this responsibility by the Chief Monitoring Officer of Desjardins Group, whose annual work plan is approved by its Audit and Inspection Commission. A rigorous financial governance process is applied throughout Desjardins Group to properly support the Executive Vice-President of Finance, Treasury and Administration and Chief Financial Officer who, together with Desjardins Group's President and Chief Executive Officer, is responsible for certifying Desjardins Group's Combined Financial Statements.

Desjardins Group 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 Desjardins Group'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.

The caisse network has an effective and efficient internal control system in place that is tailored to its particular needs. This system is designed to provide decision-making bodies with reasonable assurance that the network is achieving its business objectives in compliance with regulatory requirements.

The Board ensures that the Desjardins Group Management Committee 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.

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 Group'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 be more efficient and focus its efforts on strategic files, which involves delegating certain operational tasks to the Management Committee.

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 Group's information security policy.

f. Strategic communications

The Board adopts a communications policy and strategic communications priorities for Desjardins Group, 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.

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 Group ethics and professional conduct support team and the caisse complaint-handling procedure (*Your Satisfaction, Our Priority*); as well as, within Desjardins Group: the annual general meetings, the disclosure of quarterly financial results, publications (including our annual report, which includes social and cooperative responsibility disclosure, set out in a separate document), toll-free telephone numbers, intranet portals, including one designed especially for caisse officers, 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 Committee, and the procedure for reporting violations of the *Desjardins Group 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 Group's relationships with the different levels of government in compliance with applicable lobbying legislation.

2. Composition of the board of directors

The Federation's Board of Directors consists of 22 directors, three of whom (14%) are women, and the majority of whom are independent directors.

The vice-presidents of two regional councils (Outaouais, Abitibi-Témiscamingue and Nord du Québec; and Bas-Saint-Laurent and Gaspésie–Îles-de-la-Madeleine) also serve on the Board as managing directors and, as such, have no voting rights.

Additionally, the following members of management support the Board by attending its meetings: the Senior Executive Vice-President and Chief Operating Officer; the Executive Vice-President of Finance, Treasury and Administration and Chief Financial Officer; the Secretary General and Vice-President of Governance and Sustainable Development; and the Vice-President, Officer Relations, Cooperation and Officer Support and Office of the President.

3. Nomination process

In accordance with the democratic structure of Desjardins Group and the principle of delegation, 17 of the 22 members of the Board of Directors are directly elected by the delegates of the Federation member caisses at regional or group caisse meetings. These individuals, who represent their communities, chair the regional councils and the group caisse council.[1] The Federation therefore benefits from having directors who have in-depth knowledge of their community and the activities of Desjardins Group yet remain independent of management. Their knowledge of the organization is one of the considerable advantages of Desjardins Group's democratic structure.

The presidents of the regional councils and the group caisse council are also responsible for ensuring, firstly, that their caisses have a full understanding of the strategic directions established by the Board, and secondly, that the Board takes into consideration the expectations and comments of the caisses. They play an important leadership role in helping to achieve the objectives of the regions and Desjardins Group, managing performance and in promoting intercooperation. Chairs must also consider succession planning with their boards, especially with regard to leadership. The Federation has designed tools to support the councils with this matter.

Four of the remaining positions on the Board are filled by caisse general managers who are elected during the Federation's Assembly of Representatives. The final position is reserved for the President and CEO of Desjardins Group. Having four caisse general managers on the Board is a way to ensure that the priorities adopted by the Board reflect the concerns and needs of the caisses.

The methods for selecting the members of the Board and its Chair are designed so that each position is subject to a separate electoral process and a separate electoral college. This approach reinforces the independence of Board members from management.

Board members have three-year renewable terms, and each year one-third of the Board members are outgoing. The Federation's Annual General Meeting amended the Internal By-Laws to introduce a term limit for members of the Federation's Board of Directors and Board of Ethics and Professional Conduct. The limit of four three-year terms, consecutive or not, will apply once the revision of the *Act Respecting Financial Services Cooperatives* takes effect. The members of these two bodies have already taken action to respect the wishes of the general meeting.

The membership of the Board of Directors is contingent on a democratic process. There is no nominating committee for directors, nor is there a policy governing the search and selection of candidates for the position, and the Board may not impose gender parity requirement during the search for candidates. However, the Federation has designed tools to help electors understand the requirements of the director function so they can make an informed choice.

Although Desjardins has a voluntary gender parity commitment policy for its boards, their makeup is ultimately dependant on the electoral processes inherent to our democratic structure. However, the 23rd Congress voted to approve an enhanced collective profile for the Desjardins Group Board of Directors, which will enable us to put the necessary measures in place to meet our diversity objectives.

4. Application of the definition of independent director

A director is considered independent if they do not have any significant relationship with Desjardins Group that, in the opinion of the Board, may affect the independence of their judgment.

There are five non-independent members of the Board of Directors: the President and CEO of Desjardins Group, plus four caisse general managers. The former is a non-independent party because they are a member of Federation management, and the other four are non-independent parties because they are employees of cooperatives belonging to Desjardins Group (the caisses). None of these directors has any business or personal relationships with members of the Desjardins Group Management Committee; 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 Federation or Desjardins Group, 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 Group business free of undue influence from senior management or third parties.

For guidance in these matters, the Board refers to the provisions of the *Desjardins Group Code of Professional Conduct*, which governs the actions of its directors, and to the declarations of interests filed annually by the directors. None of the directors sits on another board of directors for any other public company.

[1] The regional councils and the group caisse council have the power to influence decisions affecting major priorities of the Federation, specifically regarding Desjardins Group strategic planning and key projects. They represent the caisses in their region, making sure they maintain relationships with the Federation and their communities. They also adhere to and promote the culture and the values of the caisses and Desjardins Group, acting in their best interests at all times. They are mainly responsible for keeping the caisses active in their community, identifying business development opportunities, updating the distribution network and overseeing the relationships among the caisses, management and other Federation decision-making bodies.

Independent directors

In the opinion of the Board of Directors, and in accordance with CSA *Regulation 52-110 Respecting Audit Committees* and the AMF Governance Guideline, the following directors are independent:

- Louis Babineau
- Claude Chapdelaine
- Stéphane Corbeil
- Jean-François Laporte
- Camil Maltais
- Serge Rousseau
- Mario Simard
- Serge Tourangeau
- Yvon Vinet
- Annie P. Bélanger
- Carole Chevalier
- Nadine Groulx
- Jean-Robert Laporte
- Roch Ouellet
- Christian Savard
- Michel Tourangeau
- Stéphane Trottier

Nadine Groulx began her term on February 23, 2017.
Jean-François Laporte, Camil Maltais, Roch Ouellet and Michel Tourangeau began their terms on March 25, 2017
Michel Allard and Pierre Perras are managing directors. They are independent in the same way directors are independent.
Pierre Perras began his term on March 25, 2017.
Denis Paré was a member until January 30, 2017.
Jacques Baril, Serges Chamberland, Luc Forand, Sylvie Saint-Pierre Babin and Benoît Turcotte were members until March 25, 2017.

Non-independent directors

In the opinion of the Board of Directors, and in accordance with CSA *Regulation 52-110 Respecting Audit Committees* and the AMF Governance Guideline, the following directors are not independent:

- Guy Cormier
- Benoît Bélanger
- Sylvain Dessureault
- Yves Genest
- Neil Hawthorn

Benoît Bélanger began his term on March 25, 2017.
Alain Raîche was a member until March 25, 2017.

5. Performance reviews

Every other year, the Board of Directors and its commissions and committees conduct a review of their performance, which gives rise to a two-year action plan, which is then submitted to the Board by the Corporate Governance Commission, 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. Directors have regular meetings with the Chair throughout the year.

Moreover, on the recommendation of the members of its Governance Commission and in accordance with the AMF Guideline Governing Integrity and Competency Criteria, the Board performs a self-assessment of the skills of its members. Each member completes a self-assessment grid for this purpose. The compiled results from these grids are used to guide the selection of training activities and to design a competency composed of 16 skill areas generally expected of the board of directors of a financial institution. It was adapted to take into account the cooperative nature of Desjardins Group.

Assuming that the members of the Board have the knowledge and the basic skills required to carry out their duties as directors of the Federation, given their career path through the democratic structure at the local, regional and Desjardins-wide levels and their relevant experience, the resulting matrix is focused on bringing out their individual strengths, considering their professional background and personal experience. It shows that they collectively possess a wide range of experience and complementary skills that enable them to make an active and enlightened contribution to Desjardins Group's governance. This voluntary disclosure, which will evolve over time, constitutes an assessment point to guide the future development of Board members' skills. Weighting for self-assessments is determined by the Chair and the Vice-Chair of the Board.

	SKILLS															
Directors	Needs and expectations of members and clients	Strategic planning	Human resources management	Financial performance and controls	Risk management	Governance of the Federation and subsidiaries	Governance of IT	Cooperative, community and intercooperative engagement	Legal and regulatory framework	Corporate social responsibility and sustainable development	Education	Strategic communications	Market trends and competition	Insurance industry	Treasury	Government affairs
Allard, Michel	✔				✔	✔	✔	✔	✔							
Babineau, Louis	✔	✔		✔	✔	✔	✔	✔	✔		✔					✔
Bélanger, Annie P.	✔	✔	✔			✔		✔		✔	✔		✔	✔		
Bélanger, Benoît	✔	✔	✔	✔				✔				✔	✔		✔	
Chapdelaine, Claude	✔	✔	✔				✔	✔				✔	✔			
Chevalier, Carole	✔		✔			✔		✔		✔	✔	✔				
Corbeil, Stéphane	✔	✔		✔	✔			✔							✔	
Cormier, Guy	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Dessureault, Sylvain	✔	✔	✔	✔	✔			✔			✔		✔		✔	
Genest, Yves	✔	✔	✔	✔	✔			✔	✔	✔	✔	✔	✔		✔	
Groulx, Nadine	✔							✔			✔					
Hawthorn, Neil	✔	✔	✔	✔	✔		✔	✔					✔		✔	
Laporte, Jean-François	✔	✔	✔	✔	✔			✔						✔	✔	
Laporte, Jean-Robert	✔	✔	✔		✔	✔		✔	✔		✔			✔		✔
Maltais, Camil	✔							✔								
Ouellet, Roch	✔							✔								
Perras, Pierre	✔			✔				✔							✔	
Rousseau, Serge	✔	✔	✔		✔			✔			✔	✔				
Savard, Christian	✔		✔		✔	✔		✔		✔		✔				✔
Simard, Mario	✔		✔	✔				✔			✔					✔
Tourangeau, Michel	✔					✔		✔	✔							✔
Tourangeau, Serge	✔	✔	✔	✔	✔	✔		✔								✔
Trottier, Stéphane	✔	✔						✔			✔		✔	✔		
Vinet, Yvon	✔	✔	✔			✔		✔	✔	✔	✔		✔	✔		

6. Onboarding and training program for new directors

The Federation organizes onboarding sessions for all of its directors, provides ongoing training opportunities, and plans activities tailored to their specific needs. All new directors 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.

Upon request, meetings with specialists from the Federation and Desjardins Trust Inc. are organized when needed to help directors increase their general and specialized knowledge of the organization and its main strategic initiatives.

The training program for Board members is designed in accordance with their needs, which are closely tied to the skills matrix. The Board also holds conferences on specific topics related to Desjardins Group's strategic planning exercise and the associated challenges. These conferences, which are held with members of the Management Committee, are intensive skills development opportunities for Board members.

7. Director compensation policy

The Board reviews, whenever it deems it necessary and at least every three years, its policy on the compensation of its directors, members of the Board of Ethics and Professional Conduct, and members of the regional councils and the group caisse council. It receives recommendations from the Corporate Governance Commission, 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.

It includes guidelines for calculating the compensation for elected officers of the caisses and the Federation as well as for directors of subsidiaries.

In accordance with the *Act Respecting Financial Services Cooperatives*, the total budget for the payment of attendance fees to members of the Board, the regional councils, the group caisse council and the Board of Ethics and Professional Conduct 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 2017 was $2,880,500.

The policy's compensation rates can be found on page 220 of this section of the Desjardins Group annual report.

8. Independence of the board of directors from Desjardins Group management

Desjardins Group's governing bodies have established a number of structures and procedures to ensure the Board's independence from management:

- There is only one Board member who is also a member of Desjardins Group management: the President and CEO of Desjardins Group. To ensure legitimacy and independence, this individual is also an officer elected by the Assembly of Representatives.

- The Vice-Chair of the Board of Directors, 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 Federation's Internal By-laws specify that the Vice-Chair of the Board replaces the Chair of the Board 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 were drawn up and adopted by the Board.

- The directors hold periodic informal meetings among themselves. The Chair of the Board and CEO of Desjardins Group provides updates to the members of the Desjardins Group Management Committee, who are not present at these meetings. Both independent and non-independent directors do 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 of Directors 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 Board of Ethics and Professional Conduct.

- 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 Chief Financial Officer; the Executive Vice-President, Risk Management; the Chief Monitoring Officer of Desjardins Group; and the Vice-President and Chief Compliance Officer.

- The chairs of the Audit and Inspection Commission and the Risk Management Commission are independent directors.

- The Corporate Governance Commission, chaired by the Vice-Chair of the Board and of which only one member is a non-independent party, assumes responsibility for:
  - Managing relations between the Board of Directors and the Desjardins Group Management Committee
  - Ensuring that the Board fulfills its duties (however, the responsibility of drawing up and overseeing meeting agendas for the Board and its commissions and committees falls to the Chair of the Board)

- 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 Desjardins Group's Management Committee is formally documented in the Federation's Internal By-Laws, the governance policy and the mandates of these two governing bodies, which define their respective areas of activity.

- 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. The Board of Directors can invite delegates of the Federation's Annual General Meeting to hold an advisory vote on the compensation guidelines for Desjardins Group staff members, including senior management.

Position against separating the functions of chair of the board from those of CEO

The responsibilities of the President and CEO of Desjardins Group are set out in the Federation's Internal By-Laws. The functions of Chair of the Board and CEO of Desjardins Group have not been separated. This decision was made by the Federation's General Meeting and has been integrated into its Internal By-laws.

At the 23rd Congress held in the fall of 2017, caisse delegates adopted a priority confirming that the roles of Chair of the Board and CEO of Desjardins Group should be held by the same person. The current Chair of the Board and CEO recused himself from the deliberations on the issue and did not vote. Delegates also voted to confirm that, during the next presidential election, the elected candidate should promptly assume their new position and a structured transition period lasting up to six months should be planned, under the supervision of the Board. This decision was made in consideration of the fact that risk management for Desjardins's leadership transition process is the responsibility of the Federation Board of Directors.

Desjardins Group's position is that non-separation promotes the legitimacy and independence of the President and CEO of Desjardins Group. The main arguments in favour of this position are the following:

- The Desjardins CEO is elected by an electoral college of 255 Federation member representatives and the current or outgoing President and CEO. This individual's primary responsibility is to ensure that the interests of Desjardins members are protected, democratic bodies are functioning properly and that cooperative values are complied with.

- The Chair of the Board and CEO of Desjardins Group has no influence over the choice of directors because they cannot recommend candidates, and each director is elected at either a regional or group caisse general meeting or the Assembly of Representatives, where the Chair of the Board and CEO has no voting rights. The same applies to selecting the members of the Board of Ethics and Professional Conduct.

- The Board of Directors created the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR). The CAR is chaired by the Vice-Chair of the Board of Directors, who plays the role of lead director, and is made up entirely of independent directors, to eliminate any risk of conflict of interest. The CAR's meetings are closed-door, and it also holds working sessions with the Board of Directors, which the Chair does not attend.

- Owing to the complex nature of Desjardins Group'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 Group in order to effectively act as a leader and uniting force for the elected officers, the management teams of the Desjardins components, caisse members, and clients.

- Desjardins Group's structure frees its CEO from the everyday operational concerns of the Federation and Desjardins Group. They can therefore focus more on other areas, such as managing Desjardins Group, defining and developing our key strategic directions and overseeing their implementation, listening to members and clients, and on our development and innovation, our governance, and their role in terms of engaging people and representing Desjardins Group as a socio-economic leader.

- With a view to freeing the President and CEO from such responsibilities, the Senior Executive Vice-President and Chief Operating Officer oversees all Desjardins Group business sectors and support functions.

9. Senior management reviews

a. Setting annual management objectives and performance reviews

President and CEO

The annual objectives of the Desjardins Group President and CEO are recommended to the Board of Directors by the CAR. The CAR is chaired by the Vice-Chair of the Board of Directors, who acts as 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 the President and CEO of Desjardins Group, with each Federation director participating anonymously using a set of criteria prepared by the CAR without the presence of management.

Senior Executive Vice-President and Chief Operating Officer

The annual objectives of the Senior Executive Vice-President and Chief Operating Officer are set by the Board of Directors, on the recommendation of the Human Resources Commission.

Executive vice-president members of the Desjardins Group Management Committee

The objectives of the executive vice-president members of the Desjardins Group Management Committee are set by the President and CEO and the Senior Executive Vice-President and Chief Operating Officer, and reviewed by the Human Resources Commission.

b. Variable compensation evaluation

President and CEO

The compensation paid to the President and CEO of Desjardins Group is determined by an evaluation of the annual objectives by the Board of Directors and the results of certain indicators in the general incentive plan.

Senior Executive Vice-President and Chief Operating Officer and executive vice-president members of the Desjardins Group Management Committee

The Board of Directors has established guidelines for setting objectives for the various indicators to ensure sound management of Desjardins's general incentive plan. The results are reviewed and approved by the Board of Directors.

10. External consultants

A director may retain the services of an external consultant at the Federation's expense. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance Commission.

Mandates and membership of the Federation's commissions, committees, and board of ethics and professional conduct

As at December 31, 2017

The Board creates a number of committees and commissions and defines their mandates in order to support and streamline its strategic direction, planning, supervisory 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 his 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 report, which is presented at the next Board meeting. The detailed mandates of these bodies are available on Desjardins's 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, and 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 of Directors, with the exception of those which the Board may reserve for itself or assign to another committee or commission. It held 11 meetings, including 7 conference calls, in 2017.

The Executive Committee is composed of seven directors:

- Guy Cormier, Chair of the Board and Chair of the Committee
- Yvon Vinet,* Vice-Chair of the Board
- Jean-Robert Laporte,* Secretary of the Board
- Annie P. Bélanger*
- Carole Chevalier*(i)
- Yves Genest
- Serge Rousseau*

(i) Term began on March 25, 2017.

Sylvie Saint-Pierre Babin* was a member until March 25, 2017.

COOPERATION AND NETWORK LIAISON COMMISSION

This commission assists the Board of Directors with issues related to Desjardins Group'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 Group'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 nine meetings, including four conference calls, in 2017.

The Cooperation and Network Liaison Commission is composed of seven directors:

- Mario Simard,* Chair
- Michel Allard*/**
- Benoît Bélanger(i)
- Claude Chapdelaine*
- Sylvain Dessureault
- Nadine Groulx*(i)
- Pierre Perras*/**(i)

(i) Term began on April 10, 2017.

Sylvie Saint-Pierre Babin* and Alain Raîche were members until March 25, 2017.
Denis Paré* was a member until January 30, 2017.

AUDIT AND INSPECTION COMMISSION

The Audit and Inspection Commission (AIC), established under the *Act Respecting Financial Services Cooperatives*, acts as the audit committee for the Federation's caisse inspection activities. It is composed entirely of independent directors.

The roles and responsibilities of the AIC have been defined in such a way so as 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 Monitoring Office, which oversees the internal audit of the Desjardins Group 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 Monitoring Office 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 Group's internal audit function and adopts its annual action plan. It held 10 meetings, including 1 conference call, in 2017.

The AIC is composed of five directors:

- Louis Babineau,* Chair[i]
- Stéphane Corbeil,*
- Jean-François Laporte*[i]
- Michel Tourangeau*[i]
- Serge Tourangeau*[i]

(i) Term began on April 10, 2017.

Serges Chamberland* was a member until September 8, 2017.
Neil Hawthorn, Michel Magnan and Robert Saint-Aubin sit on the AIC as observers.
Jacques Baril,* Luc Forand* and Benoît Turcotte*/** were members until March 25, 2017.
Alain Raîche sat on the AIC as an observer until March 25, 2017

RISK MANAGEMENT COMMISSION

This commission assists the Board of Directors in identifying and monitoring major risks to the Federation and Desjardins Group. It held nine meetings, including two conference calls, in 2017.

The Risk Management Commission (RMC) is composed of six directors:

- Serge Tourangeau,* Chair
- Stéphane Corbeil*[i]
- Camil Maltais*[i]
- Roch Ouellet*[i]
- Christian Savard*
- Stéphane Trottier*[i]

(i) Term began on April 10, 2017.

Michel Allard*/** and Mario Simard* were members until April 10, 2017.
Claudia Champagne and Sonia Gauthier sit on the RMC as observers.
Louis Babineau* was a member until April 10, 2017 and has been an observer since that date.
Benoît Bélanger has been an observer since April 10, 2017.
Serges Chamberland* sat as an observer until March 25, 2017.
Neil Hawthorn sat as an observer until April 10, 2017.

HUMAN RESOURCES COMMISSION

This commission supports the Board in areas such as the governance and risk management of issues relating to human resources and overall compensation across Desjardins Group; creating and maintaining the integration and skills development program for general managers, managers and employees; the senior management succession plan; creating and maintaining 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 and the management structure. The mandate of the HRC does not include the terms of employment for the President and Chief Executive Officer. It held six meetings, including two conference calls, in 2017.

The HRC is composed of five directors:

- Guy Cormier, Chair of the Board and Chair of the Commission
- Yvon Vinet,* Vice-Chair of the Board
- Jean-Robert Laporte,* Secretary of the Board
- Annie P. Bélanger*
- Mario Simard*[i]

(i) Term began on April 10, 2017.

Denis Paré* was a member until January 30, 2017.
Carole Chevalier* was a member until April 10, 2017.

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 remuneration, working conditions and annual objectives of the President and Chief Executive Officer. It held three meetings, including one conference call, in 2017.

The CAR is composed of four directors:

- Yvon Vinet,* Vice-Chair of the Board and Chair of the Committee
- Jean-Robert Laporte,* Secretary of the Board(i)
- Annie P. Bélanger*
- Mario Simard*(i)

(i) Term began on April 10, 2017.

Denis Paré* was a member until January 30, 2017.
Carole Chevalier* was a member until April 10, 2017.

CORPORATE GOVERNANCE COMMISSION

This commission supports the Board of Directors in applying and updating the corporate governance framework. It examines guidelines and reports issued by regulatory authorities. It has no say in selecting the members of the Federation's Board of Directors but oversees the selection process for the directors of Desjardins Group's subsidiaries. It is responsible for supervising the performance review program for members of the Board of Directors and its commissions and committees, as well as the integration and skills development program for Federation officers. It also administers the Sustainable Development Policy and Voting Rights Policy. It held 10 meetings, including 3 conference calls, in 2017.

The Corporate Governance Commission is composed of five directors:

- Yvon Vinet,* Vice-Chair of the Board and Chair of the Commission(i)
- Carole Chevalier*(i)
- Guy Cormier, Chair of the Board
- Nadine Groulx*(i)
- Christian Savard*

(i) Term began on April 10, 2017.

Denis Paré* was a member until January 30, 2017.
Sylvie Saint-Pierre Babin* was a member until March 25, 2017.
Louis Babineau* was a member until April 10, 2017.

DESJARDINS GROUP INVESTMENT COMMISSION

This commission's role is fourfold: to monitor the markets and develop an integrated overview; to provide a Desjardins-wide framework for portfolio positioning and asset distribution; to follow up on strategies and directions; and to act as an advisory body. The commission's activities complement those of the Risk Management Commission and Desjardins Group's various other investment committees and do not overlap with them. It held four meetings in 2017.

The Investment Commission is composed of six directors:

- Carole Chevalier,* Chair(i)
- Sylvain Dessureault
- Yves Genest
- Neil Hawthorn
- Camil Maltais*(i)
- Stéphane Trottier*

(i) Term began on April 10, 2017.

Henry Klecan Jr. and Normand Provost sit on the Investment Commission as observers.
Luc Forand* was a member until March 25, 2017.
Serge Tourangeau* was a member until April 10, 2017.

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 (DGPP) Regulation, the Desjardins Group Retirement Committee (DGRC) is in charge of administering the DGPP, managing the pension fund and paying members and their survivors the benefits they are entitled to. The committee members, who represent employers, active participants, non-active participants and beneficiaries, share the role of trustee for the pension fund. It held five meetings, including one conference call, in 2017.

The Federation represents all Desjardins employers with respect to the DGPP. The Federation's Board of Directors has decision-making powers in certain areas, including the DGPP Regulation, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. Through its Board of Directors, the Federation stands surety for the obligations (payment of benefits) resulting from the participation of all Desjardins Group employers in the DGPP.

The DGRC is composed of 14 members: six employer representatives (including the chair), four who represent active participants, three who represent non-active participants and beneficiaries, and one external member. The employer representatives and the external member are appointed by the Federation's Board of Directors, and the members who represent active employees, non-active employees and beneficiaries are elected.

Employer representatives:

- Serge Rousseau,* Chair
- Michel Allard*/**(i)
- Claude Chapdelaine*
- Roch Ouellet*(i)
- Pierre Perras*/**(i)
- Christian Savard*(i)

(i) Term began on April 10, 2017.

Jacques Baril* and Benoît Turcotte*/** were members until March 25, 2017.
Carole Chevalier* and Stéphane Corbeil* were members until April 10, 2017.

Active participant representatives:

- Robert Bastien
- David Gingras
- Dominique Laurin(i)
- Julie Tremblay(i)

(i) Term began on March 24, 2017.

Jérôme Mercier and Sébastien Vallée were members until March 24, 2017.

External member:

- Marc Saint-Pierre

Non-active participant and beneficiary representatives:

- Michel-Pierre Bergeron: member selected by retirees, beneficiaries and participants entitled to a deferred pension
- Mario Lévesque: observer selected by active participants
- Robert Desbiens: observer selected by retirees, beneficiaries and participants entitled to a deferred pension

DGRC INVESTMENT COMMITTEE

Under the responsibility of the DGRC, which adopts the investment policy, the Investment Committee's mandate is to ensure that the policy is applied, respected and followed. The Investment Committee approves investments and ensures they are monitored. It held 11 meetings, including 8 conference calls, in 2017.

The DGRC Investment Committee is composed of eight members:

- Serge Rousseau,* Chair
- Michel Allard*/**(i)
- Robert Bastien
- Claude Chapdelaine*
- Pierre Perras*/**
- Marc Saint-Pierre, external member
- Christian Savard*(i)
- Nicolas Richard, observer

(i) Term began on April 10, 2017.

Jacques Baril* and Benoît Turcotte*/** were members until March 25, 2017 (date of the Federation's AGM).
Carole Chevalier* was a member until April 10, 2017.

DGRC RISK MANAGEMENT ADVISORY COMMITTEE

Under the responsibility of the DGRC, the Risk Management Advisory Committee is responsible for assessing the main risks associated with managing the DGPP's activities. It does this by issuing opinions on the integrated risk profile submitted to the DGRC, on the asset allocation strategy and on investment opportunities, for which the opinion is forwarded to the DGRC Investment Committee. The Committee held six meetings, including four conference calls and two videoconference calls, in 2017.

The DGRC Risk Management Advisory Committee is composed of six members:

- Renaud Coulombe, Vice-President, Legal Affairs, Desjardins Group
- François Hudon, Director, Liability, Risk and Asset Allocation, Desjardins Group Pension Plan
- Nicolas Richard, Vice-President, Investments, and Chief Operating Officer, Desjardins Global Asset Management
- Mario Robitaille, Vice-President, Insurance Risk, Desjardins Group
- Guy Rochette, Director, Corporate Banking, Credit Granting, Counterparty and Issuer Risk (Risk, Credit Granting and Special Loans Division, Desjardins Group)
- Marc Saint-Pierre, consultant for the Desjardins Group Retirement Committee

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Federation has a Board of Ethics and Professional Conduct that is independent of the Board of Directors. The eight members of this board are independent Desjardins Group elected officers. The Board of Ethics and Professional Conduct 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 this board is to ensure the independence and objectivity of the Federation's inspection service for the caisses (Desjardins Group Monitoring Office) and make recommendations to the President and Chief Executive Officer of Desjardins Group regarding the appointment of the person responsible for managing this service. In addition to the above-mentioned responsibilities, the role of the Board of Ethics and Professional Conduct includes adopting the rules of conduct applicable to the officers of Desjardins Group and the subsidiaries and to the employees of the Federation and the caisses; presenting these rules for approval to the Board of Directors 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 Group's mission and values), particularly in cases of misconduct; notifying the Board of Directors of violations to the rules of professional conduct or if the Federation violates the provisions 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. The Board of Ethics and Professional Conduct holds closed-door meetings that are not attended by management.

It held eight meetings, including two conference calls, in 2017. The members of the Board of Ethics and Professional Conduct were also invited to participate in the annual conference of the Réseau d'éthique organisationnelle du Québec.

The Board of Ethics and Professional Conduct is composed of eight members:

- Michel Guénette, Chair
- Michel C. Bélisle, Secretary
- Normand Gingras(i)
- Maryse Lapierre(i)
- Ronald Pichette
- Roger Turcotte
- Lucie Tremblay
- Michel Yelle

(i) Term began on March 25, 2017.

André Ménard and Gabriel Plourde were members until March 25, 2017.

DESJARDINS GROUP MANAGEMENT COMMITTEE

This committee supports Desjardins Group's President and CEO and Board of Directors in their responsibility of managing the organization. The committee 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 of Directors and other Desjardins Group governing bodies. The Management Committee is responsible for operational files with economic, environmental and social significance that have an impact on Desjardins Group. It held 24 meetings, including 3 conference call, in 2017.

The Management Committee is composed of 11 members of management, including four women (36%):

- **Guy Cormier**
  President and CEO of Desjardins Group
- **Denis Berthiaume**
  Senior Executive Vice-President and Chief Operating Officer
- **Réal Bellemare**
  Executive Vice-President, Finance, Treasury and Administration, and Chief Financial Officer
- **Marie-Claude Boisvert**
  Executive Vice-President, Business Services
- **Francine Champoux**
  Executive Vice-President, Risk Management
- **Grégory Chrispin**
  Executive Vice-President, Wealth Management and Life and Health Insurance
- **Marie-Huguette Cormier**
  Executive Vice-President, Human Resources and Communications
- **Denis Dubois**
  Executive Vice-President, Property and Casualty Insurance
- **Chadi Habib**
  Executive Vice-President, Information Technology
- **Éric Lachaîne**
  Executive Vice-President, Caisse Network and Member and Client Services
- **Nathalie Larue**
  Executive Vice-President, Strategy, Marketing and Personal Services

The Management Committee has Desjardins-wide coordination committees in the following areas:

- Assets/liabilities
- Credit
- Disclosure
- Environmental, social and governance issues
- Finance and risk management
- Risk data governance
- Operational governance and follow-up with governing bodies
- Marketing
- Development planning and follow-up
- Desjardins Group Pension Plan
- Pricing

EXECUTIVE COMPENSATION

Certain Desjardins Group components, namely the Federation and Capital Desjardins inc., are subject to a number of obligations regarding the disclosure of executive compensation. As required by *Regulation 51-102 Respecting Continuous Disclosure Obligations*, the compensation of executives from these components is presented in the Federation's Annual Information Form and the disclosure document filed by Capital Desjardins inc. and incorporated by reference in this annual report. 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 the members of the boards of directors of the Federation and Desjardins Trust inc., and the members of the board of ethics and professional conduct of the Federation

	Federation	Desjardins Trust Inc.	Subsidiaries
Chair of the Board of Directors(1)	$0 This position is held by the President and CEO of Desjardins Group	$0 This position is held by the President and CEO of Desjardins Group	$10,000
Annual stipend for a member of a commission or committee of the Board of Directors(2)	$6,500	$6,500	$6,500
Annual stipend for the Vice-Chair of the Board of Directors	$13,333	$6,667	--
Annual stipend for a member of the Board of Directors(3)	$21,333	$10,667	$10,000
Annual stipend for a member of a commission or committee of the Board of Directors(4)	$2,000	$2,000	$2,000
Attendance fee for a meeting of the Board of Directors(4)	$1,200 (daily maximum)	$1,200 (daily maximum)	$1,200 (daily maximum)
Attendance fee for commission or committee meetings(5)	$600 (per half-day)	$600 (per half-day)	$600 (per half-day)
Conference call	$200	$200	$200
Attendance fee for a meeting of the Board of Ethics and Professional Conduct or the Ethics Committee	$2,400 for the chair $1,200 for the members	$2,400 for the chair $1,200 for the members	$600 (per half-day)
Annual stipend for the president of a regional council or the group caisse council(3)	$15,000	N/A	N/A
Attendance fee for a meeting of the regional council or the group caisse council	$300	N/A	N/A

N/A: Not applicable

(1) The position of Chair of the Board of the following subsidiaries is held by a member of the Federation's Board of Directors: Développement international Desjardins, Desjardins General Insurance Group Inc., Desjardins Financial Security Life Assurance Company and Desjardins Financial Corporation Inc.

(2) The attendance fee is doubled in lieu of the annual stipend for the chairs of commissions or committees that hold fewer than four meetings per year, except for the chair of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.

(3) Federation Board members receive an annual stipend of $32,000 for their service as directors of the Federation and of Desjardins Trust Inc. This amount is equally allocated among these two components. The stipend paid to the two managing directors is $24,800, with an additional $7,500 for their role as vice-president of their respective regional council.

(4) The annual member stipend is paid regardless of the number of commissions or committees the member sits on for the Federation or Desjardins Trust Inc. In other words, a single stipend is paid for all positions held for both components.

(5) The maximum daily attendance fee is $1,200, regardless of the number of Board, 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 of Directors may invite any elected caisse officer to sit on any of its committees. The Board of Directors determines the compensation to be paid based on the nature of the responsibilities entrusted to the officer and the compensation schedule. General managers who sit on the Board of Directors or on a commission/committee do not receive an attendance fee.

Compensation of members of the board of directors

The compensation paid to each member in 2017 for the duties they assume as directors of the Federation, Desjardins Trust Inc., Capital Desjardins inc. or other titles listed below is detailed as follows:

	Compensation received as director of the Federation, Desjardins Trust and Capital Desjardins inc		Other fees[1]		
Name	Attendance Fees ($)	Annual Stipend ($)	Attendance Fees ($)	Annual Stipend ($)	TOTAL 2017 ($)
Allard, Michel	37 769,13 $	22 250,00 $	9 530,87 $	26 800,00 $	96 350,00 $
Babineau, Louis	48 075,94 $	58 425,00 $	7 001,34 $	15 587,50 $	129 089,78 $
Baril, Jacques[5]	15 640,14 $	12 250,00 $	2 359,86 $	3 750,00 $	34 000,00 $
Bélanger, Annie P. (Chair of the Board, DID)[2]	37 960,18 $	49 000,00 $	15 139,83 $	40 500,00 $	142 600,01 $
Bélanger, Benoît[3]	2 100,00 $	25 989,32 $	-	-	28 089,32 $
Chamberland, Serges[5]	19 796,52 $	15 500,00 $	2 203,49 $	1 750,00 $	39 250,01 $
Chapdelaine, Claude	35 651,91 $	49 000,00 $	2 648,10 $	10 000,00 $	97 300,01 $
Chevalier, Carole	38 948,77 $	54 045,50 $	3 751,26 $	16 131,04 $	112 876,57 $
Corbeil, Stéphane, (Chair of the Board, FSD)	44 765,11 $	49 000,00 $	5 634,87 $	9 375,00 $	108 774,98 $
Cormier, Guy (Chair of the Board, DGIG)[2)4]	s. o.	s. o.	s. o.	s. o.	s. o.
Dessureault, Sylvain	1 800,00 $	35 266,00 $	-	-	37 066,00 $
Forand, Luc[5]	16 557,37 $	13 875,00 $	1 942,63 $	1 250,00 $	33 625,00 $
Genest, Yves	2 700,00 $	34 000,00 $	-	12 000,00 $	48 700,00 $
Groulx, Nadine[6]	39 345,09 $	44 489,34 $	2 554,91 $	2 303,37 $	88 692,71 $
Hawthorn, Neil	2 500,00 $	34 000,00 $	-	-	36 500,00 $
Laporte, Jean-François[3]	32 063,75 $	37 492,13 $	4 336,24 $	3 625,00 $	77 517,12 $
Laporte, Jean-Robert (Chair of the Board, DFS)[2]	38 260,18 $	49 333,00 $	19 839,82 $	40 500,00 $	147 933,00 $
Maltais, Camil[3]	32 645,09 $	37 492,13 $	1 354,91 $	-	71 492,13 $
Ouellet, Roch[3]	31 445,09 $	37 492,13 $	1 354,91 $	5 437,50 $	75 729,63 $
Paré, Denis[6]	7 264,71 $	4 358,14 $	35,29 $	162,92 $	11 821,06 $
Perras, Pierre[3]	31 445,09 $	26 340,72 $	1 554,91 $	7 250,00 $	66 590,72 $
Raîche, Alain[5]	2 400,00 $	8 500,00 $	-	500,00 $	11 400,00 $
Rousseau, Serge	32 263,52 $	49 000,00 $	6 336,51 $	32 937,50 $	120 537,53 $
Saint-Pierre Babin, Sylvie[5]	13 153,19 $	13 875,00 $	4 846,82 $	4 625,00 $	36 500,01 $
Savard, Christian	42 669,13 $	49 000,00 $	1 730,87 $	7 250,00 $	100 650,00 $
Simard, Mario	42 873,84 $	53 712,50 $	11 826,16 $	-	108 412,50 $
Tourangeau, Michel[3]	30 963,75 $	37 492,13 $	3 436,24 $	3 625,00 $	75 517,12 $
Tourangeau, Serge	44 467,79 $	62 000,00 $	3 632,20 $	3 625,00 $	113 724,99 $
Trottier, Stéphane	38 869,13 $	49 000,00 $	4 230,87 $	12 500,00 $	104 600,00 $
Turcotte, Benoit[5]	14 740,15 $	8 575,00 $	2 359,86 $	5 000,00 $	30 675,01 $
Vinet, Yvon[7]	41 008,79 $	88 500,00 $	3 791,22 $	12 000,00 $	145 300,01 $
Total	820 143,36 $	1 109 253,04 $	123 433,99 $	278 484,83 $	2 331 315,22 $

N/A: Not applicable

(1) Amounts received for: chairing the board of a subsidiary; sitting on the Desjardins Group Retirement Committee (DGRC) or the DGRC Investment Committee; sitting on the Board of Directors of Desjardins Financial Corporation Inc., Capital Desjardins inc., Fonds de sécurité Desjardins, Desjardins Technology Group Inc., or Desjardins Shared Services Group Inc.; contributing to other ad hoc committees.
(2) Développement international Desjardins (DID); Desjardins General Insurance Group Inc. (DGIG); Desjardins Financial Security Life Assurance Company (DFS); Fonds de sécurité Desjardins (FSD).
(3) Term began on March 25, 2017.
(4) The Desjardins Group President and CEO does not receive any compensation for the position of Chair of the Board of Directors of the Federation, Desjardins Trust, CDI or DGIG.
(5) Jacques Baril, Serges Chamberland, Luc Forand, Sylvie Saint-Pierre Babin, Alain Raîche and Benoît Turcotte were members until March 25, 2017.
(6) Denis Paré was a member until January 30, 2017. He was replaced by Nadine Groulx on February 23, 2017.
(7) Yvon Vinet 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 ($)
Belisle, Michel C., Secretary	6 000,00 $
Guénette, Michel, Chair	10 000,00 $
Gingras, Normand(i)	5 800,00 $
Lapierre, Maryse(i)	4 000,00 $
Ménard, André	2 000,00 $
Pichette, Ronald	6 000,00 $
Plourde, Gabriel	5 200,00 $
Tremblay, Lucie	5 800,00 $
Turcotte, Roger	6 000,00 $
Yelle, Michel	6 000,00 $

(i) Term began March 25, 2017.

André Ménard and Gabriel Plourde were members until March 25, 2017.

Record of attendance for the members of the Federation's board of directors

Name	BoD	BoD conf. calls	EC	CNLC	AIC	RMC	HRC	CAR	CGC	IC	DGRC	IC DGRC	RC
Allard, Michel*/**	12/12	7/7		9/9		3/3					4/5	7/7	9/9
Babineau, Louis*	12/12	7/7			7/7	8/9			3/3				7/7
Baril, Jacques*	3/3	1/1			3/3						1/1	4/4	8/8
Bélanger, Annie P.*	12/12	7/7	11/11				6/6	3/3					9/9
Bélanger, Benoît	9/9	6/6		8/8		6/6							7/8
Chamberland, Serges*	3/3	1/1			7/7	2/3							6/6
Chapdelaine, Claude*	12/12	7/7		9/9							5/5	11/11	9/9
Chevalier, Carole*	12/12	7/7	9/9				2/2	2/2	7/7	3/3	1/1	4/4	8/8
Corbeil, Stéphane*	12/12	7/7			10/10	6/6					1/1		10/10
Cormier, Guy	12/12	7/7	11/11				6/6		10/10				-
Dessureault, Sylvain	12/12	7/7		9/9						4/4			6/8
Forand, Luc*	3/3	1/1			3/3					1/1			9/9
Genest, Yves	12/12	7/7	11/11							4/4			7/8
Groulx, Nadine*	11/11	6/6		8/8					7/7				9/9
Hawthorn, Neil	12/12	6/7			5/6	2/3				3/4			8/10
Laporte, Jean-François*	9/9	6/6			7/7								9/9
Laporte, Jean-Robert*	12/12	6/7	11/11				6/6	3/3					8/8
Maltais, Camil*	9/9	6/6				6/6				3/3			6/6
Ouellet, Roch*	9/9	6/6				6/6					3/4		8/8
Paré, Denis*	1/1	1/1						1/1					8/9
Perras, Pierre*/**	9/9	6/6		8/8							4/4	7/7	8/8
Raîche, Alain	3/3	1/1		1/1	3/3								8/8
Rousseau, Serge*	12/12	7/7	11/11								5/5	11/11	8/8
Saint-Pierre Babin, Sylvie*	3/3	1/1	2/2	1/1					2/2				2/2
Savard, Christian*	12/12	7/7				9/9			10/10		4/4	7/7	8/8
Simard, Mario*	12/12	7/7		9/9		3/3	4/4	1/1					9/9
Tourangeau, Michel*	9/9	5/6			7/7								9/9
Tourangeau, Serge*	12/12	6/7			7/7	9/9				1/1			8/8
Trottier, Stéphane*	12/12	7/7				6/6				4/4			13/13
Turcotte, Benoît*/**	3/3	1/1			3/3						1/1	4/4	7/8
Vinet, Yvon*	12/12	7/7	11/11				6/6	3/3	10/10				8/8

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 Chief Executive Officer of Desjardins Group; CGC = Corporate Governance Commission; IC = Investment Commission; DGRC = Desjardins Group Retirement Committee; DGRC IC = Desjardins Group Retirement Committee Investment Committee; RC = regional councils and group caisse council.

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, and a double asterisk (**) indicates that the person is also a managing director.

The Board of Directors held 12 meetings over 20 days and 7 conference calls in 2017. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Board of Directors may invite any elected caisse officer to sit on any of its committees. The Board of Directors determines the compensation to be paid based on the nature of the responsibilities entrusted to the officer and the compensation schedule. Directors may be absent for professional or personal reasons, but justification is required in all instances. If a president of a regional council or the group caisse council is absent, they may be replaced by the vice-president, who acts as managing director, to ensure the region and group caisses remain represented.

Attendance record for the members of the Federation's board of ethics and professional conduct

Name	Number of meetings
Bélisle, Michel C., Secretary	8/8
Guénette, Michel, Chair	8/8
Gingras, Normand[i]	6/6
Lapierre, Maryse[i]	6/6
Ménard, André	2/2
Pichette, Ronald	8/8
Plourde, Gabriel	2/2
Tremblay, Lucie	7/8
Turcotte, Roger	8/8
Yelle, Michel	8/8

(i) Term began March 25, 2017.

André Ménard and Gabriel Plourde were members until March 25, 2017.

Members of the regional councils and group caisse council

Rather than publish attendance figures for all 255 members, the Board of Directors has decided to publish meeting attendance rates for the 17 regional councils and the group caisse council.

2017	Number of meetings	Attendance rate (%)
Bas-Saint-Laurent and Gaspésie—Îles-de-la-Madeleine	9	84,03 %
Kamouraska and Chaudière-Appalaches	8	88,33 %
Québec-Est	9	81,70 %
Québec-Ouest and Rive-Sud	7	87,50 %
Saguenay—Lac-Saint-Jean, Charlevoix and Côte-Nord	6	95,90 %
Centre-du-Québec	8	88,28 %
Mauricie	8	89,06 %
Eastern Townships	9	92,25 %
Richelieu-Yamaska	9	86,62 %
Lanaudière	8	86,51 %
Rive-Sud de Montréal	8	87,02 %
Laval–Laurentides	10	89,04 %
Ouest de Montréal	9	88,24 %
Est de Montréal	9	87,88 %
Outaouais – Région Ouest	8	86,11 %
Abitibi-Témiscamingue and Nord-du-Québec[1]	8	82,09 %
Group caisse	7	90,44 %
Ontario	13	93,78 %

(1) The regional council for the Outaouais, Abitibi-Témiscamingue and Nord du Québec region divides its meetings into two sectors.

Assembly of representatives

Date	Number of representatives present	Vacant positions	Attendance rate (%)
January 28, 2017	224 / 256	10	91,1
March 24, 2017	242 / 256	2	95,3
June 10, 2017	218 / 256	2	85,8
October 27, 2017	241 / 256	5	96,0

Main components and subsidiaries[1]

Components and subsidiaries	Main activities
QUEBEC AND ONTARIO CAISSES	Cooperative financial institutions
FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC	Planning, supervision, coordination, treasury and development of Desjardins Group and Desjardins Group's financial agent on the Canadian and international markets
DESJARDINS CAPITAL INC.	Capital issuances on financial markets and financing for the Desjardins caisses
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
Certas Direct Insurance Company	Property and casualty insurance
Certas Home and Auto Insurance Company	Property and casualty insurance
Desjardins General Insurance Inc.	Property and casualty insurance
Desjardins General Insurance Services Inc.	Property and casualty insurance
The Personal General Insurance Inc.	Property and casualty insurance
The Personal Insurance Company	Property and casualty insurance
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services
Assistel Inc.	Assistance services
Desjardins Investment Product Operations Inc.	Processing and administration of savings and investment accounts and specialized products for Desjardins Group components
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products
Desjardins Financial Security Investments Inc.	Mutual fund and insurance brokerage
Desjardins Trust Inc.	Custody and trust services
Desjardins Investment Management Inc.	Investment management
Desjardins Technology Group Inc.	Development, maintenance and modernization of Desjardins Group technology
Qtrade Canada Inc.	Online brokerage and wealth management services
Desjardins Securities Inc.	Securities brokerage
FONDS DE SÉCURITÉ DESJARDINS	Financial reserve for the Desjardins caisses
LA FÉDÉRATION DES CAISSES POPULAIRES DE L'ONTARIO INC.	Planning, supervision and activity management for the Ontario caisses

[1] Additional information on Desjardins Group's activities is presented in Section 2.3 "Analysis of business segment results" in the 2017 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

Amount deemed sufficient by management to cover the anticipated losses on a loan portfolio. The allowance for credit losses is increased by individual and collective provisions and decreased by write-offs, net of recoveries.

Alt-A mortgage loan

Loan to a borrower with non-standard income documentation.

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 members or clients and are therefore not recognized on its combined balance sheet. Services provided in respect of assets under administration are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions. Assets resulting from securitization transactions are not considered assets under administration.

Assets under management

Assets managed by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its combined 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. Assets resulting from securitization transactions are not considered assets under management.

Autorité des marchés financiers (AMF)

Organization whose mission is to enforce the laws governing the financial industry in Quebec, 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 Desjardins Group's management, of 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 the frequency is deemed significant by Desjardins Group's management.

Collective allowance

Allowance established for loan portfolios that are not subject to an individual allowance and are included in groups of financial assets having similar credit characteristics.

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 financial 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 members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Credit instrument

Credit facility offered in the form of a loan or other financing vehicle recognized in the combined 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 Combined 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.

Documentary letter of credit

Instrument issued for a member or a client that represents Desjardins Group's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. Desjardins Group 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 risk

Risk of financial, operational or reputational loss for Desjardins Group as a result of environmental impact or issues, whether they occur through Desjardins Group’s credit or investment activities or its operations.

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.

Exposures related to residential mortgage loans

In accordance with the regulatory capital framework, risk category that includes mortgage loans and credit margins secured by real property granted to individuals.

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 member or client cannot meet financial obligations to third parties. Desjardins Group'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 Desjardins Group'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.

Impaired loan

Loan, except a credit card balance, whose collection is doubtful as a result of a deterioration in credit quality. A loan is classified as impaired when one of the following conditions is met: in management's opinion, there is reasonable doubt that the principal or the interest will be collected on scheduled dates; the interest or principal payment is 90 days or more past due, unless the loan is fully secured and in the process of collection; or the interest or principal is more than 180 days past due.

Indemnification commitment related to securities lending

Commitment made to members and clients with whom Desjardins Group 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.

Individual allowance

Specific allowance established for an individual loan portfolio for which, in Desjardins Group's opinion, there is objective evidence of impairment and a loss should be recognized in the combined statements of income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

Insurance and investment 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 policyholder is required to make to maintain the insurance 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 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 environment risk

Risk arising from Desjardins Group's non-compliance with the laws, regulations, standards and practices in effect wherever Desjardins Group operates, as well as its various internal code of conduct and its contractual commitments, which could lead in particular to financial losses, penalties, harm to its reputation, legal recourse, or heightened monitoring by regulators.

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.

Leveraged finance loan

Loan to a large corporation or finance company whose credit rating is between BB+ and D and whose level of debt is very high compared to other companies in the same industry.

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 Combined 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 minimize risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

Member dividend

Surplus earnings allocated to a member on the basis of their business volume with the caisse.

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 administer 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.

Payments related to segregated funds

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.

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.

Provision for credit losses

Amount intended to cover losses on other off-balance sheet financial assets and financial assets recognized in the combined balance sheets, in addition to the allowance for credit losses. Individual allowances are established to reduce the carrying amount of some assets (especially impaired loans) to an estimated realizable value. A collective allowance is established for anticipated losses on total unimpaired loans when credit losses cannot yet be estimated on an individual basis. For this purpose, these loans are aggregated in financial asset groups having similar credit characteristics.

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 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 combined 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.

Securitization

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities and transferred to a trust.

Security at fair value through profit and loss

Security held on a short-term basis for arbitrage purposes.

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 or 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 or 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 in segregated funds comprised of investment funds with capital guaranteed upon 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

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.

Subprime residential mortgage loan

Loan to a borrower with a high credit risk profile.

Subsidiary

Company controlled by the *Fédération des caisses Desjardins du Québec*.

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.

Desjardins