2018 Desjardins Group Annual Report

Here

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

Doing what's best for our members and clients: Always the right choice

As president of Desjardins Group, I'm very proud of our 2018 results and achievements. Our membership has grown, especially among young people. Our satisfaction ratings—as measured by our net promoter scores—are up. And our ongoing efforts to build a strong member/client culture are driving up a number of other indicators.

Our entire cooperative financial group is committed to doing what's best for our members and clients, and that's a game changer. We're updating our management and business practices so members and clients get the advice, products and services they need to achieve optimal financial health.

At the same time, we're working hard to make it even easier for members and clients to do business with us. Our innovative apps, products and services make their lives easier, and we're helping them do more on their own. Meanwhile, we're giving our frontline employees the tools they need to better assist members and clients at major life events.

We're changing the way we pay member dividends as well. Starting in 2019, more weight will be given to the business relationship members have with all of Desjardins.

One big nationwide team

I'm also proud of the way we brought our State Farm agents into the Desjardins fold. When they joined us in early 2015, we were able to create our new Desjardins agent network much faster than we anticipated.

Throughout this transition, agents across the country maintained their longstanding business relationships with clients and kept their trust. We can't thank them enough.

Now that we're one big team, we're one of Canada's leading property and casualty insurers.

And thanks to everyone in the Ontario caisses, in our business sectors and support functions and at Aviso Wealth, Desjardins is now a major player in the Canadian financial services industry.

Guy Cormier
President and CEO of Desjardins Group

Well-deserved financial results laying the groundwork for the future

Our outstanding financial results are a direct result of our commitment to doing what's best for our members and clients. In 2018, our operating income grew 7.2% to $16,576 million, while our surplus earnings rose $175 million to $2,326 million.

Thanks to this strong performance, we're investing more in talent acquisition, employee training, service upgrades and our digital shift—all things that will help us better serve our members and clients.

Growing a responsible, sustainable economy

Our financial strength also enables us to do more to grow a responsible, sustainable economy—one of our strategic priorities. It allows us to expand our financial literacy programs and launch and support more initiatives that will have a lasting impact on our communities.

All across Canada, we're also doing more to support entrepreneurs and community initiatives. We're doing it through our Desjardins Business centres, Desjardins Capital Management Inc., our Créavenir and Desjardins Microcredit to Businesses programs, and our $100 million fund.

We're also doing it through new initiatives like the Momentum Fund, which provides financial assistance to grow local businesses and create and keep good local jobs.

At the same time, we're supporting the transition to clean energy by incorporating environmental, social and governance criteria into all our business decisions.

And because more and more members and clients want to effect social and environmental change through their financial choices, last year we doubled the number of responsible investment (RI) funds we offer. We now have Canada's largest RI fund lineup, with 22 different products.

But to tackle climate change effectively, we need to join forces with others. In partnership with Hydro-Québec and AddEnergie, we're installing 200 new charging stations across our caisse network by 2021—just one way we're encouraging the use of electric vehicles in Quebec and Ontario.

Finally, we're following the recommendations of the Task Force on Climate-related Financial Disclosures and including a climate-related disclosure in our social and cooperative responsibility report starting this year.

Modern, people-focused democratic governance

I'm also very proud of all the work we've done to update our governance structure. In 2018, we instituted a number of changes based on the decisions we made at our 23rd Congress.

With these changes, we'll have a modern, people-focused governance structure. A governance structure that makes us more agile as an organization and strengthens our ties with members, clients and communities. A governance structure that empowers everyone at Desjardins to do what's best for our members and clients.

In today's increasingly complex world, we're bombarded with information on all sides. That's why we're updating the role of director. All our boards of directors now have enhanced group profiles, and directors must complete mandatory training to ensure boards have the requisite skills to fully grasp the challenges they face. These changes will also help us carry out initiatives that are meaningful for our members, clients and communities.

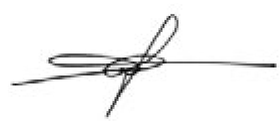
In addition to taking part in our existing decision-making bodies, caisse directors and general managers will also participate in the new community collaboration groups and Desjardins Collaboration Forum to inform the organization's decisions on priorities, products, services and community involvement.

Acknowledgments

Our new bylaws introduce term limits for caisse board chairs. I'd therefore like to thank all the chairs who will be leaving their posts at their caisses' next annual general meetings. I also want to thank all the members of the boards of supervision, which were eliminated in 2018. Thank you for your service.

I'd like to thank all our employees and elected officers as well. Your hard work and commitment to doing what's best for our members and clients is really paying off.

Together in 2019, we'll continue to build a strong member/client culture, showcase our cooperative difference and harness the full potential of our cooperative group.



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

2018 highlights - Desjardins Group

Over
7 million
members and clients

3,779
directors

More than
46,200
employees

$389 million
given back to members and communities

Our first-ever
climate-related disclosure

$100 million
fund for community development

17.3%
Tier 1A capital ratio

$2,326 million
in surplus earnings

$295.5 billion
in assets

Data as of December 31, 2018

Doing what's best for our members and clients

Innovations that make life easier

Online account opening
for individuals and businesses

Non-sufficient funds alerts
to help members avoid NSF fees

Home and auto insurance info all in one place
on the updated Desjardins Mobile Services app

Mortgage renewal from the comfort of home
100% online, with phone support available

***Interac* payments**
An easy way for business members to get paid

Member health tips
in the Financial Health and Well-being Zone from Desjardins Insurance

Exclusive advantages for members

Exclusive services and advantages for our personal and business members

Desjardins Member Advantages:

- Deals on financial products and services for individuals and businesses
- About 30 exclusive offers and privileges from merchants and partners
- Member events and activities
- 4 assistance services: Identity Theft Assistance, Estate Assistance, Travel Assistance and Roadside Assistance® for members under 25

Discover the advantages of being a member of a financial services cooperative at www.desjardins.com/advantages.

Locations for all needs

Our 2 mobile branches

are buses turned financial service centres on wheels. They offer teller, advisory and ATM service—just another way we're making it simple to bank with us.

The Studio

delivers an innovative banking experience with a human touch, 7 days a week.

Desjardins 360^{d}

is a friendly place where university students can discuss their plans and goals.

Our Signature Service

assists members with sophisticated financial needs.

Modern, people-focused democratic governance

In 2018, we overhauled the Federation and caisse governance structures. The legislation governing Desjardins was also amended to update it and bring it in line with international financial requirements.

Here are some of the changes:

- Caisse delegates can now vote in Federation Board of Directors and Board of Ethics and Professional Conduct elections, which are supervised by an election committee that is independent of both boards.
- Caisses, the Federation and subsidiaries now have group profiles to help electoral colleges select candidates so that each board has the requisite skills and reflects the diversity of their community.
- Caisse boards of supervision have been eliminated and their responsibilities transferred to board of directors committees.
- A mandatory training path has been introduced for caisse directors.

The full governance disclosure can be found in the Desjardins Group annual report.

Product dividends are a new type of member dividend. Dividends used to be only based on the business volume a member had with their caisse, mainly in the form of savings and loans. The goal of the new product dividends is to also recognize the business relationship a member has with other Desjardins components, such as Desjardins Insurance. It's a fixed amount given back to members who have at least one Desjardins product in each of the following 4 categories*: accounts ; cards, loans and credit; savings and investments; and insurance.

Members 30 or under* must have at least one product in 3 categories.

*Quebec members only. In Ontario, members must have at least one in each of the following 3 categories: accounts ; cards, loans and credit; savings and investments.

We're all committed to supporting youth

Supporting cooperation and education

We continue to work with parents, schools and community organizations to teach kids the basics of saving, the economy and cooperation.

The Desjardins Foundation helps young people stay in school and pursue a post-secondary education.

2018 snapshot:

- $2.4 million invested to help young people succeed
- 446 scholarships awarded to members
- Over 188,000 young people supported

#DesjardinsFoundation Prizes

2018 snapshot:

- 279 projects supported
- $660,000 awarded
- 45,000 young people impacted

School caisses are an institution in 1,466 schools.

2018 snapshot:

- 94,778 school caisse members

A partner of Alloprof parents

New! Finance Labs are associations set up in high schools that operate like cooperatives and give students a chance to:

- Learn about mobile payments in a secure setting
- Start up business projects at school and get technical and financial support
- Experience what it's like to be part of a democratically managed business

2018 snapshot:

- 22 Finance Labs in operation or being set up
- 16,000 students served
- Over 100 student directors

Personal Finance: I'm in Charge® is an educational program for 16- to 25-year-olds and newcomers to Canada with 17 modules on such pressing issues as high debt levels and peer pressure to spend.

2018 snapshot:

- Over $3 million invested
- 75,854 participants, for a total of over 200,000 since 2013
- 228 participating caisses in Quebec and Ontario
- 98 partner organizations

The coolest financial institution according to millennials

Desjardins 360ᵈ is the only concept of its kind in North America. These Desjardins locations are hip, friendly financial service centres catering to university students and campus workers 18 to 30, no matter which caisse they belong to.

There are Desjardins 360ᵈ locations on the following campuses:

- **Concordia University**
- **Université de Montréal**
- **Université du Québec à Montréal**
- **Université du Québec à Trois-Rivières**
- **Université Laval**
- **Université du Québec à Chicoutimi**

Encouraging young people to go into business

The Immigrant Entrepreneurs in Regions of Quebec program is a government initiative backed by Desjardins and the Regroupement des jeunes chambres de commerce du Québec. The program leads trade missions across Quebec to help young immigrant entrepreneurs get up and running so they can help grow their local economies.

Devenir Entrepreneur is a campaign developed by Desjardins and 2 other finance leaders that aims to inspire young people to start a business and help them get their business off the ground.

Adopt Inc. is a Desjardins-backed program for Quebec entrepreneurs 18 to 39. This 1-year program gives entrepreneurs a chance to fully focus on growing their business while getting financial support, coaching and training, and attending a boot camp session offered by Desjardins at the École d'Entrepreneurship de Beauce.

We support the Fonds coopératif d'aide à la relève agricole because we understand the importance of lending a helping hand to a new generation of local famers.

Supporting young people

During Co-op Week 2018, 4,000 Desjardins volunteers shared their expertise and lent a helping hand at 200 events benefiting 160 youth organizations in Quebec and Ontario.

Our employees:

Ran from Lévis to Montreal to raise funds for educational programs for elementary and high school students. Runners raised over $50,000 for 16 schools.

Climbed Kilimanjaro to support 2 causes near and dear to their hearts: youth education (Desjardins Foundation) and Montreal heritage (Château Ramezay). 12 employees raised nearly $165,000, including $115,000 for the Desjardins Foundation.

We held a community service contest for young members in partnership with the COOPSCO network.

2018 snapshot:

- 250 entries—twice as many as 2017
- 5 scholarships for $1,500
- $1,000 to each winner's organization

Our Young Intern Director Program gives 18- to 30-year-olds a chance to:

- Represent their community on their caisse's board of directors
- Be an active, non-voting member of the board
- Take part in the democratic life of Canada's leading financial cooperative group

2018 snapshot:

- 169 young intern directors in Quebec and Ontario

Supporting the socio-economic development of communities

The 2018 Desjardins Cares and Shares Campaign showcased the generosity of our employees, directors and retirees.

2018 snapshot:

- $5 million raised for the United Way, the Desjardins Foundation and the Canadian Red Cross, an increase of 16% compared to 2017

Funds that support dreams and businesses

Community Development Funds (CDFs) are just one way caisse members show their generosity. At each caisse's general meeting, members can decide to give up a portion of their individual dividends and allocate it to their CDF, which is managed by the caisse's board of directors.

2018 snapshot:

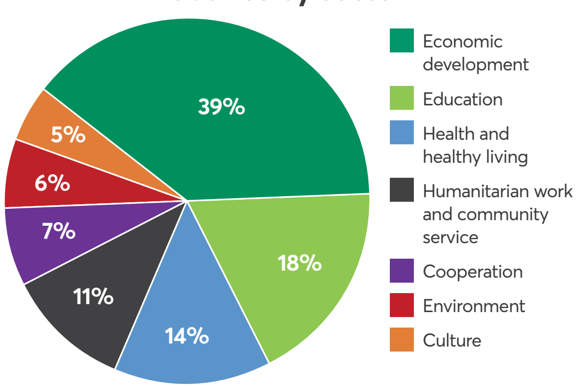
- $37.4 million distributed through CDFs

The $100 million fund supports and raises awareness about entrepreneurship, education, social responsibility, sustainability, community action and other initiatives that tie in to our socio-economic mission.

2018 snapshot:

- 252 initiatives supported since the fund's inception
- $53 million committed
- The fund supported:
  - The Guilde des développeurs de jeux vidéo indépendants du Québec
  - A new tech incubator coming to Matane
  - Créateurs de saveurs des Cantons-de-l'Est
  - Accredited training for Entrepreneuriat Québec's entrepreneur coaches
  - Cétal, a social economy enterprise that employs people with disabilities
  - The Bourse du carbone Scol'ERE carbon exchange, which introduces kids and their families to environmental citizenship

Initiatives by sector



The Momentum Fund helps grow local businesses and create and keep good local jobs. It provides up to $10,000 in non-repayable funding to small and medium businesses in the commercial, industrial and agricultural spaces.

Innovating and growing

The Desjardins Lab explores ways we can stay current and in step with our members and clients. It also takes an inclusive approach that recognizes the contributions of women in tech.

2018 snapshot:

- About 20 startups supported
- Over 7,000 public meet-up participants

The Cooperathon is the brainchild of the Desjardins Lab and its partners. It's a way for citizen-driven startup-type projects to get off the ground and quickly move into the validation phase. As the largest open innovation competition in Canada, it aims to have maximum social impact.

2018 snapshot:

- 134 projects by 1,445 participants from 148 cities at the third annual Cooperathon
- Over 340 participants in the first-ever Data Cup
- Nearly 260 competitors at the first-ever Cooperathon in France

We use the Desjardins Community Zone and La Ruche collaborative platforms to get to know our members better, connect them with one another and support community development.

The Desjardins Community Zone:

- Over 60 community project sponsors connected
- 34 projects addressing local issues or supporting economic development
- Participation of 10 caisses in Montreal, Quebec City and the Eastern Townships, plus the Desjardins Foundation

La Ruche:

- Over $3 million raised since inception
- More than 200 projects completed

Offering solidarity-based financing programs

The Desjardins Mutual Assistance Fund provides individuals experiencing financial hardship with budget counselling and emergency loans. It allows them to address their short-term budget problems so they can make lasting changes to their spending and budgeting habits.

2018 snapshot:

- 22,203 people assisted

Desjardins Microcredit to Businesses is a program providing micro-entrepreneurs and self-employed workers with the support they need to start or grow their business. It's available to help:

- Micro-entrepreneurs and self-employed workers who can't get traditional credit
- Newcomers to Canada who need advice and financing for their startup

2018 snapshot:

- 658 entrepreneurs (106 businesses) supported
- $7,850 in average financing
- 276 jobs created or maintained
- 91% repayment rate

Créavenir is a program that supports entrepreneurs 18 to 35 looking to start their own business.

2018 snapshot:

- $1,982,788 for 144 projects
- 415 jobs created or maintained

Fighting climate change by supporting the transition to clean energy

We prepared our first-ever climate-related disclosure in 2018 in compliance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We're also proud to be part of the Pilot Project on Implementing the TCFD Recommendations for Investors, a small group of corporate investors created in 2018 by the United Nations Environment Programme – Finance Initiative to combine their efforts and expertise.

We added 11 new responsible investment products in 2018, doubling our lineup with 3 new SocieTerra funds and a new line of 8 innovative exchange-traded funds aimed at reducing carbon emissions.

We started sending severe weather alerts with Radar™. With our new free app from Desjardins Insurance, users can get personalized weather alerts for hail, heavy rain, high winds, tornadoes and hurricanes. Extreme weather is becoming more common, so we're helping protect people and their property.

We've invested $2.33 billion in renewables as of December 31, 2018—just one way we're supporting this growing sector.

- We've provided $1.23 billion in loans to major corporations for renewable energy and clean tech projects
- With the Desjardins Group Pension Plan, we've invested $1.1 billion in renewables through our infrastructure portfolio, which includes 48 assets held jointly with strategic partners

We're installing 200 electric vehicle charging stations in Quebec and Ontario by 2021 to support the transition to clean energy and electric transportation through a partnership with Hydro-Québec and AddÉnergie.

We support the United Nations and Paris Agreement sustainable development goals to eradicate poverty, reduce inequality and protect the planet.

Awards and recognition

Desjardins Group

- **#2 on Ipsos-Infopresse's list of Quebec's most influential brands**
- **Ipsos-Infopresse award for social responsibility**
- **Coolest financial institution according to Leger's 2018 Youth Study**

Employer

- **One of Canada's Top 100 Employers**
  MediaCorp Canada
- **One of Canada's Top Family-Friendly Employers**
  MediaCorp Canada
- **One of Canada's Top Employers for Young People**
  MediaCorp Canada
- **One of Canada's Greenest Employers**
  MediaCorp Canada
- **Gold-level parity certification**
  Women in Governance
- **Top prize for the HALEO project in the Health and Wellness category**
  Ordre des conseillers en ressources humaines agréés HR gala
- **Legal Affairs Division named Best Canadian Legal Department 2018**
  International Legal Alliance Summit & Awards
- **Desjardins Economic Studies team ranked Best Overall Forecaster – Canada**
  FocusEconomics
- **Desjardins Lab crowned Corporate Champion of the Year by the jury and the public**
  Startup Community Awards Gala

Products and services

- **Silver Award for the AccèsD Assistant**
  European Financial Management Association
- **Desjardins Insurance/The Personal app rated #1 mobile strategy**
  PTOLEMUS
- **Desjardins Private Wealth Management named Best Private Wealth Management Company Canada**
  Global Banking & Finance Review
- **Fundata FundGrade A+ Awards for 2 of our funds**
- **Lipper Awards for 2 of our funds**
- **3 awards for our market-linked guaranteed investments**
  Americas Structured Products & Derivatives
- **One of the Top 5 Eco-Funds**
  Corporate Knights

Sustainability

- **Desjardins named a provincial role model for responsible procurement best practices**
  Ministère de l'Économie et de l'Innovation du Québec
- **Complexe Desjardins named a NOVAE Awards finalist**
- **BOMA Best® environmental management certification for 8 Desjardins buildings in Lévis**

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 (MD&A), the Financial Statements as well as in "Supplemental Financial Information" report and "Pillar 3 Report", which are available on Desjardins Group's website at www.desjardins.com/ca/about-us/investor-relations. The "Supplemental Financial Information" report and "Pillar 3 Report" are not incorporated by reference in the 2018 MD&A.

Below is a summary of disclosures under the EDTF recommendations and the location of the disclosures (page number):

Type of risk	Recommen-dation	Disclosure	2018 Annual Report	Supplemental Financial Information	Pillar 3 Report
General	1	Summary of risk information	Current page		
	2	Risk terminology, risk measures and key parameters	70, 248-254		31, 32
	3	Top and emerging risks	60, 61, 67, 68, 75, 76		
	4	New regulatory ratios	60, 61-63, 94, 96, 215	13	
Risk governance, risk management and business models	5	Organizational risk management structure	72-75		
	6	Risk management culture	72-75		
	7	Risks from business model and risk appetite	22, 41-52, 59, 60, 71, 72,75, 76 75, 76		
	8	Stress testing	71		
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	60		
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	61-63, 215	6-8, 10-12	6, 7, 12, 13
	11	Movements in regulatory capital	61-63	9	
	12	Capital management and planning	60-63	6	
	13	Risk-weighted assets by business segments	75, 76	15, 16	10, 11
	14	Breakdown of capital requirements by type of risk and by calculation method	63, 64, 81, 82, 90, 91	15, 16	10, 11
	15	Credit risk		31-41	11, 18, 25, 27
	16	Movements in risk-weighted assets by type of risk	65	17-19	10, 11
	17	Back testing and validation of credit models	81	41	
Liquidity	18	Management of liquidity needs and reserve	94-96		
Funding	19	Encumbered and unencumbered assets	96-99, 220		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	97-103		
	21	Funding sources and strategies	59, 94, 97-98		
Market risk	22	Reconciliation of market risk measures to balance sheet	89, 90		12-13
	23	Market risk factors	89-93, 196-200, 222-224		
	24	Assumptions, limitations and validation procedures for market risk models	90, 92		
	25	Extreme loss measures	60, 71, 90-92		
Credit risk	26	Credit risk profile	58, 69, 71, 81, 82, 84, 88	14-16, 31-41, 46, 47, 49, 51, 53	14-27
	27	Policy for identifying gross credit-impaired loans	83, 84, 132-161		
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	58, 84, 132-161, 174-180	46, 50	
	29	Counterparty risk related to derivatives	88, 201-209		23-27
	30	Credit risk mitigation techniques	83, 88, 201-209	28-30	17, 18, 26, 27
Other risks	31	Management of other risks	63, 64, 73-76, 104-108		
	32	Publicly known risk events	104, 220		

Desjardins Group Management's Discussion and Analysis

Desjardins Group (hereinafter also referred to as Desjardins) comprises the Desjardins caisses network in Quebec and Ontario (the caisses), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, 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 27, 2019, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the year ended December 31, 2018, in comparison to previous fiscal years. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this regulation. However, it has chosen to apply the provisions provided in this regulation to demonstrate its willingness to comply with best practices in financial governance. Information on the Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

The MD&A should be read in conjunction with the Combined Financial Statements, including the Notes thereto, as at December 31, 2018.

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

A number of factors, many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict, could influence 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 risk, environmental and social risk, and the risk related to pension plans.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to cyber threats, technological advancement and regulatory developments, household indebtedness and real estate market trends, interest rate fluctuations and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; 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; and climate change. Additional information on these factors is found in Section 4.0, "Risk management" of this MD&A.

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, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts, 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, given that actual results, conditions, actions or future events could differ significantly from the targets, expectations, estimates or intentions advanced in them, explicitly or implicitly. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events.

The significant economic assumptions underlying the forward-looking statements in this MD&A are described in Section 1.4 "Economic environment and outlook" of this MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section.

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. Desjardins Group modified certain accounting policies following the adoption of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018. For more information about the accounting policies used as well as the accounting policy changes, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

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

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 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 non-interest expense.

(in millions of dollars and as a percentage)	**2018(1)**	2017(2)	2016(2)
Operating income	**$ 16,576**	$ 15,465	$ 14,129
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company(3)	**-**	(278)	-
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. (3)	**(132)**	-	-
Adjusted operating expenses	**$ 16,444**	$ 15,187	$ 14,129
Growth in adjusted operating income	**8.3%**	7.5%	1.8%
Non-interest expense	**$ 7,485**	$ 7,400	$ 7,251
Growth in non-interest expense	**1.1%**	2.1%	4.2 %
Growth differential between adjusted operating income and non-interest expense	**7.2%**	5.4%	(2.4)%

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) Amounts before income taxes.

Adjusted surplus earnings of Desjardins Group before member dividends

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

Desjardins Group's surplus earnings before member dividends are adjusted to exclude the following specific items: the gain 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, net of income taxes, related to the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth.

The following table presents a reconciliation of 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)	**2018(1)**	2017(2)	2016(2)
Presentation of surplus earnings before member dividends in the Combined Financial Statements	**$ 2,326**	$ 2,151	$ 1,772
Specific items, net of income taxes			
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company	**-**	(249)	-
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**(129)**	-	-
Presentation of the adjusted surplus earnings before member dividends	**$ 2,197**	$ 1,902	$ 1,772

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.

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

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

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

(in millions of dollars)	2018[(1)]	2017	2016
Presentation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment in the Combined Financial Statements	**$ 894**	$ 612	$ 461
Specific item, net of income taxes			
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**(129)**	-	-
Presentation of the adjusted net surplus earnings of the Wealth Management and Life and Health Insurance segment	**$ 765**	$ 612	$ 461

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Adjusted net surplus earnings − Property and Casualty Insurance segment

The net surplus earnings of the Property and Casualty Insurance segment (P&C) are adjusted to exclude the following specific item: the gain 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.

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)	2018[(1)]	2017[(2)]	2016[(2)]
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Combined Financial Statements	**$ 173**	$ 446	$ 296
Specific item, net of income taxes			
Gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company[(3)]	**-**	(241)	-
Presentation of the adjusted net surplus earnings of the Property and Casualty segment	**$ 173**	$ 205	$ 296

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) The difference with the data presented in the table for the adjusted surplus earnings of Desjardins Group before member dividends is related to intersegment transaction expenses.

Productivity index and adjusted productivity index

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

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

(in millions of dollars and as a percentage)	2018[(1)]	2017[(2)]	2016[(2)]
Non-interest expense	**$ 7,485**	$ 7,400	$ 7,251
Total income	**17,310**	17,153	15,248
Claims, benefits, annuities and changes in insurance contract liabilities	**(6,579)**	(6,717)	(5,446)
Total income excluding claims	**$ 10,731**	$ 10,436	$ 9,802
Productivity index	**69.8%**	70.9%	74.0%
Adjusted productivity index[(3)]	**70.6%**	72.8%	74.0%

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) Takes into account the specific items presented under "Adjusted surplus earnings of Desjardins Group before member dividends" subsection in this section.

Net interest margin

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

Table 7 of Desjardins Group's MD&A provides more detailed information on the net interest margin.

Gross credit-impaired loans/gross loans and acceptances

The gross credit-impaired loans/gross loans and acceptances ratio is used to measure loan portfolio quality and is equal to gross credit-impaired loans expressed as a percentage of total gross loans and acceptances. Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Table 37 of Desjardins Group's MD&A provides more detailed information on this ratio.

Loss ratio – Expense ratio – Combined ratio

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

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

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

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

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

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

(in millions of dollars and as a percentage)	2018	2017	2016
Net premiums	**$ 4,402**	$ 3,896	$ 3,207
Premiums excluded from the loss ratio[1]	**-**	(61)	(149)
Net premiums considered in the ratio denominators	**$ 4,402**	$ 3,835	$ 3,058
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 3,209**	$ 2,555	$ 1,838
Market yield adjustment (MYA)	**45**	62	39
Other items excluded from the loss ratio[1]	**-**	(20)	(36)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 3,254**	$ 2,597	$ 1,841
Loss ratio	**73.9%**	67.7%	60.2%
Non-interest expense	**$ 1,127**	$ 1,099	$ 1,132
Other expenses excluded from the expense ratio[2]	**(18)**	(114)	(284)
Operating expenses	**$ 1,109**	$ 985	$ 848
Expense ratio	**25.2%**	25.7%	27.7%
Combined ratio	**99.1%**	93.4%	87.9%

(1) Due mainly to the life insurance activities of Western Life Assurance Company, the sale of which was completed on July 1, 2017.
(2) For 2018: Due mainly to investment management fees and certain other expenses. For 2017 and 2016: Due mainly to the life insurance and insurance product distribution activities of Western Life Assurance Company and Western Financial Group Inc., including expenses related to the sale of these two entities on July 1, 2017.

Return on equity and adjusted return on equity

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

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

(in millions of dollars and as a percentage)	2018[1]	2017[2]	2016[2]
Surplus earnings before member dividends	**$ 2,326**	$ 2,151	$ 1,772
Non-controlling interests' share	**(41)**	(43)	(76)
Group's share	**$ 2,285**	$ 2,108	$ 1,696
Average equity before non-controlling interests' share	**$ 24,530**	$ 23,228	$ 21,236
Return on equity	**9.3%**	9.1%	8.0%
Adjusted return on equity[3]	**8.9%**	8.0%	8.0%

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Data for 2017 and 2016 have been adjusted to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
[3] 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 comprises net investment income on securities classified and designated as being at fair value through profit or loss, net investment income on securities classified as being at fair value through other comprehensive income, and net investment income on securities measured at amortized cost and other investment income, which are included under "Net investment income" in the Combined Statements of Income. Investment income also includes the overlay approach adjustment for insurance operations financial assets. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income given that these assets back insurance liabilities, which are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Combined Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss. The presentation of 2017 investment income does not take into account the standards and amendments adopted on January 1, 2018 and is therefore compliant with IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

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

(in millions of dollars)	2018[1]	2017[2]	2016[2]
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other income			
Deposit and payment service charges	**433**	458	488
Lending fees and credit card service revenues	**697**	660	574
Brokerage and investment fund services	**905**	1,030	1,060
Management and custodial service fees	**551**	485	422
Net investment income[3]	**211**	1,688	1,119
Overlay approach adjustment for insurance operations financial assets	**523**	N/A	N/A
Foreign exchange income	**91**	77	70
Other	**182**	249	27
Total income	**$ 17,310**	$ 17,153	$ 15,248
Presentation of income in the MD&A			
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other operating income			
Deposit and payment service charges	**433**	458	488
Lending fees and credit card service revenues	**697**	660	574
Brokerage and investment fund services	**905**	1,030	1,060
Management and custodial service fees	**551**	485	422
Foreign exchange income	**91**	77	70
Other	**182**	249	27
Operating income	**16,576**	15,465	14,129
Investment income			
Net investment income[3]	**211**	1,688	1,119
Overlay approach adjustment for insurance operations financial assets	**523**	N/A	N/A
Investment income	**734**	1,688	1,119
Total income	**$ 17,310**	$ 17,153	$ 15,248

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Data for 2017 and 2016 have been reclassified to conform to the current period's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
[3] The breakdown of this line item is presented in Note 25, "Net interest income and net investment income", to the Combined Financial Statements.

Credit loss provisioning rate

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

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

(in millions of dollars and as a percentage)	2018[1]	2017	2016
Provision for credit losses	**$ 384**	$ 349	$ 319
Average gross loans	**184,382**	171,737	162,979
Average gross acceptances	**105**	69	108
Average gross loans and acceptances	**$ 184,487**	$ 171,806	$ 163,087
Credit loss provisioning rate	**0.21%**	0.20%	0.20%

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

REGULATORY ENVIRONMENT

Regulatory environment

Desjardins Group's operations are governed in particular by the *Act respecting financial services cooperatives* and the *Act respecting insurance*, which will become the *Insurers Act* in June 2019. 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 12, 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 109 of this MD&A and in the "Corporate governance" section of the 2018 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 integrate all these recommendations into its risk management disclosure framework. Desjardins Group also continues to adapt its disclosure to comply with the principles of risk data aggregation and risk reporting (RDARR), which will strengthen governance as well as risk data aggregation and risk reporting capabilities. Furthermore, Desjardins Group developed a living will, detailing the actions it will take to restore its financial position in the event of a crisis.

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, terrorist financing and domestic and international economic sanctions in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information on changes in regulatory capital is provided in the "Capital management" section.

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

On June 13, 2018, the Quebec National Assembly passed Bill 141, *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions* (the Act), which applies to all institutions and intermediaries operating in Quebec's financial sector. The main goal of the Act is 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 Act affects a series of laws, such as 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* has been amended, among other things, to prescribe the rules for organizing a network of financial services cooperatives and a financial group, and the rules for issuing capital shares and investment shares.

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

The amendments to the *Deposit Insurance Act* (to be renamed the *Deposit Institutions and Deposit Protection Act*) provide for new rules for the supervision and control of deposit-taking activities and the activities of authorized deposit-taking institutions, as well as recovery and resolution mechanisms in the event of failure of deposit-taking institutions. Furthermore, the Act introduces a new *Insurers Act* that provides for revised supervision for Quebec insurers. A significant change in this new legislation is to allow insurers to sell insurance over the Internet. A few changes aimed at modernizing the *Act respecting the distribution of financial products and services* were also introduced, such as rules for insurance brokers in offering products and new rules applicable to distributing products without a representative. In addition, in property and casualty insurance, the Act makes it mandatory for divided co-owners to have co-ownership insurance.

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

Desjardins Group is continuing its work to update its frameworks in order to reflect the new requirements.

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 for financial services cooperatives, 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, given that discussions with the AMF are still underway on how Desjardins Group will apply them. For further information, see the "Capital management" section on page 61.

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

In June 2018, proposals for significant changes to the PCMLTFA and its regulations were published by the Department of Finance Canada. Desjardins Group is participating in work sessions with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Department of Finance Canada and other industry players to discuss these and other changes to the Canadian money laundering and terrorist financing (ML/TF) regime. While preparing for the implementation of these legislative changes, Desjardins Group is continuing to closely monitor developments to assess their impact on its operations.

Financial reforms in the U.S.

Should reform initiatives in the U.S. pertaining to financial regulation become a reality, they may affect non-U.S. financial institutions operating in the U.S., including Desjardins Group. The deregulation bill of U.S. Congress and the American regulators has been set in motion, in particular with the enactment of a statute providing some relief concerning certain rules prescribed by the Dodd-Frank Wall Street Reform and Consumer Protection Act and a proposal for a draft regulation simplifying the Volcker rule which deals with proprietary trading and hedge fund ownership interests. Desjardins Group continues to closely monitor developments in these draft reforms, for which the scope and timetable remain uncertain at this time.

Recapitalization regime for domestic systemically important banks

On April 18, 2018, the Department of Finance Canada published the final version of three regulations to implement the main features of the Bank Recapitalization (Bail-in) Regime and the OSFI issued the final version of its guideline on Total Loss Absorbing Capacity (TLAC). 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. These regulations and the TLAC guideline came into force on September 23, 2018. 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 to Desjardins Group because it is regulated by the AMF. Furthermore, the amendments to the *Deposit Insurance Act* (to be renamed the *Deposit Institutions and Deposit Protection Act*) passed by the Quebec government on June 13, 2018, as mentioned above, provide for certain recovery and resolution mechanisms in the event of the failure of deposit-taking institutions. On October 25, 2018, the AMF issued for comment its draft regulations on a bail-in regime for a cooperative group as well as a draft TLAC guideline. The comment period initiated by the AMF ended on November 23, 2018. Desjardins Group will continue to monitor developments in this file and is expecting the adoption and implementation of a recapitalization regime similar to the federal one described above on March 31, 2019.

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) came into force on November 1, 2018. 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 came into force on May 25, 2018, provides for new obligations that apply internationally to entities that control or process the personal data of citizens in the territory of the European Union. Although the impact of this regulation is not considered significant for Desjardins Group, the organization must closely monitor this file since several of its competitors are subject to it in whole or in part. In Quebec, consultations took place concerning amendments to *An Act respecting the protection of personal information in the private sector* (ARPPIPS). As a result, Desjardins Group can expect that stricter rules will be adopted, and it is closely monitoring developments to assess the impacts on its operations.

Pillar 3 disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). 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 for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group issued a Pillar 3 report for the period ended December 31, 2018, in order to comply. In addition, in March 2017, the BCBS issued the second phase of the revisions to Pillar 3 disclosure. In the fourth quarter of 2018, the AMF presented a draft update of its guideline. The changes would be effective on March 31, 2019 and will include requirements resulting from the second phase of the standard related to Pillar 3, particularly with respect to the leverage ratio, composition of capital and total loss absorbing capacity. For further information, see the "Capital management" section on page 61.

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 replaced the *Capital Adequacy Requirements Guideline (CAR) – Life and Health Insurance* as of January 1, 2018. The subsidiary Desjardins Financial Security Life Assurance Company complies with the requirements of the new guideline.

Report on Ontario's auto insurance plan

Before the election, in June 2018, of a new majority government in Ontario, the Ontario Finance Minister at the time unveiled the Fair Auto Insurance Plan in December 2017, aimed at making automobile insurance more affordable for drivers and providing better care for accident victims. The Plan was based on a report by David Marshall on the province of Ontario's automobile insurance system, released in April 2017, and provided for the implementation by the government of various initiatives in the short- and medium-term. In spite of the uncertainty surrounding the potential implementation of the recommendations as a result of the change in government, Desjardins Group continues to monitor and support developments in Ontario's automobile insurance system.

Guideline on granting residential mortgages

In February 2018, the AMF issued the revision of its guideline on granting residential mortgages, which went into effect in March 2018. The AMF's requirements are similar to those of the OSFI, issued in October 2017, which aim to encourage mortgage lenders to remain prudent in their mortgage underwriting practices and set a minimum interest rate or "stress test" for uninsured mortgages. Desjardins Group has already applied these practices since January 1, 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 multiyear initiative to modernize the Canadian payments system. On December 19, 2018, Payments Canada issued its "Modernization Delivery Roadmap 2018 Update". The activities involve, in particular, the new high-value payments system – Lynx, real-time payments, and retail batch payments. These initiatives are in addition to the one already introduced in 2018, with the implementation of a new credit risk assessment model for the retail payments system in Canada and enhancements to automated funds transfers. 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 future changes.

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

Section 871(m) of the *U.S. Internal Revenue Code* (IRS) was set up to ensure that non-U.S. investors pay tax on dividend payments on U.S. equity-linked instruments. This regulation, which has been in effect since January 1, 2017, provides for phased-in application of additional regulatory requirements in 2019, 2020 and 2021. Following the IRS's publication of Notice 2018-72 in September 2018, some relief has been provided for applications scheduled for 2019. The applicable regulatory requirements basically deal with subject loan, securities lending and delta-one transactions. Delta one is a ratio that measures the sensitivity of the derivative product to fluctuations in the underlying product price to which it refers. The calculation of delta can apply by individual transaction or combined transactions. The combined transaction rules also apply progressively. The regulatory requirements for non-delta one transactions have been postponed until January 1, 2021, while QSL status (Qualified Securities Lender – described in IRS Notice 2010-46) is maintained until January 1, 2021. The Desjardins Group entities concerned are putting measures in place to apply the regulation and monitor future changes.

Regulation 93-101, Derivatives: Business Conduct and Regulation 93-102, Derivatives: Registration

In April 2017, the CSA issued draft *National Instrument 93-101 – Derivatives: Business Conduct* and draft *Companion Policy 93-101 Derivatives: Business Conduct* to establish a comprehensive regime for regulating the business conduct of participants in over-the-counter derivatives markets. In June 2018, the CSA published a second version of these drafts for comment. The consultation ended in September 2018. In April 2018, the CSA published for consultation draft *National Instrument 93-102 – Derivatives: Registration* and draft *Companion Policy 93-102 – Derivatives: Registration* for derivatives dealers, derivatives advisers and potentially other derivatives market participants. This consultation also ended in September 2018. 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 in Canada and the notices issued in this regard by the CSA.

Report on Climate change-related Disclosure Project

On April 5, 2018, the CSA issued CSA *Staff Notice 51-354, Report on Climate change-related Disclosure Project*. The report summarizes the findings of its project to review the disclosure by reporting issuers of risks and financial impacts associated with climate change, and its plans for future work. The Staff Notice also mentions that the CSA will continue to monitor the quality of issuers' disclosure with respect to climate change-related matters, best practices in the area of climate change-related disclosure and the development of disclosure frameworks. Desjardins Group is closely monitoring regulatory developments in this regard.

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

1.0 Desjardins Group

1.1 Profile and structure

WHO WE ARE

Desjardins Group is the largest financial cooperative in Canada, with assets of $295.5 billion. The organization brings together 271 caisses in Quebec and Ontario as at December 31, 2018, the *Fédération des caisses Desjardins du Québec* and its subsidiaries, 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 more than 46,000 employees and the commitment of over 3,700 directors.

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

WHAT MAKES US DIFFERENT

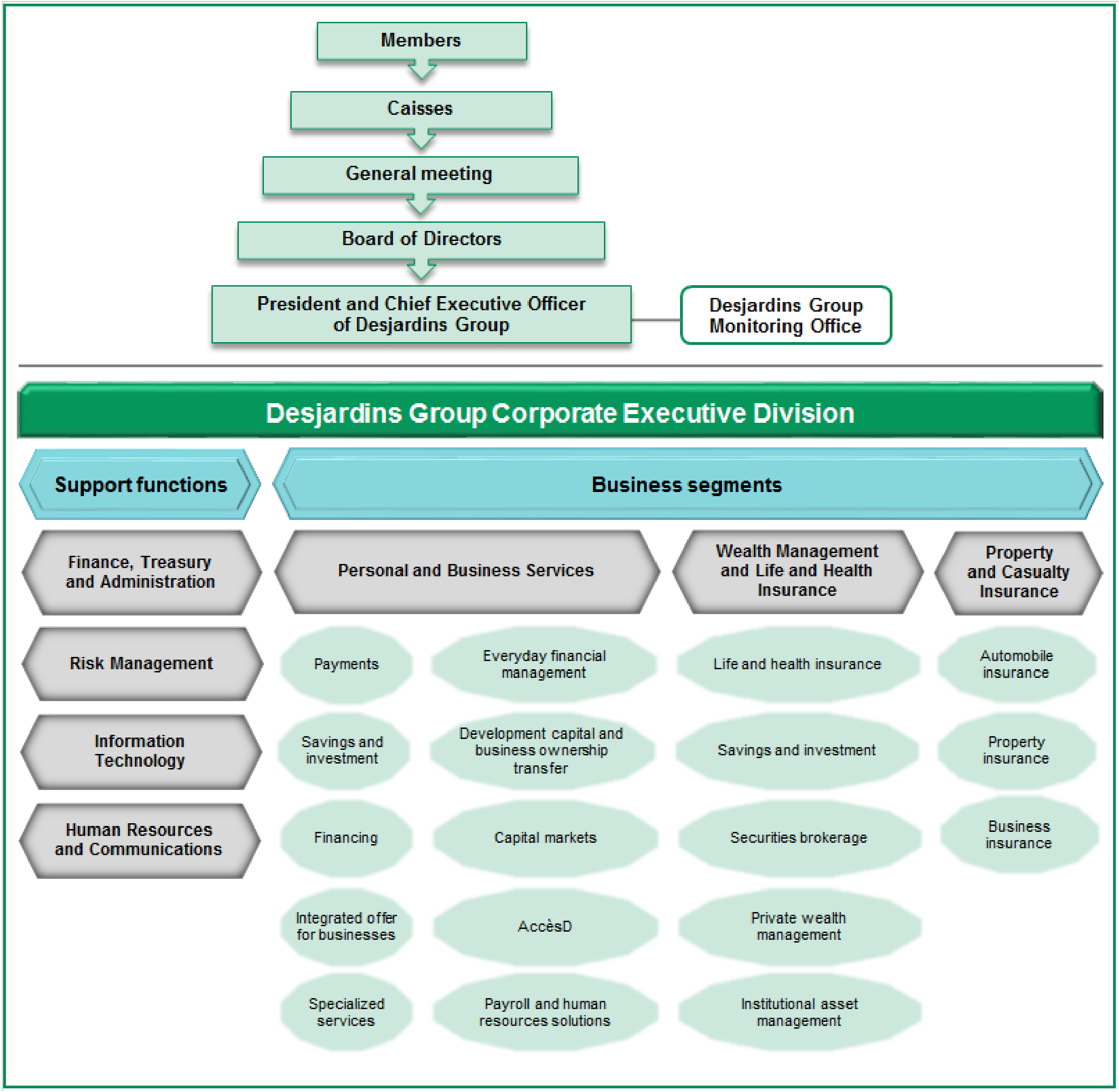
Desjardins Group stands out from other Canadian financial institutions because of its cooperative nature. The resulting mission and values are the driving force for its directors, managers and employees. They are echoed in its orientations, and help Desjardins Group achieve its vision of sustainable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

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

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

STRUCTURE OF DESJARDINS GROUP

Desjardins Group's structure has been designed to take into account the needs of its members and clients, as well as the markets in which it operates. The caisse network in 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's 2018 highlights

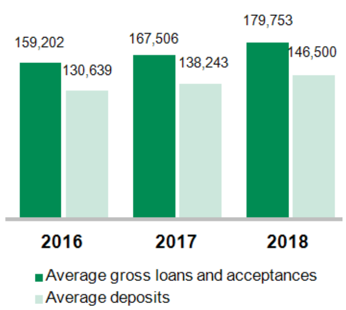
Surplus earnings before member dividends	Loans and acceptances outstanding	Assets under management	Tier 1A capital ratio	Total asset growth
$2,326 million	+ $13.1 billion	$57.4 billion	17.3%	+ $20.4 billion

- Surplus earnings before member dividends up $175 million, or 8.1%, compared to 2017.
- Increase of $295 million, or 15.5%, in adjusted surplus earnings[(1)] before member dividends compared to 2017.
- A total of $389 million returned to members and the community, including member dividends, sponsorships, donations and bursaries.
- Operating income[(1)] of $16,576 million, up 7.2% compared to 2017.
- Adjusted operating income[(1)] of $16,444 million, up 8.3% compared to 2017.
- Record growth in 2018 in loans and acceptances outstanding, up $13.1 billion compared to 2017.
- On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P., leading to the creation of Aviso Wealth.

2018 segment highlights

PERSONAL AND BUSINESS SERVICES

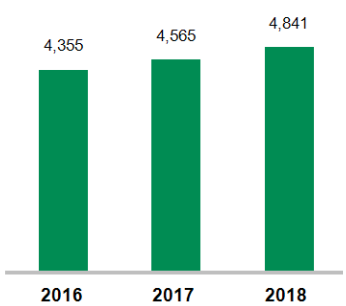
Average gross loans and acceptances and average deposits[(1)]
(in millions of dollars)



- Quebec's leader in residential mortgages and a leading player in consumer loans, including financing, with estimated market shares of 37.8% and 22.8%, respectively.
- Leader credit and debit card issuer in Quebec and No. 5 in Canada (based on 2017 outstandings), the segment has issued more than 6.9 million credit cards and 5.7 million debit cards in Canada.
- Leader in agricultural credit in Quebec, with a market share of 40.8%.
- Strong growth in commercial and industrial niche activities in Quebec, with estimated market share up to total 20.9%.
- Surplus earnings before member dividends totalled $1,272 million, up 14.8% compared to 2017, due to higher net interest income as a result of growth in outstandings and, to a lesser degree, higher interest rates.
- Acquisition and set-up of new Canada-wide credit card portfolios.
- Leader in on-balance sheet savings in Quebec with growth of 5.3% in 2018 for an estimated market share of 42.2%.
- Growth of 10.6% compared to 2017 in business volume related to credit card products, Accord D, and auto and durables financing.
- Growth of $12.2 billion compared to 2017 in the entire average portfolio of loans and acceptances.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

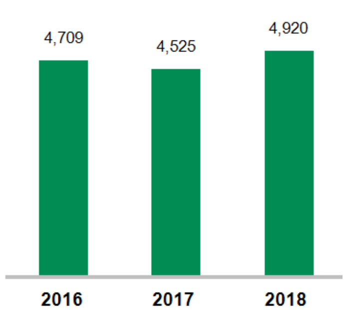
Written premiums
(in millions of dollars)



- No. 5 life and health insurer in Canada and No. 2 in Quebec (based on written premiums in 2017).
- No. 2 in Canada and No. 1 in Quebec for market-linked guaranteed investments (based on 2017 assets under management).
- Record net sales of $3.5 billion for market-linked guaranteed investments, up 70.1% in 2018.
- Desjardins Private Wealth Management named "Best Private Wealth Management Company in Canada" for a third straight year, according to the Global Banking and Finance Review, particularly for its comprehensive range of products and services, its financial soundness and the quality of its customer experience.
- Net surplus earnings of $894 million, up 46.1%, compared to 2017.
- Adjusted net surplus earnings[(1)] of $765 million, up 25.0% compared to 2017, related to a more favourable product claims experience and higher income due to the increase in assets under management.
- Gross insurance premiums of $4.3 billion, up 2.6% compared to 2017.
- Significant growth of 117.2% in net sales for online brokerage in 2018.

PROPERTY AND CASUALTY INSURANCE

Gross written premiums
(in millions of dollars)



- Canada's No. 3 and Quebec's No. 2 property and casualty insurer (based on gross direct premiums written in 2017).
- Underwriting profits for the 26th consecutive year, in spite of automobile insurance material damage coverage under pressure in all geographic markets in 2018.
- Launch of the "Radar" functionality in the mobile application so that insureds can be alerted to severe weather risks for their property.
- Transition to the Desjardins brand for the Canadian operations acquired from State Farm and introduction of a new contract for the exclusive agent network in Ontario, Western Canada and Atlantic Canada.
- Net surplus earnings of $173 million for the year, down $273 million due to the gain net of expenses on the sale of subsidiaries in 2017.
- Adjusted net surplus earnings[(1)] down $32 million, or 15.6%, compared to 2017, on account of the increase in the loss ratio, mainly in automobile insurance.
- Growth of $506 million, or 13.0%, compared to 2017, in net premiums to total $4.4 billion.
- Improvement in the expense ratio[(1)] to 25.2% in 2018, compared to 25.7% in 2017.

[(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)	2018[1]	2017[2]	2016[2]
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other operating income[3]	**2,859**	2,959	2,641
Operating income[3]	**16,576**	15,465	14,129
Investment income[3]	**734**	1,688	1,119
Total income	**17,310**	17,153	15,248
Provision for credit losses	**384**	349	319
Claims, benefits, annuities and changes in insurance contract liabilities	**6,579**	6,717	5,446
Non-interest expense	**7,485**	7,400	7,251
Income taxes on surplus earnings	**536**	536	460
Surplus earnings before member dividends	**$ 2,326**	$ 2,151	$ 1,772
Adjusted surplus earnings before member dividends[3]	**$ 2,197**	$ 1,902	$ 1,772
Contribution to combined surplus earnings by business segment[4]			
Personal and Business Services	**$ 1,272**	$ 1,108	$ 1,025
Wealth Management and Life and Health Insurance	**894**	612	461
Property and Casualty Insurance	**173**	446	296
Other	**(13)**	(15)	(10)
	$ 2,326	$ 2,151	$ 1,772
Amount returned to members and the community			
Member dividends	**$ 253**	$ 202	$ 144
Sponsorships, donations and bursaries	**94**	82	82
Desjardins Member Advantages program	**42**	36	33
	$ 389	$ 320	$ 259
Indicators			
Net interest margin[3]	**2.39%**	2.34%	2.41%
Return on equity[3]	**9.3**	9.1	8.0
Adjusted return on equity[3]	**8.9**	8.0	8.0
Productivity index[3]	**69.8**	70.9	74.0
Adjusted productivity index[3]	**70.6**	72.8	74.0
Credit loss provisioning rate[3]	**0.21**	0.20	0.20

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".
(4) The breakdown by line item is presented in Note 32, "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)	2018[1]	2017	2016
Balance sheet			
Assets	**$ 295,465**	$ 275,095	$ 258,367
Net loans and acceptances	**190,670**	177,521	166,026
Deposits	**183,158**	171,586	160,546
Equity	**25,649**	24,773	23,293
Indicators			
Assets under administration	**$ 373,558**	$ 411,548	$ 420,166
Assets under management[2]	**57,448**	58,220	51,550
Tier 1A capital ratio	**17.3%**	18.0%	17.3%
Tier 1 capital ratio	**17.3**	18.0	17.3
Total capital ratio	**17.6**	18.4	17.9
Leverage ratio	**8.3**	8.5	8.1
Liquidity coverage ratio[3]	**122.1**	121.4	121.1
Gross credit-impaired loans[4] / gross loans and acceptances[5]	**0.54**	0.25	0.32

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.
(3) Average for the quarters ended December 31 of each year indicated.
(4) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(5) See "Basis of presentation of financial information".

1.2 Significant events in 2018

Creation of Aviso Wealth

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and a partnership between the Centrals and The CUMIS Group. A gain of $129 million, net of income taxes, related to this transaction, was recognized in the Combined Statements of Income for the year ended December 31, 2018. Desjardins Group's interest in Aviso Wealth represents an investment in a joint venture and is recognized using the equity method of accounting in the Wealth Management and Life and Health Insurance segment. The results of the subsidiary Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P. were also presented in the Wealth Management and Life and Health Insurance segment.

Additional financial information is presented in Section 2.1 "Impact of significant transactions".

Zag Bank

On November 5, 2018, Zag Bank announced that it was winding down its operations, and will close down during 2019. This decision is the result of a recent shift in focus by Desjardins Group, following a recent review of its operations in Ontario, the Atlantic Provinces and Western Canada, to concentrate in particular on growing its property and casualty insurance operations, wealth management activities and payment services. Given this focus, having a direct or online bank no longer fits into the long-term strategy of Desjardins Group, Zag Bank's shareholder. The financial impact of this decision was reported mainly in the third and fourth quarters of 2018.

1.3 Strategic orientations and financial objectives

STRATEGIC ORIENTATIONS AND PRIORITIES

Fiscal 2018 marked the second year of the 2020 strategic framework. The organization continued to align itself with the three main strategic orientations of the framework:

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

These three orientations are based on attributes that present Desjardins as a simple, human, modern and efficient cooperative for its members and clients, as well as its directors, managers and employees. The 2019 strategic priorities for Desjardins Group's business segments derived from these orientations may be found in Section 2.3 "Analysis of business segment results" of this MD&A.

FINANCIAL OBJECTIVES

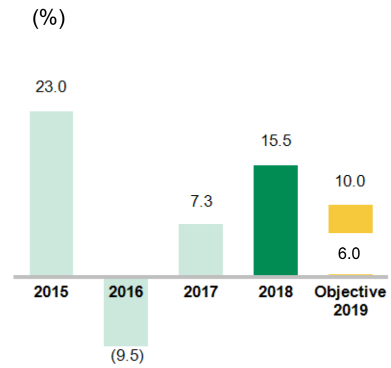
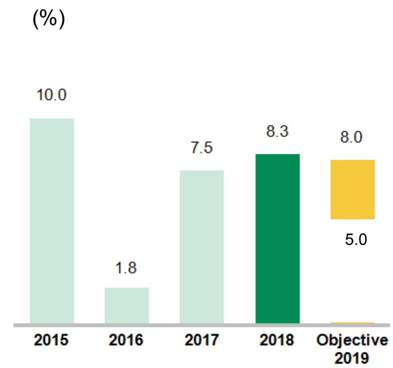
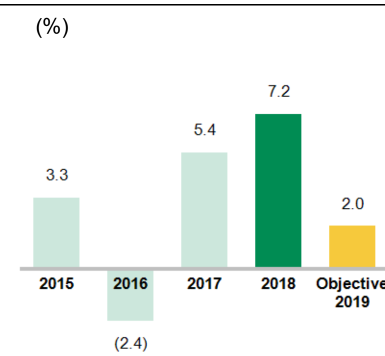
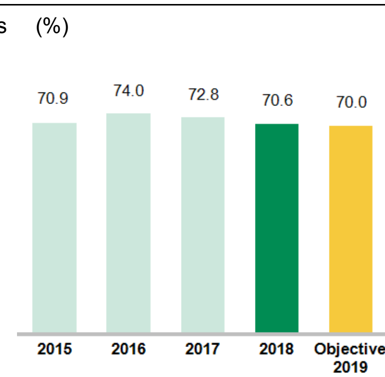
Desjardins Group sets medium-term financial objectives that provide it with the means of realizing its ambitions for members and clients by seeking new ways to increase its return to the community, ensure its sustainability and support its growth.

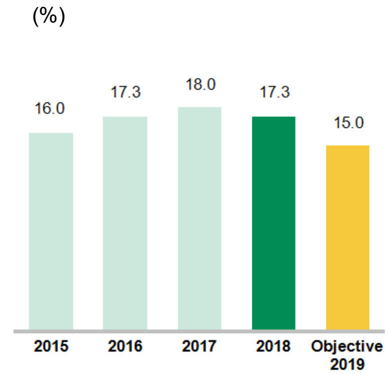
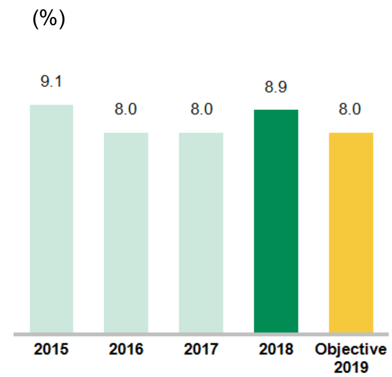
This section shows the progress made toward the objectives stated in 2018 and shows them in relation to the results achieved. Performance in 2019 will be measured using key indicators aligned with Desjardins's new ambitions according to the strategic orientations and priorities. Desjardins Group, through its members and clients, enriches the lives of people and communities in order to be first in people's hearts. Creating wealth and redistributing it to its members and their communities, constantly working in the best interests of members and clients, involves Desjardins Group's financial performance, as well as other factors.

Overall performance

The trend in Desjardins Group's overall performance over the last few years has been positive. Surplus earnings before member dividends and operating income have grown, and the targets for return on equity and capital were met. For the coming years, senior management expects an increasing recurrent return for members and clients consistent with Desjardins Group's financial performance. Additional investments, particularly in innovative information technology platforms, related primarily to the digital transformation, 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 2018	2019 objectives	Trend[2][3]
Growth in adjusted surplus earnings before member dividends: A measure of value creation for members and clients.	The result for this indicator was 15.5%, exceeding the 5% to 10% objective for 2018. The increase in adjusted surplus earnings before member dividends was mainly due to continued growth in caisse network and payment activities, the more favourable claims experience in life and health insurance, higher income resulting from growth in assets under management, mitigated by a higher claims experience in property and casualty insurance. In addition, the reduction in investment portfolio provisions and the impact of the change in the post-retirement benefit plan had a favourable effect on non-interest expense.	The objective is to achieve growth of between 6% and 10%.	
Growth in adjusted operating income: A measure of growth in Desjardins Group's operations.	Growth was 8.3% in 2018, in line with the 7% to 10% objective. 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 growth in operations that increased Desjardins Group's income from premiums, assets under management and payment activities.	The objective is to achieve growth of between 5% and 8%.	
Growth differential between adjusted operating income and non-interest expense: A measure of sustainability and profitability.	The growth differential was 7.2% in 2018 as a result of growth in operations combined with productivity initiatives, which had an impact on non-interest expense. In addition, the reduction in investment portfolio provisions and the impact of the change in the post-retirement benefit plan had a favourable effect on non-interest expense.	The objective is to achieve a differential of 2%.	
Adjusted productivity index: A measure of efficiency.	The index was 70.6% at the end of fiscal 2018, an improvement compared to 2017 due to the items that affected results, as mentioned earlier.	Desjardins Group has again set its objective at 70%.	

Key indicators[1]	Results achieved in 2018	2019 objectives	Trend[2][3]
Tier 1A capital ratio: A measure of Desjardins Group's financial strength.	As at December 31, 2018, this ratio was 17.3%, exceeding Desjardins Group's 15% objective.	The objective remains a ratio exceeding 15%.	
Adjusted return on equity: A measure of profitability resulting in value creation for members and clients.	This indicator was 8.9% in 2018, higher than Desjardins's 8% objective in 2018.	The objective is to reach a level exceeding 8%.	

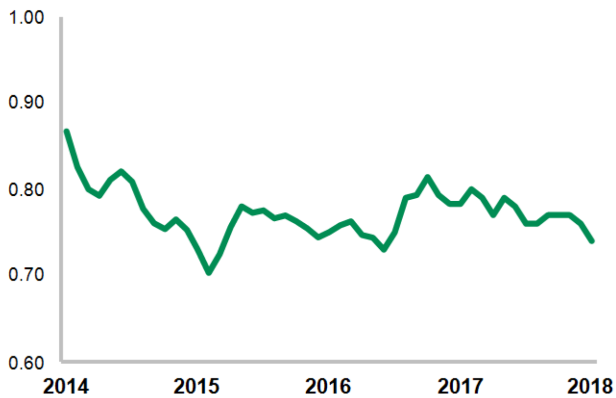
(1) See "Basis of presentation of financial information".
(2) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(3) Prior-period data have been adjusted to conform with the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.

FINANCIAL OUTLOOK

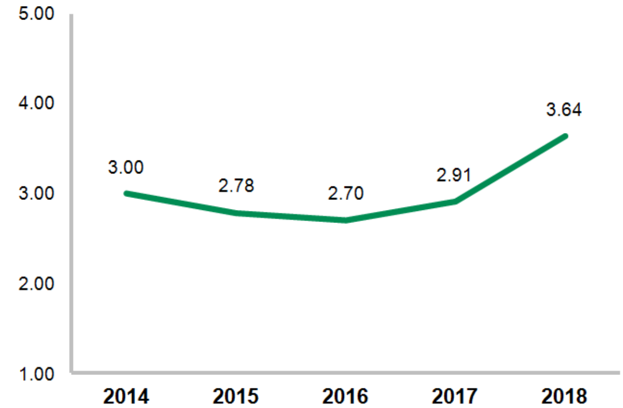
Desjardins Group should continue 2019 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry as well as increasing profitability in an expanding economic environment over the coming year. Stiff competition in the banking sector will place sustained pressure on net interest income, although the rise in interest rates that began in mid-2017 has had a favourable effect. 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 Economic environment and outlook

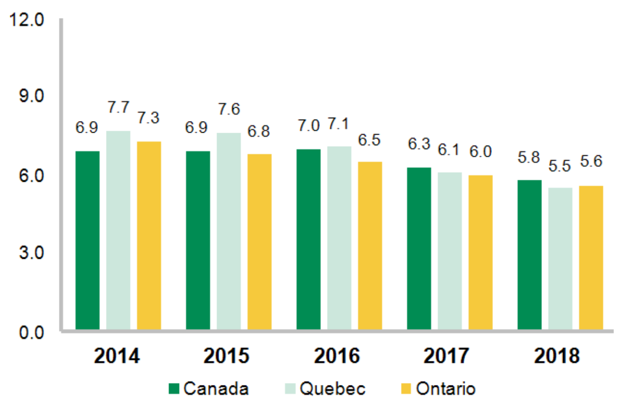
Changes in the Canadian dollar vs. the U.S. dollar (monthly average)
(Canadian dollars/U.S. dollars)



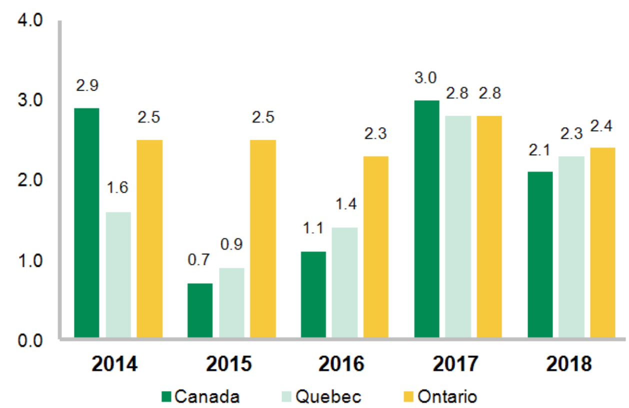
Changes in the prime rate (annual average)
(as a percentage)



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



Annual growth in GDP
(as a percentage)



Global economy

After accelerating sharply in 2017, the international economy continued to expand in 2018. The annual gain in GDP is estimated at 3.7%. This good growth was despite a slowdown in international trade, the result of escalating protectionism that began in the U.S. Furthermore, the growth in several major economies slowed during the year. This was the case in the eurozone, where most confidence indices declined. Euroland's real GDP grew 1.8%, decidedly slower than the 2.5% growth posted for 2017. The Italian budgetary and political problem, the social strains in France and the difficulties in Germany's manufacturing sector have given cause for concern in Europe. In the United Kingdom, the trend is weak, due in particular to uncertainties around Brexit. The Chinese economy is growing at a slightly slower pace, at 6.6% for 2018 compared to 6.8% in 2017. Trade tensions between the U.S. and China have affected the economic environment in China, but also in many emerging countries.

The favourable economic environment and rising inflation led many central banks to continue normalizing monetary policy in 2018. In Europe, the European Central Bank stopped buying financial assets in December 2018, while the Bank of England raised its key interest rates by 0.25%. In North America, the pace of key interest rate hikes accelerated, with the U.S. Federal Reserve (the Fed) announcing four 0.25% increases, compared to three in Canada. Tighter monetary policies and optimistic statements issued by the central banks, particularly in North America, led to higher bond yields in early 2018. The rising interest rates, trade tensions and fears around the health of the global economy brought considerable volatility back to the stock markets. Even the S&P 500 Index, encouraged by tax reform and boosted by corporate earnings, nevertheless incurred two major corrections in 2018, ending the year lower compared to 2017. The year was even more difficult for most of the other stock exchanges. Stock markets in Europe and the emerging economies were held back by trade tensions, political uncertainties and the strength of the U.S. dollar, and the drop in the Toronto Stock Exchange was amplified by lower commodity prices. These factors also led to a weaker Canadian dollar and caused bond rates to fall sharply at the end of 2018.

The global economy should continue to grow in 2019, but economic activity is not expected to accelerate. The trade tensions and concerns about the emerging countries suggest a certain levelling off. In the industrialized countries, demand from the U.S. should partly offset weaker growth in the eurozone. The issue of the divorce between the European Union and the United Kingdom is not yet settled, and the related uncertainties may manifest in the economy. Volatility in the financial markets, concerns about Europe and China and the return of their monetary policies to a virtually neutral orientation should convince the Fed and the Bank of Canada to slow the pace of increases to their key interest rates. The increase in bond rates should also be limited. The return of a more positive sentiment on financial markets could exert some negative pressure on the U.S. dollar. Volatility may well remain high in the stock markets, but strong economic growth and high earnings levels leave hope that the North American indices will outperform their historical averages in 2019. The economic environment should also be quite favourable for commodities and, as a result, for the dollar and Canadian financial assets.

United States

In the wake of slightly slower growth in early 2018, economic activity in the U.S. accelerated markedly in the spring, and real GDP grew strongly again in the second half of 2018. Above all, the labour market performed very well, with the unemployment rate reaching levels not seen since the end of the 1960s. Salaries also began to rise. This environment was supported by the tax cuts enacted by the Trump administration and Congress at the end of 2017. Confidence remained strong throughout the year despite greater volatility in the financial markets, escalating protectionism, the interest rate hikes and the mid-term elections. Real GDP grew 2.9% in 2018, on the heels of a 2.2% gain in 2017.

The economic environment in the U.S. should continue to be favoured by the budgetary policies implemented in 2018. However, the situation may change due to the risk of political stalemates following the mid-term elections. This became clear with the partial shutdown of the federal government that began at the end of December. Conditions in the labour market should nevertheless continue to improve, which will exert slightly more pressure on salaries and prices. Real GDP should reach 2.6% in 2019. However, the Trump administration's protectionist measures and reprisals by other countries represent significant risks.

Canada

Following exceptional growth of 3.0% in 2017, Canadian real GDP expanded at a more sustainable rate of around 2.1% in 2018. The slower pace was due mostly to domestic demand. Household spending was not as strong, with slower growth in consumer spending and less residential investment. For the most part this was due to the effects of gradual rising Canadian interest rates and a series of restrictive measures affecting mortgage lending and the housing market. The economy experienced more problems late in the year when the energy sector was hard hit by plummeting oil prices, aggravated in Canada by constraints on the transportation of oil products. The year was also marked by an agreement to replace the North American Free Trade Agreement (NAFTA) with the Canada-United States-Mexico Agreement (CUSMA). This helped reduce uncertainty, opening the way for accelerated non-residential business investment in non-energy sectors.

The 2019 outlook in Canada is for growth near the economy's potential. The problems in the energy sector are expected to continue at the start of the year, as the Alberta government has imposed a significant cut in the province's oil production. The gradual increase in interest rates will also continue to affect consumer spending and the housing market. This being said, several favourable factors are still in place, allowing, among other things, growth in domestic demand to continue at a satisfactory pace. The labour market is strong, with the unemployment rate close to an historic low. Furthermore, demand for new and existing homes remains quite good, and the population is growing relatively quickly, particularly in the 25-to-34-year-old group. Lastly, if CUSMA is ratified as expected, businesses in the non-energy sectors should continue to invest in an environment where full use of production capacity is generating some problems satisfying growing demand. In trade, foreign demand should continue to expand in 2019, but at a slower pace. This will nevertheless foster export growth. The risks nevertheless remain substantial due to the trade wars being waged around the world. In the final analysis, real GDP could grow by 1.8% in 2019.

Quebec

The Quebec economy grew at a sustained pace in 2018. Real GDP rose by approximately 2.3% for the year, slightly slower than the 2.8% growth posted for 2017. Households continued to be active, driving the residential real estate market. Consumer spending maintained a good pace, with household confidence still high. Existing home sales reached new heights, with prices rising at close to 5.2% in 2018. All the province's regions were swept up in this growth. The Greater Montreal real estate market began to overheat in the fall of 2018, since buyers outnumbered properties for sale. The provincial unemployment rate averaged 5.5% last year, exacerbating the problems many businesses were experiencing recruiting talent. The upward pressure on salaries grew, and employees' hourly compensation increased by approximately 4% last year. Business investment and exports firmed up slightly in 2018, despite the period of uncertainty associated with the NAFTA renegotiations, which continued into the fall.

The Quebec economy is expected to slow somewhat in 2019. The interest rate increases that began in mid-2017 should moderate consumer spending, in particular purchases of big-ticket items that require financing. The residential real estate market will also be affected by higher borrowing costs. Home sales and housing starts can be expected to weaken slightly in 2019, compared to the exceptional market activity of 2018. House prices will rise less quickly due to this market lull and approach 2.5% next year. CUSMA has reduced uncertainty for businesses and will be good for both investment and exports. It remains to be seen whether the tariffs of 25% on steel and 10% on aluminum, which are not part of the new agreement, will be maintained. Quebec's real GDP is expected to grow 2% in 2019, or slightly slower than in 2018.

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

2.0 Review of financial results

In the charts in this section, the information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

2.1 Impact of significant transactions

CREATION OF AVISO WEALTH IN 2018

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and the partnership between the Centrals and The CUMIS Group. For Desjardins Group, the interest in Aviso Wealth represents an investment in a joint venture and is recognized using the equity method of accounting in the Wealth Management and Life and Health Insurance segment. A $4 million share in Aviso Wealth was recognized in the Combined Statements of Income for the year ended December 31, 2018.

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

Table 3 – Impact of the creation of Aviso Wealth
For the years ended December 31

(in millions of dollars)

	2018	2017	2016
Other operating income[1]	$ 49	$ 125	$ 108
Operating income[1]	49	125	108
Investment loss[1]	-	(6)	(7)
Total income	49	119	101
Non-interest expense	49	114	99
Income taxes on surplus earnings	-	1	1
Surplus earnings before member dividends	$ -	$ 4	$ 1

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

SALE OF SUBSIDIARIES IN 2017

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. 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.

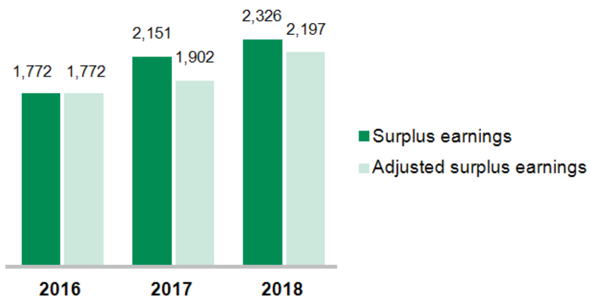
Table 4 – Impact of the sale of subsidiaries
For the years ended December 31

(in millions of dollars)	2018	2017	2016
Net interest income	$ -	$ 3	$ 5
Net premiums	-	65	213
Other operating income[1]	-	97	197
Operating income[1]	-	165	415
Investment income[1]	-	9	6
Total income	-	174	421
Claims, benefits, annuities and changes in insurance contract liabilities	-	22	77
Non-interest expense	-	124	295
Income taxes on surplus earnings	-	9	16
Surplus earnings before member dividends	$ -	$ 19	$ 33

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

2.2 Analysis of 2018 results

Surplus earnings before member dividends
(in millions of dollars)



Segment contributions to surplus earnings before member dividends in 2018
(as a percentage)

Table 5 – Financial results and indicators
For the years ended December 31

(in millions of dollars)	2018[1]	2017[2]	2016[2]
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other operating income[3]	**2,859**	2,959	2,641
Operating income[3]	**16,576**	15,465	14,129
Investment income[3]	**734**	1,688	1,119
Total income	**17,310**	17,153	15,248
Provision for credit losses	**384**	349	319
Claims, benefits, annuities and changes in insurance contract liabilities	**6,579**	6,717	5,446
Non-interest expense	**7,485**	7,400	7,251
Income taxes on surplus earnings	**536**	536	460
Surplus earnings before member dividends	**$ 2,326**	$ 2,151	$ 1,772
Adjusted surplus earnings before member dividends[3]	**$ 2,197**	$ 1,902	$ 1,772
Contribution to combined surplus earnings by business segment[4]			
Personal and Business Services	**$ 1,272**	$ 1,108	$ 1,025
Wealth Management and Life and Health Insurance	**894**	612	461
Property and Casualty Insurance	**173**	446	296
Other	**(13)**	(15)	(10)
	$ 2,326	$ 2,151	$ 1,772
Amount returned to members and the community			
Member dividends	**$ 253**	$ 202	$ 144
Sponsorships, donations and bursaries	**94**	82	82
Desjardins Member Advantages program	**42**	36	33
	$ 389	$ 320	$ 259
Indicators			
Net interest margin[3]	**2.39%**	2.34%	2.41%
Return on equity[3]	**9.3**	9.1	8.0
Adjusted return on equity[3]	**8.9**	8.0	8.0
Productivity index[3]	**69.8**	70.9	74.0
Adjusted productivity index[3]	**70.6**	72.8	74.0
Credit loss provisioning rate[3]	**0.21**	0.20	0.20

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".
(4) The breakdown by line item is presented in Note 32, "Segmented information", to the Combined Financial Statements.

2018 SURPLUS EARNINGS

For 2018, Desjardins Group continued to grow its operations and reported surplus earnings before member dividends of $2,326 million, a year-over-year increase of $175 million, or 8.1%. Surplus earnings adjusted for specific items, namely the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018 along with the gain net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company recognized in 2017, were up $295 million, or 15.5%, to total $2,197 million. This increase was mainly due to continued growth in caisse network and payment activities, the more favourable claims experience in life and health insurance, higher income resulting from growth in assets under management, mitigated by a higher claims experience in property and casualty insurance. In addition, the reduction in investment portfolio provisions and the impact of the change in the post-retirement benefit plan had a positive effect on non-interest expense.

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 2018.

- A total of $389 million returned to the community, compared to $320 million in 2017, a 21.6% increase.
  - Member dividends of $253 million for the year ended December 31, 2018, compared to $202 million for the previous year. For 2018, a change was made to member dividends to better recognize Desjardins products held.
  - An amount of $94 million was given to various organizations in the form of sponsorships, donations and bursaries, a $12 million increase compared to 2017.
  - Through the Desjardins Member Advantages program, $42 million was paid out, a $6 million increase compared to 2017.
- Commitments made under the $100 million fund regional development program totalled $53 million for 2018.

Segment contributions to surplus earnings

- Personal and Business Services: **Contribution of $1,272 million,** up $164 million, or 14.8% compared to 2017.
  - Solid performance from the caisse network, related especially to growth in net interest income and strict cost control.
  - Profit related to the restructuring of Interac Corp.
  - Growth in financing activities related to consumer, credit card and other personal loans. Partially offset by:
    - Lower income from trading and new issues on capital markets.
    - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
    - Expenses related to the winding-up of the operations of Zag Bank.
  - The segment contributed 54.7% to surplus earnings.
- Wealth Management and Life and Health Insurance: **Contribution of $894 million,** up $282 million, or 46.1%, and net surplus earnings adjusted for specific items up $153 million, or 25.0%, compared to 2017.
  - Higher gains on the disposal of real estate investments in 2018.
  - More favourable claims experience.
  - Higher income from growth in assets under management.
  - Offset by less favourable adjustments to actuarial assumptions in the normal course of business.
  - The segment contributed 38.4% to surplus earnings.
- Property and Casualty Insurance: **Contribution of $173 million,** down $273 million, and net surplus earnings adjusted for specific items down $32 million, or 15.6%, compared to 2017.
  - Higher claims experience compared to 2017.
  - Impact of the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - Offset by higher investment income.
  - The segment contributed 7.4% to surplus earnings.

- **Return on equity was 9.3%,** compared to 9.1% for 2017.
- **Adjusted return on equity was 8.9%,** compared to 8.0 % for 2017.

OPERATING INCOME

Table 6 – Operating income
For the years ended December 31

(in millions of dollars)	**2018(1)**	2017(2)	2016(2)
Net interest income	**$ 4,894**	$ 4,457	$ 4,320
Net premiums	**8,823**	8,049	7,168
Other operating income(3) (see Table 9)	**2,859**	2,959	2,641
Total operating income(3)	**$ 16,576**	$ 15,465	$ 14,129

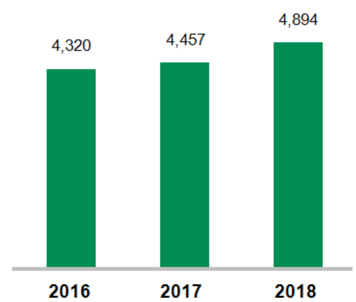
(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".

Operating income totalled $16,576 million, up $1,111 million, or 7.2%, compared to 2017. Excluding the gain of $132 million before taxes on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018 along with the gross gain of $278 million on the sale of Western Financial Group Inc. and Western Life Assurance Company recognized in 2017, operating income would have been $16,444 million, up $1,257 million, or 8.3%, compared to 2017.

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 7 shows the changes in net interest income for the main asset and liability classes. Table 8 details how net interest income was affected by changes in volume and interest rates for the different assets and liabilities.

Net interest income
(in millions of dollars)



- **Net interest income of $4,894 million,** up $437 million, or 9.8%, mainly because of growth in the entire average portfolio of loans and acceptances outstanding, particularly residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and, to a lesser degree, higher interest rates.

- **Net interest margin of 2.39%** in 2018, as a percentage of average interest-bearing assets, up 5 basis points compared to 2017.

- **Interest income of $7,321 million,** up $1,075 million, or 17.2%, essentially due to the following items:
  - Growth in average return on total interest-bearing assets, mainly loans, which added $610 million to interest income.
  - An increase in the average volume of total interest-bearing assets, mainly loans, which added $465 million to interest income.

- **Interest expense of $2,427 million,** up $638 million, or 35.7%, primarily as a result of the following:
  - An increase in the average cost of funding, mainly from deposits, raised this expense by $542 million.
  - Growth in average deposits, leading to a $96 million increase in interest expense.

Table 7 – Net interest income on average assets and liabilities
For the years ended December 31

(in millions of dollars and as a percentage)	2018			2017[1]			2016[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	**$ 23,809**	**$ 390**	**1.64 %**	$ 22,363	$ 323	1.44 %	$ 19,977	$ 315	1.58 %
Loans	**180,542**	**6,931**	**3.84**	167,944	5,923	3.53	159,363	5,686	3.57
Total interest-bearing assets	**204,351**	**7,321**	**3.58**	190,307	6,246	3.28	179,340	6,001	3.35
Other assets	**6,536**	**-**	**-**	6,126	-	-	6,431	-	-
Total assets	**$ 210,887**	**$ 7,321**	**3.47 %**	$ 196,433	$ 6,246	3.18 %	$ 185,771	$ 6,001	3.23 %
Liabilities and equity									
Interest-bearing liabilities									
Deposits	**$ 177,490**	**$ 2,235**	**1.26 %**	$ 168,098	$ 1,711	1.02 %	$ 159,200	$ 1,596	1.00 %
Borrowings and subordinated notes	**1,369**	**192**	**14.02**	1,377	78	5.66	1,581	85	5.38
Total interest-bearing liabilities	**178,859**	**2,427**	**1.36**	169,475	1,789	1.06	160,781	1,681	1.05
Other liabilities	**14,184**	**-**	**-**	10,147	-	-	9,496	-	-
Equity	**17,844**	**-**	**-**	16,811	-	-	15,494	-	-
Total liabilities and equity	**$ 210,887**	**$ 2,427**	**1.15 %**	$ 196,433	$ 1,789	0.91 %	$ 185,771	$ 1,681	0.90 %
Net interest income		**$ 4,894**			$ 4,457			$ 4,320	
As a percentage of average interest-bearing assets			**2.39 %**			2.34 %			2.41 %

[1] Data for 2017 and 2016 have been reclassified to conform to the current year's presentation.

Table 8 – Impact of changes in volumes and rates on net interest income
For the years ended December 31

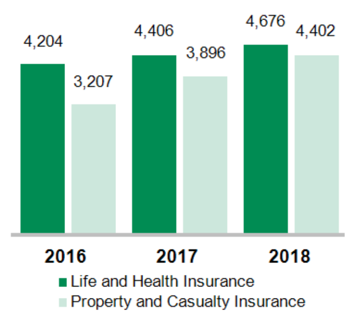
(in millions of dollars and as a percentage)	2018		Increase (decrease)			2017[(1)]		Increase (decrease)		
	Change in average volume	**Change in average rate**	**Interest**	**Average volume**	**Average rate**	Change in average volume	Change in average rate	Interest	Average volume	Average rate
Assets										
Securities, cash and deposits with financial institutions	**$ 1,446**	**0.20%**	**$ 67**	**$ 21**	**$ 46**	$ 2,386	(0.14)%	$ 8	$ 38	$ (30)
Loans	**12,598**	**0.31**	**1,008**	**444**	**564**	8,581	(0.04)	237	306	(69)
Change in interest income			**1,075**	**465**	**610**			245	344	(99)
Liabilities										
Deposits	**9,392**	**0.24**	**524**	**96**	**428**	8,898	0.02	115	89	26
Borrowings and subordinated notes	**(8)**	**8.36**	**114**	**-**	**114**	(204)	0.28	(7)	(11)	4
Change in interest expense			**638**	**96**	**542**			108	78	30
Change in net interest income			**$ 437**	**$ 369**	**$ 68**			$ 137	$ 266	$ (129)

(1) Data for 2017 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 $774 million, or 9.6%, to total $8,823 million as at December 31, 2018.

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 $4,676 million,** up $270 million, or 6.1%, due to business growth.
  - Premiums up $270 million, with annuities accounting for $165 million, group insurance for $69 million and individual insurance for $36 million.

Property and Casualty Insurance segment

- **Net premiums of $4,402 million,** up $506 million, or 13.0%, essentially as a result of the following:
  - Increase of $367 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly due to the change in the cession rate specified in the treaty, which provides for cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Increase due to growth in the average premium reflecting the current trend in the Canadian property and casualty insurance industry, as well as to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
  - Offset by a decrease in net premiums resulting from the sale of Western Life Assurance Company on July 1, 2017.

Other operating income

Table 9 – Other operating income
For the years ended December 31

(in millions of dollars)	2018[(1)]	2017[(2)]	2016[(2)]
Deposit and payment service charges	**$ 433**	$ 458	$ 488
Lending fees and credit card service revenues	**697**	660	574
Brokerage and investment fund services	**905**	1,030	1,060
Management and custodial service fees	**551**	485	422
Foreign exchange income	**91**	77	70
Other	**182**	249	27
Total other operating income[(3)]	**$ 2,859**	$ 2,959	$ 2,641

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".

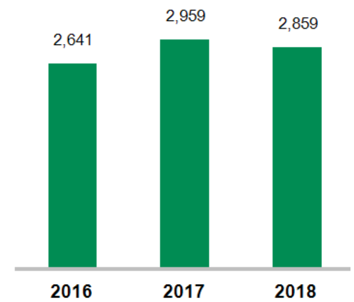
Other operating income stood at $2,859 million for 2018, which is a decrease of $100 million, or 3.4%, compared to the previous year.

Excluding the gain of $132 million before taxes on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018 along with the gross gain of $278 million on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company recognized in 2017, other operating income would have been $2,727 million, up $46 million, or 1.7%, compared to 2017.

- Deposit and payment service charges of $433 million, down $25 million, or 5.5%.
  - Lower income from deposit service charges because of changes in pricing and a lower volume.
- Lending fees and credit card service revenues of $697 million, up $37 million, or 5.6%.
  - Growth in business volume from payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.
- Income from brokerage and investment fund services of $905 million, down $125 million, or 12.1%.
  - Decrease in commission income following the sale of Western Financial Group Inc. and the transaction involving Qtrade Canada Inc.
  - Offset by growth in income from assets under management.
- Management and custodial service fees up $66 million, or 13.6%.
  - Growth in fees related to assets under management.
- Other operating income of $182 million, down $67 million, or 26.9%.
  - Gross gain of $278 million on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company recognized in 2017.

  Partially offset by the following:
  - Gain before taxes of $132 million on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018.
  - Decrease in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.

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



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

INVESTMENT INCOME

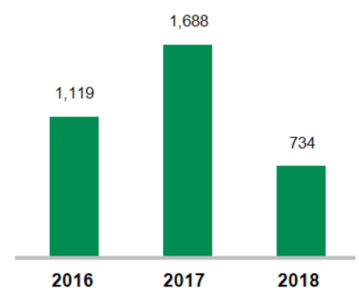
Investment income totalled $734 million, a decrease of $954 million compared to the previous year.

- Decrease primarily due to fluctuations in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to the decrease in the fair value of the bond portfolio related to interest rate fluctuations.
  - Decrease largely offset by the change in actuarial liabilities that in turn led to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Lower income from trading activities.

Partially offset by the following items:

- Higher dividend income than in 2017, especially on account of reinvested income that included prior-period adjustments.
- Higher gains on disposal of real estate investments in 2018.
- Negative change in the fair value of matched bonds in the Property and Casualty Insurance segment lower than in 2017, chiefly because market interest rates did not rise as much in 2018 as they did in 2017.
- Profit related to the restructuring of Interac Corp.

Investment income[(1)]
(in millions of dollars)



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

TOTAL INCOME

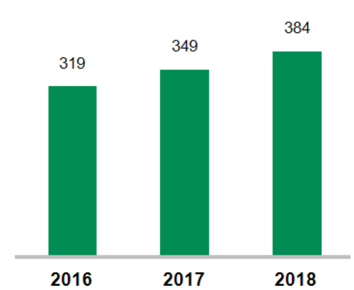
Total income, comprising net interest income, net premiums, other operating income and investment income, amounted to $17,310 million, an increase of $157 million, or 0.9%, compared to 2017.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $384 million, up $35 million, or 10.0%. This increase was mainly the result of growth in outstanding loans as well as the adoption of IFRS 9 as at January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and the migration of borrower ratings. Despite this increase, Desjardins Group continued to present a quality loan portfolio in 2018.

- The credit loss provisioning rate was 0.21% for 2018, compared to 0.20% in 2017.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.54% as at December 31, 2018, compared to 0.25% a year earlier. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant.

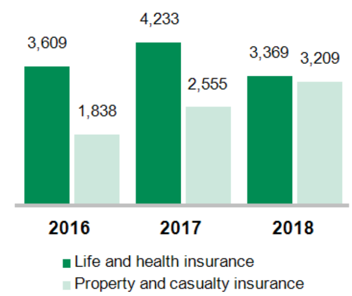
Provision for credit losses
(in millions of dollars)



CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $6,579 million, down $138 million, or 2.1%, compared to 2017.

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



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

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $3,369 million,** down $864 million, or 20.4%. This decrease was basically the result of the following:
  - Decrease of $873 million in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments.
  - The more favourable product claims experience was offset by less favourable adjustments to the changes to actuarial assumptions made in the normal course of business.

Property and Casualty Insurance segment

- **Cost of claims of $3,209 million,** up $654 million, or 25.6%, mainly due to the following items:
  - Business growth, which led to a higher cost of claims.
  - Increase due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Less positive developments than in 2017 concerning prior-year claims in automobile insurance.
  - The P&C insurers' loss ratio was 73.9% for 2018, compared to 67.7% in 2017.
    - Higher ratio primarily attributable to less positive developments than in 2017 concerning prior-year claims, (9.9)% vs. (15.0)%, essentially automobile insurance claims.
    - Higher claims experience for the current year than for 2017: 80.7% vs. 80.1%.
    - More significant impact of catastrophes and major events compared to 2017: 3.1% vs. 2.6%.

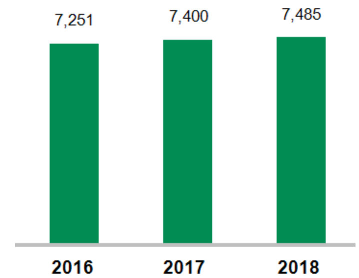
NON-INTEREST EXPENSE AND PRODUCTIVITY INDEX

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

(in millions of dollars and as a percentage)	**2018**[1]	2017[2]	2016[2]
Salaries and fringe benefits			
Salaries	**$ 2,836**	$ 2,808	$ 2,909
Fringe benefits	**571**	644	639
	3,407	3,452	3,548
Premises, equipment and furniture, including depreciation	**701**	727	667
Service agreements and outsourcing	**338**	319	306
Communications	**261**	284	307
Other	**2,778**	2,618	2,423
Total non-interest expense	**$ 7,485**	$ 7,400	$ 7,251
Desjardins Group productivity index[3]	**69.8%**	70.9%	74.0%
Desjardins Group adjusted productivity index[3]	**70.6**	72.8	74.0

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
[3] See "Basis of presentation of financial information".

Non-interest expense
(in millions of dollars)



Non-interest expense totalled $7,485 million for 2018, up slightly by $85 million, or 1.1%, compared to 2017. This increase was mitigated by the following:
- Reduction in investment portfolio provisions.
- Gain due to the impact of the change in the post-retirement benefit plan.

Apart from these favourable items, non-interest expense increased as a result of the following:
- Higher expenses due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
- Business growth, particularly in assets under management.

- **Salaries and fringe benefits of $3,407 million,** down $45 million, or 1.3%, compared to 2017, mainly because of the following:
  - Gain due to the impact of the change in the post-retirement benefit plan made during 2018.
  - Decrease in salaries following the sale of Western Financial Group Inc. and Western Life Assurance Company.
  - Offset by higher salaries due to indexing and growth in operations.
  - This expense item represented 45.5% of total non-interest expense, lower than the 46.6% recorded in 2017.
  - The ratio of fringe benefits to total base compensation was 20.1% in 2018, down compared to 22.9% in 2017, primarily because of the impact of the change in the post-retirement benefit plan made during 2018. For more information, see Note 16, "Net defined benefit plan liabilities" to the Combined Financial Statements.

- **Expenses related to premises, equipment and furniture (including depreciation) of $701 million,** down $26 million, or 3.6%, compared to 2017.
  - Reduction in the purchase of computer hardware.
  - Decrease in expenses following the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.

- **Service agreements and outsourcing of $338 million,** up $19 million, or 6.0%, compared to 2017.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.

- **Communication expenses of $261 million,** down $23 million, or 8.1%, compared to 2017.
  - The decrease resulted from the implementation of productivity initiatives.

- **Other expenses of $2,778 million,** up $160 million, or 6.1%, compared to 2017.
  - Increase in expenses due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Commitments made under the $100 million fund program.
  - Business growth, particularly in assets under management.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Write-off of certain technology assets in 2018.
  - Expenses related to the winding-up of Zag Bank's operations.

  Partly offset by the following:
  - Reduction in investment portfolio provisions.
  - Decrease in expenses due to the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017 as well as the transaction involving Qtrade Canada Inc.

- **Productivity index at 69.8% for 2018,** compared to 70.9% in 2017.
- **Adjusted productivity index at 70.6% for 2018,** compared to 72.8% in 2017. The improvement in the 2018 productivity index was due to the items mentioned earlier.

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. 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,** the same amount as in 2017.
  - Effective tax rate of 18.7% for the year ended December 31, 2018. down compared to 19.9% for 2017.
  - If specific items are excluded, the effective tax rate would have been 19.5% for 2018, down slightly compared to 21.0% in 2017. The lower rate is mainly because of the recovery of taxes related to the remuneration of F capital shares.

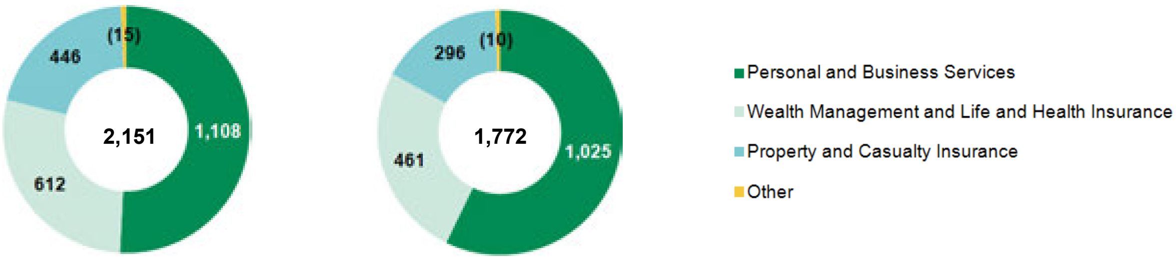
Note 27, "Income taxes on surplus earnings", to the Combined Financial Statements presents, among other things, a reconciliation of the statutory tax rate and the effective tax rate, expressed in dollars.

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 2018, Desjardins entities paid $1,447 million in indirect taxes, compared to $1,358 million in 2017.

COMPARISON OF 2017 AND 2016

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

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



For 2017, Desjardins Group posted surplus earnings before member dividends of $2,151 million, compared to $1,772 million for 2016. Surplus earnings adjusted for specific items totalled $1,902 million, for an increase of $130 million, or 7.3%. Return on equity was 9.1%, compared to 8.0% in 2016, while adjusted return on equity was 8.0% in 2017, the same ratio as in 2016.

Segment results

- **Personal and Business Services: Surplus earnings before member dividends of $1,108 million in 2017,** up $83 million compared to 2016, chiefly due to the following:
  - Growth in caisse network activities.
  - Growth in business volume from payment and financing activities.
  - Growth in capital market income from mergers and acquisitions.

- **Wealth Management and Life and Health Insurance: Net surplus earnings of $612 million in 2017,** up $151 million compared to 2016, essentially due to the following:
  - Solid investment performance in 2017.
  - Favourable adjustments to actuarial assumptions made 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.

- **Property and Casualty Insurance: Net surplus earnings of $446 million in 2017,** including a gain on the sale of subsidiaries, for an increase of $150 million compared to 2016.
  - Net surplus earnings adjusted for specific items totalled $205 million, down $91 million compared to 2016.
  - Higher claims experience in 2017 than in 2016 and favourable trend in prior-year claims, which were lower than in 2016.

Combined results

- **Operating income of $15,465 million in 2017,** up $1,336 million compared to 2016.
  - Net interest income of $4,457 million in 2017, an increase of $137 million compared to 2016, mainly on account of growth in the entire average portfolio of loans and acceptances outstanding.
  - Net premiums up $881 million in 2017, mainly because of the following:
    - Increase in net premiums resulting 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.
    - Business growth related to insurance operations in the Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment.
    - 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 $2,959 million, up $318 million in 2017, essentially due to the following:
    - Gain before taxes of $278 million on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company.
    - Higher income from assets under management.
    - Growth in business volume from payment and financing activities.

    This increase was partly offset by the following:
    - Decrease in commission income following the sale of Western Financial Group Inc.
    - Increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
    - Lower deposit income on account of changes in pricing.

- **Investment income of $1,688 million in 2017**, up $569 million compared to 2016.
  - Net income on securities at fair value through profit or loss up $546 million.
    - Increase mainly due to fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
      - Differences mostly attributable to changes in the fair value of the bond, share and derivatives portfolio.
      - Increase mostly offset 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.

    Partly offset by the following:
    - Decline in income from asset-backed term notes (ABTN) activities given that substantially all ABTN were settled in January 2017.
    - Unfavourable changes in the fair value of derivative financial instruments in 2017, including those associated with hedging operations for Desjardins Group as a whole.
  - Net income from available-for-sale securities up $20 million, mainly because of higher gains on the disposal of investments in 2017.
  - Net other investment income totalled $201 million, which was stable compared to 2016.

- **Provision for credit losses of $349 million in 2017,** up $30 million compared to 2016.
  - In 2016, refining the methodology used in the models for calculating the collective allowance resulted in a recovery of this allowance. However, favourable changes in portfolio risk mitigated this increase.
  - Credit loss provisioning rate of 0.20% as at December 31, 2017, comparable to the rate in 2016.
  - Ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, of 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 $6,717 million,** up $1,271 million in 2017.
  - Wealth Management and Life and Health Insurance segment: expenses up $624 million in 2017.
    - Increase of $425 million in the actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of an increase in the fair value of matched investments.
    - Actuarial liabilities also included the favourable effect of adjustments to actuarial assumptions as well as the less favourable effect of the claims experience.
    - Increase in benefits due to growth in operations.
  - Property and Casualty Insurance segment: expenses up $717 million in 2017.
    - 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 for P&C insurers of 67.7% in 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 because claims taken over from State Farm as at January 1, 2015 were lower than in 2016.
      - Increased loss ratio also attributable to the higher claims experience for the current year than in 2016, 80.1% compared to 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** up $149 million in 2017, mainly due to the following:
  - The effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Increased popularity of the BONUSDOLLARS Rewards Program.
  - Business growth, particularly in payment and financing activities and assets under management.

  Partially offset by the following items:
  - Decrease 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.
  - Effective cost control following the implementation of productivity initiatives that made it possible to limit the increase in non-interest expense in a context of operations growth.

2.3 Analysis of business segment results

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

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

2.3.1 Personal and Business Services

PROFILE

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

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

In addition, members and clients know that they can rely on the largest advisory force in 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.

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

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

2018 ACHIEVEMENTS

- ***Interac* Flash:** Deployment of contactless technology on Desjardins debit cards.
- **New automated teller machines:** Start of rollout of the touchscreen ATMs that allow envelope-free deposit. More than 400 ATMs have been deployed to date, and rollout will continue throughout 2019.
- **Payment:** Acquisition and set-up of new Canada-wide credit card portfolios.
- **Insufficient funds alert:** Introduction of a new alert to notify members when they do not have the necessary funds in their account to cover a preauthorized payment. More than one million members have signed up for this alert since its launch in February 2018.
- Opening of five **Signature Service** centres in 2018**,** for a total of 16 to date in different regions of Quebec.
- **Launch of "*FondsC*"** at all Desjardins Business centres, an initiative aimed at supporting SMEs with financial assistance of up to $10,000 and encouraging our partner enterprises to initiate new growth projects throughout Quebec.
- Desjardins Capital Inc. and Export Development Canada (EDC) partnered with Siparex Group and Bpifrance to launch the **Transatlantic Fund,** with an envelope of $120 million to finance the development of European and North American companies and support their growth.
- Desjardins Group **ranked No. 2 among Quebec's most influential brands** according to the fourth edition of the *Indice Ipsos-Infopresse*.
- **Coolest financial institution**: Based on Léger's 2018 Youth Study, Desjardins Group is the coolest financial institution according to Quebec millennials.
- Desjardins Group received awards at the PMI Elixir Gala, an event recognizing the best in project management across all industries. The *Approval - Basel Business Credit Risk* and *Support for Agile Approaches by Enhancing Portfolio Management Maturity* were both honoured in the **Palmarès category**.
- Montreal Startup Community Awards – Desjardins Group was a winner: This annual gala recognizes all those who contribute to the development of the Montreal ecosystem for startups. Desjardins Group, through Desjardins Lab, was **honoured as "Corporate Champion of the Year".**
- The Personal and Business Services segment continued its digital transformation, particularly through the following:
  - **New *AccèsD* mobile app:** A significant development in the Desjardins mobile app toward a modern and intuitive platform.
  - **Electronic signature:** Large-scale deployment of electronic signature in the caisse network with the addition of consumer financing, deposit, loan insurance products and opening of business accounts.
  - **Online mortgage renewal:** Introduction of 100% online renewal for certain types of mortgages. Introduced gradually with a few caisses, the solution will expand, in 2019, to all caisses, including those in Ontario, for all eligible members and certain mortgage types.
  - Opening of business accounts online and enrolment for ***AccèsD Affaires*** services greatly simplified, thereby considerably reducing the delay in these processes for the benefit of Desjardins members.

INDUSTRY

In 2018, the Canadian financial industry comprised some 86 domestic and foreign banking institutions, as well as 523 savings and loan cooperatives, slightly more than 51.8% of which belonged to Desjardins Group.

In the Canadian banking services industry, on-balance sheet and off-balance sheet personal savings outstanding was estimated at $4,209 billion as at December 31, 2018, for a year-over-year increase of 0.5%, compared to a 7.9% increase a year earlier. This significant slowdown is due to a pullback in stock market activity (an 11.6% drop in the S&P/TSX index in 2018), which affected the value of off-balance sheet savings products (such as investment funds and securities in custody with securities brokers) and reduced the popularity of this riskier type of investment with retail investors. The outstanding volume of loans to individuals was estimated at $2,165 billion as at the same date, a year-over-year increase of 3.4%, compared to a 5.3% increase observed at year-end 2017. Business financing outstanding was estimated at $879 billion, a year-over-year increase of 9.1%, compared to an increase of 10.5% as at December 31, 2017.

In Quebec, on-balance sheet and off-balance sheet personal savings outstanding was estimated at $789 billion at year-end 2018, for nil year-over-year growth, compared to an increase of 8.2% as at December 31, 2017. The slowdown was due to the same factors as for Canada as a whole. The volume outstanding for financing to individuals was estimated at $387 billion as at the same date, a year-over-year increase of 3.9%, compared to growth of 5.0% at year-end 2017. The volume outstanding for financing to businesses was estimated at $171 billion as at December 31, 2018, a year-over-year increase of 8.8%, compared to 4.5% growth at the end of 2017. Agricultural loans, which are also part of financing to businesses, amounted to $19.5 billion as at December 31, 2018, a 9.5% year-over-year increase, compared to a 3.6% increase at the end of 2017. It is clear that Desjardins Group, with a portfolio of agricultural loans totalling $8.1 billion and a market share of close to 41% at the same date, is a leader in this area.

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

Desjardins Group is a Quebec leader in many segments of financial services to individuals and businesses. In loans to individuals, particularly residential mortgages, its market share was estimated at 37.8% as at December 31, 2018, while in consumer loans, it was estimated at 22.8%. Furthermore, Desjardins Group is a leader in personal savings in Quebec, especially in on-balance sheet personal savings products, with a market share of this industry estimated at 42.2% as at December 31, 2018. Finally, in financing to businesses, more specifically in commercial and industrial loans, Desjardins Group is also well positioned in Quebec, with an estimated market share of 20.9% as at December 31, 2018.

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

2019 STRATEGIES AND PRIORITIES

The 2019 strategies and priorities of the Personal and Business Services segment are incorporated into Desjardins Group's strategic priorities and are aimed at helping Desjardins to achieve its ambition of being first in people's hearts, while working in the best interests of members and clients. The Personal and Business Services segment intends to 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, Desjardins will facilitate interactions with members and clients across all its channels, in particular by streamlining its processes.

Reaching objectives requires the commitment of every director, manager and employee, as well as a high-calibre, comprehensive and integrated offer that is innovative and easy to access. The segment, focused on the financial health of its members, 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 sustainable growth. Its implementation is supported by strong foundations and Desjardins's long-standing commitments in the regions and in various socio-economic communities.

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

Another of the segment's priorities is to continue the digital transformation in line with members' and clients' priority life events. In concrete terms, the segment will continue its initiatives to strengthen its relational presence across all channels and spark members' and clients' interest in proactive, value-added advice. The segment also seeks to make members and clients more independent for regular interactions and to continue to simplify products, services and processes from end to end.

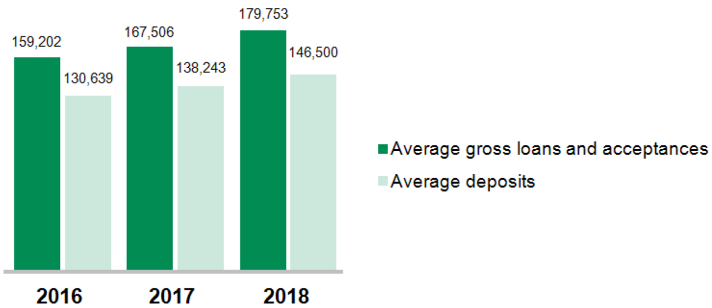
ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

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

(in millions of dollars and as a percentage)	**2018[1]**	2017[2]	2016[2]
Net interest income	**$ 4,374**	$ 3,916	$ 3,743
Other operating income[3]	**2,007**	1,975	1,871
Operating income[3]	**6,381**	5,891	5,614
Investment income[3]	**100**	230	360
Total income	**6,481**	6,121	5,974
Provision for credit losses	**385**	345	318
Non-interest expense	**4,406**	4,305	4,212
Income taxes on surplus earnings	**418**	363	419
Surplus earnings before member dividends	**1,272**	1,108	1,025
Member dividends, net of tax recovery	**185**	148	105
Net surplus earnings for the year after member dividends	**$ 1,087**	$ 960	$ 920
Of which:			
Group's share	**$ 1,087**	$ 960	$ 918
Non-controlling interests' share	**-**	-	2
Indicators			
Average gross loans and acceptances[3]	**$ 179,753**	$ 167,506	$ 159,202
Average deposits[3]	**146,500**	138,243	130,639
Credit loss provisioning rate[3]	**0.21%**	0.21%	0.20%
Gross credit-impaired loans[4] / gross loans and acceptances ratio[3]	**0.56**	0.25	0.33

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".
(4) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

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



COMPARISON OF 2018 AND 2017 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $1,272 million,** up $164 million, or 14.8%, essentially due to the following:
  - Solid performance from the caisse network, related especially to growth in net interest income and strict cost control.
  - Profit related to the restructuring of Interac Corp.
  - Growth in financing activities related to consumer, credit card and other personal loans.

  This increase was partially offset by:
  - Lower income from trading and new issues on capital markets.
  - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Expenses related to the winding-up of the operations of Zag Bank.

- **Operating income of $6,381 million,** up $490 million, or 8.3%.
  - Increase of $458 million in net interest income mainly as a result of year-over-year growth of $12.2 billion in the entire average portfolio of loans and acceptances outstanding, including residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and to a lesser extent, as a result of higher interest rates.
  - Other operating income of $2,007 million, up $32 million, or 1.6%, mainly due to:
    - Growth in business volumes of payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.
    - Increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as investment funds.

    This increase was partly offset by:
    - Lower income from deposit service charges on account of changes in pricing and lower volume.
    - Decline in income from new capital market issues.

- **Investment income of $100 million,** down $130 million, mainly as a result of:
  - Lower income from derivatives.
  - Decrease in trading income on capital markets.
  - Offset by profit related to the restructuring of Interac Corp.

- **Total income of $6,481 million,** up $360 million, or 5.9%.

- **Provision for credit losses of $385 million,** up $40 million, or 11.6%, chiefly because of the following:
  - Growth in outstandings.
  - Revision of economic scenarios and updating of parameters.
  - Migration of borrower ratings.
  - The adoption of IFRS 9 on January 1, 2018 made the allowance for credit losses more volatile.

- **Non-interest expense of $4,406 million,** up $101 million, or 2.3%, mainly because of:
  - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Expenses related to the winding-up of Zag Bank's operations.
  - Business growth, especially growth in activities to enhance the service offer to caisse members and clients and in *AccèsD* services.

  This increase was partly offset by:
  - Gain resulting from the impact of the change in the post-retirement benefit plan made in fiscal 2018.
  - Favourable effect of strict cost control.

2.3.2 Wealth Management and Life and Health Insurance

PROFILE

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

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

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

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

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

This sector includes the operations of Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. until April 1, 2018, as well as the activities with regard to the interest in Aviso Wealth as of this same date, as mentioned in "Impact of significant transactions".

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, which includes market-linked guaranteed investments (MLGI), exchange traded funds (ETF), guaranteed investment funds and mutual funds with a number of responsible investment products, allow individuals and businesses to find the one best suited to their needs, whether for preparing for retirement, planning a trip or any other financial goal.
- **Securities brokerage services:**
  - Include the distribution of all types of investments, including stock market securities.
  - There are two separate distribution models: the customized services of an investment adviser (full-service brokerage) or online brokerage services for savvy investors who want to trade on their own.
- **Private wealth management services:**
  - Are set out in a constantly updated and integrated offer intended for wealthy clients.
  - The personalized support of private managers includes a number of aspects, such as financial planning, tax and philanthropy optimization as well as portfolio management.
- **Institutional asset management services:**
  - Investment solutions are proposed by a group of investment experts specializing in asset management for institutional clients in order to obtain competitive returns and an attractive risk-return trade-off for them.

2018 ACHIEVEMENTS

Life and Health Insurance

- **Reconfiguring the insurance product portfolio** to simplify and update our offer and propose new solutions for analyzing needs.
- **Complete review of insurance coverage** for serious illnesses, including all types of cancer.
- Launching of a **telemedicine pilot project** with 5,000 participants from one of our group insurance plans.
- **New offer for group insurance plans**, with the possibility of adding therapeutic cannabis.
- Deployment of the **Financial health and well-being zone** on the desjardinslifeinsurance.com website and a new health and well-being platform.

Wealth Management

- **Enviable results for Desjardins Funds** in terms of total assets according to Strategic Insight: Ranked 1st in Quebec and 11th in Canada.
- **Three new SocieTerra funds** and a new line of eight **Responsible Investment Exchange Traded Funds** (RI ETFs) double the responsible investment products we offer. These RI ETFs are a first in Canada.
- **Three awards for Market-linked guaranteed investments** (MLGIs) from Americas Structured Products & Derivatives Award*s*. Having received awards for the seventh straight year, Desjardins Group is now the most recognized financial institution for this type of investment in Canada.
- In group retirement savings, Desjardins continues to deploy financial well-being services, including the **launch of a Financial well-being zone,** which helps members to feel confident about their financial future. The secure website provides an adaptive interface for mobile devices; navigation has been simplified and the content has been contextualized.
- In online brokerage, **online accounts and electronic signatures have been launched,** and the website converted to a responsive web design.
- In securities and private wealth management, **statements of account have been simplified and improved, and tax slips have been digitized.**

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.

- **Canadian market:**
  - Wealth Management: At the end of 2017, financial assets of $4,468 billion were held by Canadian households in various savings and investment products, growing annually at 8.4% on a compound basis, and at 8.2% over the past five years.
  - Life and Health Insurance: Premium income totalled $110 billion in life and health insurance and in annuities according to 2017 figures, growing by 4.5% over the last five years. About 22 million Canadians have individual or group life insurance for a total of $4.7 trillion in insurance in force.
- **Competition in Canada:**
  - Wealth Management: A division of all major banking groups, life and health insurance companies and investment funds. Competition is fierce, and players try to outdo one another in terms of ingenuity in order to win over clients and build their loyalty.
  - Life and Health Insurance: Based on 2017 statistics, there are more than 150 insurers, of which 38 are foreign-owned life insurers doing business in Canada. Five insurers monopolize 77.9% of the market, accounting for the high degree of consolidation in this industry. Desjardins Financial Security Life Assurance Company is still a leader in Quebec and ranks fifth in Canada, with written premiums of $4.6 billion in 2017.
- **Developments and expectations of members and clients:**
  - Given such high and complex needs, financial advisors still play a key role in providing relevant information, making sales and maintaining relationships. Digital offers with virtual and mobile interfaces are increasingly used to cater to certain clients' desire for autonomy.

2019 STRATEGIES AND PRIORITIES

The 2019 strategies and priorities of the Wealth Management and Life and Health Insurance segment form part of Desjardins Group's strategic priorities that aim to help Desjardins Group to achieve its ambition of being first in people's hearts. Just like the other Desjardins Group business segments, the Wealth Management and Life and Health Insurance segment works in the interests of its members and clients.

The shift to a member- and client-focused culture is a priority for this segment, for which it plans to pick up the pace. The idea is therefore to optimize its product lines, further automate its processes and accelerate its digital transformation. 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 initiatives to enhance the financial health and well-being of its members and clients, and to increase its financial literacy efforts with regard to savings and retirement as well as its activities to promote financial health and security management. 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, especially for groups and businesses, and to expand its product offer to all Desjardins Group distribution networks and external networks.

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

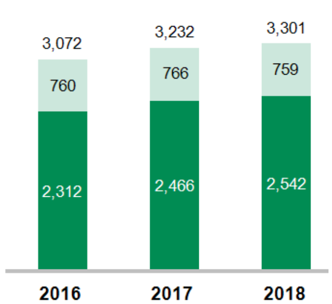
(in millions of dollars)	**2018[(1)]**	2017	2016
Net interest income	**$ 4**	$ 1	$ -
Net premiums	**4,676**	4,406	4,204
Other operating income[(2)]	**1,716**	1,514	1,386
Operating income[(2)]	**6,396**	5,921	5,590
Investment income[(2)]	**387**	1,406	795
Total income	**6,783**	7,327	6,385
Provision for (recovery of) credit losses	**(1)**	4	-
Claims, benefits, annuities and changes in insurance contract liabilities	**3,369**	4,233	3,609
Non-interest expense	**2,296**	2,329	2,208
Income taxes on surplus earnings	**225**	149	107
Net surplus earnings for the year	**$ 894**	$ 612	$ 461
Specific item, net of income taxes			
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**(129)**	-	-
Adjusted net surplus earnings for the year[(2)]	**$ 765**	$ 612	$ 461
Of which:			
Group's share	**$ 894**	$ 610	$ 440
Non-controlling interests' share	**-**	2	21
Indicators			
Net sales of savings products	**$ 7,908**	$ 8,577	$ 8,465
Insurance sales	**342**	523	471
Group insurance premiums	**3,301**	3,232	3,072
Individual insurance premiums	**872**	836	796
Annuity premiums	**503**	338	336
Receipts related to segregated funds	**2,026**	1,840	2,811

[(1)] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[(2)] See "Basis of presentation of financial information".

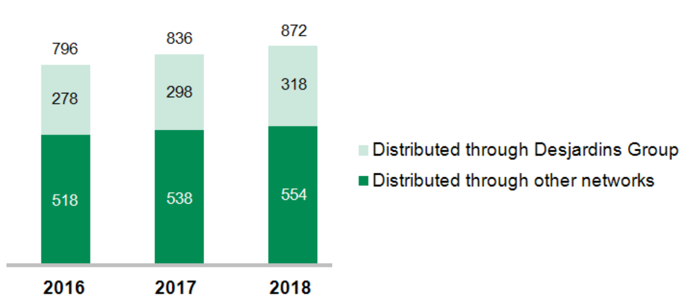
Table 13 – Expenses attributable to policyholders
For the years ended December 31

(in millions of dollars)	**2018**	2017	2016
Insurance and annuity benefits	**$ 3,126**	$ 3,037	$ 2,904
Change in actuarial liabilities	**111**	984	559
Policyholder dividends, experience refunds and other	**132**	212	146
Total	**$ 3,369**	$ 4,233	$ 3,609

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



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



COMPARISON OF 2018 AND 2017 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $894 million,** up $282 million, or 46.1%, and adjusted net surplus earnings of $765 million, up $153 million, or 25.0%, mainly as a result of:
  - Higher gains on disposal of real estate investments in 2018.
  - More favourable claims experience.
  - Higher income as a result of growth in assets under management.
  - Offset by less favourable adjustments to actuarial assumptions made in the normal course of business.

- **Operating income of $6,396 million,** up $475 million, or 8.0% basically because of:
  - Increase of $270 million in premiums, of which $165 million was from annuities, $69 million was from group insurance and $36 million, from individual insurance.
  - Other operating income totalled $1,716 million, up $202 million, or 13.3%.
    - Gain on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
    - Higher income from growth in assets under management.
    - Offset by lower income as a result of the aforesaid transaction.

- **Investment income of $387 million,** down $1,019 million, or 72.5%.
  - Decrease primarily due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change due mostly to a decrease in the fair value of the bond portfolio as a result of interest rate fluctuations.
    - Decrease largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Offset by the higher gains on the disposal of real estate investments.

- **Total income of $6,783 million,** down $544 million, or 7.4%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $3,369 million**, down $864 million, or 20.4%, essentially as a result of:
  - Decrease of $873 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decline in the fair value of matched investments.
  - The more favourable claims experience for products was offset by the less favourable adjustments related to the changes to actuarial assumptions made in the normal course of business.

- **Non-interest expense of $2,296 million,** down $33 million, or 1.4%, mainly because of the following:
  - The transaction involving Qtrade Canada Inc. led to a decrease in expenses.
  - Offset by the higher expenses for assets under management.

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. Since the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017, it includes only 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 started to switch from the State Farm banner to the Desjardins Insurance banner on May 1, 2018. The transition will be carried out by December 31, 2019.

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;
  - 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.

2018 ACHIEVEMENTS

- Continued streamlining, modernizing and enhancing of the member and client experience:
  - **Improvement of the member and client experience**, in particular by making it easy to purchase home insurance in all regions and business lines and by simplifying automobile claims.
  - Continuation of the digital transformation, in particular by:
    - Deploying online purchase of auto insurance in Quebec.
    - Launching online purchase of home insurance for tenants and condo insurance across Canada.
    - Enhancing its **mobile offer** in a number of ways:
      - Clients can now take photos of damage to their vehicle themselves and send them to a body shop or claims adjuster for an estimate so as to save time and avoid running around.
      - Continue to focus on prevention: In addition to Ajusto (telematics program providing personalized feedback on driving) and Alert (program to prevent water damage in home insurance by using a detector placed close to a potential source of leaks), there is the new **Radar** program, which provides severe weather alerts so steps can be taken to prevent certain damage to a client's home, auto or other property.
      - The functionalities of the P&C Insurance segment's mobile offer, namely the Alert home insurance program and the Ajusto auto insurance program, are being phased into the **Bancassurance Desjardins Mobile Services** app for Quebec members.
- **Integration of State Farm's Canadian operations:** On schedule and almost completed in 2018, with some work to be finalized in 2019. In addition, the State Farm exclusive agent network has been phasing in operations under the Desjardins Insurance banner since May 2018 and the transition should be completed by the end of 2019.
- Continuation of the **program to modernize IT systems** with the new auto rates solution for Ontario, the Atlantic region and the West, and finalizing of the implementation of the business offer for Quebec.

INDUSTRY

The Canadian P&C insurance industry offers insurance coverage for vehicles, personal and commercial property, and public liability. The Canadian P&C insurance market is a mature market, with an average annual growth rate of 3.3% over the past five years. In 2017, direct premiums written on the Canadian market totalled $49.8 billion, up 4.1% since 2016, the highest growth rate since 2011. Across Canada, individual insurance accounted for 63.2% of the market, and business insurance accounted for 36.8%. As at December 31, 2017, 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.

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 and the increase in distractions behind the wheel. 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. Moreover, this year, the insurance industry was particularly affected by violent winds and tornadoes. According to Insurance Bureau of Canada, the violent winds on May 4, 2018 in southern Ontario and some regions of Quebec caused $410 million in property damage, with $380 million of this damage in Ontario. More than 13,000 claims related to this event were filed with Desjardins General Insurance Group (DGIG), for a net cost of reinsurance of about $54 million, of which $48 million was essentially for Ontario. In addition, more than 2,000 claims were filed for the tornadoes and high winds that hit the Ottawa–Gatineau region on September 21, 2018, for a net cost of reinsurance of $38 million for DGIG.

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. These insurers are starting to position themselves in the 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.

2019 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's 2019 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.

As a result, in 2019, the segment will continue its efforts to be recognized as a Canadian leader in promoting the member and client experience by adapting its business practices in the interests of its members and clients, by optimizing the performance of its value chain and by modernizing the business line systems. 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 by accelerating the shift toward Desjardins Mobile Services and by seeking the full potential of the acquisition of State Farm's Canadian operations.

The Property and Casualty Insurance segment will therefore focus its efforts on the following four priorities in 2019:
- Enhance the member and client experience.
- Improve the profitability of the auto product.
- Accelerate the digital transformation for all products and services.
- Acquire, assess, develop and mobilize talent.

ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

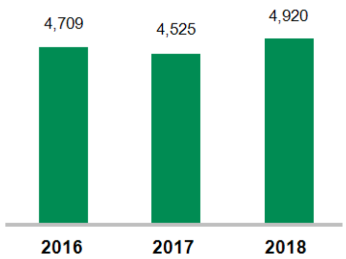
Table 14 – Property and Casualty Insurance – Segment results

For the years ended December 31

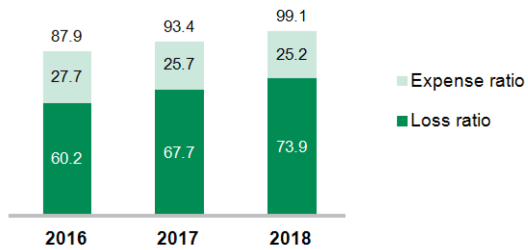
(in millions of dollars and as a percentage)	**2018(1)**	2017	2016
Net interest income	**$ -**	$ 1	$ 1
Net premiums	**4,402**	3,896	3,207
Other operating income (loss)(2)	**(188)**	78	(55)
Operating income(2)	**4,214**	3,975	3,153
Investment income(2)	**336**	214	206
Total income	**4,550**	4,189	3,359
Claims, benefits, annuities and changes in insurance contract liabilities	**3,209**	2,555	1,838
Non-interest expense	**1,127**	1,099	1,132
Income taxes on surplus earnings	**41**	89	93
Net surplus earnings for the year	**$ 173**	$ 446	$ 296
Specific item, net of income taxes			
Gain, net of expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company(3)	**-**	(241)	-
Adjusted net surplus earnings for the year(2)	**$ 173**	$ 205	$ 296
Of which:			
Group's share	**$ 132**	$ 405	$ 245
Non-controlling interests' share	**41**	41	51
Indicators			
Gross written premiums(4)	**$ 4,920**	$ 4,525	$ 4,709
Loss ratio(2)	**73.9%**	67.7%	60.2%
Current year loss ratio(2)	**80.7**	80.1	75.8
Loss ratio related to catastrophes and major events(2)	**3.1**	2.6	4.6
Ratio of favourable changes in prior year claims(2)	**(9.9)**	(15.0)	(20.2)
Expense ratio(2)	**25.2**	25.7	27.7
Combined ratio(2)	**99.1**	93.4	87.9

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) See "Basis of presentation of financial information".
(3) 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.
(4) Includes the life insurance premiums of Western Financial Group Inc. for 2017 and 2016.

Gross written premiums
(in millions of dollars)



Combined ratio
(as a percentage of net premiums earned)



COMPARISON OF 2018 AND 2017 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $173 million,** down $273 million, and adjusted net surplus earnings, down $32 million, or 15.6%. essentially due to the following:
  - Higher claims experience than in the previous year.
  - Impact from the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - Offset by higher investment income.

- **Operating income of $4,214 million,** up $239 million, or 6.0%.

- **Net premiums of $4,402 million,** up $506 million, or 13.0%, primarily as a result of:
  - Increase of $367 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly due to the change in the cession rate stipulated in the treaty, 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 due to growth in the average premium reflecting the current trend in the Canadian P&C insurance market, and due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
  - Offsetting decrease in net premiums following the sale of Western Life Assurance Company on July 1, 2017.

- **Loss of $188 million, presented under Other operating income (loss),** while income was recognized in the prior year, for a difference of $266 million, chiefly because of the following:
  - Gain on the sale of Western Financial Group Inc. and of Western Life Assurance Company, completed on July 1, 2017, and recognized in the corresponding year.
  - Decrease in commission income following the sale of Western Financial Group Inc.
  - Offset by a smaller increase than in 2017 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, and arising from the favourable developments in claims taken over.

- **Investment income of $336 million,** up $122 million, or 57.0%, basically as a result of the following:
  - Higher dividend income than in 2017, particularly because of the reinvested income, which includes prior-period adjustments.
  - Decrease in the fair value of matched bonds, which was lower than in 2017, mainly due to an increase in market interest rates that was lower in 2018 than in 2017.

- **Total income of $4,550 million,** up $361 million, or 8.6%.

- **Cost of claims totalling $3,209 million,** up $654 million, or 25.6%, essentially as a result of the following:
  - Business growth leading to a higher cost of claims.
  - Increase due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The treaty provides for the cession, scaled down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Change in prior-year claims was not as favourable as in the preceding year in auto insurance.
  - Loss ratio of P&C insurers at 73.9% for 2018, compared to 67.7% in 2017.
    - Higher loss ratio mainly due to a less favourable change than in 2017 concerning prior-year claims, (9.9)% vs. (15.0)%, mainly in auto insurance.
    - Claims experience for the current year was higher than in the prior year; namely 80.7% vs. 80.1%.
    - Impact of catastrophes and major events greater than in the prior year; namely 3.1% vs. 2.6%.

- **Non-interest expense of $1,127 million,** up $28 million, or 2.5%, mainly as a result of:
  - Higher expenses due partly to the previously mentioned reinsurance treaty on the charges covered by it and to business growth.
  - Offsetting decrease in expenses resulting from the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.

2.3.4 Other category

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities and those related to financial intermediation between liquidity surpluses and needs of the caisses. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole 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.

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)	**2018[1]**	2017	2016
Treasury activities	**$ 52**	$ 113	$ 110
Activities related to derivatives associated with hedging activities	**(1)**	(4)	(44)
Other[2]	**(64)**	(124)	(76)
Net deficit for the year	**$ (13)**	$ (15)	$ (10)
Of which:			
Group's share	**$ (13)**	$ (15)	$ (12)
Non-controlling interests' share	**-**	-	2

[1] The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Includes support function activities, various adjustments required to prepare the Combined Financial Statements, and intersegment balance eliminations.

COMPARISON OF 2018 AND 2017 – CONTRIBUTION BY OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $13 million,** compared to a net deficit of $15 million in 2017.
- **Treasury activities of $52 million,** compared to a contribution of $113 million to surplus earnings in 2017, mainly as a result of lower trading income because of high market volatility in 2018.
- **Activities related to derivatives associated with hedging activities recorded a deficit of $1 million,** compared to a $4 million deficit in 2017.
- **Other activities recorded a $64 million deficit,** compared to a $124 million deficit in 2017.
  - Other activities were affected, in 2018 and 2017, 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 mainly related to the digital transformation), thereby enhancing the member and client experience and improving productivity. Other activities also included contributions from the $100 million fund as well as payments under the Desjardins Member Advantages program. In addition, certain technology assets were written off.

  The following items partly offset the deficit:
  - Decrease in investment portfolio provisions.
  - Income tax recovery related to the remuneration of F capital shares.

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)	2018				2017			
	Q4[1]	Q3[1,2]	Q2[1,2]	Q1[1,2]	Q4[2]	Q3[2]	Q2[2]	Q1[2]
Net interest income	**$ 1,284**	$ 1,286	$ 1,175	$ 1,149	$ 1,138	$ 1,149	$ 1,100	$ 1,070
Net premiums	**2,221**	2,263	2,200	2,139	2,009	1,982	2,076	1,982
Other operating income[3]								
Deposit and payment service charges	**114**	110	106	103	107	109	122	120
Lending fees and credit card service revenues	**177**	171	163	186	180	154	154	172
Brokerage and investment fund services	**211**	216	223	255	245	227	293	265
Management and custodial service fees	**130**	147	138	136	133	118	120	114
Foreign exchange income	**29**	14	21	27	22	16	20	19
Other	**(21)**	36	130	37	(100)	295	28	26
Operating income[3]	**4,145**	4,243	4,156	4,032	3,734	4,050	3,913	3,768
Investment income (loss)[3]								
Net investment income (loss)	**45**	(253)	308	111	904	(362)	711	435
Overlay approach adjustment for insurance operations financial assets	**258**	76	20	169	N/A	N/A	N/A	N/A
	303	(177)	328	280	904	(362)	711	435
Total income	**4,448**	4,066	4,484	4,312	4,638	3,688	4,624	4,203
Provision for credit losses	**89**	100	80	115	89	92	76	92
Claims, benefits, annuities and changes in insurance contract liabilities	**1,821**	1,375	1,727	1,656	2,042	1,000	1,922	1,753
Non-interest expense	**1,846**	1,859	1,853	1,927	1,951	1,698	1,891	1,860
Income taxes on surplus earnings	**114**	162	147	113	127	140	154	115
Surplus earnings before member dividends	**578**	570	677	501	429	758	581	383
Member dividends, net of tax recovery	**43**	53	53	36	49	44	29	26
Net surplus earnings for the period after member dividends	**$ 535**	$ 517	$ 624	$ 465	$ 380	$ 714	$ 552	$ 357
Of which:								
Group's share	**$ 527**	$ 504	$ 613	$ 456	$ 371	$ 699	$ 538	$ 352
Non-controlling interests' share	**8**	13	11	9	9	15	14	5
Contribution to combined surplus earnings by business segment								
Personal and Business Services	**$ 329**	$ 369	$ 299	$ 275	$ 286	$ 304	$ 272	$ 246
Wealth Management and Life and Health Insurance	**183**	174	331	206	159	121	189	143
Property and Casualty Insurance	**25**	70	52	26	48	318	98	(18)
Other	**41**	(43)	(5)	(6)	(64)	15	22	12
	$ 578	$ 570	$ 677	$ 501	$ 429	$ 758	$ 581	$ 383
Total assets	**$ 295,465**	$ 295,265	$ 290,073	$ 282,065	$ 275,095	$ 276,310	$ 271,983	$ 267,935
Indicators								
Return on equity[3]	**9.0%**	8.8%	11.0%	8.3%	7.0%	12.6%	9.9%	6.8%
Tier 1A capital ratio	**17.3**	17.7	17.5	17.4	18.0	17.8	17.1	17.2
Total capital ratio	**17.6**	18.0	17.8	17.7	18.4	18.2	17.5	17.6

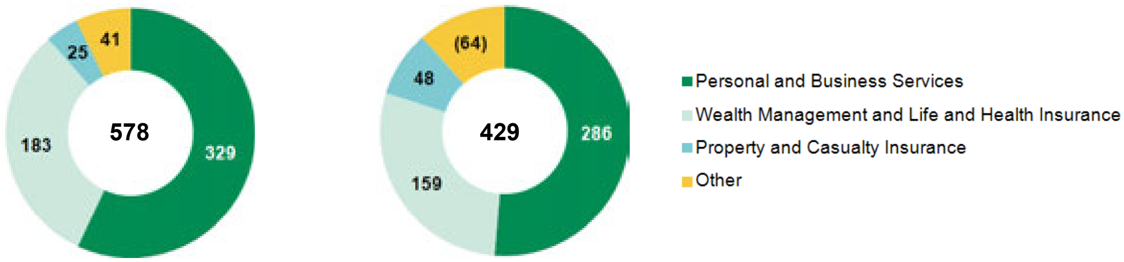
(1) The information presented for the 2018 quarters reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Prior-period data have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) See "Basis of presentation of financial information".

FOURTH QUARTER COMBINED RESULTS

For the fourth quarter of 2018, Desjardins Group posted surplus earnings before member dividends of $578 million, up $149 million, or 34.7%, compared to the same period in 2017.

2018 surplus earnings before member dividends(1)
(in millions of dollars)

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



(1) The information presented for the three-month period ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Contribution of segments to surplus earnings

- Personal and Business Services: **Contribution of $329 million,** up $43 million compared to the same period in 2017, essentially as a result of:
  - Solid performance of the caisse network, related in particular to net interest income growth and strict cost control.
  - Business volume growth from payment and financing activities.
  - Offset by decrease in income from trading and new issues on the capital market.
- Wealth Management and Life and Health Insurance: **Contribution of $183 million,** up $24 million compared to the same period in 2017, primarily due to:
  - More favourable claims experience.
  - Higher income from growth in assets under management.

  This increase was partially offset by:
  - Less favourable adjustments to actuarial assumptions made in the normal course of business.
  - Reduction in investment portfolio provisions.
- Property and Casualty Insurance: **Contribution of $25 million,** down $23 million compared to the same period in 2017, mainly as a result of:
  - Higher claims experience than in the previous period.

  This decrease was partially offset by:
  - Decrease in contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
  - Higher investment income.

- **Return on equity of 9.0%,** compared to 7.0% for the fourth quarter of 2017.

- **Operating income of $4,145 million,** up $411 million, or 11.0%.

- **Net interest income of $1,284 million,** up $146 million, or 12.8%, chiefly as a result of the growth in mortgages, consumer loans and business loans outstanding for the year, and, to a lesser degree, higher interest rates.

- **Net premiums of $2,221 million,** up $212 million, or 10.6%.
  - **Wealth Management and Life and Health Insurance:** Net insurance and annuity premiums of $1,134 million, up $46 million, or 4.2%, compared to the same period in 2017.
    - Increase of $34 million in annuity premiums.
    - Increase of $7 million in individual insurance premiums.
    - Increase of $5 million in group insurance premiums.

  - **Property and Casualty Insurance:** Net premiums of $1,150 million, up $167 million, or 17.0%, compared to the same period in 2017.
    - Increase of $109 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly as a result of the change in the cession rate stipulated in the treaty, 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 due to growth in the average premium and to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

- **Other operating income of $640 million,** up $53 million, or 9.0%, due to:
  - Decrease in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
  - Higher income from growth in assets under management.
  - Offset by a decrease in income following the Qtrade Canada Inc. transaction.

- **Investment income of $303 million,** down $601 million.
  - Decrease mainly due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Difference mostly due to changes in the fair value of the bond portfolio as a result of higher interest rates.
    - Decrease largely offset by the change in actuarial liabilities that in turn led to a decrease in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Decrease in trading income.

  This decrease was partially offset by:
  - Decrease in the fair value of matched bonds in the Property and Casualty Insurance segment was less than in the fourth quarter of 2017, due mainly to a lower increase in market interest rates in 2018 than that recorded in the corresponding quarter.
  - Increase in the fair value of derivative financial instruments associated with hedging operations for Desjardins Group as a whole.

- **Total income of $4,448 million,** down $190 million, or 4.1%.

- **Provision for credit losses of $89 million,** comparable to the corresponding quarter in 2017.
  - Desjardins Group continued to have a quality loan portfolio.
  - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.54%, compared to 0.25% as at December 31, 2017. This increase is due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $1,821 million,** down $221 million, or 10.8%.
  - **Wealth Management and Life and Health Insurance segment:** Expenses totalling $962 million, down $551 million, or 36.4%, compared to the same period in 2017, essentially as a result of the following:
    - Decrease of $551 million in actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of a decrease in the fair value of matched investments.
    - More favourable claims experience for products was offset by less favourable adjustments to changes to actuarial assumptions made in the normal course of business.

  - **Property and Casualty Insurance segment:** Claims expenses totalling $857 million, up $258 million, or 43.1%, compared to the same period in 2017, mainly due to the following:
    - Business growth leading to higher claims expenses.
    - Increase due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
    - Loss ratio of 70.8% for the fourth quarter of 2018, compared to 59.9% for the corresponding quarter of 2017.
      - Higher ratio due to less favourable developments in prior-year claims than in the fourth quarter of 2017: (10.1)% compared to (22.2)%.
      - Offset by less significant impact of catastrophes and major events in the corresponding quarter of 2017: 0.1% compared to 1.9%.

- **Non-interest expense of $1,846 million,** down $105 million, or 5.4%, compared to 2017.
  - Reduction in investment portfolio provisions.
  - Gain due to the impact of the change in the post-retirement benefit plan in fiscal 2018; for more information, see Note 16 "Net defined benefit plan liabilities", to the Combined Financial Statements.
  - Lower expenses as a result of the Qtrade Canada Inc. transaction.

  This decrease was partly offset by:
  - Increase in payroll related to indexing and growth in operations.
  - Write-off of some technology assets.
  - Expenses related to the winding-up of Zag Bank's operations.
  - Higher expenses as a result of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.

- **Productivity index at 70.3% for the fourth quarter of 2018,** compared to 75.2% for the same period in 2017. The improvement in the productivity index for the fourth quarter of 2018 was due to the previously mentioned items.

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 2.1% in Canadian real GDP in 2018, compared to 3.0% in 2017, and 2.3% versus 2.8% for Quebec, Desjardins Group's results for the past eight quarters benefited from a steadily growing GDP. Changes in the claims experience and actuarial assumptions may also cause significant variations from quarter to quarter. Lastly, the past eight quarters were affected by the low interest rate environment that continued in 2017 and 2018. However, as of the third quarter of 2017, there were five 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.
- Growth in income from assets under management throughout 2018.
- Second quarter 2018 results affected by the gain of $129 million on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth.
- 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 smaller favourable developments in prior-year automobile insurance claims and a higher claims experience for the current year.
- 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.

Combined results

- **Operating income – Upward trend for 2018 quarters, compared to 2017 quarters.**
  - Higher net interest income, chiefly as a result of the growth in the average outstanding amount of the entire mortgage, consumer loan and business loan portfolio and, to a lesser degree, higher interest rates.
  - 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 business volume of payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios in 2018, as well as in assets under management.
  - Increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations in the fourth quarter of 2018 and in the fourth quarter of 2017, which reduced operating income.
  - Operating income for the second quarter of 2018 was affected by the gain on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., completed on April 1, 2018, while income from brokerage and investment fund services was down following this transaction, namely during the last three quarters of 2018.
  - Operating income for the third quarter of 2017 was affected by the gain on the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.

- **Investment income – Fluctuations mainly a result of market volatility leading to changes in the fair value of assets backing liabilities related to life and health insurance operations.** On account of a matching strategy, these fluctuations were offset by a change in 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 – Trending up when the 2018 and 2017 quarters are compared.**
  - Explained mainly by the growth in outstandings and the adoption of IFRS 9 as at January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and the migration borrower ratings.
  - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, has been trending up for the 2018 quarters compared to the 2017 quarters. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant. Desjardins Group has continued to have a quality loan portfolio.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
  - Growth in business leading to an increase in claims expenses.
  - All the 2018 quarters were affected by increased claims resulting from the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Expenses mainly affected by a change in the fair value of investments associated with life and health insurance activities in 2018, whose impact was particularly strong in the third quarter of 2017.
  - Expenses affected by the higher loss ratios for property and casualty insurance in 2018.
  - The second and third quarters of 2018 were affected by three catastrophes in all, while the second quarter of 2017 was affected by one catastrophe.
  - Fiscal 2018 was affected by four major events compared to nine in fiscal 2017.
  - 2017 fourth quarter results were affected by a less significant favourable trend in prior-year automobile insurance claims and a higher claims experience for the current year.

- **Non-interest expense – Relatively stable when 2018 and 2017 quarters are compared.**
  - 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 business growth, particularly growth in payment and financing activities and in assets under management, led to increases in non-interest expense.
  - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios for the 2018 quarters.
  - Transaction involving Qtrade Canada Inc. was completed on April 1, 2018, reducing non-interest expense for the last three quarters of 2018.
  - Sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017, reducing non-interest expense as of the third quarter of 2017.

Surplus earnings from business segments

- **Surplus earnings before member dividends of the Personal and Business Services segment trending up when 2018 and 2017 quarters compared.**
  - Solid performance of caisse network as of the third quarter of 2017, particularly on account of strict cost control.
  - Net interest income up because of growth in the entire average portfolio of loans and acceptances outstanding, and because of higher interest rates.
  - Decline in trading income and in new issues launched on capital markets in 2018.
  - Increase in expenses related to the acquisition and set-up of new Canada-wide credit card portfolios which affected the 2018 quarters.
  - Profit on the restructuring of Interac Corp. in first quarter 2018.
- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the past eight quarters.**
  - More favourable claims experience for almost all business lines, which affected net surplus earnings positively over the last three quarters of 2018 and the first two quarters of 2017.
  - 2018 second quarter results were affected by the $129 million gain on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., which was completed on April 1, 2018.
  - Income growth related to assets under management during 2018.
  - Higher surplus earnings for fourth quarter 2017, mainly due to favourable adjustments to the actuarial assumptions and partly offset by deterioration in claims experience.
  - 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.**
  - Larger increase in the cost of claims for the 2018 quarters as a result of business growth and the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which affected each quarter.
  - Results for the second and third quarters of 2018 were affected by three catastrophes, namely damage caused by water and winds in April, by wind in May and damage caused by high winds and tornadoes, mainly in the Ottawa and Gatineau regions in September.
  - Smaller increase in the first and fourth quarter of 2018 compared to the 2017 quarters in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
  - 2017 fourth quarter results were affected by less significant favourable developments in prior-year automobile insurance claims and by a higher claims experience for the current year.
  - 2017 third quarter results were affected by a $241 million gain, net of expenses and after taxes, on the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017.
  - The first quarter of 2017 was affected by higher claims experience for the current year because of unfavourable winter weather conditions, with damage caused by water and major snowfalls in Quebec and the windstorm in Ontario.

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)	2018[(1)]		2017		2016	
Assets						
Cash and deposits with financial institutions	**$ 3,384**	**1.1%**	$ 2,435	0.9%	$ 1,876	0.7%
Securities	**59,932**	**20.3**	56,588	20.6	53,285	20.6
Securities borrowed or purchased under reverse repurchase agreements	**11,934**	**4.0**	8,674	3.2	7,690	3.0
Net loans and acceptances	**190,670**	**64.5**	177,521	64.4	166,026	64.3
Segregated fund net assets	**13,234**	**4.5**	13,379	4.9	11,965	4.6
Derivative financial instruments	**3,743**	**1.3**	3,206	1.2	3,572	1.4
Other assets	**12,568**	**4.3**	13,292	4.8	13,953	5.4
Total assets	**$ 295,465**	**100.0%**	$ 275,095	100.0%	$ 258,367	100.0%
Liabilities and equity						
Deposits	**$ 183,158**	**61.9%**	$ 171,586	62.4%	$ 160,546	62.2%
Commitments related to securities sold short	**10,829**	**3.7**	9,112	3.3	8,196	3.2
Commitments related to securities lent or sold under repurchase agreements	**16,845**	**5.7**	10,229	3.7	10,323	4.0
Derivative financial instruments	**2,816**	**1.0**	3,094	1.1	2,057	0.8
Insurance contract liabilities	**28,740**	**9.7**	28,272	10.3	27,493	10.6
Segregated fund net liabilities	**13,212**	**4.5**	13,354	4.9	11,957	4.6
Other liabilities	**12,838**	**4.3**	13,287	4.8	13,124	5.1
Subordinated notes	**1,378**	**0.5**	1,388	0.5	1,378	0.5
Equity	**25,649**	**8.7**	24,773	9.0	23,293	9.0
Total liabilities and equity	**$ 295,465**	**100.0%**	$ 275,095	100.0%	$ 258,367	100.0%

(1) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

TOTAL ASSETS

As at December 31, 2018, Desjardins Group's total assets stood at $295.5 billion, up by $20.4 billion, or 7.4%, over the year, compared to growth of $16.7 billion, or 6.5%, for 2017. 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, 2018, Desjardins Group's cash and deposits with financial institutions amounted to $3.4 billion, an increase of $949 million, or 39.0%, over the year, compared to an increase of $559 million, or 29.8%, in 2017. Securities, including those borrowed or purchased under reverse repurchase agreements, totalled $71.9 billion, an increase of $6.6 billion, or 10.1%, over the year, compared to an increase of $4.3 billion, or 7.0%, in 2017. The large volume of market activities generated the increase.

LOANS AND CLIENTS' LIABILITY UNDER ACCEPTANCES

As at December 31, 2018, Desjardins Group's outstanding loan portfolio, including clients' liability under acceptances, net of the allowance for credit losses, was $190.7 billion, an increase of $13.1 billion, or 7.4%, over the year, compared to growth of $11.5 billion, or 6.9%, during 2017. Residential mortgages, which hold a very important place in Desjardins Group's financing activities, were largely responsible for the growth observed in 2018 and accounted for 62.8% of its portfolio at that date.

Table 18 – Loans and acceptances
As at December 31

(in millions of dollars and as a percentage)	2018[(1)]		2017		2016	
Residential mortgages	**$ 120,113**	**62.8%**	$ 113,146	63.6%	$ 106,695	64.1%
Consumer, credit card and other personal loans	**26,210**	**13.7**	24,044	13.5	22,150	13.3
Business and government	**45,066**	**23.5**	40,769	22.9	37,637	22.6
	191,389	**100.0%**	177,959	100.0%	166,482	100.0%
Provision for credit losses	**(719)**		(438)		(456)	
Total loans and acceptances by borrower category	**$ 190,670**		$ 177,521		$ 166,026	
Loans guaranteed or insured[(2)]	**$ 47,129**		$ 46,952		$ 45,373	
Loans guaranteed or insured[(2)] as a percentage of total gross loans and acceptances	**24.6%**		26.4%		27.3%	
Residential mortgages and consumer, credit card and other personal loans as a percentage of total gross loans and acceptances	**76.5**		77.1		77.4	

(1) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Loans fully or partially guaranteed or insured by a public or private insurer or a government.

Desjardins Group's outstanding residential mortgages totalled $120.1 billion, for growth of $7.0 billion, or 6.2%, as at December 31, 2018, compared to an increase of $6.5 billion, or 6.0%, during 2017. Desjardins Group capitalized on sustained growth in the housing sector, particularly in Quebec, and assisted a large number of its members and clients in buying a home. New home construction increased by 0.8% annually in Quebec in 2018, whereas resales of existing homes were up 4.9% during the same period, fostering a 5.2% rise in the average selling price of homes.

Desjardins Group's outstanding business and government loans, including acceptances, amounted to $45.1 billion as at December 31, 2018, for a year-over-year increase of $4.3 billion, or 10.5%, compared to an increase of $3.1 billion, or 8.3%, as at December 31, 2017. Consumer, credit card and other personal loans outstanding stood at $26.2 billion, up $2.2 billion, or 9.0% since the end of 2017, compared to an increase of $1.9 billion, or 8.6%, a year earlier. Note that Desjardins Group acquired Canada-wide credit card portfolios in 2018.

Credit quality

Information about the quality of Desjardins Group's loan portfolio is presented in Section 4.2, "Risk management", on pages 84 to 87 of this MD&A.

DEPOSITS

Table 19 – Deposits
As at December 31

(in millions of dollars and as a percentage)	2018					2017		2016	
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**		Total		Total	
Individuals	**$ 48,771**	**$ 3,792**	**$ 52,735**	**$ 105,298**	**57.5%**	$ 100,578	58.6%	$ 96,278	60.0%
Business and government	**25,991**	**361**	**49,822**	**76,174**	**41.6**	69,102	40.3	62,799	39.1
Deposit-taking institutions	**1,618**	**-**	**68**	**1,686**	**0.9**	1,906	1.1	1,469	0.9
Total deposits	**$ 76,380**	**$ 4,153**	**$ 102,625**	**$ 183,158**	**100.0%**	$ 171,586	100.0%	$ 160,546	100.0%

As at December 31, 2018, Desjardins Group's outstanding deposits totalled $183.2 billion, up $11.6 billion, or 6.7%, compared to an increase of $11.0 billion, or 6.9%, as at December 31, 2017. The increase in business and government deposits, which accounted for 41.6% of its total deposit portfolio as at that date, is largely responsible for this growth. In fact, deposit liabilities were up $7.1 billion, or 10.2%, since the end of 2017, to reach $76.2 billion as at December 31, 2018, compared to an increase of $6.3 billion, or 10.0%, observed a year earlier. Various securities, including commercial paper and covered bonds issued on U.S., Canadian and European markets, made it possible to support the growth of Desjardins Group's funding requirements, which largely accounted for this increase.

As at December 31, 2018, savings from individuals at Desjardins Group totalled $105.3 billion, up $4.7 billion, or 4.7%, since the end of 2017, compared to growth of $4.3 billion, or 4.5%, during the previous year. Note that this deposit category accounted for 57.5% of Desjardins Group's total deposit portfolio at the same date. Deposits from deposit-taking institutions were down $220 million, or 11.5%, since the end of 2017, compared to an increase of $437 million, or 29.7%, observed a year earlier, for a total of $1.7 billion as at December 31, 2018.

INSURANCE CONTRACT LIABILITIES

As at December 31, 2018, Desjardins Group's insurance contract liabilities were $28.7 billion, up $468 million, or 1.7%, from December 31, 2017, compared to a $779 million, or 2.8%, increase observed a year earlier. This growth is partly due to higher unearned premiums of $273 million and actuarial liabilities as a result of life and health insurance operations, which grew by $125 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, 2018, equity totalled $25.6 billion, up $876 million, or 3.5%, compared to an increase of $1.5 billion, or 6.4%, a year earlier. Net surplus earnings after member dividends, totalling $2,141 million, were a source of this growth. In addition, the Federation issued F capital shares for a cash consideration of $125 million, as well as F capital shares having a value of $142 million for the payment of interest when the holder has elected to receive remuneration in F capital shares. The redemption of permanent shares of $253 million, the remuneration of $425 million on capital stock and the impact of changes in accounting policies totalling $214 million reduced equity. Moreover, during the year ended December 31, 2018, *La Fédération des caisses populaires de l'Ontario Inc.* bought back Class B preferred shares in their entirety for a cash consideration of $13 million, and all the Class C preferred shares for a cash consideration of $75 million.

Note 21, "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 financial industry is placing more emphasis on sound capitalization of its operations. Now more than ever, rating agencies and the market favour the best-capitalized institutions. These factors argue in favour of a general increase in the level and quality of capital issued by financial institutions. This is also reflected in the enhanced requirements under Basel III implemented on January 1, 2013. It was against this backdrop that Desjardins Group set its target for Tier 1A and Tier 1 capital at 15%.

Desjardins Group's Integrated Capital Management Framework

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

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

Desjardins Group has developed a stress-testing program aimed at establishing and measuring the effect of various integrated scenarios, i.e. to simulate various economic scenarios and to assess their financial and regulatory repercussions. This process makes it possible to determine if the 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 for financial services cooperatives (the guideline). This guideline takes into account the global regulatory framework for more resilient banks and banking systems (Basel III) issued by the Bank for International Settlements.

The 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 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 CARLI guideline.

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, 2018
Tier 1A capital ratio	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**17.3%**
Tier 1 capital ratio	> 6.0	2.5	> 8.5	1.0	> 9.5	**17.3**
Total capital ratio	> 8.0	2.5	> 10.5	1.0	> 11.5	**17.6**
Leverage ratio	> 3.0	N/A	> 3.0	N/A	> 3.0	**8.3**

(1) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets in accordance with the guideline.
(2) The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk that includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet items.
(3) In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios.

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 October 25, 2017, the BCBS issued a guideline entitled "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 BCBS issued a discussion paper on the regulatory treatment of sovereign exposures. Comments on the topic could be sent to the BCBS until March 9, 2018. The BCBS did not obtain a consensus in order to make changes to the treatment of exposures to sovereign risk.

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.

On March 22, 2018, the BCBS issued a consultative document entitled "Revisions to the minimum capital requirements for market risk", which addresses certain issues raised following the publication on January 14, 2016 of the revised version of the minimum capital requirements for market risk. The consultative document includes proposed changes aimed, in particular, at increasing the risk sensitivity of the standardized approach and recalibrating risk weights for interest risk, equity risk and foreign exchange risk. It also proposes changes to the "Simplified alternative to the standardised approach to market risk capital requirements" issued on June 29, 2017. On December 7, 2017, the BCBS had announced that financial institutions should present information using the standardized approach as of January 1, 2022.

On July 16, 2018, the OSFI released a discussion paper on the proposed implementation timetable for the recent Basel III reforms in Canada. The paper also details the OSFI's views on some of the proposed changes. The AMF has not yet expressed its opinion of the timetable for adopting the new reforms.

Finally, in November 2018, the guideline on adequacy of capital base standards for financial services cooperatives issued by the AMF was revised and it is expected to be effective on March 31, 2019. The main changes cover the following elements:

- Introduction of TLAC provisions;
- Revision of the framework for securitization;
- Implementation of the standardized approach for counterparty credit risk (SA-CCR) and the revised capital requirements for bank exposure to central counterparties;
- Raising of the minimum requirement for the leverage ratio to 3.5% for institutions designated as D-SIFI;
- Introduction of provisions regarding the countercyclical buffer;
- Revision of the Pillar 3 standard;
- Introduction of a new output floor for risk-weighted assets: Since the adoption of the Basel III framework in 2008, the AMF has imposed a requirement regarding the capital output floor for institutions that apply the advanced internal ratings-based approach (credit risk or operational risk). This capital output floor was determined according to Basel I requirements rather than the Basel II standardized approach. For the first quarter of 2019, the AMF is proposing a new capital output floor based on the revised Basel III standardized approach.

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, 2018, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 17.3%, 17.3% and 17.6%, respectively. The leverage ratio was 8.3%. 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, 2018.

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)]	• General 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)	2018[(1)]	2017
Tier 1A capital		
Federation capital shares[(2)]	$ 4,784	$ 4,518
Permanent shares and surplus shares subject to phase-out	532	794
Reserves	15,921	16,707
Undistributed surplus earnings	3,634	1,336
Eligible accumulated other comprehensive income	(28)	410
Deductions[(3)]	(2,431)	(2,780)
Total Tier 1A capital	22,412	20,985
Non-controlling interests	-	13
Total Tier 1B capital	-	13
Total Tier 1 capital	22,412	20,998
Tier 2 capital		
Subordinated notes subject to phase-out	844	1,032
General allowance	377	257
Other eligible instruments	25	25
Deductions	(820)	(876)
Total Tier 2 capital	426	438
Total regulatory capital (Tiers 1 and 2)	$ 22,838	$ 21,436
Ratios and leverage ratio exposure		
Tier 1A capital ratio	17.3%	18.0%
Tier 1 capital ratio	17.3	18.0
Total capital ratio	17.6	18.4
Leverage ratio	8.3	8.5
Leverage ratio exposure	$ 271,359	$ 246,832

(1) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Including capital shares held in segregated funds.
(3) Deductions from Tier 1A are comprised of regulatory adjustments and significant investments of $661 million and $1,770 million, respectively, as at December 31, 2018, and of $651 million and $2,129 million as at December 31, 2017.

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.

During 2018, the *Fédération des caisses populaires de l'Ontario Inc.* bought back all Class B preferred shares for a cash consideration of $13 million and all Class C preferred shares for a cash consideration of $75 million.

On December 21, 2018, the Federation filed a new short-form prospectus and obtained a receipt allowing it to issue, in the 12 months following the date of the receipt, F capital shares for a maximum amount of $125 million. This new issue started on January 15, 2019. During 2018, the Federation issued F capital shares for a cash consideration of $125 million. It also issued F capital shares for an amount of $142 million in order to pay interest where a holder elected to receive remuneration in F capital shares.

As at December 31, 2018, the Tier 1A capital ratio was down 71 basis points compared to December 31, 2017. Growth in surplus earnings was partly offset by an increase in risk-weighted assets, the transition to IFRS 9 and the reduction in accumulated other comprehensive income. As mentioned in the "Regulatory developments" section, the AMF has announced the implementation of a new capital output floor from the end of the first quarter of 2019. Desjardins Groups believes that the impact of this change will result in an increase of approximately 70 basis points in the Tier 1A capital ratio as at March 31, 2019.

Table 23 – Change in regulatory capital
For the years ended December 31

(in millions of dollars)	**2018[(1)]**	2017
Tier 1A capital		
Balance at beginning of year	**$ 20,985**	$ 18,720
Increase in reserves and undistributed surplus earnings[(2)]	**1,512**	1,489
Eligible accumulated other comprehensive income	**(438)**	18
Federation's capital shares[(3)]	**266**	376
Permanent shares and surplus shares subject to phase-out	**(262)**	(284)
Deductions	**349**	666
Balance at end of year	**22,412**	20,985
Tier 1B capital		
Balance at beginning of year	**13**	12
Non-controlling interests	**(13)**	1
Balance at end of year	**-**	13
Total Tier 1 capital	**22,412**	20,998
Tier 2 capital		
Balance at beginning of year	**438**	611
Senior notes subject to phase-out	**(188)**	(174)
General allowance	**120**	5
Deductions	**56**	(4)
Balance at end of year	**426**	438
Total capital	**$ 22,838**	$ 21,436

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Amount including the change in defined benefit pension plan liabilities.
(3) 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 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 June 30, 2017. On June 29, 2018, Desjardins Group received the AMF's approval to use market risk internal models for trading portfolios while continuing to use the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio as of September 30, 2018. 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 $129.5 billion as at December 31, 2018. Of this amount, $106.8 billion was for credit risk, $5.4 billion for market risk, $12.2 billion for operational risk, and $5.1 billion was for the threshold adjustment. As at December 31, 2017, risk-weighted assets stood at $116.5 billion.

Table 24 – Risk-weighted assets

	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2018				Total as at December 31, 2017
(in millions of dollars and as a percentage)	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	$ -	$ -	$ 15,346	$ 102	$ 15,346	$ 102	$ 8	0.7%	$ 28
Financial institutions	-	-	10,743	2,106	10,743	2,106	168	19.6	2,094
Businesses	-	-	67,208	56,333	67,208	56,333	4,507	83.8	43,738
Securitizations	-	-	5	63	5	63	5	1,250.0	75
Equities	-	-	250	334	250	334	27	133.6	241
SMEs similar to other retail client exposures	-	-	8,294	5,394	8,294	5,394	432	65.0	4,687
Mortgages	103,893	11,491	435	152	104,328	11,643	931	11.2	9,769
Other retail client exposures (excluding SMEs)	11,271	4,741	1,057	793	12,328	5,534	443	44.9	3,975
Qualifying revolving retail client exposures	39,177	10,159	-	-	39,177	10,159	812	25.9	8,833
Subtotal - Credit risk other than counterparty risk	154,341	26,391	103,338	65,277	257,679	91,668	7,333	35.6	73,440
Counterparty risk									
Sovereign borrowers	-	-	8	-	8	-	-	-	-
Financial institutions	-	-	2,755	551	2,755	551	44	20.0	343
Businesses	-	-	12	12	12	12	1	100.0	5
Trading portfolio	-	-	1,234	533	1,234	533	43	43.2	365
Credit valuation adjustment charge	-	-	-	-	-	1,452	116	-	903
Additional requirements for banking and trading portfolio	-	-	-	-	264	14	1	-	1
Subtotal - Counterparty risk	-	-	4,009	1,096	4,273	2,562	205	60.0	1,617
Other assets[3]	-	-	-	-	15,920	11,268	902	70.8	11,677
Scaling factor[4]	-	1,585	-	-	-	1,584	127	-	1,333
Total credit risk	154,341	27,976	107,347	66,373	277,872	107,082	8,567	38.5	88,067
Market risk									
Value at Risk (VaR)	-	575	-	-	-	575	46	-	-
Stressed Value at Risk (SVaR)	-	2,335	-	-	-	2,335	187	-	-
Incremental risk charge (IRC)[5]	-	1,732	-	-	-	1,732	139	-	-
Other[6]	-	-	-	754	-	754	60	-	1,965
Total market risk[7]	-	4,642	-	754	-	5,396	432	-	1,965
Operational risk[8]	-	-	-	12,232	-	12,232	979	-	11,850
Total risk-weighted assets before threshold	154,341	32,618	107,347	79,359	277,872	124,710	9,978	-	101,882
Risk-weighted assets (RWA) after the transitional provisions for the credit valuation adjustment charge[9]									
RWA for Tier 1A capital	-	-	-	-	-	124,419	9,954	-	101,629
RWA for Tier 1 capital	-	-	-	-	-	124,463	9,957	-	101,674
RWA for total capital	-	-	-	-	-	124,506	9,960	-	101,710
Transitional threshold adjustment[10]	-	-	-	-	-	5,055	404	-	14,858
Total risk-weighted assets	$ 154,341	$ 32,618	$ 107,347	$ 79,359	$ 277,872	$ 129,474	$ 10,358	- %	$ 116,487

(1) Net exposure after credit risk mitigation (net of allowance for expected credit losses on credit-impaired loans other than retail (except for credit card loans) using the Standardized Approach, excluding those using the Internal Ratings-Based Approach, according to the AMF guideline).
(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 portfolios, 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) Additional requirements representing an estimate of default and migration risks of unsecuritized products exposed to interest rate risk.
(6) Represents capital requirements calculated using the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio. It should be noted that since third quarter 2018, the internal models approach has been applied to all trading portfolios, after receiving the AMF's approval. Prior to this period, the Standardized Approach was used for all market risk requirements.
(7) Since third quarter 2018, internal models have been used to calculate market risk for trading portfolios in replacement of the Standardized Approach used previously. The Standardized Approach was used in prior periods. Prior-period data have not been restated.
(8) Since second quarter 2017, the Standardized Approach has been used to assess operational risk. The Basic Indicator Approach was used in prior periods.
(9) 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 80%, 83% and 86%, respectively, in 2018 (72%, 77% and 81% in 2017) and will reach 100% for each class of capital by 2019.
(10) 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 2018 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 an $8.5 billion increase in RWA, whereas the deterioration in portfolio quality caused an increase of $1.5 billion. In addition, the updating of models generated a $939 million increase. The integration of the downturn loss given default in the insured mortgage portfolio caused an increase of $2.1 billion, included in the $7.7 billion resulting from changes in methods and policies. On April 1, 2018, Desjardins Group completed the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., which caused a $892 million decrease in credit risk, and finally the change in exchange rates accounted for a $321 million increase. In counterparty risk, changes in the calculation method for regulatory capital, higher transaction volume and a deterioration in portfolio quality caused an increase of $905 million.

In market risk, a $3.4 billion increase in RWA was observed due to obtaining the AMF's approval to use internal models in replacement of the Standardized Approach used previously.

In operational risk, a $382 million increase in RWA was observed, on account of the fluctuation in revenue generated.

The threshold adjustment as previously defined decreased by $9.8 billion of RWA in 2018, basically as a result of changes in methods and policies.

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

(in millions of dollars)	**2018**			2017		
	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	**$ 86,448**	**$ 1,366**	**$ 87,814**	$ 77,449	$ 1,038	$ 78,487
Size of portfolio[1]	**8,526**	**693**	**9,219**	7,431	282	7,713
Quality of portfolio[2]	**1,481**	**111**	**1,592**	(408)	(13)	(421)
Updating of models[3]	**939**	**-**	**939**	2,120	-	2,120
Procedures and policies[4]	**7,697**	**82**	**7,779**	8	59	67
Acquisitions and transfers	**(892)**	**-**	**(892)**	65	-	65
Change in exchange rates	**321**	**19**	**340**	(217)	-	(217)
Other	**-**	**-**	**-**	-	-	-
Total changes in risk-weighted assets	**18,072**	**905**	**18,977**	8,999	328	9,327
Risk-weighted assets at end of year	**$ 104,520**	**$ 2,271**	**$ 106,791**	$ 86,448	$ 1,366	$ 87,814

(in millions of dollars)	**2018**	2017
Market risk		
Risk-weighted assets at beginning of year	**$ 1,965**	$ 1,810
Change in risk levels[5]	**-**	155
Updating of models[3]	**393**	-
Procedures and policies[4]	**-**	-
Acquisitions and transfers	**3,038**	-
Change in exchange rates	**-**	-
Other	**-**	-
Total changes in risk-weighted assets	**3,431**	155
Risk-weighted assets at end of year	**$ 5,396**	$ 1,965
Operational risk		
Risk-weighted assets at beginning of year	**$ 11,850**	$ 13,315
Revenue generated	**394**	126
Procedures and policies[4]	**-**	(1,591)
Acquisitions and transfers	**(12)**	-
Total changes in risk-weighted assets	**382**	(1,465)
Risk-weighted assets at end of year	**$ 12,232**	$ 11,850
Transitional threshold adjustment		
Risk-weighted assets at beginning of year	**$ 14,858**	$ 14,532
Size of portfolio[1]	**3,231**	83
Quality of portfolio[2]	**(531)**	456
Updating of models[3]	**(916)**	(2,076)
Procedures and policies[4]	**(10,709)**	1,864
Acquisitions and transfers	**(867)**	(1)
Change in exchange rates	**(11)**	-
Other	**-**	-
Total changes in risk-weighted assets	**(9,803)**	326
Risk-weighted assets at end of year	**$ 5,055**	$ 14,858

(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 methods.
(5) Change in risk levels and fluctuation in exchange rates, which is not considered to be material.

3.3 Off-balance sheet arrangements

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, 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, 2018, Desjardins Group administered, for the account of its members and clients, assets totalling $373.6 billion. This represented an annual decrease of $38.0 billion, or 9.2%, compared to a decrease of $8.6 billion, or 2.1%, recorded as at December 31, 2017. The decrease was mainly due to the transaction involving Qtrade Canada Inc., as described in Section 1.2 "Significant transactions in 2018". Financial assets placed with Desjardins Group as wealth manager amounted to $57.4 billion at the close of 2018, for a decrease of $0.8 billion, or 1.3% on an annual basis, compared to an increase of $6.7 billion, or 12.9%, a year earlier.

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)	2018	2017	2016
Assets under management			
Institutions and individuals	**$ 13,902**	$ 15,263	$ 12,205
Investment funds(1)	**43,546**	42,957	39,345
Total assets under management	**$ 57,448**	$ 58,220	$ 51,550
Assets under administration			
Individual and institutional trust and custodial services	**$ 280,378**	$ 313,517	$ 326,798
Investment funds(1)	**93,180**	98,031	93,368
Total assets under administration	**$ 373,558**	$ 411,548	$ 420,166

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

CREDIT INSTRUMENTS

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

Note 28, "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 28, "Commitments, guarantees and contingent liabilities", to the 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 28, "Commitments, guarantees and contingent liabilities", to the 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.

Securitization of Desjardins Group's financial assets

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

4.0 Risk management

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

In the charts for this section, the information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

4.1 Risk factors that could impact future results

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

Principal emerging risks

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

Principal emerging risks	Description
Cyber threats	Risks related to cyber threats have been on the rise for a number of years. Both the aggregation of new services for members and clients and the exposure of online services are becoming increasingly complex and gradually extending to more and more areas and products. In addition, the authors of cyber threats are using increasingly sophisticated methods and strategies for criminal purposes. Consequently, Desjardins Group has been investing for many years in technology to strengthen its cyber defence capabilities in order to detect cyber security incidents as quickly as possible; in its processes, by optimizing them to respond efficiently to incidents; and in its employees, by attracting and training them in order to continue developing its defence methods. Desjardins Group has also optimized its cyber risk transfer strategies by refining its own assurance policies during 2018. There is no indication that Desjardins would be less at risk than other Canadian financial institutions. In the event of a successful cyber attack, Desjardins would be exposed to financial loss, reputational loss, the risk of not achieving its business objectives as well as major disruption in its operations. Desjardins remains vigilant and proactive in identifying and managing such risks by continuing to invest in cyber defence techniques to protect its systems and data, and its members and clients.

Principal emerging risks	Description
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 experienced solid growth in 2018, despite higher interest rates and the tighter mortgage granting rules imposed at the start of the year. Nonetheless, Desjardins remain proactive in assisting members and clients who could be affected in the event of such a situation. Desjardins has sound practices in granting and managing mortgage financing, including a stress test involving interest rates for mortgage financing, which should allow it to circumvent this risk.
Technological developments	Innovative technologies are being increasingly taken into consideration and adopted by financial institutions in the context of their digital transformation, as they represent a crucial vector for transforming business processes and models. In addition to the cyber threats risks, use of these technologies exposes financial institutions to other risks relating to system stability, the modernizing of infrastructure, complex environments and system interdependence. Regulators' expectations and the regulatory environment will be increasingly demanding, and financial sector requirements will continue to grow in terms of managing technology risk. The growing presence of FinTech and InsurTech, which offer simple, innovative technology solutions that meet the expectations of members and clients, puts more pressure on traditional financial institutions to adapt. Desjardins Group has been no exception and remains active in managing this operational and strategic risk, among others, by investing in technology and by reviewing and diversifying its products, services and distribution channels to meet the needs of its members and clients.
Regulatory developments	The financial services industry is one of the most tightly monitored and regulated, and industry regulation has been expanding for many years now. This trend is in response to a number of socio-economic phenomena such as the development of new, increasingly complex financial products, ongoing volatility in the securities market, financial fraud, the fight against money laundering and terrorist financing, the fight against tax evasion, compliance with economic sanctions and the protection of personal information. Although Desjardins Group actively monitors and manages regulatory risk, changes in regulation, its complexity and its uncertainty could have an impact on the performance of its operations, its reputation, its strategies and its financial objectives. As an independent supervisory function, the Office of the Chief Compliance Officer, Desjardins Group promotes a proactive approach to compliance by fully integrating it into the organization's regular operations. Maintaining an effective compliance management framework mobilizes significant amounts of technical, human and financial resources.
Interest rate development	The turbulence seen on capital markets at the end of 2018 lowered bond rates. Furthermore, fewer interest rate increases are now expected in 2019 while the global economy is showing signs of weakness. This rate environment puts pressure on financial intermediation margins, resulting in lower interest income and fiercer competition for deposits as a number of investors abandon investment funds for high interest savings accounts and guaranteed capital investment vehicles. This situation also affects Desjardins Group's insurer and pension plan matching activities while liability valuations increase and return on assets decreases. Desjardins Group is still actively involved in its matching strategies and effectively manages these risks. The risk-averse, highly-volatile environment observed in the last two months of 2018 caused a significant widening in credit spreads, as well as a considerable reduction in the general level of interest rates. These elements had very negative repercussions on portfolios intended for long-term strategies aimed at ensuring the stability of these market parameters.
Geopolitical uncertainties	The adoption of protectionist measures by the U.S. administration increased global uncertainty in 2018. New protectionist measures could be decreed in 2019, particularly if the current negotiations between China and the U.S. are not conclusive. For Canada more specifically, there could be some new twists in the United States–Mexico–Canada (USMC) Agreement, which has not yet been accepted by the legislatures concerned. Some of the articles of the agreement could be contested, which would start the negotiating process all over again. The situation in Europe is one of greater political uncertainty. In addition to Brexit, which is marking time, there is the yellow vest crisis in France and the rise of populism. The European economy may slow again in 2019. The likelihood of a recession has also increased. Aware of the strength of 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

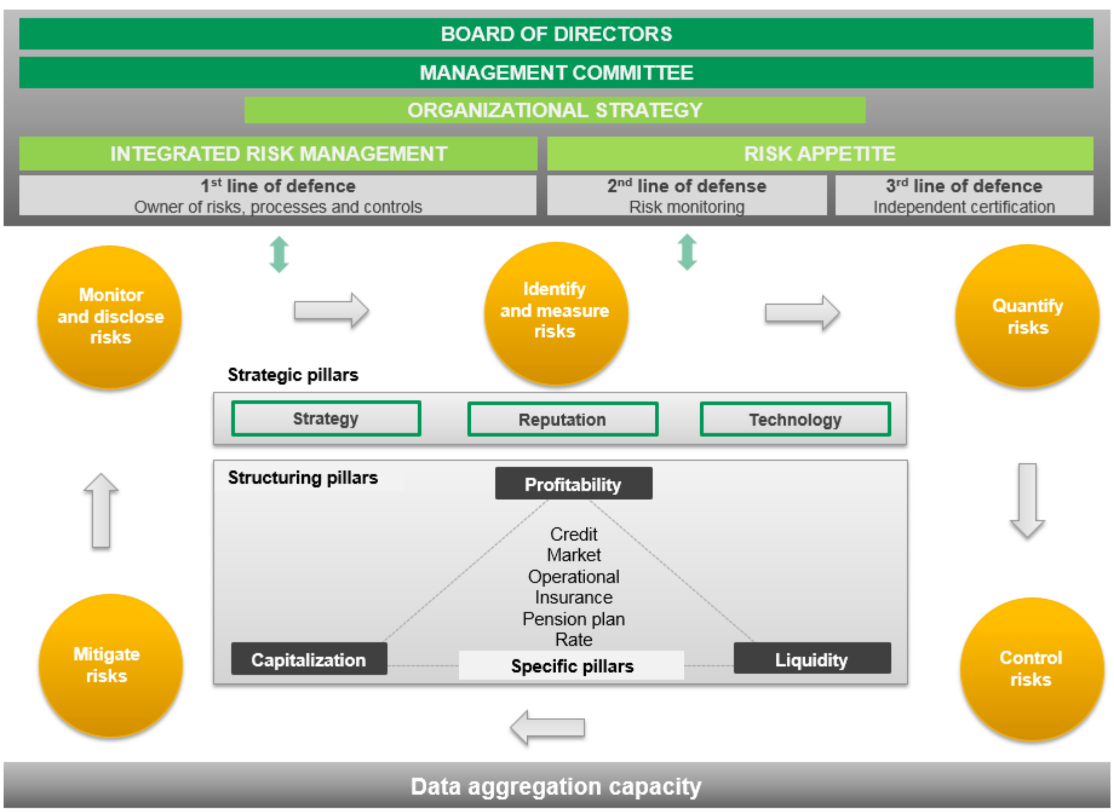
Risk factors	Description
General economic and business conditions in regions in which Desjardins Group operates	General economic and business conditions in the regions in which Desjardins Group operates may significantly affect its income and surplus earnings. These conditions include short- and long-term interest rates, inflation, debt securities market fluctuations, foreign exchange rates, the volatility of capital markets, tighter liquidity conditions in certain markets, the level of indebtedness, the strength of the economy, consumer spending and saving habits, and the volume of business conducted by Desjardins Group in a given region.
Monetary policies	The monetary policies of the Bank of Canada and the U.S. Federal Reserve (the Fed), as well as interventions in capital markets, have an impact on Desjardins Group's income. The general level of interest rates may impact Desjardins Group's profitability because interest rate fluctuations affect the spread between interest paid on deposits and interest earned on loans, thereby affecting Desjardins Group's net interest income. Furthermore, considering the current level of indebtedness of Canadian households, higher interest rates could have an adverse effect on consumers' ability to service their debt, leading to an increased risk of loan losses for financial institutions. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.
Accuracy and completeness of information concerning clients and counterparties	Desjardins Group relies on the accuracy and completeness of the information it has 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.
Critical accounting estimates and accounting standards	The Combined Financial Statements are prepared in accordance with the IFRS. The accounting policies used by Desjardins Group determine how it reports its financial position and results of operations, and management may be required to make estimates or rely on assumptions about matters that are inherently uncertain. Any change in these estimates and assumptions, as well as in accounting standards and policies, may have a significant impact on Desjardins Group's financial position and results of operations. The significant accounting policies and future accounting changes are described in Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
New products and services to maintain or increase market share	Strong competitive pressures from Canadian financial institutions and the emergence of new competitors have led Desjardins Group to develop new products and services at a faster pace to maintain or increase its attractiveness as a financial institution with its clients. Developing these new products and services could require large investments by Desjardins or involve risks not identified at the time of their development. Desjardins cannot be certain that the new products and services it offers will result in the anticipated financial benefits.
Geographic concentration	Desjardins Group's operations are heavily concentrated in Quebec. As at December 31, 2018, Desjardins Group's loans to Quebec members and clients therefore accounted for 90.9% 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.
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.

Risk factors	Description
Climate change	Climate change is an external risk factor that is part of environmental risk. It is defined as an entity's vulnerability to the negative effects of climate change, which could lead to financial losses. It includes: • physical risks, namely the risks resulting from damage caused by extreme weather events; • transition risks, namely the risks related to implementation of measures to ensure environmental transition. Catastrophes resulting from extreme weather events are unforeseeable and their frequency seems to be growing. The severity of their effects means that they could have a material impact on Desjardins Group's results. Given the nature of their operations, Desjardins's property and casualty insurance subsidiaries are particularly affected by climate change, especially through the catastrophe risk that is an integral part of insurance risk.
Other factors	Other factors that may have an impact on Desjardins Group's future results include changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact of international conflicts on operations, and Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment. Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

4.2 Risk management

Integrated Risk Management Framework

Desjardins Group's objective in risk management is to optimize the risk-return trade-off by developing and applying integrated risk management strategies, frameworks, practices and procedures to all of the organization's business segments and support functions. To this end, Desjardins developed an Integrated Risk Management Framework reflective of its organizational strategy and risk appetite which is aimed, among other things, at giving its senior management and the Federation's Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of the 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 risk factors to which it is exposed. Desjardins Group has a risk log that sets out the main categories and subcategories of risks which could affect Desjardins Group. The log is updated 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 or social	Legal and regulatory

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

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

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

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

During Desjardins-wide stress testing in 2018, the scenarios developed separately considered the possibility of a long recession in the U.S. combined with a significant real estate correction in Canada, and a global trade war. The results obtained from the assessment of these scenarios show that Desjardins Group's current capitalization levels would be enough to withstand the economic deterioration considered and that its capital ratios would still exceed regulatory limits and its own risk appetite limits.

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

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

Governance and model validation

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

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

RISK DISCLOSURE

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

RISK APPETITE

As a significant component of the Integrated Risk Management Framework, risk appetite makes it possible to determine the risk type and level that Desjardins is prepared to assume in pursuing its business, 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 management 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 to holders of debt securities and equity securities;
- maintaining financial stability within the market by preserving a capitalization level that meets market expectations and complies with regulatory requirements;
- managing liquidities and refinancing activities in order to guard against liquidity risk;
- avoiding excessively large risk concentrations;
- adequately managing operational and regulatory risks.

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

The risk appetite framework is reviewed regularly and submitted to the Federation's Board of Directors for approval. The 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. Stakeholders, including the Board of Directors, senior management and the Risk Management Executive Division, encourage risk-taking behaviour in line with Desjardins Group's risk management frameworks. A proactive risk management approach promotes open and transparent communication between Desjardins Group's risk management function and its other support functions, business segments and components, while promoting an appropriate risk-return trade-off.

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

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

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

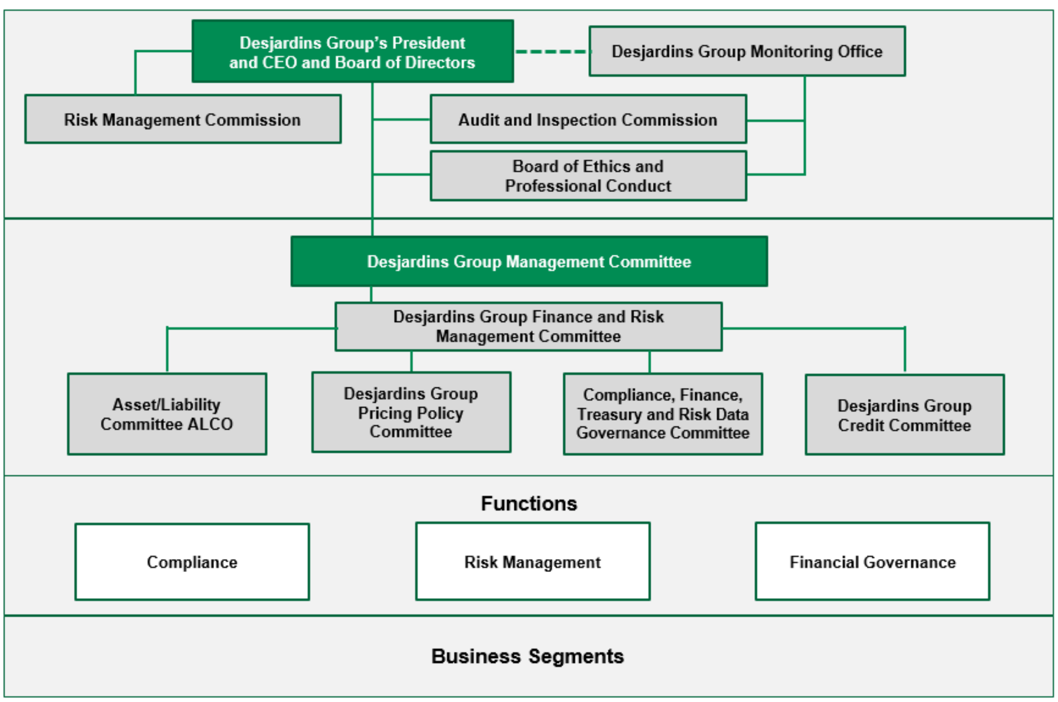
Compensation in relation to risk management

Desjardins Group has established strict governance with regard to total compensation. The Board of Directors is responsible for the annual changes in the total compensation of 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 2018 Desjardins Group Annual Report.

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

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

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

This committee is supported by the Desjardins Group Credit Committee and the Compliance, Finance, Treasury and Risk Data Governance Committee:

- **The Desjardins Group Credit Committee** approves large credit commitments and monitors activities related to assessing and quantifying credit risk. In its monitoring role, the committee is supported by the model and strategy monitoring unit and by the collective allowance governance committee.
- **The Compliance, Finance, Treasury and Risk Data Governance Committee** 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 Finance and Risk Management Committee is also responsible for overseeing and monitoring interest rate and liquidity risk management as well as ensuring compliance with Desjardins Group's pricing policy and the consistency of pricing with Desjardins's strategic objectives and financial targets. These mandates are performed through the **Asset/Liability Committee (ALCO)** and the **Desjardins Group Pricing Policy Committee**.

Operations management approach based on the Three Lines of Defence model

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

Three Lines of Defence model	
First line	
Owner of risks, processes and controls	• Identifies and manages process-related risks • Manages its activities in line with the organization's risk appetite • Is responsible for performance of its activities • Designs, implements and maintains effective internal controls • Identifies potential conflict of interest situations and remedies them by adequate segregation of tasks • Produces and reports on its risk profile
Second line	
Risk monitoring	• Establishes risk management frameworks and ensures that they are applied • Monitors and does a critical review of the first line's risk management and the effectiveness of the controls it puts in place • Advises and equips the first line so that it can carry out its responsibilities • Monitors and reports on compliance with risk appetite
Third line	
Independent certification	• Gives an independent opinion on the effectiveness of governance, risk management and internal controls within the organization

1st Line of Defence

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

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

2nd Line of Defence

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

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

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

3rd Line of Defence

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

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

Basel capital accord

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

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

In compliance with the guideline on adequacy of capital base standards, which was adapted to reflect the provisions of Basel III, Desjardins Group uses the Internal Ratings-Based Approach for credit risk related to the retail loan portfolios − Personal. Other exposures to credit risk are currently 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 June 30, 2017. On June 29, 2018, Desjardins Group received the AMF's approval to use market risk internal models for trading portfolios while continuing to use the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio as of September 30, 2018. These provisions are used to calculate Desjardins Group's capital ratios, among other things.

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

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

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

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

Table 27 – Economic capital and risk-weighted assets[(1)] by business segment and by risk type
As at December 31, 2018

(in millions of dollars and as a percentage)

Desjardins Group

Economic capital	
Banking activities	
Credit risk	32.4%
Market risk	3.5
Operational risk	6.2
Other risks[(2)]	18.2
Total banking activities	60.3
Insurance activities	32.9
Risk related to goodwill and other intangible assets[(3)]	6.9

Risk-weighted assets	
Credit risk	$ 106,791
Market risk	5,396
Operational risk	12,232
Threshold adjustment	5,055

		Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other
Balance sheet[(4)]	Assets	$ 232,526	$ 41,916	$ 13,007	$ 8,016
Economic capital	Proportion of total for Desjardins Group	45.1%	26.7%	14.8%	13.4%
	Banking activities				
	Credit risk	66.1	0.7	-	16.3
	Market risk	2.4	-	-	18.8
	Operational risk	12.2	3.4	-	-
	Other risks[(5)]	19.1	5.4	-	57.8
	Total banking activities	99.8	9.5	-	92.9
	Insurance activities[(6)]	-	79.4	88.1	-
	Risk related to goodwill and other intangible assets[(3)]	0.2	11.1	11.9	7.1
Risk-weighted assets	Credit risk	$ 93,687	$ 4,487	$ 2,376	$ 6,241
	Market risk	2,153	21	-	3,222
	Operational risk	9,700	852	-	1,680

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 took effect for Desjardins Group on December 31, 2018. They are produced and presented in the Pillar 3 Report available on the Desjardins website, at www.desjardins.com/about-us/investor-relations. This Pillar 3 Report is not incorporated by reference into this MD&A. 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, 2018, 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 regulatory capital

The AMF has authorized two credit risk assessment approaches to be included in calculating regulatory capital, namely the Standardized Approach and the Internal Ratings-Based Approach. RWA calculations are used to measure Desjardins Group's credit risk, as well as market risk and operational risk. Desjardins has adopted the Internal Ratings-Based Approach for credit risk 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.

PD is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. For retail customers, 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 margin) 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.

Differences between the parameters used for accounting and regulatory capital purposes

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

	Regulatory capital	IFRS 9
PD	• Estimated using a long-term average for a full economic cycle. • Projected over the next 12 months. • Definition of default associated with an instrument for which payments have been past due for over 90 days, plus certain other criteria.	• Estimated at a point in time for the next 12 months or for the lifetime of the instrument. • Based on past experience, current conditions and relevant forward-looking information. • 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.	• 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.

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

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

As at December 31, 2018, the EAD was $287.5 billion before using CRM techniques, and $261.7 billion after using CRM techniques. The complete results of the credit risk assessment, depending on the type of risk exposure, asset class and the calculation method used (the Standardized Approach or the Internal Ratings-Based Approach (Basel III), as required by the AMF), are found in Table 28 – Risk exposure by asset class.

Desjardins Group uses the Internal-Ratings Based approach for 53.7% of exposure at default. Thus 46.3% of EAD is for the moment measured using the Standardized Approach. Work to obtain credit risk approval for the vast majority of portfolios is continuing. It is estimated that, at term, 89.5% of EAD will be measured using the Internal-Ratings Based approach.

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

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

(in millions of dollars)	2017 Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[(2)]	EAD as a % of total
Standardized Approach								
Sovereign borrowers	$ 13,745	$ 678	$ 16	$ 8	$ 141	$ 14,588	$ 14,572	5.5%
Financial institutions	7,475	2,478	483	3,287	524	14,247	11,778	5.4
Businesses	49,094	4,823	283	2	639	54,841	54,122	20.7
SMEs similar to other retail client exposures	6,822	188	-	-	34	7,044	6,981	2.6
Mortgages	411	-	-	-	-	411	411	0.2
Other retail client exposures (excluding SMEs)	1,438	67	-	-	-	1,505	279	0.6
Securitization	6	-	-	-	-	6	6	-
Equities	152	-	-	-	-	152	152	0.1
Trading portfolio	-	-	17,840	750	-	18,590	1,268	7.0
Subtotal – Standardized Approach	79,143	8,234	18,622	4,047	1,338	111,384	89,569	42.1
Internal Ratings-Based approach								
Mortgages	93,067	12,614	-	-	-	105,681	105,681	40.0
Revolving retail client exposures	11,239	26,110	-	-	-	37,349	37,349	14.1
Other retail client exposures	9,577	395	-	-	21	9,993	9,993	3.8
Subtotal – Internal Ratings-Based approach	113,883	39,119	-	-	21	153,023	153,023	57.9
Total	$ 193,026	$ 47,353	$ 18,622	$ 4,047	$ 1,359	$ 264,407	$ 242,592	100.0%

(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

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

	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

(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.

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. 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

	2018				2017
	EAD				
(in millions of dollars)	Exposures related to residential mortgage loans	Qualifying revolving retail client exposures	Other retail client exposures	Total	Total
Excellent	**$ 36,105**	**$ 15,103**	**$ 1,152**	**$ 52,360**	$ 51,974
Very low	**27,289**	**13,527**	**1,367**	**42,183**	42,327
Low	**35,147**	**7,839**	**4,109**	**47,095**	46,681
Average	**4,155**	**1,376**	**4,117**	**9,648**	9,077
High	**778**	**1,213**	**406**	**2,397**	2,414
Default	**419**	**119**	**120**	**658**	550
Total	**$ 103,893**	**$ 39,177**	**$ 11,271**	**$ 154,341**	$ 153,023

[(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

	2018								2017
	Risk tranches								
(in millions of dollars)	0%	20%	35%	50%	75%	100%	Other	Total	Total
Residential mortgages	**$ -**	**$ -**	**$ 435**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 435**	$ 411
Other retail client exposures (except for SMEs)	**-**	**-**	**-**	**-**	**1,944**	**3**	**-**	**1,947**	1,506
Total	**$ -**	**$ -**	**$ 435**	**$ -**	**$ 1,944**	**$ 3**	**$ -**	**$ 2,382**	$ 1,917

[(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

	2018								2017
	Risk tranches								
(in millions of dollars)	0%	20%	35%	50%	75%	100%	Other	Total	Total
Sovereign borrowers	**$ 15,282**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 102**	**$ -**	**$ 15,384**	$ 940
Financial institutions	**-**	**17,659**	**-**	**21**	**-**	**4**	**1**	**17,685**	6,154
Businesses	**-**	**219**	**-**	**653**	**-**	**66,260**	**710**	**67,842**	53,614
SMEs similar to other retail client exposures	**-**	**-**	**-**	**-**	**8,120**	**113**	**150**	**8,383**	6,973
Total	**$ 15,282**	**$ 17,878**	**$ -**	**$ 674**	**$ 8,120**	**$ 66,479**	**$ 861**	**$ 109,294**	$ 67,681

[(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

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

For some portfolios, programs offered by various organizations, in particular Canada Mortgage and Housing Corporation (CMHC) and *La Financière agricole du Québec*, are used in addition to customary collateral. As at December 31, 2018, guaranteed or insured loans represented 24.6% of Desjardins Group's total gross loans, compared to 26.4% at the end of 2017. As a result of these additional measures, the residual credit risk is minimal for loan portfolios with such collateral. In order for enhanced credit offered by a guarantor to be considered a credit risk mitigation technique, the guarantor must meet certain specific criteria to allow this.

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

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

During the year ended December 31, 2018, no major change was made to the credit risk mitigation policies, and the quality of assets held as collateral did not change significantly.

Loan debt relief

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

Loans with debt relief totalled $155 million as at December 31, 2018, compared to $242 million at the end of 2017. Of these loans, $91 million were classified as gross credit-impaired loans as at December 31, 2018, compared to $77 million as at December 31, 2017. The increase in the volume of loans classified as credit-impaired was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant.

File monitoring and management of higher risk files

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

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

Default situations

Identification of default

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

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

These criteria are applicable to all clients.

Impact of default

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

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

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

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

Removing default

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

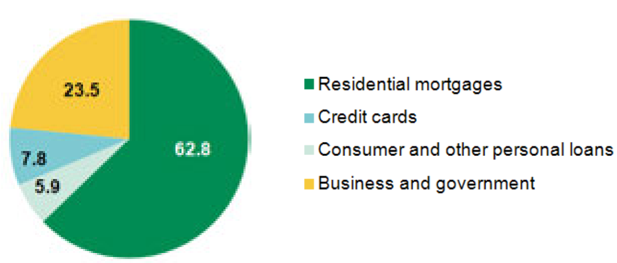
Monitoring of portfolio and reporting

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

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

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

Breakdown of loans and acceptances
As at December 31, 2018
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2018, the main sectors of the business loan portfolio were agriculture, real estate and manufacturing, which accounted for 50.3% of the business loan portfolio amounting to $41.6 billion. The main industries are the same as they were as at December 31, 2017.

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

(in millions of dollars)	2018[1]		2017		2016	
	Gross loans	**Gross credit-impaired[2] loans**	Gross loans	Gross impaired[2] loans	Gross loans	Gross impaired[2] loans
Residential mortgages	**$ 120,113**	**$ 320**	$ 113,146	$ 141	$ 106,695	$ 174
Consumer, credit card and other personal loans	**26,210**	**221**	24,044	89	22,150	102
Public bodies[3]	**3,326**	**-**	3,621	-	2,925	-
Business						
Agriculture	**9,191**	**115**	7,988	24	7,506	37
Mining, oil and gas	**336**	**1**	306	1	321	1
Utilities	**751**	**-**	410	6	518	-
Construction	**2,857**	**154**	2,168	35	2,109	45
Manufacturing	**3,892**	**36**	2,750	38	2,640	41
Wholesale trade	**1,455**	**12**	1,261	5	1,118	7
Retail trade	**3,046**	**37**	2,933	22	2,737	22
Transportation	**1,475**	**19**	1,277	9	1,307	10
Information industry	**519**	**6**	344	6	387	7
Finance and insurance	**651**	**-**	753	-	649	1
Real estate	**7,849**	**34**	8,099	10	7,195	13
Professional services	**788**	**4**	614	4	550	5
Management of companies	**945**	**5**	927	1	907	2
Administrative services	**311**	**4**	255	4	231	6
Education	**232**	**2**	183	-	324	2
Health care	**3,140**	**22**	2,511	17	2,306	13
Arts and entertainment	**809**	**12**	722	4	733	7
Accommodation	**1,545**	**29**	1,267	16	1,217	26
Other services	**1,046**	**9**	803	8	887	11
Other businesses	**742**	**-**	1,546	2	1,059	-
Total business loans	**$ 41,580**	**$ 501**	$ 37,117	$ 212	$ 34,701	$ 256
Total loans	**$ 191,229**	**$ 1,042**	$ 177,928	$ 442	$ 166,471	$ 532

[1] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[3] 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, 2018, the loans granted by Desjardins to members and clients in Quebec accounted for 90.9% of the total loan portfolio, compared to 92.1% as at December 31, 2017.

Table 35 – Loans by geographic distribution
As at December 31

(in millions of dollars)	2018[1]		2017		2016	
	Gross loans	**Gross credit-impaired[2] loans**	Gross loans	Gross impaired[2] loans	Gross loans	Gross impaired[2] loans
Canada						
Quebec	**$ 173,788**	**$ 830**	$ 163,921	$ 389	$ 154,551	$ 480
Other Canadian provinces	**16,752**	**209**	13,667	50	11,587	51
Total - Canada	**$ 190,540**	**$ 1,039**	$ 177,588	$ 439	$ 166,138	$ 531
Other countries	**689**	**3**	340	3	333	1
Total	**$ 191,229**	**$ 1,042**	$ 177,928	$ 442	$ 166,471	$ 532

[1] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

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

Table 36 – Gross loans past due but not credit-impaired(1)

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

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

(1) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

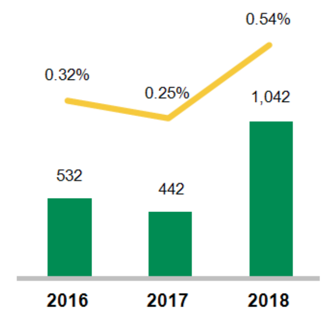
(2) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

On January 1, 2018, Desjardins Group adopted IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". Contrary to the approach of IAS 39, which was based on an incurred credit loss impairment model, IFRS 9 is based instead on an expected credit loss impairment model. The impairment model under IFRS 9 is therefore more forward-looking in nature. For more information, see Note 2, "Basis of presentation and significant accounting policies" to the Combined Financial Statements.

According to Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements, the allowance for credit losses as at December 31, 2018 stood at $719 million, up $281 million compared to December 31, 2017. This increase was mainly the result of growth in outstanding loans and the adoption of IFRS 9 as at January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and of the migration of borrower ratings.

Gross credit-impaired loans outstanding are now the loans included in stage 3 of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.54% as at December 31, 2018, contrary to 0.25% as at December 31, 2017. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered insignificant. The allowance for credit losses on credit-impaired loans totalled $224 million as at December 31, 2018, for a provisioning rate on credit-impaired loans of 21.5%.

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



(1) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Tables 37 and 38 present the gross credit-impaired loans by Desjardins Group borrower category and the change in the gross credit-impaired loan balance.

Table 37 – Gross credit-impaired[1] loans by borrower category
As at December 31

(in millions of dollars and as a percentage)	2018[2]					2017		2016	
	Gross carrying amount								
	Gross loans and acceptances	Gross credit-impaired loans		Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross impaired loans	Net impaired loans	Gross impaired loans	Net impaired loans
Residential mortgages	**$ 120,113**	**$ 320**	**0.27%**	**$ 25**	**$ 295**	$ 141	$ 122	$ 174	$ 155
Consumer, credit card and other personal loans	**26,210**	**221**	**0.84**	**122**	**99**	89	54	102	65
Business and government	**45,066**	**501**	**1.11**	**77**	**424**	212	139	256	169
Total	**$ 191,389**	**$ 1,042**	**0.54%**	**$ 224**	**$ 818**	$ 442	$ 315	$ 532	$ 389

[1] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Table 38 – Change in gross credit-impaired loans[1]
As at December 31

(in millions of dollars)	2018[2]	2017	2016
Gross impaired loans at the beginning of the year under IAS 39	**$ 442**	$ 532	$ 541
Impact of adopting IFRS 9 as at January 1, 2018	**492**	N/A	N/A
Gross credit-impaired loans at the beginning of the year under IFRS 9	**934**	N/A	N/A
Gross credit-impaired loans since the past year	**1,619**	901	1,023
Reinstatement to non-credit-impaired status	**(1,115)**	(668)	(697)
Write-offs and recoveries	**(353)**	(374)	(367)
Other changes	**(43)**	51	32
Gross credit-impaired loans at the end of the year	**$ 1,042**	$ 442	$ 532

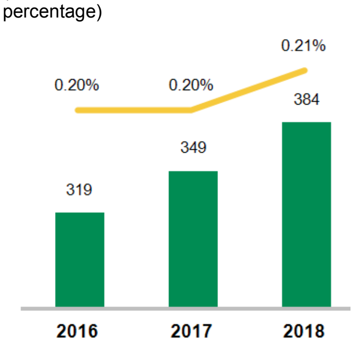
[1] Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
[2] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Provision for credit losses

Desjardins Group's provision for credit losses totalled $384 million for 2018, up $35 million compared to 2017. This increase was mainly the result of growth in outstanding loans and the adoption of IFRS 9 as at January 1, 2018. This new standard led to volatility in results following the revision of economic scenarios, the updating of parameters and the migration of borrower ratings. The credit loss provisioning rate was 0.21% at the end of 2018, compared to a ratio of 0.20% recorded as at December 31, 2017.

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

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



Counterparty and issuer risk

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

The Risk Management Executive Division establishes a risk rating for each counterparty and issuer before authorizing an exposure limit. The rating comes from internal models or is based on rating agencies (DBRS, Moody's, Standard & Poor's and Fitch) recognized by the AMF and the OSFI. Risk ratings are also used as parameters in calculating capital requirements for counterparty and issuer risk. Desjardins Group's exposure limits are established on the basis of its risk appetite framework and its Tier 1A capital. These amounts are then allocated to various components based on their needs. Limits may also apply to certain financial instruments, if considered relevant.

A large proportion of Desjardins Group's risk exposure is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. 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 28, "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 39 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 39 – Link between market risk and the Combined Balance Sheets
As at December 31, 2018[1]

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

See next page for footnotes.

Table 39 – Link between market risk and the Combined Balance Sheets (continued)
As at December 31, 2017

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[2]	Exposed to market risk: Non-trading activities[3]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 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
Equity	24,773	-	-	24,773	
Total liabilities and equity	$ 275,095	$ 18,974	$ 220,685	$ 35,436	

(1) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Trading activity positions for which the risk measure is VaR and SVaR.
(3) Positions mainly related to non-trading banking activities and insurance activities.

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

The market risk of trading portfolios is managed on a daily basis under 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 (holding horizon scaled up to 10 days for the purpose of regulatory capital calculations). It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

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

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

Table 40 presents the aggregate VaR and the aggregate SVaR for Desjardins Group's trading activities by risk category as well as the incremental risk charge (IRC). Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four risk categories to which Desjardins Group is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

Table 40 – Market risk measures for the trading portfolio*

(in millions of dollars)	**As at December 31, 2018**	**For the year ended December 31, 2018**			As at December 31, 2017	For the year ended December 31, 2017		
		Average	**High**	**Low**		Average	High	Low
Equities	**$ 1.0**	**$ 0.4**	**$ 1.0**	**$ 0.2**	$ 0.5	$ 0.3	$ 1.6	$ 0.1
Foreign exchange	**0.5**	**0.5**	**1.2**	**0.1**	0.4	0.3	1.8	-
Interest rate	**2.4**	**4.1**	**6.0**	**2.0**	2.1	3.0	5.1	1.8
Specific interest rate risk(1)	**5.9**	**7.1**	**9.7**	**3.6**	4.3	5.2	8.2	2.5
Diversification effect(2)	**(6.9)**	**(7.8)**	**N/A(3)**	**N/A(3)**	(5.1)	(5.7)	N/A(3)	N/A(3)
Aggregate VaR	**$ 2.9**	**$ 4.3**	**$ 6.1**	**$ 2.1**	$ 2.2	$ 3.1	$ 5.1	$ 2.0
Aggregate SVaR	**$ 16.0**	**$ 16.0**	**$ 26.1**	**$ 8.8**	$ 11.1	$ 11.9	$ 19.7	$ 8.2
Incremental risk charge (IRC)	**$ 75.2**	**$ 76.9**	**$ 98.7**	**$ 43.0**	$ 54.1	$ 104.8	$ 211.3	$ 54.1

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

The average of the trading portfolio's aggregate VaR was $4.3 million for 2018, up $1.2 million compared to 2017, mainly as a result of an increase in the average of the interest rate VaR. As for the average of the aggregate SVaR, it was $16.0 million for 2018, up $4.1 million compared to 2017. The average of the incremental risk charge was $76.9 million, down $27.9 million compared to 2017.

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.

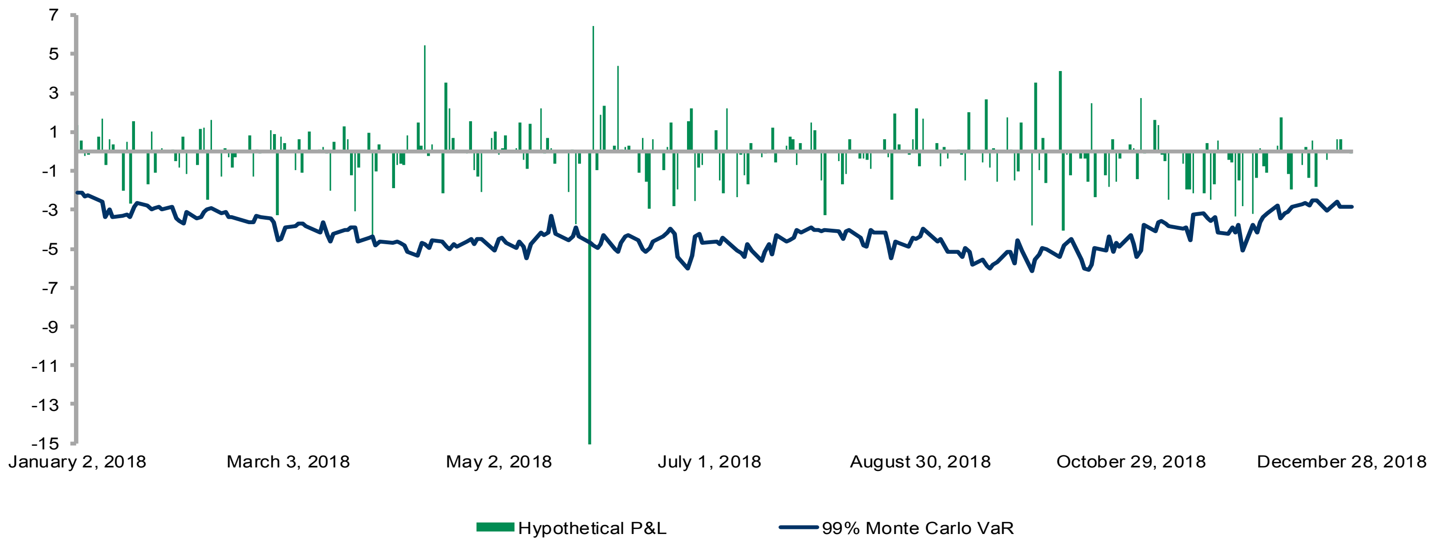
Back testing

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 and an actual P&L to its trading portfolios. The hypothetical P&L is calculated by determining the difference in value resulting from changes in market conditions between two consecutive days. The portfolio mix between these two days remains static.

The following chart presents changes in VaR for trading activities as well as hypothetical P&L related to these activities for 2018. Hypothetical P&L was exceeded twice during the year on March 27 and May 28, respectively. As for actual P&L compared to VaR, no overage was observed for Desjardins Group if income from commissions and subscriptions was included in actual P&L. However, two overages were observed if such income from commissions and subscriptions was not included in actual P&L. 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 could have a significant impact on trading portfolios may occur from time to time. These events are at the tail-end of the distribution and are the result of extreme situations. Use of a stress-testing program is required to assess the impact of these potential situations.

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

STRUCTURAL INTEREST RATE RISK MANAGEMENT

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

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

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

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

In order to mitigate risk factors, sound and prudent management is applied to optimize net interest income while 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/Liability Committee (ALCO) is responsible for analyzing and approving the global matching strategy on a monthly basis while respecting the parameters defined in structural interest rate risk management policies.

Table 41 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 41 – Interest rate sensitivity (before income taxes)(1)*
As at December 31

(in millions of dollars)	**2018**		2017	
	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	**$ (42)**	**$ 29**	$ (11)	$ 60
Impact of a 100-basis-point decrease in interest rates(4)	**2**	**(90)**	(27)	(79)

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a $215 million decrease in the economic value of equity before taxes as at December 31, 2018, and a $226 million decrease as at December 31, 2017. A 100-basis-point decrease in interest rates would result in an increase of $222 million in the economic value of equity before taxes as at December 31, 2018, and of $205 million as at December 31, 2017. 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, 2020, 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 122.1% for the quarter ended December 31, 2018, compared to 120.0% 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 42 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 42 – Liquid assets[1]
As at December 31, 2018

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

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

(1) Excluding assets held by insurance subsidiaries.

Table 43 – Unencumbered liquid assets by entity[1]
As at December 31

(in millions of dollars)	2018	2017[2]
Federation	**$ 7,459**	$ 8,773
Caisse network	**14,762**	14,456
Other entities	**3,450**	3,232
Total	**$ 25,671**	$ 26,461

(1) Excluding assets held by insurance subsidiaries. Substantially all unencumbered liquid assets presented in this table are issued in Canadian dollars.
(2) Data for 2017 have been reclassified to conform to the current year's presentation.

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 44 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 44 – Encumbered assets

As at December 31, 2018[(1)]

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

As at December 31, 2017[(4)]

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[(2)]	Available as collateral	Other[(3)]
Cash and deposits with financial institutions	$ 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	-	64,025	94,019
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	$ 85,550	$ 148,296

(1) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Assets that cannot be used for legal or other reasons.
(3) "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.
(4) Amounts have been refined to make them comparable to the current presentation, as a result of a methodology refinement.

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 45 – Liquidity coverage ratio[(1)]

(in millions of dollars and as a percentage)	For the quarter ended December 31, 2018 – Total non-weighted value[(2)] (average[(4)])	For the quarter ended December 31, 2018 – Total weighted value[(3)] (average[(4)])	For the quarter ended September 30, 2018 – Total weighted value[(3)] (average[(4)])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 23,163**	$ 22,775
Cash outflows			
Retail deposits and small business deposits, including:	**$ 71,039**	**$ 4,707**	$ 4,684
Stable deposits	**34,236**	**1,027**	1,039
Less stable deposits	**36,803**	**3,680**	3,645
Unsecured wholesale funding, including:	**25,054**	**13,277**	13,746
Operational deposits (all counterparties) and deposits in cooperative bank networks	**5,298**	**1,235**	1,281
Non-operational deposits (all counterparties)	**11,709**	**3,995**	4,094
Unsecured debt	**8,047**	**8,047**	8,371
Secured wholesale funding	**N/A**	**44**	1
Additional requirements, including:	**12,157**	**2,843**	2,708
Outflows related to exposures on derivatives and other collateral required	**1,255**	**1,137**	1,100
Outflows related to funding loss on debt products	**172**	**172**	100
Credit and liquidity facilities	**10,730**	**1,534**	1,508
Other contractual funding liabilities	**1,439**	**181**	180
Other contingent funding liabilities	**68,654**	**1,896**	1,895
Total cash outflows	**N/A**	**$ 22,948**	$ 23,214
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 7,841**	**$ 142**	$ 93
Inflows related to completely effective exposures	**3,311**	**1,672**	1,593
Other cash inflows	**3,311**	**2,166**	2,543
Total cash inflows	**$ 14,463**	**$ 3,980**	$ 4,229
		Total adjusted value[(5)]	Total adjusted value[(5)]
Total high-quality liquid assets		**$ 23,163**	$ 22,775
Total net cash outflows		**$ 18,968**	$ 18,985
Liquidity coverage ratio		**122.1%**	120.0%

(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 $183.2 billion as at December 31, 2018, up $11.6 billion since December 31, 2017. 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 2018, 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 46 – Main financing programs
As at December 31, 2018

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

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

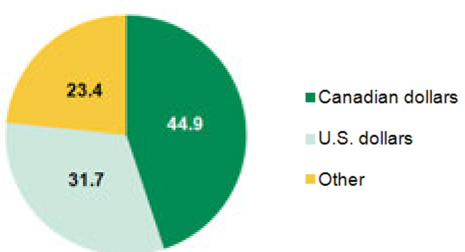
Table 47– Remaining contractual term to maturity of wholesale funding
As at December 31

(in millions of dollars)	2018								2017
	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	$ 2,508	$ 284	$ 3	$ 3	$ 2,798	$ -	$ -	$ 2,798	$ 2,802
Commercial paper	5,019	3,262	1,589	3,304	13,174	-	-	13,174	9,276
Medium-term notes	-	-	-	1,728	1,728	4,724	4,205	10,657	11,030
Mortgage securitization	65	318	511	798	1,692	1,098	6,988	9,778	9,130
Covered bonds	-	1,564	-	1,563	3,127	1,562	1,170	5,859	4,517
Subordinated notes	-	-	-	-	-	879	499	1,378	1,388
Total	$ 7,592	$ 5,428	$ 2,103	$ 7,396	$ 22,519	$ 8,263	$ 12,862	$ 43,644	$ 38,143
Including:									
Secured	$ 65	$ 1,882	$ 511	$ 2,361	$ 4,819	$ 3,539	$ 8,657	$ 17,015	$ 15,035
Unsecured	7,527	3,546	1,592	5,035	17,700	4,724	4,205	26,629	23,108

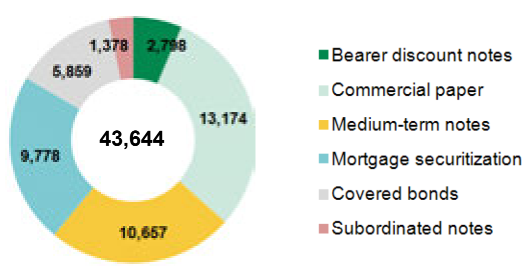
Desjardins Group's total wholesale funding presented in the preceding table was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up $5.5 billion compared to December 31, 2017, mainly because of an increase in commercial paper and covered bonds.

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, 2018
(as a percentage)



Wholesale funding by category
As at December 31, 2018
(in millions of dollars)



Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $2.4 billion for the year. During the same period, it also completed an issue of covered bonds on the European market for a total amount of 750 million euros and an issue of 1.0 billion euros under its multi-currency medium-term note program. In addition, the Federation launched three issues for a total of $1.8 billion under its Canadian medium-term note program. Note also that on January 30, 2019, the Federation launched a new issue totalling 750 million euros under its covered bond program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $26.3 billion as at December 31, 2018, compared to $24.7 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, 2018, unchanged from a year earlier. Furthermore, to round out its financing and increase its capital base, in 2018, Desjardins Group, through the Federation, issued F capital shares for a cash consideration of $125 million, as well as F capital shares having a value of $142 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 2018, 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.

Following the publication, on April 18, 2018, of the final version of regulations to implement the main features of the Bank Recapitalization (Bail-in) Regime by the Department of Finance Canada and of the final version of the TLAC guideline by the OSFI, DBRS, Moody's and S&P issued press releases mentioning several decisions concerning the credit ratings of Canadian domestic systemically important banks (D-SIBs). Since this "bail-in" regime does not apply to Desjardins Group, which is regulated by the AMF, DBRS, Moody's and S&P did not mention Desjardins in their press releases.

The ratings outlooks for Desjardins Group from S&P and Fitch are stable, but DBRS's and Moody's outlooks are negative. The negative ratings outlook assigned to Desjardins Group by DBRS and Moody's is due to uncertainty about the implementation of a "bail-in" regime for Desjardins Group. However, Moody's ratings outlook for Desjardins Capital Inc. is stable.

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 48 – 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 49 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.

Note 15, "Insurance contract liabilities", provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

Table 49 – Residual contractual maturities of on-balance sheet items and off-balance sheet commitments*

As at December 31, 2018[(1)]

(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	$ 2,969	$ 307	$ -	$ -	$ -	$ -	$ 1	$ -	$ 107	$ 3,384
Securities										
Securities at fair value through profit or loss[(2)]	168	718	1,409	977	1,470	2,947	8,471	16,331	4,425	36,916
Securities at fair value through other comprehensive income[(2)]	1,599	784	1,056	667	417	2,895	11,226	2,708	43	21,395
Securities at amortized cost	1,124	172	196	89	2	1	5	32	-	1,621
Securities borrowed or purchased under reverse repurchase agreements	11,576	311	47	-	-	-	-	-	-	11,934
Loans										
Residential mortgages[(3)]	2,051	2,641	6,147	6,834	8,068	23,195	62,476	1,747	6,954	120,113
Consumer, credit card and other personal loans[(3)]	83	79	197	220	314	1,183	5,762	7,945	10,427	26,210
Business and governments[(3)]	9,958	3,461	4,346	4,013	4,092	4,402	6,958	2,166	5,510	44,906
Allowance for credit losses	-	-	-	-	-	-	-	-	(719)	(719)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,234	13,234
Clients' liability under acceptances	123	36	1	-	-	-	-	-	-	160
Premiums receivable	175	64	13	3	-	-	-	-	2,121	2,376
Derivative financial instruments	231	377	173	349	175	759	1,467	196	16	3,743
Amounts receivable from clients, brokers and financial institutions	1,293	1	-	-	-	-	-	-	21	1,315
Reinsurance assets	38	76	77	70	68	198	390	1,041	-	1,958
Investment property	-	-	-	-	-	-	-	-	958	958
Property, plant and equipment	-	-	-	-	-	-	-	-	1,424	1,424
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	389	389
Deferred tax assets	-	-	-	-	-	-	-	-	1,174	1,174
Other assets	282	68	70	3	11	9	26	333	2,051	2,853
Total assets	$ 31,670	$ 9,095	$ 13,732	$ 13,225	$ 14,617	$ 35,589	$ 96,782	$ 32,499	$ 48,256	$ 295,465

See page 103 for footnotes.

Table 49– Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)*
As at December 31, 2018[1]

(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[4]	$ 4,687	$ 3,258	$ 6,568	$ 4,616	$ 5,185	$ 12,193	$ 15,808	$ 416	$ 52,567	$ 105,298
Business and governments[4]	9,637	5,878	2,770	4,068	4,597	8,752	11,780	2,336	26,356	76,174
Deposit-taking institutions[4]	22	-	13	7	1	15	9	-	1,619	1,686
Acceptances	125	35	-	-	-	-	-	-	-	160
Commitments related to securities sold short[5]	19	491	136	38	1	780	4,315	5,049	-	10,829
Commitments related to securities lent or sold under repurchase agreements	16,845	-	-	-	-	-	-	-	-	16,845
Derivative financial instruments	119	83	48	35	65	294	596	246	1,330	2,816
Amounts payable to clients, brokers and financial institutions	2,078	4	-	-	-	-	-	-	2,023	4,105
Insurance contract liabilities	429	781	926	845	797	1,848	4,279	16,288	2,547	28,740
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,212	13,212
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	2,537	2,537
Deferred tax liabilities	-	-	-	-	-	-	-	-	214	214
Other liabilities	2,574	496	494	363	62	177	201	48	1,407	5,822
Subordinated notes	-	-	-	-	-	879	-	499	-	1,378
Total equity	-	-	-	-	-	-	-	-	25,649	25,649
Total liabilities and equity	$ 36,535	$ 11,026	$ 10,955	$ 9,972	$ 10,708	$ 24,938	$ 36,988	$ 24,882	$ 129,461	$ 295,465
Off-balance sheet commitments										
Credit commitments[6]	$ 3,792	$ 138	$ 687	$ 570	$ 802	$ 2,222	$ 7,777	$ 496	$ 90,707	$ 107,191
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,474	2,474
Commitments under lease contracts	8	16	22	23	21	77	174	226	-	567
Documentary letters of credit	3	9	7	1	3	-	-	-	1	24
Guarantees and standby letters of credit	54	151	176	259	427	29	23	76	1	1,196
Credit default swaps	-	-	-	-	-	-	537	-	-	537

See page 103 for footnotes.

Table 49 – 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
Assets										
Cash and deposits with financial institutions	$ 2,038	$ 378	$ -	$ -	$ -	$ -	$ -	$ -	$ 19	$ 2,435
Securities										
Securities at fair value through profit or loss(2)	45	541	1,152	835	2,112	2,195	7,181	15,881	1,712	31,654
Available-for-sale securities(2)	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(3)	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(3)	70	100	221	239	304	1,264	5,007	7,116	9,723	24,044
Business and governments(3)	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	-	-	-	-	-	-	33	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	$ 30,515	$ 89,520	$ 30,686	$ 48,376	$ 275,095

See page 103 for footnotes.

Table 49 – 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[4]	$ 5,251	$ 2,916	$ 5,291	$ 4,671	$ 5,225	$ 12,146	$ 14,395	$ 565	$ 50,118	$ 100,578
Business and governments[4]	11,096	4,047	2,110	2,126	2,727	6,523	13,507	1,878	25,088	69,102
Deposit-taking institutions[4]	482	2	3	-	1	4	7	-	1,407	1,906
Acceptances	31	-	-	-	-	-	-	-	-	31
Commitments related to securities sold short[5]	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	$ 32,378	$ 8,926	$ 9,358	$ 7,942	$ 8,944	$ 22,517	$ 37,131	$ 24,722	$ 123,177	$ 275,095
Off-balance sheet commitments										
Credit commitments[6]	$ 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

(1) The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Equity securities are classified under "No stated maturity".
(3) Amounts repayable on demand are classified under "No stated maturity".
(4) Deposits payable on demand or after notice are considered as having "No stated maturity".
(5) Amounts are presented by remaining contractual maturity of the underlying security.
(6) Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion.

Operational risk

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

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

OPERATIONAL RISK MANAGEMENT FRAMEWORK

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

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

GOVERNANCE

Risk management governance emphasizes accountability and effective risk oversight. Operational risk is governed by 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 2018, 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 28, "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; - Third party risk management; - Risk management related to fraud; - Regulatory risk management; - Risk management related to governance and data quality.
Risk-sharing insurance programs	Desjardins Group has developed insurance programs to give itself additional protection against material operational losses. These programs offer protection based on the business segment's needs, the institution's risk tolerance, as well as emerging risks on the market.
Calculation of capital exposed to operational risk	Since second quarter 2017, Desjardins Group has used the Standardized Approach to calculate its operational risk in the form of regulatory capital exposed to operational risk.

Insurance risk

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

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

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

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

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

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

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

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

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

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

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

The activities specific to the insurance subsidiaries expose them, in addition to insurance risk, to other types of risk, notably the risks identified in Note 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 the board of directors and senior management. Business segments and support functions identify and periodically assess events and risks that could prevent the achievement of strategic objectives, and report thereon to the appropriate bodies.

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

Reputation risk

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

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

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

Pension plan risk

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

The organization's main pension plan is the Desjardins Group Pension Plan (DGPP). The Federation, through its Board of Directors, is the sponsor of the DGPP and, as such, acts as the representative for all Desjardins Group employers. The Desjardins Group Retirement Committee, which is composed of members 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 or social risk

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

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

In addition, business relations with entities whose operations could involve social, environmental or governance issues could lead to reputation risk.

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

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

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

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

Legal and regulatory risk

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

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

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

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

Bill 141, mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions, was passed on June 13, 2018. The chapter concerning the *Groupe coopératif* (the cooperative group) came into force when the first internal by-law of the cooperative group was passed on December 7, 2018. The new provisions of the *Insurers Act* will come into force on June 13, 2019, or subsequently, as the case may be, along with a large portion of the amendments to the *Act respecting the distribution of financial products and services*. For further information, see pages 19 and 20 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 50 – Asset-backed securities
As at December 31

(in millions of dollars)	2018		2017	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities(1)	**$ 138**	**$ 140**	$ 146	$ 148

(1) None of the securities held is directly backed by subprime residential mortgage loans. Further to the adoption of IFRS 9 on January 1, 2018, these securities are presented under "Securities at fair value through profit or loss" and "Securities at fair value through other comprehensive income" on the Combined Balance Sheets. As at December 31, 2017, they were presented under "Securities at fair value through profit or loss" and "Available-for-sale securities".

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

(in millions of dollars)	2018	2017
Leveraged finance loans(1)	**$ 81**	$ 149
Alt-A mortgage loans(2)	**18**	19
Subprime residential mortgage loans(3)	**2**	1

(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 2018, Desjardins Group carried out work so that it could provide certification as at December 31, 2018 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, 2018, 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, 2018, 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, 2018, Desjardins Group did not make any changes to its internal control over financial reporting that had materially affected, or may materially affect, its operations. On January 1, 2018, the adoption of IFRS 9, "Financial Instruments", IFRS 15, "Revenue from Contracts with Customers", and the amendments to IFRS 4, "Insurance Contracts", did not materially affect its internal control over financial reporting.

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the 2018 Desjardins Group Annual Report.

5.2 Related party disclosures

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

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

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

Additional information about related party transactions is presented in Note 33, "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, 2018. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

STRUCTURED ENTITIES

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

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

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

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Loans

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

Deposits

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

Subordinated notes

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

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 19, "Derivative financial instruments and hedging activities" describes the type of derivative financial instruments held by Desjardins Group.

Financial instruments whose fair value equals their carrying amount

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

Accounting policies applicable since January 1, 2018

Under IFRS 9, at each reporting date, Desjardins Group recognizes a loss allowance for expected credit losses for debt instruments classified as at amortized cost or as at fair value through other comprehensive income, as well as certain off-balance sheet items, namely loan commitments and financial guarantees, which are not measured at fair value through profit or loss. This allowance is estimated based on an impairment model that comprises three different stages:

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

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

Determination of significant increases in credit risk

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

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

Definition of default and credit-impaired financial asset

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

Measurement of the loss allowance for expected credit losses

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

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

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

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. Desjardins Group may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters.

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

Key data and assumptions

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

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

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

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

Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine the loss allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios are reviewed quarterly.

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

Estimated life of revolving credit facilities

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

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

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

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

Accounting policies applicable before January 1, 2018

Under IAS 39, at the reporting date, Desjardins Group assessed whether there was any objective evidence that a financial asset or a group of financial assets was impaired.

Allowance for credit losses on loans

Under IAS 39, objective evidence of impairment resulted from a loss event that had occurred after the loan was granted but before the reporting date and that had an impact on the estimated future cash flows of loans.

The impairment of a loan or a group of loans was determined by estimating the recoverable amount of these financial assets. The allowance was equal to the difference between this amount and the carrying amount. To determine the estimated recoverable amount of a loan, Desjardins Group discounted the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows could not be estimated with reasonable reliability, the estimated recoverable amount was 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 could vary depending on the type of loan.

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

The allowance for credit losses related to credit-impaired loans was measured either individually or collectively for loans that were not individually material, while the allowance for credit losses was measured collectively for non-credit impaired loans.

Individual allowances

Desjardins Group first reviewed its loan portfolios on a loan-by-loan basis to assess credit risk and determined whether there was any objective evidence of impairment for which a loss should have been recognized in the Combined Statements of Income. Loan portfolios for which there was no objective evidence of impairment were included in groups of financial assets having similar credit characteristics and were subject to a collective allowance.

Collective allowance on credit-impaired loans

Certain consumer, credit card and other personal loan portfolios comprised a large number of homogeneous balances that were not individually material. A collective allowance was established on such loans based on the portfolio's historical net loss rate.

Collective allowance

The method used by Desjardins Group to determine the collective allowance took into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models took into account certain factors such as PD, LGD and EAD. These parameters were based on historical losses and determined according to the category and risk rating of each loan. The measurement of the collective allowance relied heavily on management's judgments and depended on management's assessment of current credit quality trends with respect to 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

Under IAS 39, securities classified in the "Available-for-sale" category were examined at the reporting date to determine whether there was any objective evidence that they were impaired. In measuring the impairment loss, Desjardins Group took into account many factors specific to each investment and all the factors that could have indicated such a loss. Factors considered included, but were not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring and the disappearance of an active market for the financial asset in question. Management also used its judgment to determine when to recognize an impairment loss.

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

Additional information about the recognition of available-for-sale securities under IAS 39 and fair value measurement is presented in Note 3, "Carrying amount of financial instruments", and Note 4, "Fair value of financial instruments", 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. 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 of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM), in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

Property and casualty insurance contract liabilities

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

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

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

Note 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 obligations 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 business, Desjardins Group is involved in various litigation and legal proceedings.

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

INCOME TAXES ON SURPLUS EARNINGS

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

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

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

MEMBER DIVIDENDS

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends take into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Integrated Financial Plan, which, as of 2018, provides for member dividends based on Desjardins Group's financial capacity and capitalization. In 2017, the financial framework for the appropriation of surplus earnings was in relation with the caisses' financial capacity and Desjardins Group's capitalization. The difference between the amount of member dividends actually paid following the general meetings held by the caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

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, the various service charges collected from the member depending on the services used and, for member dividends for the year ended December 31, 2018, Desjardins products held. 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. However, during the fourth quarter of 2018, Desjardins Group notified its employees of amendments to this plan that would come into effect on January 1, 2019. As of that date, Desjardins Group will no longer fund the post-retirement benefit plan for employees who retire, except for employees who meet, as at January 1, 2019, certain criteria allowing them to keep their rights under the current plan. These criteria are based on age and the number of years of participation in the plan. For fiscal 2018, this amendment resulted in a gain, which was recognized as a deduction to the past service cost expense under "Salaries and fringe benefits" in the Combined Statements of Income, with a corresponding amount reducing "Net defined benefit plan liabilities" in the Combined Balance Sheets.

Group pension plans are plans whose risks are shared by entities under common control. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a pro rata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the Consumer Price Index, up to a maximum of 3% for years of service accumulated before 2013, and of 1% for a period of 10 years starting at age 65 for years of service accumulated after 2013.

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are in general actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to differ materially from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the participants' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit reduce the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over a part of the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

Note 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, 2018 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 16, "LEASES"

In January 2016, the IASB issued IFRS 16, "Leases", which will replace the current standard, IAS 17, "Leases", and related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. Under IFRS 16, a lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 introduces a single recognition model for the lessee, thereby eliminating the current distinction between operating and finance leases. The lessee must recognize on the Combined Balance Sheets a lease liability corresponding to the present value of the remaining lease payments as well as a right-of-use asset measured at the amount of the lease liability, plus or minus certain adjustments, if any. An interest expense and a depreciation charge relating to the lease liability and the right-of-use asset, respectively, must be recognized and presented separately in the Combined Statements of Income. Leases with terms of 12 months or less and low-value leases will continue to be recognized as a lease expense based on the terms of the lease. In addition, Desjardins Group will apply the practical expedient which allows not to separate non-lease components from lease components for a contract.

For the lessor, the standard does not provide for any significant changes except for enhanced disclosures.

Desjardins Group will have to adopt IFRS 16 as at January 1, 2019 on a retrospective basis. 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 16 will be recognized in the opening Combined Balance Sheet. Desjardins Group decided not to restate comparative periods upon adopting the provisions of IFRS 16. Consequently, the retrospective impact of applying IFRS 16 will be recognized in the Combined Balance Sheet as at January 1, 2019, which is the effective date of the new standard. In addition, Desjardins Group elected to apply the following transitional expedients proposed in the standard as at the date of transition:

- The right-of-use asset will be equal to the amount of the lease liability adjusted by the amount of prepaid lease payments.
- Existing contracts at the date of transition will not be reassessed to determine whether they are, or contain, a lease under IFRS 16.

Desjardins Group believes that adopting IFRS 16 will result, on January 1, 2019, in the recognition of a right-of-use asset of approximately $615 million and a lease liability of the same amount, as well as a decrease of about 8 basis points in regulatory capital ratios.

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 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 separate liabilities 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. In November 2018, the IASB tentatively decided to defer the effective date of IFRS 17 to the annual periods beginning on or after January 1, 2022.

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

In March 2018, the IASB issued the "Conceptual Framework for Financial Reporting", which replaces the current version of the conceptual framework. The "Conceptual Framework for Financial Reporting" includes new concepts, updates the definitions and recognition criteria for assets and liabilities and clarifies some key concepts. Desjardins Group is currently assessing the impact of adopting this new framework, which will be effective for annual periods beginning on or after January 1, 2020.

5.5 Five-year statistical review

Table 52 – Combined Balance Sheets
For the years ended December 31

(in millions of dollars)	2018[1]	2017	2016	2015	2014
ASSETS					
Cash and deposits with financial institutions	**$ 3,384**	$ 2,435	$ 1,876	$ 1,716	$ 1,781
Securities					
Securities at fair value through profit or loss	**36,916**	31,654	31,005	28,715	24,845
Available-for-sale securities	**N/A**	24,934	22,280	23,272	19,890
Securities at fair value through other comprehensive income	**21,395**	N/A	N/A	N/A	N/A
Securities at amortized cost	**1,621**	N/A	N/A	N/A	N/A
	59,932	56,588	53,285	51,987	44,735
Securities borrowed or purchased under reverse repurchase agreements	**11,934**	8,674	7,690	7,881	9,959
Loans					
Residential mortgages	**120,113**	113,146	106,695	102,323	97,512
Consumer, credit card and other personal loans	**26,210**	24,044	22,150	21,204	20,495
Business and government	**44,906**	40,738	37,626	36,433	32,903
	191,229	177,928	166,471	159,960	150,910
Allowance for credit losses	**(719)**	(438)	(456)	(455)	(456)
	190,510	177,490	166,015	159,505	150,454
Segregated fund net assets	**13,234**	13,379	11,965	9,781	8,695
Other assets					
Clients' liability under acceptances	**160**	31	11	376	858
Premiums receivable	**2,376**	2,095	1,957	1,662	1,127
Derivative financial instruments	**3,743**	3,206	3,572	4,818	3,133
Amounts receivable from clients, brokers and financial institutions	**1,315**	1,554	2,532	2,033	1,742
Reinsurance assets	**1,958**	2,202	2,582	1,964	785
Investment property	**958**	832	823	683	571
Property, plant and equipment	**1,424**	1,411	1,435	1,451	1,374
Goodwill	**121**	121	471	472	472
Intangible assets	**389**	466	690	661	569
Deferred tax assets	**1,174**	992	874	784	1,043
Other	**2,853**	2,738	2,589	2,354	2,089
Assets of the disposal group held to be transferred	**-**	881	-	-	-
	16,471	16,529	17,536	17,258	13,763
TOTAL ASSETS	**$ 295,465**	$ 275,095	$ 258,367	$ 248,128	$ 229,387

See the next page for the footnote.

Table 52 – Combined Balance Sheets (continued)
For the years ended December 31

(in millions of dollars)	2018[1]	2017	2016	2015	2014
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 105,298**	$ 100,578	$ 96,278	$ 91,243	$ 88,463
Business and government	**76,174**	69,102	62,799	63,833	56,516
Deposit-taking institutions	**1,686**	1,906	1,469	1,498	1,345
	183,158	171,586	160,546	156,574	146,324
Other liabilities					
Acceptances	**160**	31	11	376	858
Commitments related to securities sold short	**10,829**	9,112	8,196	5,464	6,304
Commitments related to securities lent or sold under repurchase agreements	**16,845**	10,229	10,323	10,383	13,072
Derivative financial instruments	**2,816**	3,094	2,057	1,689	1,675
Amounts payable to clients, brokers and financial institutions	**4,105**	4,247	4,659	4,713	3,713
Insurance contract liabilities	**28,740**	28,272	27,493	26,734	19,435
Segregated fund net liabilities	**13,212**	13,354	11,957	9,776	8,706
Net defined benefit plan liabilities	**2,537**	2,624	2,256	2,428	2,700
Deferred tax liabilities	**214**	155	179	163	329
Other	**5,822**	5,568	6,019	6,219	4,814
Liabilities of the disposal group held to be transferred	**-**	662	-	-	-
	85,280	77,348	73,150	67,945	61,606
Subordinated notes	**1,378**	1,388	1,378	1,884	2,564
TOTAL LIABILITIES	**269,816**	250,322	235,074	226,403	210,494
EQUITY					
Capital stock	**5,350**	5,361	5,292	5,158	4,777
Share capital	**5**	90	88	86	85
Undistributed surplus earnings	**3,649**	1,360	1,529	1,793	1,468
Accumulated other comprehensive income	**(23)**	445	514	589	615
Reserves	**15,920**	16,707	15,052	12,864	11,476
Equity – Group's share	**24,901**	23,963	22,475	20,490	18,421
Non-controlling interests	**748**	810	818	1,235	472
TOTAL EQUITY	**25,649**	24,773	23,293	21,725	18,893
TOTAL LIABILITIES AND EQUITY	**$ 295,465**	$ 275,095	$ 258,367	$ 248,128	$ 229,387

[1] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.

Table 53 – Combined Statements of Income
For the years ended December 31

(in millions of dollars)	**2018[1]**	2017[2]	2016[2]	2015	2014
Interest income					
Loans	**$ 6,931**	$ 5,923	$ 5,686	$ 5,765	$ 5,563
Securities	**390**	323	315	308	335
	7,321	6,246	6,001	6,073	5,898
Interest expense					
Deposits	**2,235**	1,711	1,596	1,665	1,753
Subordinated notes and other	**192**	78	85	129	137
	2,427	1,789	1,681	1,794	1,890
Net interest income	**4,894**	4,457	4,320	4,279	4,008
Net premiums	**8,823**	8,049	7,168	6,907	5,916
Other income					
Deposit and payment service charges	**433**	458	488	489	498
Lending fees and credit card service revenues	**697**	660	574	550	530
Brokerage and investment fund services	**905**	1,030	1,060	1,037	970
Management and custodial service fees	**551**	485	422	365	348
Net investment income	**211**	1,688	1,119	1,362	2,581
Overlay approach adjustment for insurance operations financial assets	**523**	N/A	N/A	N/A	N/A
Foreign exchange income	**91**	77	70	88	84
Other	**182**	249	27	165	265
	3,593	4,647	3,760	4,056	5,276
Total income	**17,310**	17,153	15,248	15,242	15,200
Provision for credit losses	**384**	349	319	377	351
Claims, benefits, annuities and changes in insurance contract liabilities	**6,579**	6,717	5,446	5,431	6,303
Non-interest expense					
Salaries and fringe benefits	**3,407**	3,452	3,548	3,475	3,200
Premises, equipment and furniture, including depreciation	**701**	727	667	613	598
Service agreements and outsourcing	**338**	319	306	331	256
Communications	**261**	284	307	299	283
Other	**2,778**	2,618	2,423	2,241	2,182
	7,485	7,400	7,251	6,959	6,519
Operating surplus earnings	**2,862**	2,687	2,232	2,475	2,027
Income taxes on surplus earnings	**536**	536	460	516	434
Surplus earnings before member dividends	**2,326**	2,151	1,772	1,959	1,593
Member dividends	**253**	202	144	154	217
Tax recovery on member dividends	**(68)**	(54)	(39)	(41)	(57)
Net surplus earnings for the year after member dividends	**$ 2,141**	$ 2,003	$ 1,667	$ 1,846	$ 1,433
Of which:					
Group's share	**$ 2,100**	$ 1,960	$ 1,591	$ 1,674	$ 1,376
Non-controlling interests' share	**41**	43	76	172	57

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.

Table 54 – Selected financial measures
For the years ended December 31

(in millions of dollars and as a percentage)	2018[1]	2017[2]	2016[2]	2015	2014
Tier 1A capital ratio	**17.3%**	18.0%	17.3%	16.0%	15.7%
Tier 1 capital ratio	**17.3**	18.0	17.3	16.0	15.8
Total capital ratio	**17.6**	18.4	17.9	17.2	17.9
Leverage ratio[3]	**8.3**	8.5	8.1	7.8	N/A
Liquidity coverage ratio[3][4]	**122.1**	121.4	121.1	119.4	N/A
Net interest margin[5]	**2.39**	2.34	2.41	2.50	2.50
Return on equity[5]	**9.3**	9.1	8.0	9.1	8.7
Productivity index[5]	**69.8**	70.9	74.0	70.9	73.3
Credit loss provisioning rate[5]	**0.21**	0.20	0.20	0.24	0.24
Gross credit-impaired loans[6] / gross loans and acceptances ratio[5]	**0.54**	0.25	0.32	0.34	0.34
Assets under administration	**$ 373,558**	$ 411,548	$ 420,166	$ 403,350	$ 370,768
Assets under management[7]	**57,448**	58,220	51,550	46,053	40,495
Average assets[5]	**287,593**	269,938	256,500	246,694	222,542
Average net loans and acceptances[5]	**183,822**	171,361	162,630	155,449	146,542
Average deposits[5]	**178,658**	169,219	160,176	152,140	141,833

(1) The information for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(2) Data for 2017 and 2016 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.
(3) Effective since January 1, 2015.
(4) Average for the quarters ended December 31 of each year indicated.
(5) See "Basis of presentation of financial information".
(6) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Combined Financial Statements.
(7) Assets under management may also be administered by Desjardins Group. If applicable, they are included in assets under administration.

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, safeguarding of assets, fraud detection and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the 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 allowance for credit losses.

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

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

With respect to 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; and the Chief Monitoring Officer of Desjardins Group. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, once a year the AIC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

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

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

The AIC held six meetings and one training session for its members in fiscal 2018. As at December 31, 2018, the five independent directors who are members of the AIC are: Louis Babineau, Michel Doré, Pierre Perras, Mario Simard and Michel Tourangeau. The three observers are: Michel Magnan, FCPA, FCA; Robert St-Aubin, FCPA, FCA; and Jean-François Laporte. During the year, Stéphane Corbeil, Serge Tourangeau, Yves Genest and Neil Hawthorn also participated in the AIC's activities.

Louis Babineau
Chair

Montreal, Quebec
February 25, 2019

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 relevant segments. All financial information in the annual Management's Discussion and Analysis is consistent with these 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 professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices 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, 2018, 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 four 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 related issues, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Réal Bellemare
Executive Vice-President Finance, Treasury, Administration and
Chief Financial Officer
Desjardins Group

Lévis, Quebec
February 27, 2019

Independent auditor's report

TO THE MEMBERS OF THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

Our opinion

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRS).

What we have audited

Desjardins Group's combined financial statements comprise:

- the combined balance sheets as at December 31, 2018 and 2017;
- the combined statements of income for the years then ended;
- the combined statements of comprehensive income for the years then ended;
- the combined statements of changes in equity for the years then ended;
- the combined statements of cash flows for the years then ended; and
- the notes to the combined financial statements, which include a summary of significant accounting policies.

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

Basis for opinion

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

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

Independence

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

Other information

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the combined financial statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with 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.

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

Those charged with governance are responsible for overseeing Desjardins Group's financial reporting process.

Auditor's responsibilities for the audit of the combined financial statements

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

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

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Desjardins Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Desjardins Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Desjardins Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Desjardins Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP[(1)]
[(1)] FCPA auditor, FCA, public accountancy permit No. A108517

Montreal, Quebec
February 27, 2019

Combined Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2018[1]	As at December 31, 2017
ASSETS			
Cash and deposits with financial institutions		**$ 3,384**	$ 2,435
Securities	6		
Securities at fair value through profit or loss		**36,916**	31,654
Available-for-sale securities		**N/A**	24,934
Securities at fair value through other comprehensive income		**21,395**	N/A
Securities at amortized cost		**1,621**	N/A
		59,932	56,588
Securities borrowed or purchased under reverse repurchase agreements		**11,934**	8,674
Loans	7 and 8		
Residential mortgages		**120,113**	113,146
Consumer, credit card and other personal loans		**26,210**	24,044
Business and government		**44,906**	40,738
		191,229	177,928
Allowance for credit losses	7	**(719)**	(438)
		190,510	177,490
Segregated fund net assets	9	**13,234**	13,379
Other assets			
Clients' liability under acceptances		**160**	31
Premiums receivable		**2,376**	2,095
Derivative financial instruments	19	**3,743**	3,206
Amounts receivable from clients, brokers and financial institutions		**1,315**	1,554
Reinsurance assets	15	**1,958**	2,202
Investment property	10	**958**	832
Property, plant and equipment	10	**1,424**	1,411
Goodwill	11	**121**	121
Intangible assets	11	**389**	466
Deferred tax assets	27	**1,174**	992
Other	12	**2,853**	2,738
Assets of the disposal group held to be transferred		**-**	881
		16,471	16,529
TOTAL ASSETS		**$ 295,465**	$ 275,095
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	14		
Individuals		**$ 105,298**	$ 100,578
Business and government		**76,174**	69,102
Deposit-taking institutions		**1,686**	1,906
		183,158	171,586
Other liabilities			
Acceptances		**160**	31
Commitments related to securities sold short		**10,829**	9,112
Commitments related to securities lent or sold under repurchase agreements		**16,845**	10,229
Derivative financial instruments	19	**2,816**	3,094
Amounts payable to clients, brokers and financial institutions		**4,105**	4,247
Insurance contract liabilities	15	**28,740**	28,272
Segregated fund net liabilities	9	**13,212**	13,354
Net defined benefit plan liabilities	16	**2,537**	2,624
Deferred tax liabilities	27	**214**	155
Other	17	**5,822**	5,568
Liabilities of the disposal group held to be transferred		**-**	662
		85,280	77,348
Subordinated notes		**1,378**	1,388
TOTAL LIABILITIES		**269,816**	250,322
EQUITY			
Capital stock	21	**5,350**	5,361
Share capital	22	**5**	90
Undistributed surplus earnings		**3,649**	1,360
Accumulated other comprehensive income	23	**(23)**	445
Reserves		**15,920**	16,707
Equity - Group's share		**24,901**	23,963
Non-controlling interests	13 and 15	**748**	810
TOTAL EQUITY		**25,649**	24,773
TOTAL LIABILITIES AND EQUITY		**$ 295,465**	$ 275,095

[1] The information presented as at December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

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

Serge Rousseau
Vice-Chair of the Board

Combined Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	**2018[(1)]**	2017
INTEREST INCOME			
Loans		**$ 6,931**	$ 5,923
Securities		**390**	323
		7,321	6,246
INTEREST EXPENSE			
Deposits		**2,235**	1,711
Subordinated notes and other		**192**	78
		2,427	1,789
NET INTEREST INCOME	25	**4,894**	4,457
NET PREMIUMS	15	**8,823**	8,049
OTHER INCOME			
Deposit and payment service charges		**433**	458
Lending fees and credit card service revenues		**697**	660
Brokerage and investment fund services		**905**	1,030
Management and custodial service fees		**551**	485
Net investment income	25	**211**	1,688
Overlay approach adjustment for insurance operations financial assets		**523**	N/A
Foreign exchange income		**91**	77
Other		**182**	249
		3,593	4,647
TOTAL INCOME		**17,310**	17,153
PROVISION FOR CREDIT LOSSES	7	**384**	349
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	15	**6,579**	6,717
NON-INTEREST EXPENSE			
Salaries and fringe benefits		**3,407**	3,452
Premises, equipment and furniture, including depreciation		**701**	727
Service agreements and outsourcing		**338**	319
Communications		**261**	284
Other	26	**2,778**	2,618
		7,485	7,400
OPERATING SURPLUS EARNINGS		**2,862**	2,687
Income taxes on surplus earnings	27	**536**	536
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS[(2)]		**2,326**	2,151
Member dividends		**253**	202
Tax recovery on member dividends	27	**(68)**	(54)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		**$ 2,141**	$ 2,003
of which:			
Group's share		**$ 2,100**	$ 1,960
Non-controlling interests' share	13	**41**	43

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

(2) The Group's share of "Surplus earnings before member dividends" is presented in Note 32, "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)	2018[(1)]	2017
Net surplus earnings for the year after member dividends	**$ 2,141**	$ 2,003
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	**1**	(269)
Share of associates and joint ventures accounted for using the equity method	**-**	(2)
	1	(271)
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	**N/A**	196
Reclassification of net gains to the Combined Statements of Income	**N/A**	(170)
	N/A	26
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized losses	**(24)**	N/A
Reclassification of net losses to the Combined Statements of Income	**15**	N/A
	(9)	N/A
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized losses	**(288)**	N/A
Reclassification of net gains to the Combined Statements of Income	**(129)**	N/A
	(417)	N/A
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**19**	(16)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(52)**	- (72)
	(33)	(88)
	(459)	(62)
Total other comprehensive income, net of income taxes	**(458)**	(333)
COMPREHENSIVE INCOME FOR THE YEAR	**$ 1,683**	$ 1,670
of which:		
Group's share	**$ 1,664**	$ 1,623
Non-controlling interests' share	**19**	47

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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 for the year is presented in the following table.

For the years ended December 31

(in millions of Canadian dollars)	2018[(1)]	2017
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ -**	$ (96)
	-	(96)
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	**N/A**	34
Reclassification of net gains to the Combined Statements of Income	**N/A**	(35)
	N/A	(1)
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized losses	**(7)**	N/A
Reclassification of net losses to the Combined Statements of Income	**6**	N/A
	(1)	N/A
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized losses	**(88)**	N/A
Reclassification of net gains to the Combined Statements of Income	**(18)**	N/A
	(106)	N/A
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**9**	(6)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(23)**	(25)
	(14)	(31)
	(121)	(32)
Total income tax recovery	**$ (121)**	$ (128)

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

Combined Statements of Changes in Equity

For the years ended December 31

(in millions of Canadian dollars)	Note	Capital: Capital stock (Note 21)	Capital: Share capital (Note 22)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 23)	Reserves: Stabilization reserve	Reserves: Reserve for future member dividends	Reserves: General and other reserves	Reserves: Total reserves	Equity - Group's share	Non-controlling interests (Notes 13 and 15)	Total equity
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 between surplus earnings to be distributed and 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
Impact of changes in accounting policies	2	**-**	**-**	**-**	**(34)**	**-**	**-**	**(180)**	**(180)**	**(214)**	**-**	**(214)**
OPENING BALANCE AS AT JANUARY 1, 2018(1)		**$ 5,361**	**$ 90**	**$ 1,360**	**$ 411**	**$ 1,014**	**$ 447**	**$ 15,066**	**$ 16,527**	**$ 23,749**	**$ 810**	**$ 24,559**
Net surplus earnings for the year after member dividends		**-**	**-**	**2,100**	**-**	**-**	**-**	**-**	**-**	**2,100**	**41**	**2,141**
Other comprehensive income for the year		**-**	**-**	**(2)**	**(434)**	**-**	**-**	**-**	**-**	**(436)**	**(22)**	**(458)**
Comprehensive income for the year		**-**	**-**	**2,098**	**(434)**	**-**	**-**	**-**	**-**	**1,664**	**19**	**1,683**
Issuance of F capital shares		**267**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**267**	**-**	**267**
Other net change in capital stock		**(278)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(278)**	**-**	**(278)**
Issuance of share capital		**-**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Redemption of share capital		**-**	**(88)**	**-**	**-**	**-**	**-**	**-**	**-**	**(88)**	**(11)**	**(99)**
Remuneration on capital stock		**-**	**-**	**(278)**	**-**	**(147)**	**-**	**-**	**(147)**	**(425)**	**-**	**(425)**
Dividends		**-**	**-**	**(5)**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(36)**	**(41)**
Transfer between surplus earnings to be distributed and reserves		**-**	**-**	**477**	**-**	**88**	**(177)**	**(388)**	**(477)**	**-**	**-**	**-**
Transactions related to buy-out options		**-**	**-**	**-**	**-**	**-**	**-**	**30**	**30**	**30**	**(19)**	**11**
Buy-out of non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**(13)**	**(13)**	**(13)**	**(15)**	**(28)**
Other		**-**	**-**	**(3)**	**-**	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
BALANCE AS AT DECEMBER 31, 2018(1)		**$ 5,350**	**$ 5**	**$ 3,649**	**$ (23)**	**$ 955**	**$ 270**	**$ 14,695**	**$ 15,920**	**$ 24,901**	**$ 748**	**$ 25,649**

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

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)	2018[(1)]	2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 2,862**	$ 2,687
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets	**283**	290
Net change in insurance contract liabilities	**468**	945
Provision for credit losses	**384**	349
Net realized losses on securities classified as at fair value through other comprehensive income	**20**	N/A
Net realized gains on available-for-sale securities	**N/A**	(210)
Overlay approach adjustment for insurance operations financial assets	**(523)**	N/A
Impairment on available-for-sale securities recognized in profit or loss	**N/A**	6
Other	**37**	(60)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(1,884)**	(852)
Securities borrowed or purchased under reverse repurchase agreements	**(3,260)**	(984)
Loans	**(13,660)**	(11,824)
Derivative financial instruments, net amount	**(867)**	1,313
Net amounts receivable from and payable to clients, brokers and financial institutions	**41**	606
Deposits	**11,572**	11,040
Commitments related to securities sold short	**1,717**	916
Commitments related to securities lent or sold under repurchase agreements	**6,617**	(94)
Other	**292**	41
Payment of the contingent consideration	**(250)**	(243)
Income taxes paid on surplus earnings	**(399)**	(586)
Payment of member dividends	**(196)**	(145)
	3,254	3,195
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	**(11)**	10
Issuance of F capital shares	**125**	250
Other net change in capital stock	**(278)**	(306)
Remuneration on capital stock	**(136)**	(87)
Issuance of share capital	**3**	2
Redemption of share capital	**(99)**	(8)
Dividends paid	**(41)**	(46)
Buy-out of non-controlling interests	**(28)**	-
Exercise of put options written on non-controlling interests	**(63)**	(15)
	(528)	(200)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	**N/A**	(60,954)
Proceeds from disposals of available-for-sale securities	**N/A**	23,907
Proceeds from maturities of available-for-sale securities	**N/A**	34,332
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(67,341)**	N/A
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**13,342**	N/A
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**52,610**	N/A
Subsidiary disposal net of cash and cash equivalents (sold)	**-**	684
Payment of the contingent consideration recognized at acquisition date	**(27)**	(23)
Acquisitions of property, plant and equipment, intangible assets and investment property	**(474)**	(378)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	**87**	22
	(1,803)	(2,410)
Net increase in cash and cash equivalents	**923**	585
Cash and cash equivalents at beginning of year	**2,461**	1,876
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3,384**	2,461
Less:		
Cash and cash equivalents of the disposal group held to be transferred	**-**	26
CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS AT END OF YEAR	**$ 3,384**	$ 2,435
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 2,258**	$ 1,989
Interest and dividends received	**8,508**	7,437

(1) The information presented for the year ended December 31, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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 32, "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 of Quebec, 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, 2018 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 27, 2019.

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, impairment of financial instruments, 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;
- 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)*

CHANGES IN ACCOUNTING POLICIES

On January 1, 2018, Desjardins Group adopted IFRS 9, "Financial Instruments", IFRS 15, "Revenue from Contracts with Customers", and the amendments to IFRS 4, "Insurance Contracts", on a retrospective basis without restatement of comparative periods. IFRS 7, "Financial Instruments: Disclosures", was also amended to reflect the differences between IFRS 9 and IAS 39. Consequently, the information presented for fiscal 2018 is in accordance with these standards, while the information presented for the comparative year is in accordance with the standards that were effective before January 1, 2018.

IFRS 9 replaces IAS 39, "Financial Instruments: Recognition and Measurement", and gives rise to new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial instruments, as well as requirements for hedge accounting. 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.

The amendments to IFRS 4 are designed to address the concerns of insurers and their representative bodies about the different effective dates of IFRS 9 and IFRS 17, "Insurance Contracts". These 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 could apply, to financial assets that are eligible and designated in accordance with certain specific criteria.

IFRS 15 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 core principle of this standard is that revenue recognition should depict the transfer of control over a good or a service in an amount that reflects the consideration received or expected to be received in exchange for such good or service.

The retrospective impact of applying IFRS 9, IFRS 15 and the amendments to IFRS 4 has been recognized in the opening balances of the Combined Balance Sheet as at January 1, 2018 and is presented in the "Impact of changes in accounting policies" section of this note.

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

Accounting policies applicable since January 1, 2018

Under IFRS 9, financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

Contractual cash flow characteristics

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

Business models

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

Desjardins Group's business models are defined as follows:

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

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

The classification and measurement of financial assets under IFRS 9 can be summarized as follows:

<table>
<tr><th colspan="2" rowspan="2">Classes</th><th rowspan="2">Categories</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>Classified as at fair value through profit or loss (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 rowspan="2">At fair value through other comprehensive income (iv)</td><td>Classified as at fair value through other comprehensive income (v)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through other comprehensive income (vi)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">Amortized cost (vii)</td><td>Fair value</td><td>Amortized cost</td></tr>
</table>

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

- Changes in fair value of financial assets included in this class are recorded under “Net investment income” in the Combined Statements of Income.

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

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

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

- Equity instruments.

- Derivative financial instruments.

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

Certain financial assets “Classified as at fair value through profit or loss” under IFRS 9 are designated for the overlay approach. For more information, see the “Application of the overlay approach to insurance operations financial assets” section of this note.

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

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

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

- Changes in fair value of financial assets included in this class, except for changes related to the loss allowance for expected credit losses and exchange gains and losses on financial assets “Classified as at fair value through other comprehensive income”, are recorded in the Combined Statements of Comprehensive Income as net unrealized gains and losses. For financial assets “Classified as at fair value through other comprehensive income”, gains and losses are reclassified to the Combined Statements of Income when the asset is derecognized, while for financial assets “Designated as at fair value through other comprehensive income”, gains and losses are never reclassified subsequently to the Combined Statements of Income and are reclassified immediately to undistributed surplus earnings.

- Premiums and discounts on the purchase of financial assets “At fair value through other comprehensive income” are amortized over the life of the securities using the effective interest method and recognized under “Interest income – Securities” for the Personal and Business Services segment and the Other category. For the other segments, they are mainly recognized under “Net investment income”.

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

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

(vi) Financial assets “Designated as at fair value through other comprehensive income” include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that are held on a long-term basis.

(vii) Securities included in the “Amortized cost” class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

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

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

Application of the overlay approach to insurance operations financial assets

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

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

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported if Desjardins Group had continued to apply IAS 39. As a result, net surplus earnings related to designated financial 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. In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers gains (losses) on sales of securities, foreign currency fair value hedge accounting for equity instruments as well as impairment losses on equity instruments using accounting policies required by IAS 39.

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

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

The classification and measurement of financial liabilities under IFRS 9 can be summarized as follows:

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

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

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

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

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

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

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

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

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

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

Accounting policies applicable before January 1, 2018

Under IAS 39, financial assets and liabilities were classified based on their characteristics and the intention of management upon their acquisition or issuance.

The classification and measurement of financial assets under IAS 39 can be summarized as follows:

Classes		**Categories**	**Recognition**	
			Initial	**Subsequent**
Financial assets	At fair value through profit or loss (i)	Held for trading (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Loans and receivables (iv)		Fair value	Amortized cost
	Available for sale (v)		Fair value	Fair value
	Held to maturity (vi)		Fair value	Amortized cost

(i) Financial assets in the "At fair value through profit or loss" class included financial assets "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities included in this class were recorded under "Net investment income" in the Combined Statements of Income.
- Interest and dividend income from securities included in the "At fair value through profit or loss" class of the Personal and Business Services segment and the Other category were recognized under "Interest income – Securities" and, for the other segments, they were mainly recognized under "Net investment income" using the effective interest method.

(ii) Financial assets classified as "Held for trading" included the following:

- Securities acquired for resale purposes in the near term and securities that were part of a portfolio of securities that were managed together and for which there was 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" were essentially securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management could designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions was met:

- The designation eliminated or significantly reduced a measurement or recognition inconsistency.
- The assets were part of a group of financial assets or financial assets and liabilities that were managed and whose performance was evaluated on a fair value basis.
- The assets were hybrid financial instruments containing at least one embedded derivative that would otherwise have been separated from the host contract and recognized separately.

Desjardins Group's financial assets included in this class mainly comprised certain investments made in connection with derivative instruments that were not designated as part of a hedging relationship and certain securities that backed the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims. This designation eliminated or significantly reduced a measurement or recognition inconsistency for these financial assets.

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

(iv) Securities included in the “Loans and receivables” class were non-derivative financial assets with fixed or determinable income that were not quoted in an active market and that were not held for sale upon their acquisition or their granting.

These outstanding securities were initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they were measured at amortized cost using the effective interest method. Income recognized on these securities was presented under “Interest income – Loans” in the Combined Statements of Income when it was recognized by the Personal and Business Services segment and the Other category. Income for the other segments was recognized under “Other income – Other” in the Combined Statements of Income.

(v) Securities included in the “Available for sale” class were non-derivative financial assets initially designated as available for sale or not included in the “At fair value through profit or loss”, “Held to maturity” or “Loans and receivables” classes. Available-for-sale securities could 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, were recognized under “Net unrealized gains” on available-for-sale securities in the Combined Statements of Comprehensive Income until the financial asset was derecognized. Premiums and discounts on the purchase of available-for-sale securities were amortized over the life of the securities using the effective interest method and recognized under “Interest income – Securities” for the Personal and Business Services segment and the Other category. For the other segments, they were mainly recognized under “Net investment income”.

(vi) Securities included in the “Held to maturity” class were non-derivative financial assets with fixed or determinable payments and fixed maturity that management had the intention and ability to hold to maturity. These securities were recognized at amortized cost using the effective interest method. Desjardins Group held no instruments in this class as at December 31, 2017.

The classification and measurement of financial liabilities under IAS 39 can be summarized as follows:

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

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

- Changes in fair value of securities included in this class were recorded under “Net investment income” in the Combined Statements of Income.
- Interest expense related to financial liabilities included in the "At fair value through profit or loss" class was recognized under “Net investment income”.

(ii) Financial liabilities classified as “Held for trading” were debt securities issued with the intention to repurchase them in the near term and securities that were part of a portfolio of securities that were managed together and for which there was evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments were 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” had been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management could designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions was met:

- The designation eliminated or significantly reduced a measurement or recognition inconsistency.
- The liabilities were part of a group of financial liabilities or financial assets and liabilities that were managed and whose performance was evaluated on a fair value basis.
- The liabilities were hybrid financial instruments containing at least one embedded derivative that would otherwise have been separated from the host contract and recognized separately.

Desjardins Group held no instruments in this class as at December 31, 2017.

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

These financial liabilities were initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they were measured at amortized cost using the effective interest method. Interest expense on these securities was 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 was mainly recognized under “Net investment income” 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 performing loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and reflects estimated prepayments, adjusted to take into account credit losses on the loan portfolio. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount.

Deposits

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

Subordinated notes

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

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, 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. However, for financial instruments classified or designated as "At fair value through profit or loss", these costs are expensed as incurred.

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

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.

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

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

Securities purchased under reverse repurchase agreements and securities borrowed

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the 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.

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

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.

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 under “Net investment income” in the Combined Statements of Income.

d) Loans

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

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

Restructured loans are loans for which 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.

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

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

Accounting policy applicable since January 1, 2018

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

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

Accounting policy applicable before January 1, 2018

Restructured loans remained classified as performing loans when they did not meet the criteria requiring their classification as credit-impaired loans. In addition, management assessed whether such restructured loans were impaired in accordance with its impairment policies.

e) Impairment of financial instruments

Accounting policies applicable since January 1, 2018

Under IFRS 9, at each reporting date, Desjardins Group recognizes a loss allowance for expected credit losses for debt instruments classified as at amortized cost or as at fair value through other comprehensive income, as well as certain off-balance sheet items, namely loan commitments and financial guarantees, which are not measured at fair value through profit or loss. This allowance is estimated based on an impairment model that comprises three stages:

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

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

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

Determination of significant increases in credit risk

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

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

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

Definition of default and credit-impaired financial asset

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

Measurement of the loss allowance for expected credit losses

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

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

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

PD	LGD	EAD
Loans, loan commitments and financial guarantees: • Type of clients • Risk level • Type of instrument • Industry	*Loans, loan commitments and financial guarantees:* • Type of clients • Type of collateral • Type of guarantor • Risk level • Type of instrument • Industry	*Loans:* • No aggregation(1) *Loan commitments and financial guarantees(2):* • Type of clients • Risk level • Utilization rate • Authorized amount • Type of product • Industry

(1) No aggregation variable is required to determine the EAD for loans, as it represents the anticipated balance of each loan.
(2) To determine the EAD for loan commitments and financial guarantees, a credit conversion factor is applied.

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

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

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

Expected life

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

Recognition of the loss allowance for expected credit losses

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

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

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

Foreclosed assets

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

Loan write-off

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

Accounting policies applicable before January 1, 2018

Credit-impaired loans

Under IAS 39, at the reporting date, Desjardins Group assessed whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A loan was considered credit-impaired when there was such evidence, and more specifically when one of the following conditions was met:

- There was reason to believe that a portion of the principal or interest could not be collected;
- The interest or principal repayment was contractually 90 days past due, unless the loan was fully secured and in the process of collection;
- The interest or principal was more than 180 days past due.

A loan was not classified as credit-impaired when it was fully guaranteed or insured by a Canadian government (federal or provincial) or an agency of a Canadian government.

A loan was considered past due when the borrower had failed to make a payment by the contractual due date.

A loan ceased to be considered credit-impaired when principal and interest payments were up to date and there was no doubt as to its collection or when it was restructured and was treated as a new loan and there was no doubt as to the collection of principal and interest.

Assets foreclosed to settle credit-impaired loans were 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 was recognized under "Provision for credit losses".

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

A loan classified as "Loans and receivables" was written off when all attempts at restructuring or collection had been made and the likelihood of future recovery was remote. When a loan was written off completely, any subsequent payments were recorded under "Provision for credit losses" in the Combined Statements of Income. Credit card balances were written off completely when no payment had been received at the end of a period of 180 days.

Allowance for credit losses on loans

Under IAS 39, objective evidence of impairment resulted from a loss event that had occurred after the loan was granted but before the reporting date and that had an impact on the estimated future cash flows of loans.

The impairment of a loan or a group of loans was determined by estimating the recoverable amount of these financial assets. The allowance was equal to the difference between this amount and the carrying amount. This allowance was presented in deduction of assets under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, Desjardins Group discounted the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows could not be estimated with reasonable reliability, the estimated recoverable amount was 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 could vary depending on the type of loan.

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

The allowance for credit losses related to credit-impaired loans was measured either individually or collectively for loans that were not individually material, while the allowance for credit losses was measured collectively for non- credit impaired loans.

Individual allowances

Desjardins Group first reviewed its loan portfolios on a loan-by-loan basis to assess credit risk and determined whether there was any objective evidence of impairment for which a loss should have been recognized in the Combined Statements of Income. Loan portfolios for which there was no objective evidence of impairment were included in groups of financial assets having similar credit characteristics and were subject to a collective allowance.

Collective allowance on credit-impaired loans

Certain consumer, credit card and other personal loan portfolios comprised a large number of homogeneous balances that were not individually material. A collective allowance was established on such loans based on the portfolio's historical net loss rate.

Collective allowance

The method used by Desjardins Group to determine the collective allowance took into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models took into account certain factors such as PD (loss frequency), LGD (extent of losses) and EAD (gross exposures at default). These parameters were based on historical losses and determined according to the category and risk rating of each loan. The measurement of the collective allowance relied heavily on management's judgments and depended 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 allowance for credit losses related to off-balance sheet items, namely loan commitments and financial guarantees, was 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

Under IAS 39, securities classified in the "Available for sale" category were examined at the reporting date to determine whether there was any objective evidence that they were impaired. In measuring an impairment loss, Desjardins Group took into account many facts specific to each investment and all the factors that could have indicated that there had been impairment. Factors considered included, but were not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring, and the disappearance of an active market for the asset. Management also used its judgment to determine when to recognize an impairment loss.

Desjardins Group individually assessed debt securities included in the "Available for sale" class, including preferred shares with characteristics and behaviour similar to those of debt securities, to determine whether there was any objective evidence of impairment. The impairment loss represented the cumulative loss, which was the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income was 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 increased and that increase could be objectively related to a credit event occurring after the impairment loss had been recognized in the Combined Statements of Income, the impairment loss was reversed through the Combined Statements of Income.

For equity securities included in the "Available for sale" class, when evidence of impairment existed, the cumulative loss which corresponded to the difference between acquisition cost and current fair value, less any impairment loss previously recognized was 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 were not reversed to the Combined Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss were instead recorded directly in other comprehensive income, in the Combined Statements of Comprehensive Income. Any impairment loss on securities previously impaired was directly recognized in the Combined Statements of Income.

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

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. They are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

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

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

Investment property

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

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

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

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.

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. 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 these subsidiaries are classified as insurance contracts, in accordance with IFRS 4, “Insurance Contracts”.

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

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

Life and health insurance contract liabilities

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

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

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

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

Property and casualty insurance contract liabilities

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

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

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the 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 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 obligations 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”.

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

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

Hybrid financial instruments

Accounting policy applicable since January 1, 2018

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

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

Accounting policy applicable before January 1, 2018

Under IAS 39, embedded derivative financial instruments were separated from their host contract and accounted for as derivatives if: (a) the economic characteristics and risks of the embedded derivatives were not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative had the same terms as a separate instrument; (c) the hybrid instrument or contract was not measured at fair value with changes in fair value recognized in combined profit or loss.

Objectives of holding derivatives

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 instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under “Net investment income” in the Combined Statements of Income.

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. They enable 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 elected to continue applying the requirements of IAS 39 for hedge accounting instead of adopting the provisions of IFRS 9.

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

In a fair value hedge transaction, changes in fair value of the hedging derivative financial instrument are recognized under “Net investment income” 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 investment income” 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. Previously recorded adjustments to 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 investment income” in the Combined Statements of Income.

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

Cash flow hedges

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized under "Net gains (losses) on derivative financial instruments designated as cash flow hedges", in other comprehensive income, 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 under "Net investment income" in the Combined Statements of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues hedge 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 investment income".

n) Financial guarantees

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

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

i) The amount initially recorded less, when appropriate, accumulated amortization recognized in the Combined Statements of Income;

ii) Under IFRS 9, the amount of the allowance for credit losses (accounting policy applicable since January 1, 2018) and, under IAS 39, the best estimate of cash outflows required to settle any financial obligation resulting from the guarantee (accounting policy applicable before January 1, 2018)

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

The carrying amount of guarantees does not reflect the maximum potential amount of future payments under guarantees. 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. As at December 31, 2018, amounts appropriated to the stabilization reserve of a caisse are essentially used to pay interest on permanent shares issued by that caisse, while as at December 31, 2017, these amounts were essentially used to pay interest on permanent shares issued by that caisse when the surplus earnings of such caisse were not sufficient. As at December 31, 2018, amounts appropriated to the Federation's stabilization reserve are essentially used to pay interest on F capital shares it issued, while as at December 31, 2017, these amounts were essentially used to pay interest on permanent shares issued by a caisse when the amounts appropriated to such caisse's stabilization reserve were not sufficient, and to pay interest on F capital shares issued by the Federation when the annual surplus earnings of the Federation were not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the caisses. As at December 31, 2018, amounts appropriated to this reserve are used to pay member dividends and to appropriate amounts to the Community Development Fund, while as at December 31, 2017, these amounts allowed the caisses 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*. As at December 31, 2018, this reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on permanent shares, surplus shares and capital shares. As at December 31, 2017, this reserve could only be used to eliminate a deficit. It 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.

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

p) Revenue recognition

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

Recognition criteria

Accounting policy applicable since January 1, 2018

Under IFRS 15, revenue is recognized when Desjardins Group has transferred control of a good or service (the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

Accounting policy applicable before January 1, 2018

Under IAS 18, revenue was recognized to the extent that it was probable that the economic benefits would flow to Desjardins Group and that it could be measured reliably.

Net interest income

Accounting policy applicable since January 1, 2018

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

The effective interest method is used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. Under IFRS 9, the effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

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

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

Accounting policy applicable before January 1, 2018

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

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. Under IAS 39, the effective interest rate was the rate that exactly discounted 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 estimated cash flows considering all contractual terms of the financial instruments, but did not consider future credit losses. The calculation included transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that formed an integral part of the effective rate of the contract, such as file setup fees and finders’ fees, were 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 they are recognized, an actuarial provision is established and recognized under “Insurance contract liabilities”. Premiums are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the 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. They 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.

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

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.

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 under "Foreign exchange income" in the Combined Statements of Income. However, the following items are presented in other comprehensive income in the Combined Statements of Comprehensive Income.

- Translation gains and losses on financial assets "Designated as at fair value through other comprehensive income" (accounting policy applicable since January 1, 2018).
- Unrealized gains and losses on non-monetary financial instruments classified as "Available for sale" (accounting policy applicable before January 1, 2018).
- Gains and losses on derivatives designated as cash flow hedging instruments.

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 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.

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

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.

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).

ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the difference reverses can be controlled and it is probable that it will not reverse in the foreseeable future.

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

i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).

ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the difference will reverse in the foreseeable future and that a taxable profit will be available against which such difference can be utilized.

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

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

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

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 take into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Integrated Financial Plan, which, as of 2018, provides for member dividends based on Desjardins Group's financial capacity and capitalization. In 2017, the financial framework for the appropriation of surplus earnings was in relation with the caisses' financial capacity and Desjardins Group's capitalization. The difference between the amount of member dividends actually paid following the general meetings held by the caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

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, the various service charges collected from the member depending on the services used and, for member dividends for the year ended December 31, 2018, Desjardins products held. Member dividends are recognized under "Member dividends" in the Combined Statements of Income.

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

v) Employee benefits

Short-term benefits

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

Post-employment benefits

Pension and post-retirement benefit plans

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. These remeasurements include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the 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.

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

IMPACT OF CHANGES IN ACCOUNTING POLICIES

The retrospective impact of applying IFRS 9, IFRS 15 and amendments to IFRS 4 has been recognized in the opening balances of the Combined Balance Sheet as at January 1, 2018.

The following table presents the impact of adopting these standards and amendments on Desjardins Group's Combined Balance Sheet as at January 1, 2018.

	Balance as at December 31, 2017	IFRS 9	IFRS 15	IFRS 4	Opening balance as at January 1, 2018
ASSETS					
Cash and deposits with financial institutions	$ 2,435	$ -	$ -	$ -	**$ 2,435**
Securities	56,588	-	-	-	**56,588**
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	-	-	**8,674**
Loans	177,928	-	-	-	**177,928**
Allowance for credit losses	(438)	(256)	-	-	**(694)**
Segregated fund net assets	13,379	-	-	-	**13,379**
Other assets	16,529	65	13	-	**16,607**
TOTAL ASSETS	$ 275,095	$ (191)	$ 13	$ -	**$ 274,917**
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits	$ 171,586	$ -	$ -	$ -	**$ 171,586**
Other liabilities	77,348	(12)	48	-	**77,384**
Subordinated notes	1,388	-	-	-	**1,388**
TOTAL LIABILITIES	250,322	(12)	48	-	**250,358**
EQUITY					
Capital stock	5,361	-	-	-	**5,361**
Share capital	90	-	-	-	**90**
Undistributed surplus earnings	1,360	-	-	-	**1,360**
Accumulated other comprehensive income	445	(410)	-	376	**411**
Reserves	16,707	231	(35)	(376)	**16,527**
Equity – Group's share	23,963	(179)	(35)	-	**23,749**
Non-controlling interests	810	-	-	-	**810**
TOTAL EQUITY	24,773	(179)	(35)	-	**24,559**
TOTAL LIABILITIES AND EQUITY	$ 275,095	$ (191)	$ 13	$ -	**$ 274,917**

The following table presents additional information on the impact of adopting these standards and amendments on Desjardins Group's "Equity – Group's share" as at January 1, 2018.

	Group's share
Accumulated other comprehensive income	
Balance as at December 31, 2017	**$ 445**
Adoption of the IFRS 9 measurement categories	**(411)**
Recognition of expected credit losses on debt securities at fair value through other comprehensive income	**1**
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	**376**
Opening balance as at January 1, 2018	**$ 411**
Reserves	
Balance as at December 31, 2017	**$ 16,707**
Adoption of the IFRS 9 measurement categories	**411**
Recognition of expected credit losses on financial instruments	**(180)**
Impact of the adoption of IFRS 15	**(35)**
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	**(376)**
Opening balance as at January 1, 2018	**$ 16,527**

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

The following table presents the impact of adopting of IFRS 9 on the classification and measurement of financial instruments as at January 1, 2018.

	Notes	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39 as at December 31, 2017	Carrying amount under IFRS 9 as at January 1, 2018
Financial assets					
Cash and deposits with financial institutions	(1)	At fair value through profit or loss – held for trading	Amortized cost	$ 23	$ 23
		At fair value through profit or loss – designated as at fair value through profit or loss	Designated as at fair value through profit or loss	298	298
		Available for sale	Classified as at fair value through other comprehensive income	639	639
		Loans and receivables	Amortized cost	1,475	1,475
Securities					
Debt instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	13,271	13,271
		At fair value through profit or loss – designated as at fair value through profit or loss	Designated as at fair value through profit or loss	16,665	16,665
	(2)	At fair value through profit or loss – designated as at fair value through profit or loss	Classified as at fair value through profit or loss	6	6
	(3)	Available for sale	Classified as at fair value through profit or loss	23	23
		Available for sale	Classified as at fair value through other comprehensive income	20,543	20,543
	(4)	Available for sale	Amortized cost	1,091	1,091
Equity instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	41	41
	(5)	At fair value through profit or loss – designated as at fair value through profit or loss	Classified as at fair value through profit or loss	1,671	1,671
	(6)	Available for sale	Classified as at fair value through profit or loss	3,275	3,275
	(7)	Available for sale	Designated as at fair value through other comprehensive income	2	2
Securities borrowed or purchased under reverse repurchase agreements		Loans and receivables	Amortized cost	$ 8,674	$ 8,674

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

The following table presents the impact of adopting IFRS 9 on the classification and measurement of financial instruments as at January 1, 2018 *(continued)*.

	Notes	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39 as at December 31, 2017	Carrying amount under IFRS 9 as at January 1, 2018
Financial assets *(continued)*					
Loans		Loans and receivables	Amortized cost	$ 177,490	$ 177,234
Other financial assets					
Clients' liability under acceptances		Loans and receivables	Amortized cost	31	31
Premiums receivable		Loans and receivables	Amortized cost	2,095	2,095
Derivative financial instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	3,206	3,206
Amounts receivable from clients, brokers and financial institutions		Loans and receivables	Amortized cost	1,554	1,554
Other		Loans and receivables	Amortized cost	1,249	1,249
Total financial assets				$ 253,322	$ 253,066
Financial liabilities					
Deposits		Financial liabilities at amortized cost	Amortized cost	$ 171,586	$ 171,586
Other financial liabilities					
Acceptances		Financial liabilities at amortized cost	Amortized cost	31	31
Commitments related to securities sold short		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	9,112	9,112
Commitments related to securities lent or sold under repurchase agreements		Financial liabilities at amortized cost	Amortized cost	10,229	10,229
Derivative financial instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	3,094	3,094
Amounts payable to clients, brokers and financial institutions		Financial liabilities at amortized cost	Amortized cost	4,247	4,247
Other		Financial liabilities at amortized cost	Amortized cost	2,629	2,629
		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	452	452
Subordinated notes		Financial liabilities at amortized cost	Amortized cost	1,388	1,388
Total financial liabilities				$ 202,768	$ 202,768

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

(1) Certain items in cash and deposits with financial institutions were classified as “Held for trading” under IAS 39 as at December 31, 2017. As at January 1, 2018, Desjardins Group classified these debt instruments as at “Amortized cost” under IFRS 9 as they are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest. All these securities matured or were sold during fiscal 2018. The effective interest rate on these debt instruments ranged from 0.59% and 1.73% as at January 1, 2018, and interest income recognized on these securities following the adoption of IFRS 9 was insignificant.

(2) These debt instruments were classified as “Designated as at fair value through profit or loss” under IAS 39 as at December 31, 2017. As at January 1, 2018, they were “Classified as at fair value through profit or loss” as the contractual terms of these financial assets give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

(3) These debt instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, these debt instruments were “Classified as at fair value through profit or loss” under IFRS 9 because they are held within a business model whose objective is achieved by selling financial assets or because they do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest.

(4) These debt instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, Desjardins Group classified them as at “Amortized cost” under IFRS 9 as they are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest. The fair value of the securities still held as at December 31, 2018 was $30 million. If these securities had not be reclassified to be measured at “Amortized cost” under IFRS 9 as at January 1, 2018, an immaterial loss would have been recognized in the Combined Statement of Comprehensive Income for the year ended December 31, 2018.

(5) These equity instruments were classified as “Designated as at fair value through profit or loss” under IAS 39 as at December 31, 2017. As at January 1, 2018, they were “Classified as at fair value through profit or loss” as, under IFRS 9, all investments in equity instruments other than those designated as at fair value through other comprehensive income have to be included in this measurement category.

(6) These equity instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, they were “Classified as at fair value through profit or loss” as, under IFRS 9, all investments in equity instruments other than those designated as at fair value through other comprehensive income have to be included in this measurement category.

(7) These equity instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, these instruments, which consist of an investment in a private company that will be held on a long-term basis, were irrevocably “Designated as at fair value through other comprehensive income”. Gains and losses on these instruments will therefore never be reclassified subsequently to the Combined Statements of Income.

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

The following table reconciles the carrying amounts of financial assets recognized under IAS 39 as at December 31, 2017 to the carrying amounts under IFRS 9 as at January 1, 2018.

	Carrying amount under IAS 39 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
Financial assets				
Classified as at fair value through profit or loss[1]				
Cash and deposits with financial institutions	$ 23	$ -	$ -	$ 23
To securities at amortized cost	-	(23)	-	(23)
	23	(23)	-	-
Securities				
Debt instruments	13,271	-	-	13,271
From securities designated as at fair value through profit or loss	-	6	-	6
From available-for-sale securities	-	23	-	23
Equity instruments	41	-	-	41
From securities designated as at fair value through profit or loss	-	1,671	-	1,671
From available-for-sale securities	-	3,275	-	3,275
	13,312	4,975	-	18,287
Derivative financial instruments	3,206	-	-	3,206
Total financial assets classified as at fair value through profit or loss	16,541	4,952	-	21,493
Designated as at fair value through profit or loss[2]				
Cash and deposits with financial institutions	298	-	-	298
Securities				
Debt instruments	16,671	-	-	16,671
To securities classified as at fair value through profit or loss	-	(6)	-	(6)
Equity instruments	1,671	-	-	1,671
To securities classified as at fair value through profit or loss	-	(1,671)	-	(1,671)
	18,342	(1,677)	-	16,665
Total financial assets designated as at fair value through profit or loss	18,640	(1,677)	-	16,963
Available for sale				
Cash and deposits with financial institutions	639	-	-	639
To securities classified as at fair value through other comprehensive income	-	(639)	-	(639)
	639	(639)	-	-
Securities				
Debt instruments	21,657	-	-	21,657
To securities classified as at fair value through profit or loss	-	(23)	-	(23)
To securities classified as at fair value through other comprehensive income	-	(20,543)	-	(20,543)
To securities at amortized cost	-	(1,091)	-	(1,091)
Equity instruments	3,277	-	-	3,277
To securities classified as at fair value through profit or loss	-	(3,275)	-	(3,275)
To securities designated as at fair value through other comprehensive income	-	(2)	-	(2)
	24,934	(24,934)	-	-
Total available-for-sale financial assets	$ 25,573	$ (25,573)	$ -	$ -

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

The following table reconciles the carrying amounts of financial assets recognized under IAS 39 as at December 31, 2017 to the carrying amounts under IFRS 9 as at January 1, 2018 (*continued*).

	Carrying amount under IAS 39 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
Financial assets *(continued)*				
Classified as at fair value through other comprehensive income				
Cash and deposits with financial institutions	$ -	$ -	$ -	$ -
From available-for-sale securities	-	639	-	639
	-	639	-	639
Securities				
Debt instruments	-	-	-	-
From available-for-sale securities	-	20,543	-	20,543
	-	20,543	-	20,543
Total financial assets classified as at fair value through other comprehensive income	-	21,182	-	21,182
Designated as at fair value through other comprehensive income				
Securities				
Equity instruments	-	-	-	-
From available-for-sale securities	-	2	-	2
Total financial assets designated as at fair value through other comprehensive income	-	2	-	2
Amortized cost[(3)]				
Cash and deposits with financial institutions	1,475	-	-	1,475
From securities held for trading	-	23	-	23
	1,475	23	-	1,498
Securities				
Debt instruments	-	-	-	-
From available-for-sale securities	-	1,091	-	1,091
	-	1,091	-	1,091
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	-	8,674
Loans	177,490	-	(256)	177,234
Other financial assets	4,929	-	-	4,929
Total financial assets at amortized cost	$ 192,568	$ 1,114	$ (256)	$ 193,426

(1) For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the “At fair value through profit or loss – held for trading” category.
(2) For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the “At fair value through profit or loss – designated as at fair value through profit or loss” category.
(3) For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the “Loans and receivables” category.

The adoption of IFRS 9 had no impact on the measurement of financial liabilities as at January 1, 2018.

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

The following table reconciles allowances determined under IAS 39 and IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", as at December 31, 2017 to the allowance determined using the IFRS 9 expected credit losses model as at January 1, 2018.

	Carrying amount under IAS 39 and IAS 37 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
Allowance on financial assets at amortized cost				
Loans and receivables reclassified as at amortized cost	$ 438	$ -	$ 256	$ 694
	438	-	256	694
Allowance on securities at fair value through other comprehensive income				
Available-for-sale securities reclassified as at fair value through other comprehensive income	-	-	1	1
	-	-	1	1
Allowance on off-balance sheet items	49	-	(12)	37
Total allowances	$ 487	$ -	$ 245	$ 732

FUTURE ACCOUNTING CHANGES

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2018 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", which will replace the current standard, IAS 17, "Leases", and related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. Under IFRS 16, a lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 introduces a single recognition model for the lessee, thereby eliminating the current distinction between operating and finance leases. The lessee must recognize on the Combined Balance Sheets a lease liability corresponding to the present value of the remaining lease payments as well as a right-of-use asset measured at the amount of the lease liability, plus or minus certain adjustments, if any. An interest expense and a depreciation charge relating to the lease liability and the right-of-use asset, respectively, must be recognized and presented separately in the Combined Statements of Income. Leases with terms of 12 months or less and low-value leases will continue to be recognized as a lease expense based on the terms of the lease. In addition, Desjardins Group will apply the practical expedient which allows not to separate non-lease components from lease components for a contract.

For the lessor, the standard does not provide for any significant changes except for enhanced disclosures.

Desjardins Group will have to adopt IFRS 16 as at January 1, 2019 on a retrospective basis. 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 16 will be recognized in the opening Combined Balance Sheet. Desjardins Group decided not to restate comparative periods upon adopting the provisions of IFRS 16. Consequently, the retrospective impact of applying IFRS 16 will be recognized in the Combined Balance Sheet as at January 1, 2019, which is the effective date of the new standard. In addition, Desjardins Group elected to apply the following transitional expedients proposed in the standard as at the date of transition:

- The right-of-use asset will be equal to the amount of the lease liability adjusted by the amount of prepaid lease payments.
- Existing contracts at the date of transition will not be reassessed to determine whether they are, or contain, a lease under IFRS 16.

Desjardins Group estimates that adopting IFRS 16 will result, on January 1, 2019, in the recognition of a right-of-use asset of approximately $615 million and the recognition of a corresponding lease liability. These changes will result in a decrease of approximately 8 basis points in regulatory capital ratios.

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

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 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 separate liabilities 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. In November 2018, the IASB tentatively decided to defer the effective date of IFRS 17 to the annual periods beginning on or after January 1, 2022.

Conceptual Framework for Financial Reporting

In March 2018, the IASB issued the “Conceptual Framework for Financial Reporting”, which replaces the current version of the conceptual framework. The “Conceptual Framework for Financial Reporting” includes new concepts, updates the definitions and recognition criteria for assets and liabilities and clarifies some key concepts. Desjardins Group is currently assessing the impact of adopting this new framework, which will be effective for annual periods beginning on or after January 1, 2020.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2018	Classified as at fair value through profit or loss (1)	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income(2)	Designated as at fair value through other comprehensive income	Amortized cost(2)	Total
Financial assets						
Cash and deposits with financial institutions	$ -	$ 291	$ 1,068	$ -	$ 2,025	$ 3,384
Securities	20,608	16,308	21,352	43	1,621	59,932
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,934	11,934
Loans(3)	-	-	-	-	190,510	190,510
Other financial assets						
Clients' liability under acceptances	-	-	-	-	160	160
Premiums receivable	-	-	-	-	2,376	2,376
Derivative financial instruments(4)	3,743	-	-	-	-	3,743
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	1,315	1,315
Other	13	-	-	-	1,163	1,176
Total financial assets	**$ 24,364**	**$ 16,599**	**$ 22,420**	**$ 43**	**$ 211,104**	**$ 274,530**
Financial liabilities						
Deposits	$ -	$ -	$ -	$ -	$ 183,158	$ 183,158
Other financial liabilities						
Acceptances	-	-	-	-	160	160
Commitments related to securities sold short	10,829	-	-	-	-	10,829
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	16,845	16,845
Derivative financial instruments(4)	2,816	-	-	-	-	2,816
Amounts payable to clients, brokers and financial institutions	-	-	-	-	4,105	4,105
Other	319	-	-	-	2,918	3,237
Subordinated notes	-	-	-	-	1,378	1,378
Total financial liabilities	**$ 13,964**	**$ -**	**$ -**	**$ -**	**$ 208,564**	**$ 222,528**

(1) An amount of $2,758 million corresponds to financial assets designated for the overlay approach.
(2) As at December 31, 2018, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as value through other comprehensive income" totalled $2 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance credit losses".
(3) For more information, see Note 7, "Loans and allowance for credit losses".
(4) Include derivative financial instruments designated as hedging instruments amounting to $844 million in assets and $161 million in liabilities. Detailed information on designated as hedging instruments is presented in Note 19, "Derivative financial instruments and hedging activities".

During the year ended December 31, 2018, no financial instruments have been reclassified.

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, 2017	Held for trading	Designated as at fair value through profit or loss	Available for sale[(1)]	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	13,312	18,342	24,934	-	56,588
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	8,674	8,674
Loans[(2)]	-	-	-	177,490	177,490
Other financial assets					
Clients' liability under acceptances	-	-	-	31	31
Premiums receivable	-	-	-	2,095	2,095
Derivative financial instruments[(3)]	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[(3)]	3,094	-	-	-	3,094
Amounts payable to clients, brokers and financial institutions	-	-	-	4,247	4,247
Other	452	-	-	2,629	3,081
Subordinated notes	-	-	-	1,388	1,388
Total financial liabilities	$ 12,658	$ -	$ -	$ 190,110	$ 202,768

(1) During the year ended December 31, 2017, Desjardins Group concluded that there was no objective evidence of material impairment.
(2) For more information, see Note 7, "Loans and allowance for credit losses".
(3) Include derivative financial instruments designated as hedging instruments amounting to $325 million in assets and $411 million in liabilities.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

The fair value measurement of financial 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, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 27	$ 264	$ -	$ 291
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	10,632	994	-	11,626
Provincial governmental entities and municipal corporations in Canada	15,063	1,108	-	16,171
School or public corporations in Canada	14	85	-	99
Foreign public administrations	191	-	-	191
Other securities				
Financial institutions	32	800	56	888
Other issuers	5	2,763	742	3,510
Equity securities	3,106	627	698	4,431
	29,070	6,641	1,496	37,207
Derivative financial instruments				
Interest rate contracts	-	1,111	-	1,111
Foreign exchange contracts	-	1,263	-	1,263
Other contracts	-	1,369	-	1,369
	-	3,743	-	3,743
Other assets	-	-	13	13
Total financial assets at fair value through profit or loss	29,070	10,384	1,509	40,963
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	135	933	-	1,068
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,670	2,289	-	8,959
Provincial governmental entities and municipal corporations in Canada	7,681	793	-	8,474
Other securities				
Financial institutions	100	3,129	-	3,229
Other issuers	-	593	97	690
Equity securities	-	43	-	43
Total financial assets at fair value through other comprehensive income	14,586	7,780	97	22,463
Financial instruments of segregated funds	5,556	7,610	72	13,238
Total financial assets	$ 49,212	$ 25,774	$ 1,678	$ 76,664
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Other liabilities				
Commitments related to securities sold short	$ 10,535	$ 294	$ -	$ 10,829
Other	-	-	319	319
	10,535	294	319	11,148
Derivative financial instruments				
Interest rate contracts	-	1,175	-	1,175
Foreign exchange contracts	-	313	-	313
Other contracts	-	1,328	-	1,328
	-	2,816	-	2,816
Total financial liabilities	$ 10,535	$ 3,110	$ 319	$ 13,964

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

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

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				
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
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

During the years ended December 31, 2018 and 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.

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

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

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

As at December 31, 2018	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Securities	**$ 1,621**	**$ 1,621**	**$ -**	**$ 1,621**	**$ -**
Loans	**190,510**	**189,523**	**-**	**7,200**	**182,323**
Financial liabilities					
Deposits	**183,158**	**182,322**	**1,222**	**181,100**	**-**
Subordinated notes	**1,378**	**1,433**	**-**	**1,433**	**-**

As at December 31, 2017	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans	$ 177,490	$ 177,065	$ -	$ 5,892	$ 171,173
Financial liabilities					
Deposits	171,586	169,626	1,169	168,457	-
Subordinated notes	1,388	1,488	-	1,488	-

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 appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

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

For mortgage bonds, 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 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. Under such clause, 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 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)*

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

Changes in fair value of financial instruments categorized within Level 3

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

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

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under “Net investment income”.

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

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

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

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

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

For the year ended December 31, 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 / Other	Sales / Settlements / Other	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 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								
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 investment income”.
(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 investment income”, while unrealized gains or losses on financial liabilities held for trading are recognized under “Net investment income” and “Other income – Other”, respectively.
(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, 2018	**Fair value**	**Main valuation techniques**	**Unobservable inputs**	**Input value ranges**			
Financial assets							
Securities							
			Credit spread(B,C)	**0 bp**	**to**	**300 bp**	
Mortgage bonds	**$ 881**	Discounted cash flows	Comparable inputs(B,C)	**37 bp**	**to**	**251 bp**	
	79	Brokers' valuations	Brokers' inputs	**-**		**-**	**(1)**
Equity securities	**619**	Adjusted net asset value	Adjusted net asset value(A,C)	**-**		**-**	**(1)**
Other financial assets(2)	**99**						
Total financial assets	**$ 1,678**						
Financial liabilities							
Other liabilities - Other							
Financial liability related to the contingent consideration	**319**	Actuarial techniques(3)	Provision for claims and adjustment expenses(B)	**-**		**-**	**(1)**
Total financial liabilities	**$ 319**						

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)	-		-	(4)
			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(3)	Provision for claims and adjustment expenses(B)	-		-	(1)
Total financial liabilities	$ 452						

(1) Due to the nature of these financial instruments, no input value range is presented.
(2) Include other financial assets such as financial instruments of segregated funds.
(3) The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the "Actuarial assumptions" section of Note 15, "Insurance contract liabilities".
(4) Due to the wide-ranging operations of the underlying business lines associated with the enterprise value, 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, 2018	**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	$ 12,628	$ 694	$ 11,934	$ 5,485	$ 6,448	$ 1
Derivative financial instruments	3,664	-	3,664	1,354	2,203	107
Amounts receivable from clients, brokers and financial institutions and other	48	27	21	2	-	19
Total financial assets	**$ 16,340**	**$ 721**	**$ 15,619**	**$ 6,841**	**$ 8,651**	**$ 127**
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 17,539	$ 694	$ 16,845	$ 5,485	$ 11,358	$ 2
Derivative financial instruments	1,468	-	1,468	1,354	69	45
Amounts payable to clients, brokers and financial institutions	56	27	29	2	-	27
Total financial liabilities	**$ 19,063**	**$ 721**	**$ 18,342**	**$ 6,841**	**$ 11,427**	**$ 74**

(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, 2017	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	$ 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 6 – SECURITIES

MATURITIES OF SECURITIES

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

As at December 31, 2018	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	Total
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	$ 2,246	$ 2,252	$ 4,590	$ 1,419	$ 1,119	$ -	$ 11,626
Provincial governmental entities and municipal corporations in Canada	1,970	2,137	1,342	2,500	8,222	-	16,171
School or public corporations in Canada	-	-	1	16	82	-	99
Foreign public administrations	55	-	-	82	54	-	191
Other securities							
Financial institutions	281	294	65	146	102	-	888
Other issuers	189	286	451	411	2,171	2	3,510
Equity securities	-	-	-	2	6	4,423	4,431
Total financial assets at fair value through profit or loss	4,741	4,969	6,449	4,576	11,756	4,425	36,916
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	732	3,484	4,558	175	10	-	8,959
Provincial governmental entities and municipal corporations in Canada	1,405	3,251	1,652	1,370	796	-	8,474
Other securities							
Financial institutions	2,297	537	289	103	3	-	3,229
Other issuers	160	74	206	230	20	-	690
Equity securities	-	-	-	-	-	43	43
Total financial assets at fair value through other comprehensive income	4,594	7,346	6,705	1,878	829	43	21,395
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by							
Provincial governmental entities and municipal corporations in Canada	174	2	3	6	-	-	185
Foreign public administrations	-	-	1	8	18	-	27
Other securities							
Financial institutions	1,281	-	-	-	-	(1)	1,280
Other issuers	129	-	-	-	-	-	129
Total financial assets at amortized cost	1,584	2	4	14	18	(1)	1,621
Total securities	$ 10,919	$ 12,317	$ 13,158	$ 6,468	$ 12,603	$ 4,467	$ 59,932

NOTE 6 – SECURITIES *(continued)*

MATURITIES OF SECURITIES *(continued)*

As at December 31, 2017	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	Total
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	$ 2,403	$ 1,471	$ 3,035	$ 375	$ 1,583	$ -	$ 8,867
Provincial governmental entities and municipal corporations in Canada	1,677	2,251	1,546	2,843	8,091	-	16,408
School or public corporations in Canada	-	-	-	22	86	-	108
Foreign public administrations	81	-	178	27	26	-	312
Other securities							
Financial institutions	293	313	55	113	113	-	887
Other issuers	231	178	349	489	2,113	4	3,364
Equity securities	-	-	-	-	-	1,708	1,708
Total financial assets at fair value through profit or loss	4,685	4,213	5,163	3,869	12,012	1,712	31,654
Available-for-sale financial assets							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	1,188	1,549	5,063	210	12	-	8,022
Provincial governmental entities and municipal corporations in Canada	2,196	2,799	2,342	1,334	794	-	9,465
School or public corporations in Canada	8	7	-	-	-	-	15
Foreign public administrations	9	-	1	10	15	-	35
Other securities							
Financial institutions	2,427	515	222	92	12	-	3,268
Other issuers	268	70	138	362	13	1	852
Equity securities	-	-	-	-	6	3,271	3,277
Total available-for-sale financial assets	6,096	4,940	7,766	2,008	852	3,272	24,934
Total securities	$ 10,781	$ 9,153	$ 12,929	$ 5,877	$ 12,864	$ 4,984	$ 56,588

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The information presented in the following tables has been prepared in accordance with IFRS 9 as at December 31, 2018 and in accordance with IAS 39 as at December 31, 2017. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

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

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

Residential mortgages, consumer, credit card and other personal loans

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

Business and government

Risk levels	PD tranches
Investment grade	0.00% to 0.36%
Non-investment grade	0.37% to 4.50%
Under watch	4.51% to 99.99%
Default	100.00%

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

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

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

Loans

	Non-credit impaired		Credit-impaired(1)	
As at December 31, 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 36,379	$ 4	$ -	$ 36,383
Very low	30,010	7	-	30,017
Low	46,705	990	-	47,695
Moderate	2,059	2,571	-	4,630
High	31	831	-	862
Default	-	206	320	526
Total gross residential mortgages	$ 115,184	$ 4,609	$ 320	$ 120,113
Allowance for credit losses	(27)	(26)	(25)	(78)
Total net residential mortgages	$ 115,157	$ 4,583	$ 295	$ 120,035
Consumer, credit card and other personal loans				
Excellent	$ 3,409	$ -	$ -	$ 3,409
Very low	4,920	-	-	4,920
Low	10,305	94	-	10,399
Moderate	3,856	1,652	-	5,508
High	33	1,685	-	1,718
Default	-	35	221	256
Total gross consumer, credit card and other personal loans	$ 22,523	$ 3,466	$ 221	$ 26,210
Allowance for credit losses	(112)	(263)	(122)	(497)
Total net consumer, credit card and other personal loans	$ 22,411	$ 3,203	$ 99	$ 25,713
Business and government loans(2)				
Investment grade	$ 14,428	$ 46	$ -	$ 14,474
Non-investment grade	25,257	2,579	-	27,836
Under watch	849	1,272	-	2,121
Default	-	134	501	635
Total gross business and government loans	$ 40,534	$ 4,031	$ 501	$ 45,066
Allowance for credit losses	(31)	(36)	(77)	(144)
Total net business and government loans	$ 40,503	$ 3,995	$ 424	$ 44,922

(1) As at December 31, 2018, 88.2% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.
(2) Including clients' liability under acceptances.

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

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

Off-balance sheet items[1]

	Non-credit impaired		Credit-impaired	
As at December 31, 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 27,970	$ 5	$ -	$ 27,975
Very low	25,443	1	-	25,444
Low	12,859	144	-	13,003
Moderate	3,590	1,601	-	5,191
High	17	720	-	737
Default	-	-	63	63
Total gross off-balance sheet items	$ 69,879	$ 2,471	$ 63	$ 72,413
Allowance for credit losses	(28)	(10)	-	(38)
Total net off-balance sheet items	$ 69,851	$ 2,461	$ 63	$ 72,375
Business and government				
Investment grade	$ 25,704	$ 34	$ -	$ 25,738
Non-investment grade	8,557	1,058	-	9,615
Under watch	133	309	-	442
Default	-	10	193	203
Total gross off-balance sheet items	$ 34,394	$ 1,411	$ 193	$ 35,998
Allowance for credit losses	(2)	(2)	-	(4)
Total net off-balance sheet items	$ 34,392	$ 1,409	$ 193	$ 35,994

[1] Loan commitments for which Desjardins Group estimates a loss allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates a loss allowance for expected credit losses comprise guarantees and standby letters of credit.

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

ALLOWANCE FOR CREDIT LOSSES

The following table presents the changes in the balance of the loss allowance for expected credit losses on loans.

	Non-credit impaired		Credit-impaired	Allowance
For the year ended December 31, 2018	**Stage 1**	**Stage 2**	**Stage 3**	**for credit losses**
Residential mortgages				
Balance as at January 1, 2018	**$ 20**	**$ 20**	**$ 18**	**$ 58**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**21**	**(18)**	**(3)**	**-**
Stage 2	**(3)**	**8**	**(5)**	**-**
Stage 3	**-**	**(2)**	**2**	**-**
Net remeasurement due to transfers[2]	**(9)**	**5**	**16**	**12**
Changes in model inputs[3]	**(10)**	**18**	**24**	**32**
New originations or acquisitions[4]	**11**	**4**	**-**	**15**
Derecognition and maturities[5]	**(3)**	**(8)**	**(8)**	**(19)**
Net drawdowns (repayments)[6]	**-**	**(1)**	**(14)**	**(15)**
	7	**6**	**12**	**25**
Write-offs and recoveries	**-**	**-**	**(5)**	**(5)**
Balance as at December 31, 2018	**$ 27**	**$ 26**	**$ 25**	**$ 78**
Consumer, credit card and other personal loans[7]				
Balance as at January 1, 2018	**$ 106**	**$ 320**	**$ 102**	**$ 528**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**301**	**(286)**	**(15)**	**-**
Stage 2	**(46)**	**80**	**(34)**	**-**
Stage 3	**(1)**	**(33)**	**34**	**-**
Net remeasurement due to transfers[2]	**(145)**	**72**	**131**	**58**
Changes in model inputs[3]	**(102)**	**163**	**319**	**380**
New originations or acquisitions[4]	**89**	**187**	**-**	**276**
Derecognition and maturities[5]	**(42)**	**(212)**	**(186)**	**(440)**
Net drawdowns (repayments)[6]	**(19)**	**(16)**	**88**	**53**
Other	**1**	**-**	**-**	**1**
	36	**(45)**	**337**	**328**
Write-offs and recoveries	**-**	**-**	**(317)**	**(317)**
Balance as at December 31, 2018	**$ 142**	**$ 275**	**$ 122**	**$ 539**
Business and government				
Balance as at January 1, 2018	**$ 25**	**$ 34**	**$ 86**	**$ 145**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**25**	**(21)**	**(4)**	**-**
Stage 2	**(6)**	**15**	**(9)**	**-**
Stage 3	**-**	**(3)**	**3**	**-**
Net remeasurement due to transfers[2]	**(12)**	**9**	**27**	**24**
Changes in model inputs[3]	**(22)**	**11**	**33**	**22**
New originations or acquisitions[4]	**26**	**8**	**-**	**34**
Derecognition and maturities[5]	**(8)**	**(13)**	**(35)**	**(56)**
Net drawdowns (repayments)[6]	**2**	**-**	**6**	**8**
Other	**1**	**(4)**	**1**	**(2)**
	6	**2**	**22**	**30**
Write-offs and recoveries	**-**	**-**	**(31)**	**(31)**
Balance as at December 31, 2018	**$ 31**	**$ 36**	**$ 77**	**$ 144**
Total balances as at December 31, 2018	**$ 200**	**$ 337**	**$ 224**	**$ 761**
Composed of:				
Loans	**$ 170**	**$ 325**	**$ 224**	**$ 719**
Off-balance sheet items[8]	**30**	**12**	**-**	**42**

[1] Represent transfers between stages before the remeasurement of expected credit losses.
[2] Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
[3] Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
[4] Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
[5] Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
[6] Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
[7] For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet item categories are not material.
[8] The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

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

KEY DATA AND ASSUMPTIONS

Determining the loss allowance for expected credit losses under IFRS 9 is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions. Significant judgment must therefore be exercised to determine the loss allowance for expected credit losses. The main items requiring significant judgment that affected its measurement as at December 31, 2018 are the following:

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

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

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

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

Incorporation of forward-looking information

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

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

As at December 31, 2018, the macroeconomic scenarios selected for calculating the loss allowance for expected credit losses include the following value ranges over the projection horizon for the most significant variables for credit risk parameters:

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

(1) All macroeconomic variables relate to the Quebec economy, unless otherwise noted.
(2) Macroeconomic variables related to the Canadian economy.

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

Estimated life of revolving credit facilities

To determine the life of revolving credit facilities, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions, and considers the following:

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

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

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

Scenarios

The amount of the loss allowance for expected credit losses depends on the probability of occurrence associated with each scenario. The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items as at December 31, 2018, which takes into account the probability weighting for the three scenarios, with the allowance for credit losses that would have been obtained if a weighting of 100% had been assigned to each scenario individually.

	Allowance for credit losses non-credit impaired loans and off-balance sheet items
Under IFRS 9	**$ 537**
Weighting of 100% assigned to the scenario :	
Base	**$ 513**
Upside	**482**
Downside	**612**

Transfers between stages

The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items as at December 31, 2018 with the allowance for credit losses that would have been obtained if all non-credit impaired loans had been included in Stage 1 of the impairment model.

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items
Under IFRS 9	**$ 537**
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 420**

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

The comparative information presented in the following tables has been prepared in accordance with IAS 39.

LOANS, CREDIT-IMPAIRED LOANS[(1)] AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the credit quality of loans.

As at December 31, 2017[(1)]	Gross loans neither past due nor credit-impaired	Gross loans past due but not credit-impaired	Gross credit-impaired loans	Individual allowances	Collective allowance[(2)]	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) Following the adoption of IFRS 9 as at January 1, 2018, all loans included in Stage 3 of the impairment model are considered credit-impaired. Under IAS 39, the criteria applied to determine whether a loan is credit-impaired were different.
(2) Includes the collective allowance on credit impaired loans of $23 million.

GROSS LOANS PAST DUE BUT NOT CREDIT- IMPAIRED

The following table presents the aging of gross loans that are past due but not credit- 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

ALLOWANCE FOR CREDIT LOSSES

The following table presents the changes in the allowance for credit losses for the year ended December 31, 2017.

	Residential mortgages	Consumer, credit card and other personal loans	Business and government	Total
Balance at beginning of year	$ 68	$ 190	$ 254	$ 512
Provision for credit losses	23	312	14	349
Write-offs and recoveries	(24)	(315)	(35)	(374)
Balance at end of year	$ 67	$ 187	$ 233	$ 487
Composed of:				
Loans	$ 66	$ 169	$ 203	$ 438
Off-balance sheet items[(1)]	1	18	30	49

(1) The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Combined Balance Sheets.

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, residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) are bundled by Desjardins Group into mortgage-backed securities (NHA MBSs) and they are then either transferred to the Canada Housing Trust (CHT) or legally held by Desjardins Group. However, in 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. These loans therefore 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 to allow the monthly receipt of all cash flows related to the mortgage loans underlying the NHA MBSs. 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, 2018		As at December 31, 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 9,921**	**$ 9,983**	$ 9,255	$ 9,319
Securities sold under repurchase agreements	**10,274**	**10,274**	6,704	6,704
Securities lent	**4**	**4**	2	2
	$ 20,199	**$ 20,261**	$ 15,961	$ 16,025
Related liabilities	**$ 20,055**	**$ 19,789**	$ 15,737	$ 15,558

NOTE 9 – SEGREGATED FUNDS

Segregated fund net assets

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

	As at December 31, 2018	As at December 31, 2017
Investments		
Bonds	**$ 584**	$ 541
Shares and mutual fund units	**12,616**	12,789
Money market securities	**38**	45
Securities borrowed or purchased under reverse repurchase agreements	**31**	30
Other assets	**65**	74
Commitments related to securities lent or sold under repurchase agreements	**(9)**	(6)
Liabilities	**(60)**	(63)
Net assets held for segregated fund contract holders	**$ 13,265**	$ 13,410
Assets held for the insurer	**(31)**	(31)
Total segregated fund net assets[1]	**$ 13,234**	$ 13,379

[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 $22 million as at December 31, 2018 ($25 million as at December 31, 2017).

Fair value of financial instruments

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

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

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

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

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

During the years ended December 31, 2018 and 2017, 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, 2018 and 2017, the carrying amount and the fair value of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets were $9 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 $9 million as at December 31, 2018 ($6 million as at December 31, 2017). 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 $1 million ($5 million as at December 31, 2017). No financial assets held as collateral had been sold or repledged in 2018 and 2017. These financial assets were received as collateral in 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, 2018	As at December 31, 2017
Balance at beginning of year – Net liabilities to segregated fund contract holders	**$ 13,386**	$ 11,987
Additions		
Amounts received from contract holders	**2,025**	1,840
Net investment income (loss)	**(276)**	1,183
	1,749	3,023
Deductions		
Withdrawals and redemptions	**1,747**	1,479
Management fees	**145**	146
	1,892	1,625
Balance at end of year – Net liabilities to segregated fund contract holders	**$ 13,243**	$ 13,385
Liabilities to the insurer	**(31)**	(31)
Total segregated fund net liabilities(1)	**$ 13,212**	$ 13,354

(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 $22 million as at December 31, 2018 ($25 million as at December 31, 2017).

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, 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
Additions	**-**	**36**	**76**	**34**	**58**	**204**	**45**	**128**	**173**
Disposals	**(1)**	**(22)**	**(55)**	**(57)**	**(31)**	**(166)**	**(11)**	**(2)**	**(13)**
Other	**(1)**	**(11)**	**-**	**(6)**	**3**	**(15)**	**1**	**(2)**	**(1)**
As at December 31, 2018	**$ 102**	**$ 1,424**	**$ 513**	**$ 515**	**$ 575**	**$ 3,129**	**$ 220**	**$ 1,035**	**$ 1,255**

	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, 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
Depreciation	**-**	**44**	**52**	**27**	**36**	**159**	**-**	**35**	**35**
Disposals	**-**	**(18)**	**(54)**	**(52)**	**(28)**	**(152)**	**-**	**-**	**-**
Other	**-**	**3**	**-**	**(4)**	**4**	**3**	**-**	**(2)**	**(2)**
As at December 31, 2018	**$ -**	**$ 636**	**$ 388**	**$ 390**	**$ 291**	**$ 1,705**	**$ -**	**$ 297**	**$ 297**

	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, 2018	**$ 102**	**$ 788**	**$ 125**	**$ 125**	**$ 284**	**$ 1,424**	**$ 220**	**$ 738**	**$ 958**
As at December 31, 2017	$ 104	$ 814	$ 102	$ 125	$ 266	$ 1,411	$ 185	$ 647	$ 832

As at December 31, 2018, an amount of $2 million ($4 million as at December 31, 2017) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $11 million ($3 million as at December 31, 2017) related to the acquisition of these buildings.

As at December 31, 2018, the fair value of investment property was $1,788 million ($1,535 million as at December 31, 2017). 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, 2018, rental income from investment property amounted to $154 million ($156 million in 2017). Amounts recognized in profit or loss for operating expenses related to investment property that generated rental income during the year totalled $113 million ($103 million in 2017), while no amount has been recognized for those that did not generate rental income. These amounts are presented under “Net 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, 2016	$ 415	$ 56	$ 471
Disposals[(1)] / retirements[(2)]	(315)	(35)	(350)
As at December 31, 2017	$ 100	$ 21	$ 121
As at December 31, 2018	**$ 100**	**$ 21**	**$ 121**

(1) For more information, see Note 20 "Significant transactions".
(2) As at December 31, 2017, goodwill attributable to Qtrade Canada Inc., which was previously presented in the Wealth Management and Life and Health Insurance segment, was presented under "Assets of the disposal group held to be transferred". On April 1, 2018, this subsidiary was part of the transaction that resulted in the creation of Aviso Wealth, as mentioned in Note 20, "Significant transactions".

The Property and Casualty Insurance segment includes Desjardins General Insurance Group Inc. 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.

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, 2018 and prior years. 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.

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software	Client relationships	Other[(1)]	Total
Cost				
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
Acquisitions / Additions	**96**	**-**	**1**	**97**
Disposals / Retirements	**(108)**	**-**	**(1)**	**(109)**
Other	**(6)**	**-**	**-**	**(6)**
As at December 31, 2018	**$ 811**	**$ 19**	**$ 124**	**$ 954**

	Software	Client relationships	Other[(1)]	Total
Accumulated amortization				
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
Amortization	**82**	**2**	**5**	**89**
Disposals / Retirements	**(35)**	**-**	**(1)**	**(36)**
Other	**6**	**-**	**-**	**6**
As at December 31, 2018	**$ 512**	**$ 9**	**$ 44**	**$ 565**

	Software	Client relationships	Other[(1)]	Total
Net carrying amount				
As at December 31, 2018	**$ 299**	**$ 10**	**$ 80**	**$ 389**
As at December 31, 2017	$ 370	$ 12	$ 84	$ 466

(1) The “Other” category mainly includes the amount related to the acquisition of insurance contract portfolios and a distribution network.
(2) For more information, see Note 20, "Significant transactions".
(3) As at December 31, 2017, certain intangible assets were presented under “Assets of the disposal group held to be transferred". These intangible assets were transferred during the year ended December 31, 2018 as part of the creation of Aviso Health, as mentioned in Note 20, “Significant transactions”.

NOTE 12 – OTHER ASSETS – OTHER

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

	As at December 31, 2018	As at December 31, 2017
Investments in companies accounted for using the equity method (Note 13)	**$ 907**	$ 515
Interest receivable	**561**	508
Accounts receivable	**535**	574
Prepaid expenses	**210**	330
Taxes receivable	**167**	158
Other	**473**	653
	$ 2,853	$ 2,738

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, 2018[(1)]	As at December 31, 2017[(1)]
Desjardins Capital Inc.	Issuance of securities on the markets and financing of the Desjardins caisses	**100 %**	100 %
Desjardins Financial Holding Inc.	Holding company	**100**	100
Zag Bank[(2)]	Financial institution	**100**	100
Desjardins Financial Corporation Inc.	Holding company	**100**	100
Desjardins Global Asset Management Inc.	Asset management	**100**	100
Desjardins General Insurance Group Inc.	Property and casualty insurance	**100**	100
Property and casualty insurance subsidiaries[(3)]	Property and casualty insurance	**90**	90
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	**100**	100
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	**100**	100
Desjardins Trust Inc.	Asset custody and trust services	**100**	100
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group's technology	**100**	100
Qtrade Canada Inc.[(4)]	Online brokerage and wealth management services	**-**	80.8
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 held 100% of the voting rights as at December 31, 2017.
(2) Desjardins Group plans to wind up this subsidiary in the coming year.
(3) Represents a group of six property and casualty insurance subsidiaries.
(4) On April 1, 2018, this subsidiary was part of the transaction that resulted in the creation of Aviso Health. For more information, see Note 20, "Significant transactions".

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

Subsidiaries that have material non-controlling interests

As at December 31, 2018 and 2017, the subsidiaries that have material non-controlling interests comprise the six property and casualty insurance subsidiaries aggregated under "Property and casualty insurance subsidiaries".

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

	As at December 31, 2018	As at December 31, 2017
Assets[(1)]	**$ 14,685**	$ 14,672
Liabilities	**12,134**	11,861
Equity[(1)]	**$ 2,551**	$ 2,811
Non-controlling interests	**$ 750**	$ 776

(1) Include goodwill of $100 million as at December 31, 2018 ($100 million as at December 31, 2017).

For the years ended December 31	2018	2017
Total income	**$ 4,710**	$ 3,945
Net surplus earnings for the year after member dividends	**176**	162
Comprehensive income for the year	**$ (46)**	$ 199
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	**$ 42**	$ 41
Dividends / distributions paid to holders of non-controlling interests	**$ 36**	$ 42

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, a structured entity, is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by 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 $7,985 million as at December 31, 2018 ($6,197 million as at December 31, 2017), are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to $5,859 million as at December 31, 2018 ($4,517 million as at December 31, 2017), are presented under "Deposits – Business and government".

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

JOINT VENTURES

Information about material joint ventures

Desjardins Group holds interests in the RPADS LP, 101 St-Clair and Aviso Wealth joint ventures. RPADS LP is an entity that acquires and develops real estate portfolios, 101 St-Clair is a real estate management and investment company, and Aviso Wealth is a wealth management company. These joint ventures have been incorporated in Canada and their principal place of business is in this country.

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

	As at December 31, 2018			As at December 31, 2017	
	RPADS LP	**101 St-Clair**	**Aviso Wealth(1)**	RPADS LP	101 St-Clair
Proportion of ownership interest held	**55.10%**	**60.00%**	**50.00%**	50.10%	60.00%
Assets	**$ 552**	**$ 138**	**$ 1,972**	$ 474	$ 116
Liabilities(2)	**50**	**1**	**1,758**	37	5
Equity	**$ 502**	**$ 137**	**$ 214**	$ 437	$ 111
Interests in joint ventures(3)	**$ 272**	**$ 82**	**$ 335**	$ 219	$ 66

(1) The Aviso Wealth joint venture was created in 2018, as mentioned in Note 20, "Significant transactions". The interest in the joint venture reflects adjustments of $228 million made when using the equity method.
(2) Consisting primarily of financial liabilities other than accounts payable and provisions.
(3) Represents the carrying amount of the interests in joint ventures recognized in the Combined Balance Sheets.

For the years ended December 31	2018			2017	
	RPADS LP	**101 St-Clair**	**Aviso Wealth(1)**	RPADS LP	101 St-Clair
Total income	**$ 102**	**$ 2**	**$ 374**	$ 95	$ -
Net income and comprehensive income for the year	**$ 24**	**$ (2)**	**$ 9**	$ 23	$ -

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

JOINT OPERATIONS

Desjardins Group holds an 80% ownership interest in a joint arrangement with Fonds Immobilier Cogir 1 and a 50% ownership interest in a joint arrangement with First Capital Realty Inc. to invest in undivided co-ownership in commercial buildings in Quebec. It also holds a 50.5% ownership interest in a second joint arrangement with First Capital Realty Inc. formed during fiscal 2018 to invest in undivided co-ownership in commercial buildings in Ontario.

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

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

ASSOCIATES

Information about material associates

Desjardins Group holds: an interest in Fiera Holdings Inc. an associate, which operates in the investment management industry. It has been incorporated in Canada and its principal place of business is in this country. The interest previously held in Northwest & Ethical Investments L.P. (Northwest & Ethical), an associate, was part of the transaction that resulted in the creation of Aviso Wealth, on April 1, 2018, as mentioned in Note 20, "Significant transactions".

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

The following tables present summarized financial information about Fiera Holdings Inc., 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, 2018	As at December 31, 2017	
	Fiera Holdings Inc.	Fiera Holdings Inc.	Northwest & Ethical[1]
Proportion of ownership interest held[2,3]	**37.20%**	37.18%	50.00%
Assets[4,5]	**$ 1,418**	$ 1,113	$ 204
Liabilities[5]	**773**	566	54
Equity[4,5]	**$ 645**	$ 547	$ 150
Interests in associates[6]	**$ 50**	$ 52	$ 85

[1] On April 1, 2018, Northwest & Ethical was part of a transaction that resulted in the creation of Aviso Wealth. For more information, see Note 20, "Significant transactions".
[2] Represents also the proportion of voting rights held by Desjardins Group in the associates.
[3] As at December 31, 2018, Desjardins Group indirectly held an 7.41% ownership interest (8.09% as at December 31, 2017) in Fiera Capital Corporation through its interest in Fiera Holdings Inc.
[4] Include goodwill of $10 million ($10 million, as at December 31, 2017) related to Fiera Holdings Inc.
[5] The assets, liabilities and equity of Fiera Holdings Inc. for 2018 and 2017 are based on data as at September 30. The assets, liabilities and equity of Northwest & Ethical for 2017 were also based on data 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	2018	2017	
	Fiera Holdings Inc.	Fiera Holdings Inc.	Northwest & Ethical
Total income[1]	**$ 528**	$ 427	$ 111
Net income and comprehensive income for the year[1]	**$ 2**	$ 15	$ 11

[1] Total income, net income and comprehensive income of Fiera Holdings Inc. for 2018 and 2017 are based on data for the twelve-month periods ended September 30. Total income, net income and comprehensive income of Northwest & Ethical were also based on data for the twelve-month period ended September 30,2017.

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 activities of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

The investments of these funds are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. 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.

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, 2018				As at December 31, 2017			
	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	**$ 48,771**	**$ 3,792**	**$ 52,735**	**$ 105,298**	$ 46,399	$ 3,695	$ 50,484	$ 100,578
Business and government	**25,991**	**361**	**49,822**	**76,174**	24,551	452	44,099	69,102
Deposit-taking institutions	**1,618**	**-**	**68**	**1,686**	1,407	-	499	1,906
	$ 76,380	**$ 4,153**	**$ 102,625**	**$ 183,158**	$ 72,357	$ 4,147	$ 95,082	$ 171,586

NOTE 15 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2018			2017		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Gross premiums	**$ 4,636**	**$ 4,612**	**$ 9,248**	$ 4,443	$ 4,271	$ 8,714
Premiums ceded under reinsurance treaties	**(180)**	**(245)**	**(425)**	(198)	(467)	(665)
Net premiums	**$ 4,456**	**$ 4,367**	**$ 8,823**	$ 4,245	$ 3,804	$ 8,049

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2018	As at December 31, 2017
Insurance contract liabilities		
Actuarial liabilities — Life and health insurance	**$ 18,553**	$ 18,428
Provisions for claims and adjustment expenses — Property and casualty insurance	**6,489**	6,457
Unearned premiums	**2,547**	2,274
Policyholder deposits	**670**	646
Provisions for benefits, policyholder dividends and experience refunds	**470**	480
Other	**11**	(13)
	$ 28,740	$ 28,272

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

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

	As at December 31, 2018	As at December 31, 2017
Gross actuarial liabilities		
Non-participating policies	**$ 14,565**	$ 14,326
Participating policies	**3,988**	4,102
	18,553	18,428
Amounts ceded to reinsurers	**(915)**	(915)
Net actuarial liabilities	**$ 17,638**	$ 17,513

	As at December 31, 2018	As at December 31, 2017
Composition of assets backing net actuarial liabilities		
Bonds	**$ 11,138**	$ 10,884
Mortgage and business loans	**2,434**	2,536
Investment property	**1,116**	1,040
Equities	**1,430**	1,531
Other	**1,520**	1,522
	$ 17,638	$ 17,513

The fair value of assets backing net actuarial liabilities was $18,383 million as at December 31, 2018 ($18,117 million as at December 31, 2017).

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.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

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

Mortality

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

Morbidity

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

Contract cancellation rates

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

Investment return

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

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

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the loss allowance for expected credit losses recognized through a write-down of the carrying amount of the assets, a provision amounting to $336 million as at December 31, 2018 ($345 million as at December 31, 2017) 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.

	2018	2017
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (53)**	$ (49)
Products for which a rate decrease increases actuarial liabilities	**(23)**	(23)
5% increase in future morbidity rates	**(80)**	(75)
10% negative change in future contract cancellation rates	**(153)**	(138)
5% increase in future operating expenses	**(45)**	(44)

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:

	2018			2017		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 18,428**	**$ (915)**	**$ 17,513**	$ 17,574	$ (935)	$ 16,639
Change due to						
Passage of time	**(512)**	**4**	**(508)**	556	(29)	527
New business	**674**	**(18)**	**656**	538	(24)	514
Changes in actuarial assumptions	**(24)**	**(13)**	**(37)**	(84)	34	(50)
Disposals[(1)]	**-**	**-**	**-**	(162)	53	(109)
	138	**(27)**	**111**	848	34	882
Other changes	**(13)**	**27**	**14**	6	(14)	(8)
Balance at end of year	**$ 18,553**	**$ (915)**	**$ 17,638**	$ 18,428	$ (915)	$ 17,513

(1) For more information, see Note 20, " Significant transactions ".

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.

	2018	2017
Changed assumptions		
Mortality	**$ 22**	$ 119
Morbidity	**9**	1
Contract cancellation rates	**(79)**	(166)
Investment return	**17**	59
Operating expenses	**47**	17
Methods and other	**11**	6
	$ 27	$ 36

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.

	2018			2017		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 6,457**	**$ (1,056)**	**$ 5,401**	$ 6,679	$ (1,080)	$ 5,599
Claims incurred during the year	**3,926**	**(223)**	**3,703**	3,538	(364)	3,174
Development of claims incurred in prior years	**(532)**	**74**	**(458)**	(620)	35	(585)
Changes in discount rates	**(43)**	**6**	**(37)**	(64)	10	(54)
Claims paid during the year	**(3,319)**	**264**	**(3,055)**	(3,073)	343	(2,730)
Disposals	**-**	**-**	**-**	(3)	-	(3)
Balance at end of year	**$ 6,489**	**$ (935)**	**$ 5,554**	$ 6,457	$ (1,056)	$ 5,401

Changes in assumptions had no material impact on the Combined Financial Statements as at December 31, 2018 and 2017.

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"**	
		2018	2017
Average claims settlement cost	+5%	**$ (239)**	$ (227)

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.

	2008 and before	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	Total
Estimated ultimate claims amount												
At the end of the accident year		$ 1,076	$ 1,101	$ 1,272	$ 1,375	$ 1,471	$ 1,536	$ 2,186	$ 2,417	$ 3,158	**$ 3,691**	
1 year later		1,063	1,103	1,272	1,322	1,447	2,453	2,168	2,387	3,121		
2 years later		1,077	1,091	1,238	1,328	2,186	2,349	2,165	2,365			
3 years later		1,072	1,071	1,221	1,967	2,086	2,272	2,117				
4 years later		1,062	1,055	1,781	1,839	1,977	2,184					
5 years later		1,049	1,577	1,657	1,769	1,910						
6 years later		1,466	1,515	1,567	1,717							
7 years later		1,379	1,434	1,547								
8 years later		1,330	1,386									
9 years later		1,295										
Cumulative payments to date		1,156	1,223	1,373	1,478	1,582	1,706	1,683	1,772	2,111	**1,977**	
Net provisions for claims and adjustment expenses	$ 282	$ 139	$ 163	$ 174	$ 239	$ 328	$ 478	$ 434	$ 593	$ 1,010	**$ 1,714**	$ 5,554
Reinsurers' share in provisions for claims and adjustment expenses	4	-	-	-	-	-	-	288	361	161	**121**	935
Gross provisions for claims and adjustment expenses	$ 286	$ 139	$ 163	$ 174	$ 239	$ 328	$ 478	$ 722	$ 954	$ 1,171	**$ 1,835**	$ 6,489

Insurance risk management

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

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

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

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

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

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

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

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

Use of reinsurance

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

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

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

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

	2018			2017		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 180**	**$ 245**	**$ 425**	$ 198	$ 467	$ 665
Claims, benefits, annuities and changes in insurance contract liabilities	**146**	**142**	**288**	153	319	472

Segregated fund risk management

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

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of 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. These subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the 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 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.

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” of a change in interest rates on the life and health insurance subsidiaries’ actuarial liabilities and the assets backing these actuarial liabilities.

	2018	2017
1% increase in interest rates	**$ 53**	$ 43
1% decrease in interest rates	**(78)**	(60)

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.

The following table shows, for the years ended December 31, the estimated impact on “Net surplus earnings for the year after member dividends” 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.

	2018	2017
1% increase in interest rates	**$ 7**	$ 5
1% decrease in interest rates	**(8)**	(6)

Liquidity risk management

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

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

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

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the 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, 2018	As at December 31, 2017
Less than 1 year	**$ 2,734**	$ 2,615
1 to 5 years	**5,790**	5,425
Over 5 years	**36,277**	34,579
Total	**$ 44,801**	$ 42,619

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.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

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.

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.

However, during the fourth quarter of 2018, Desjardins Group notified its employees of amendments to this plan that will come into effect on January 1, 2019. As of that date, Desjardins Group will no longer fund the post-retirement benefit plan for employees who retire, except for employees who meet, as at January 1, 2019, certain criteria allowing them to keep their rights under the current plan. These criteria are based on age and the number of years of participation in the plan. For fiscal 2018, this amendment resulted in a gain, which was recognized as a deduction to the past service cost expense in the Combined Statements of Income, with a corresponding amount reducing "Net defined benefit plan liabilities" in the Combined Balance Sheets.

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, 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 (gains)	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
Amounts recognized in the Combined Statements of Income								
Current service cost	**320**	**-**	**320**	**21**	**34**	**-**	**34**	**375**
Net interest expense/income	**479**	**423**	**56**	**28**	**31**	**20**	**11**	**95**
Past service cost	**(1)**	**-**	**(1)**	**(130)**	**(11)**	**-**	**(11)**	**(142)**
	798	**423**	**375**	**(81)**	**54**	**20**	**34**	**328**
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	**-**	**(346)**	**346**	**-**	**-**	**(30)**	**30**	**376**
Actuarial losses (gains) arising from changes in demographic assumptions	**221**	**-**	**221**	**(33)**	**1**	**-**	**1**	**189**
Actuarial gains arising from changes in financial assumptions	**(638)**	**-**	**(638)**	**(40)**	**(38)**	**-**	**(38)**	**(716)**
Experience losses (gains)	**146**	**-**	**146**	**8**	**(4)**	**-**	**(4)**	**150**
	(271)	**(346)**	**75**	**(65)**	**(41)**	**(30)**	**(11)**	**(1)**
Other changes								
Participants' contributions	**194**	**194**	**-**	**-**	**-**	**-**	**-**	**-**
Employers' contributions	**-**	**352**	**(352)**	**-**	**-**	**27**	**(27)**	**(379)**
Benefits paid	**(526)**	**(522)**	**(4)**	**(21)**	**(27)**	**(17)**	**(10)**	**(35)**
Other changes	**(12)**	**(12)**	**-**	**-**	**(1)**	**(1)**	**-**	**-**
	(344)	**12**	**(356)**	**(21)**	**(28)**	**9**	**(37)**	**(414)**
As at December 31, 2018	**$ 14,389**	**$ 12,851**	**$ 1,538**	**$ 681**	**$ 882**	**$ 564**	**$ 318**	**$ 2,537**

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Funding status

	As at December 31, 2018				As at December 31, 2017			
	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	**$ 14,253**	**$ -**	**$ 629**	**$ 14,882**	$ 14,076	$ -	$ 628	$ 14,704
Fair value of plan assets	**12,851**	**-**	**564**	**13,415**	12,762	-	565	13,327
	$ (1,402)	**$ -**	**$ (65)**	**$ (1,467)**	$ (1,314)	$ -	$ (63)	$ (1,377)
Unfunded plans								
Defined benefit plan obligation	**$ 136**	**$ 681**	**$ 253**	**$ 1,070**	$ 130	$ 848	$ 269	$ 1,247
	$ (136)	**$ (681)**	**$ (253)**	**$ (1,070)**	$ (130)	$ (848)	$ (269)	$ (1,247)

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, 2018[1]		As at December 31, 2017[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	**$ -**	**$ 290**	$ -	$ 210
Provinces, municipal corporations and other public administrations	**259**	**5,230**	177	4,840
Other issuers	**2,136**	**-**	2,134	3
Shares	**333**	**2,790**	381	2,856
Real estate investments	**1,443**	**128**	1,410	130
Infrastructure investments	**1,589**	**61**	1,348	67
Cash and money market securities	**523**	**153**	529	163
Other	**1,220**	**187**	974	112
Total	**$ 7,503**	**$ 8,839**	$ 6,953	$ 8,381

[1] Commitments related to securities lent or sold under repurchase agreements deducted from the main group pension plan assets are excluded from the table.

As at December 31, 2018, the DGPP held eligible investments in money market securities and segregated funds issued by Desjardins Group entities having a total fair value of $10 million ($52 million as at December 31, 2017).

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, 2018		As at December 31, 2017	
	Group pension plans	**Group post-retirement benefit plan**	Group pension plans	Group post-retirement benefit plan
Discount rate for the obligation[1]	**3.85 %**	**3.80 %**	3.60 %	3.60 %
Discount rate for service cost[1]	**3.90**	**3.85**	3.70	3.70
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]	**3.31**	**3.28**	3.44	3.37
Rate used to calculate interest expense on service cost[1]	**3.52**	**3.61**	3.80	3.96
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, 2018		As at December 31, 2017	
	Change in obligation	**Change in cost recognized**	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	**$ (2,191)**	**$ (146)**	$ (2,236)	$ (126)
1% decrease	**2,970**	**166**	2,708	127
Expected rate of salary increases				
1% increase	**522**	**56**	624	43
1% decrease	**(442)**	**(46)**	(528)	(36)
Group post-retirement benefit plan				
Discount rate				
1% increase	**(88)**	**14**	(126)	(2)
1% decrease	**111**	**(18)**	164	2
Expected rate of salary increases				
1% increase	**3**	**-**	7	1
1% decrease	**(3)**	**-**	(8)	(1)
Healthcare costs				
1% increase	**52**	**(3)**	86	7
1% decrease	**(45)**	**3**	(68)	(5)

Expected contributions for 2019

Desjardins Group expects to contribute $405 million to its defined benefit pension plans in the next year.

Pension plan obligation maturity profile

For 2018, the weighted average financial duration was approximately 18 years (17 years in 2017) for the main group pension plan and approximately 15 years (17 years in 2017) 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, 2018	As at December 31, 2017
Accounts payable and other accrued liabilities	**$ 3,086**	$ 2,622
Interest payable	**908**	736
Client contract liabilities	**382**	309
Taxes payable	**181**	64
Provisions for risks and expenses	**92**	240
Borrowings from financial institutions	**29**	30
Other	**1,144**	1,567
	$ 5,822	$ 5,568

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, 2018	As at December 31, 2017
Senior Series G notes (par value of $900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer.	**$ 879**	$ 898
Senior Series J notes (par value of $500 million), issued on December 15, 2011, maturing in December 2026, bearing interest at an annual rate of 4.954% for the first 10 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 2.67%, redeemable at the option of the issuer starting in 2021.	**499**	490
	$ 1,378	$ 1,388

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The hedge accounting disclosures for 2018 presented in this note are in accordance with the disclosure requirements of IFRS 7, "Financial Instruments: Disclosures", which have been effective since January 1, 2018. As permitted by transitional requirements, the comparative information has not been restated and is therefore presented in accordance with the disclosure requirements of IFRS 7 that were effective before January 1, 2018. For more information, see Note 2, "Basis of presentation and significant accounting policies".

DERIVATIVE FINANCIAL INSTRUMENTS

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.

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.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2018	**Under 1 year**	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	**Assets**	**Liabilities**
Designated as hedging instruments[(1)]							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the counter interest rate swaps	**$ 2,040**	**$ 2,842**	**$ 5,366**	**$ 2,041**	**$ 12,289**	**$ 75**	**$ 122**
Average rate	***2.1%***	***1.5%***	***2.2%***	***2.3%***			
	2,040	**2,842**	**5,366**	**2,041**	**12,289**	**75**	**122**
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	**5,893**	**6,368**	**1,173**	**-**	**13,434**	**689**	**-**
CAD-US average rate	***1.3347***	***1.2963***	***-***	***-***			
CAD-EUR average rate	***1.5346***	***1.5268***	***1.5202***	***-***			
	5,893	**6,368**	**1,173**	**-**	**13,434**	**689**	**-**
Total - Fair value hedges	**7,933**	**9,210**	**6,539**	**2,041**	**25,723**	**764**	**122**
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	**32**	**6,721**	**4,102**	**4,365**	**15,220**	**81**	**39**
Average rate	***2.3%***	***2.3%***	***2.5%***	***2.5%***			
	32	**6,721**	**4,102**	**4,365**	**15,220**	**81**	**39**
Total – Cash flow hedges	**32**	**6,721**	**4,102**	**4,365**	**15,220**	**81**	**39**
Total – Designated as hedging instruments	**$ 7,965**	**$ 15,931**	**$ 10,641**	**$ 6,406**	**$ 40,943**	**$ 845**	**$ 161**

(1) Hedging instruments are presented under "Derivative financial instruments" in the Combined Balance Sheets.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2018	**Under 1 year**	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	**Assets**	**Liabilities**
Trading purposes(1)							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	$ 45,897	$ 54,032	$ 29,482	$ 4,691	$ 134,102	$ 817	$ 867
Forward rate agreements	3,492	-	-	-	3,492	24	23
Options purchased	500	782	164	-	1,446	1	-
Options written	1,464	30	30	-	1,524	-	3
Contracts traded through a clearing house							
Interest rate swaps	13,864	14,830	3,868	2,751	35,313	111	118
Exchange-traded contracts							
Futures	8,284	4,816	-	-	13,100	-	-
Options purchased	48,348	-	-	-	48,348	2	-
Options written	35,222	-	-	-	35,222	-	4
	157,071	74,490	33,544	7,442	272,547	955	1,015
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	28,148	956	49	-	29,153	441	257
Currency swaps	2,337	10	100	450	2,897	111	25
Options purchased	668	137	24	-	829	22	-
Options written	1,110	189	20	-	1,319	-	30
Exchange-traded contracts							
Futures	-	-	-	-	34,198	-	-
	32,263	1,292	193	450	34,198	574	312
Other contracts(2)							
Over-the-counter contracts							
Swaps	144	89	118	-	351	6	2
Options purchased	3,461	11,592	10,422	-	25,475	1,363	-
Options written	3,290	10,390	8,937	-	22,617	-	1,326
Contracts traded through a clearing house							
Swaps	-	-	539	-	539	-	-
Exchange-traded-contracts							
Futures	941	-	-	-	941	-	-
	7,836	22,071	20,016	-	49,923	1,369	1,328
Total - Trading purposes	$ 197,170	$ 97,853	$ 53,753	$ 7,892	$ 356,668	$ 2,898	$ 2,655
Total derivative financial instruments before impact of master netting agreements	$ 205,135	$ 113,784	$ 64,394	$ 14,298	$ 397,611	$ 3,743	$ 2,816
Less:							
Impact of master netting agreements(3)	-	-	-	-	-	1,356	1,356
Total derivative financial instruments after impact of master netting agreements	$ 205,135	$ 113,784	$ 64,394	$ 14,298	$ 397,611	$ 2,387	$ 1,460

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

(2) Include contracts related to indexed term savings products.

(3) Impact of offsetting credit exposure when 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)*

The following table presents comparative information on the maturities of the notional amounts of derivative financial instruments.

	Terms to maturity				
As at December 31, 2017	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount
Interest rate contracts					
Over-the-counter contracts					
Interest rate swaps	$ 42,475	$ 57,411	$ 32,871	$ 5,765	$ 138,522
Forward rate agreements	2,258	-	-	-	2,258
Options purchased	1,708	754	-	-	2,462
Options written	400	-	-	-	400
Contracts traded through a clearing house					
Interest rate swaps	2,453	5,796	2,078	224	10,551
Exchange-traded contracts					
Futures	6,512	425	-	-	6,937
Options purchased	8,238	-	-	-	8,238
Options written	7,755	-	-	-	7,755
	71,799	64,386	34,949	5,989	177,123
Foreign exchange contracts					
Over-the-counter contracts					
Forward contracts	22,908	887	37	-	23,832
Currency swaps	5,988	8,575	-	300	14,863
Options purchased	581	62	6	-	649
Options written	612	83	6	-	701
Exchange-traded contracts					
Forward contracts	1	-	-	-	1
	30,090	9,607	49	300	40,046
Other contracts[(1)]					
Over-the-counter contracts					
Swaps	-	125	47	-	172
Options purchased	2,910	8,014	9,336	50	20,310
Options written	2,772	7,620	8,053	-	18,445
Contracts traded through a clearing house					
Swaps	-	-	616	-	616
Exchange-traded contracts					
Futures	1,037	-	-	-	1,037
	6,719	15,759	18,052	50	40,580
Total derivative financial instruments	$ 108,608	$ 89,752	$ 53,050	$ 6,339	$ 257,749

(1) Include contracts related to indexed term savings products.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents comparative information on the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

As at December 31, 2017	Notional amount	Assets	Liabilities
Designated as hedging instruments			
Fair value hedges			
Interest rate contracts			
Swaps – Other	$ 17,191	$ 49	$ 262
	17,191	49	262
Foreign exchange contracts			
Forward contracts	255	2	-
Currency swaps	10,347	219	101
	10,602	221	101
Total – Fair value hedges	27,793	270	363
Cash flow hedges			
Interest rate contracts			
Swaps	9,962	55	49
Total – Cash flow hedges	9,962	55	49
Total – Designated as hedging instruments	37,755	325	412
Trading purposes			
Interest rate contracts			
Swaps traded through a clearing house	10,550	18	33
Swaps – Other	111,370	906	699
Forward rate agreements	2,258	19	7
Futures	6,937	-	-
Options purchased	10,700	3	-
Options written	8,155	-	2
	149,970	946	741
Foreign exchange contracts			
Forward contracts	23,578	165	204
Currency swaps	4,516	5	29
Options purchased	649	6	-
Options written	701	2	15
	29,444	178	248
Other contracts			
Swaps traded through a clearing house	616	13	2
Swaps – Other	172	1	1
Futures	1,037	-	-
Options purchased	20,310	1,743	-
Options written	18,445	-	1,690
	40,580	1,757	1,693
Total – Trading purposes	219,994	2,881	2,682
Total derivative financial instruments before impact of master netting agreements	$ 257,749	$ 3,206	$ 3,094
Less:			
Impact of master netting agreements[1]	-	1,312	1,312
Total derivative financial instruments after impact of master netting agreements	$ 257,749	$ 1,894	$ 1,782

[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 manner in which Desjardins Group assesses market risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, “Risk Management”, of the Management’s Discussion and Analysis.

Fair value hedges

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

Cash flow hedges

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

Effectiveness assessment and sources of hedging relationship ineffectiveness

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

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

The following tables present information on the ineffectiveness of fair value and cash flow hedges for the year ended December 31, 2018.

2018	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss(1)
Fair value hedges		
Interest rate contracts / Interest rate risk		
Over-the-counter interest rate swaps	$ 33	$ (1)
Foreign exchange contracts / Currency risk		
Over-the-counter currency swaps	570	(9)
Total – Fair value hedges	**$ 603**	**$ (10)**

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

2018	Gains (losses) on hedging instrument used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss(1)	Gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss	
				Active hedges(2)	Terminated hedges(1)
Cash flow hedges					
Interest rate contracts / Interest rate risk					
Over-the-counter interest rate swaps	$ 38	$ (2)	$ 28	$ (77)	$ 3
Total – Cash flow hedges	**$ 38**	**$ (2)**	**$ 28**	**$ (77)**	**$ 3**

(1) The hedge ineffectiveness and reclassification adjustment are recognized under “Net investment income”.
(2) The reclassification adjustment is included under “Interest income – Loans” and “Interest expense – Deposits”.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents the impact of hedge accounting on balances recognized in the Combined Balance Sheets and in accumulated other comprehensive income as at December 31, 2018.

	Cash flow hedges			Fair value hedges			
	Balance of the cash flow hedge reserve	**Balance of the reserve for discontinued hedges**	**Gains (losses) on hedged item used as the basis for calculating hedge ineffectiveness for the year**	**Carrying amount of the hedged item**	**Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item**	**Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted**	**Gains (losses) on hedged item used as the basis for calculating hedge ineffectiveness for the year**
Interest rate risk							
Assets							
Securities	**$ -**	**$ (2)**	**$ (9)**	**$ 758**	**$ -**	**$ -**	**$ 5**
Loans	**60**	**(89)**	**(8)**	**1,452**	**(12)**	**-**	**7**
Liabilities							
Deposits	**$ (20)**	**$ 65**	**$ (22)**	**$ 9,826**	**$ 92**	**$ 76**	**$ (46)**
Currency risk							
Liabilities							
Deposits	**$ -**	**$ -**	**$ -**	**$ 13,428**	**$ 16**	**$ -**	**$ (579)**

The comparative information presented in the following tables has been prepared in accordance with the disclosure requirements of IFRS 7 that were effective before January 1, 2018.

The following table presents comparative information on the ineffectiveness of fair value and cash flow hedges, namely the gross amounts related to the ineffectiveness of fair value hedges and the amounts related to the ineffectiveness of cash flow hedges that were recognized under “Net investment income” in the Combined Statement of Income for the year ended December 31, 2017.

	2017
Gains on hedged items	$ 807
Losses on derivative instruments	(823)
Fair value hedge ineffectiveness	$ (16)
Cash flow hedge ineffectiveness	$ -

The following tables present the comparative information as at December 31, 2017 on the expected date 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)

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 year ended December 31, 2017, the main hedging transactions occurred as expected.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward 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.

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, 2018				As at December 31, 2017			
	Notional amount	**Replacement cost**	**Credit risk equivalent**	**Risk-weighted balance**	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Interest rate swaps	**$ 196,924**	**$ 1,085**	**$ 1,846**	**$ 459**	$ 149,073	$ 1,028	$ 1,600	$ 415
Forward rate agreements	**3,492**	**24**	**38**	**38**	2,258	19	41	41
Futures	**13,100**	**-**	**-**	**-**	6,937	-	-	-
Options purchased	**49,794**	**2**	**5**	**2**	10,700	3	5	2
Options written	**36,746**	**-**	**-**	**-**	8,155	-	-	-
	300,056	**1,111**	**1,889**	**499**	177,123	1,050	1,646	458
Foreign exchange contracts								
Forward contracts	**29,153**	**441**	**616**	**226**	23,833	167	440	226
Currency swaps	**16,331**	**800**	**1,265**	**360**	14,863	224	736	233
Options purchased	**829**	**22**	**10**	**6**	649	6	15	10
Options written	**1,319**	**-**	**-**	**-**	701	2	3	1
	47,632	**1,263**	**1,891**	**592**	40,046	399	1,194	470
Other contracts								
Swaps	**890**	**6**	**4**	**1**	788	14	22	3
Futures	**941**	**-**	**-**	**-**	1,037	-	-	-
Options purchased	**25,475**	**1,363**	**3,342**	**1,290**	20,310	1,743	3,324	1,109
Options written	**22,617**	**-**	**-**	**-**	18,445	-	-	-
	49,923	**1,369**	**3,346**	**1,291**	40,580	1,757	3,346	1,112
Total derivative financial instruments before impact of master netting agreements	**$ 397,611**	**$ 3,743**	**$ 7,126**	**$ 2,382**	$ 257,749	$ 3,206	$ 6,186	$ 2,040
Less:								
Impact of master netting agreements(1)	**-**	**1,356**	**-**	**804**	-	1,312	-	844
Total derivative financial instruments after impact of master netting agreements	**$ 397,611**	**$ 2,387**	**$ 7,126**	**$ 1,578**	$ 257,749	$ 1,894	$ 6,186	$ 1,196

(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)*

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

	As at December 31, 2018		As at December 31, 2017	
	Replacement cost	**Risk-weighted balance**	Replacement cost	Risk-weighted balance
Credit risk rating[1]				
AAA, AA+, AA, AA-	**$ 2,402**	**$ 1,233**	$ 1,942	$ 932
A+, A, A-	**955**	**989**	1,128	824
BBB, B, BB-, BBB-	**70**	**32**	54	138
Not rated	**316**	**128**	82	146
Total	**3,743**	**2,382**	3,206	2,040
Less:				
Impact of master netting agreements[2]	**1,356**	**804**	1,312	844
Total after impact of master netting agreements	**$ 2,387**	**$ 1,578**	$ 1,894	$ 1,196
Type of counterparty				
Financial institutions	**$ 3,390**	**$ 2,246**	$ 3,041	$ 1,748
Other	**353**	**136**	165	292
Total	**3,743**	**2,382**	3,206	2,040
Less:				
Impact of master netting agreements[2]	**1,356**	**804**	1,312	844
Total after impact of master netting agreements	**$ 2,387**	**$ 1,578**	$ 1,894	$ 1,196

(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 TRANSACTIONS

Year ended December 31, 2018

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

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

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

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

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

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

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 disposed of were as follows as at the date of disposal:

	As at July 1, 2017
Net assets disposed of	
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.

NOTE 21 – 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. As of the year ended December 31, 2018, the interest is determined and approved annually by the Federation's Board of Directors. Previously, it was determined and approved annually by the general meeting of each caisse, which is held in the four months following year-end, pursuant to Desjardins Group's applicable frameworks. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval.

The Federation may issue an unlimited number of F capital shares and contingent Z-capital shares (Z 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. Z capital shares may be issued to any person in accordance with the Act, but only for converting non-viability contingent capital instruments of the Federation or at the discretion of the Federation after such conversion. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, F and Z capital shares if any, at any time. The Federation may also purchase, in whole or in part, F and Z capital shares, if any, by private agreement, at any time, with the authorization of the AMF. As of the year ended December 31, 2018, the interest rate on F and Z capital shares, if any, is determined by the Federation's Board of Directors, which approves annually the surplus earnings that may be allocated to the payment of interest on these capital shares. Previously, it was determined by the Federation's Board of Directors and the general meeting approved the surplus earnings that could be allocated to the payment of interest. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2018	As at December 31, 2017
Qualifying shares	**$ 25**	$ 25
Permanent shares	**497**	750
Surplus shares	**57**	82
F capital shares	**4,771**	4,504
	$ 5,350	$ 5,361

ISSUANCE OF SHARES

During the year ended December 31, 2018, the Federation issued 12,433,692 F capital shares for a cash consideration of $125 million. In addition, the Federation issued 14,208,755 F capital shares having a value of $142 million as interest payments when the holders elected to receive their remuneration in F capital shares.

In 2017, the Federation had issued 24,967,040 F capital shares for a cash consideration of $244 million, which represented the gross proceeds of this issuance of $250 million less certain items totalling $6 million. In addition, it had 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.

REDEMPTION OF SHARES

Permanent shares

During the year ended December 31, 2018, the AMF authorized, subject to certain conditions, the redemption for cancellation of all permanent shares.

Surplus shares

In 2014, the AMF authorized the redemption for cancellation of all surplus shares subject to certain conditions.

NOTE 22 – 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, 2018		As at December 31, 2017	
	Number of shares	**Amount**	Number of shares	Amount
Class A preferred shares	**456,700**	**$ 5**	493,200	$ 5
Class B preferred shares – Series 2000	**-**	**-**	58,700	1
Class B preferred shares – Series 2002	**-**	**-**	477,000	5
Class B preferred shares – Series 2003	**-**	**-**	752,900	7
Class C preferred shares – Series 2010	**-**	**-**	7,248,000	72
		$ 5		$ 90

During fiscal 2018, the issuer paid a dividend amounting to $3 million in the form of Class C preferred shares – Series 2010 (267,400 shares) and subsequently redeemed all Class C preferred shares – Series 2010 for an aggregate amount of $75 million. In addition, it redeemed 36,500 Class A preferred shares and all Class B preferred shares for an aggregate amount of $13 million.

During fiscal 2017, the issuer had 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 had 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.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2018		As at December 31, 2017	
	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	**N/A**	**N/A**	$ 389	$ 21
Net unrealized losses on debt securities classified as at fair value through other comprehensive income[1]	**$ (23)**	**$ (1)**	N/A	N/A
Net unrealized losses related to the overlay approach adjustment for insurance operations financial assets	**(16)**	**(2)**	N/A	N/A
Net gains on derivative financial instruments designated as cash flow hedges	**15**	**-**	55	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**1**	**-**	1	-
Accumulated other comprehensive income	**$ (23)**	**$ (3)**	$ 445	$ 21

[1] Including an allowance for credit losses of $2 million on securities classified as at fair value through other comprehensive income.

NOTE 24 – 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. Capital is managed in accordance with the Desjardins Group capital management policy approved by the Federation's Board of Directors.

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

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

Some 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. Desjardins Group monitors and manages these entities' capital requirements to ensure capital is effectively used and regulations are complied with on an ongoing basis.

BASEL III

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 is subject to an additional capital surcharge of 1% and must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively.

NOTE 24 – CAPITAL MANAGEMENT *(continued)*

The regulatory capital of 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.

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

The following table presents regulatory capital, risk-weighted assets and capital ratios.

(in millions of dollars and as a percentage)	**As at December 31, 2018**	As at December 31, 2017
Capital		
Tier 1A capital	**$ 22,412**	$ 20,985
Tier 1 capital	**22,412**	20,998
Total capital	**22,838**	21,436
Risk-weighted assets		
Credit risk	**107,082**	88,067
Market risk	**5,396**	1,965
Operational risk	**12,231**	11,850
Total risk-weighted assets before adjustments	**$ 124,709**	$ 101,882
Credit valuation adjustment (CVA) charge and transitional threshold adjustment(1)(2)	**4,765**	14,605
Total risk-weighted assets	**$ 129,474**	$ 116,487
Ratios and leverage ratio exposure		
Tier 1A capital	**17.3%**	18.0%
Tier 1 capital	**17.3**	18.0
Total capital	**17.6**	18.4
Leverage	**8.3**	8.5
Leverage ratio exposure	**$ 271,359**	$ 246,832

(1) 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 applicable to capital.
(2) The scaling factors used to take into account the requirements for the CVA charge have been phased in since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios. They were respectively 80%, 83% and 86% in 2018 (72%, 77% and 81% in 2017) and will reach 100% for each capital tier by 2019.

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, 2018, as they were in the previous year.

NOTE 25 – NET INTEREST INCOME AND NET INVESTMENT INCOME

The information presented in the following tables has been prepared in accordance with IFRS 9 for the year ended December 31, 2018 and in accordance with IAS 39 for the year ended December 31, 2017. For more information, see Note 2, "Basis of presentation and significant accounting policies".

NET INTEREST INCOME

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

For the year ended December 31	2018
Interest income on financial assets	
At amortized cost	$ 6,954
At fair value through other comprehensive income	330
At fair value through profit or loss	37
	7,321
Interest expense on financial liabilities	
At amortized cost	2,427
	$ 4,894

NET INVESTMENT INCOME

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

For the year ended December 31	2018		
	Interest income and expense	Fair value gains (losses) and other	Total
Net investment income on financial assets and liabilities			
Classified as at fair value through profit or loss	$ 430	$ (641)	$ (211)
Designated as at fair value through profit or loss	505	(446)	59
Classified as at fair value through other comprehensive income	137	(16)	121
At amortized cost and other	144	98	242
	$ 1,216	$ (1,005)	$ 211

The comparative information presented in the following tables has been prepared in accordance with IAS 39.

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 year ended December 31	2017
Income	
Net interest income	$ 40
Net investment income	(35)
	$ 5

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 year ended December 31	2017
Income	
Net interest income	$ 10
Net investment income	1,114
	$ 1,124

For the year ended December 31, 2017, net income on available-for-sale securities of $408 million was included in profit or loss under "Net investment income" in the Combined Statement of Income.

NOTE 26 – 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:

	2018	2017
Commissions	**$ 735**	$ 759
Recovery of expenses related to reinsurance	**(73)**	(133)
Professional fees	**570**	533
Business and capital taxes	**369**	325
Other employee expenses	**193**	200
Sponsorships and donations	**94**	82
Amortization of intangible assets	**89**	94
Expenses related to deposits, services and other	**81**	67
Other	**720**	691
	$ 2,778	$ 2,618

NOTE 27 – 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:

	2018	2017
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 710**	$ 504
Adjustments for current tax of prior years	**(10)**	(3)
Current tax recovery on remuneration on capital stock	**(115)**	(13)
Tax recovery on member dividends	**(68)**	(54)
	517	434
Deferred income taxes		
Origination and reversal of temporary differences	**(48)**	51
Changes in tax rates	**(1)**	(3)
	(49)	48
	$ 468	$ 482
Combined Statements of Comprehensive Income		
Current income taxes	**$ (127)**	$ 13
Deferred income taxes	**6**	(141)
	(121)	(128)
Total income tax expense	**$ 347**	$ 354

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

	2018	2017
Income taxes on surplus earnings	**$ 536**	$ 536
Tax recovery on member dividends	**(68)**	(54)
Income taxes on surplus earnings	**$ 468**	$ 482

NOTE 27 – 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:

	2018	2017
Income taxes at the combined Canadian federal and provincial statutory rate of 26.48% (26.70% in 2017)	**$ 758**	$ 718
Tax recovery on member dividends	**(68)**	(54)
Small business deduction and additional credit for credit unions	**(2)**	(2)
Non-taxable investment income and other items	**(108)**	(90)
Changes in tax rates	**(1)**	(3)
Non-deductible expenses	**11**	14
Adjustment for current tax of prior years	**(10)**	(3)
Tax recovery on remuneration on capital stock	**(115)**	(57)
Tax rate differential applicable to the gain on disposal of subsidiaries	**2**	(47)
Other	**1**	6
	$ 468	$ 482

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		**Combined Statements of Income**	
	As at December 31, 2018	As at December 31, 2017	**2018**	2017
Deferred tax assets				
Insurance contract liabilities	**$ -**	$ -	**$ -**	$ 14
Allowance for credit losses	**181**	70	**(46)**	2
Net defined benefit plan liabilities	**672**	695	**15**	(2)
Tax losses	**168**	97	**(84)**	32
Other	**148**	135	**15**	(1)
	1,169	997	**(100)**	45
Deferred tax liabilities				
Property, plant and equipment and investment property	**141**	132	**9**	(3)
Securities and other financial instruments	**21**	16	**7**	(6)
Insurance contract liabilities	**47**	12	**35**	12
	209	160	**51**	3
Net deferred income tax assets	**$ 960**	$ 837	**$ (49)**	$ 48

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, 2018	As at December 31, 2017
Deferred tax assets[1]	**$ 1,174**	$ 992
Deferred tax liabilities[1]	**214**	155
	$ 960	$ 837

[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 $21 million ($22 million as at December 31, 2017).

NOTE 28 – 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, 2018	As at December 31, 2017
Commitments		
Credit commitments	**$ 107,191**	$ 98,470
Indemnification commitments related to securities lending	**2,474**	2,024
Documentary letters of credit	**24**	7
Financial guarantees		
Guarantees and standby letters of credit	**1,196**	1,003
Credit default swaps	**537**	540

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.

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.

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

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, 2018	As at December 31, 2017
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	**$ 453**	$ 197
Securities	**19,959**	15,509
Loans	**21,623**	18,798
	42,035	34,504
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**12,506**	10,861
Less: Assets not sold or not repledged	**1,971**	1,861
	10,535	9,000
	$ 52,570	$ 43,504
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 17,235**	$ 11,948
Transactions involving commitments related to securities sold short	**10,194**	9,237
Securitization transactions	**9,921**	9,255
Covered bonds	**7,985**	6,197
Transactions on derivative financial instruments	**197**	137
Clearing systems, payment systems and depositories(1)	**4,916**	4,067
Transactions involving provisions for claims and adjustment expenses(2)	**1,917**	2,501
Caisse network money supply from the Bank of Canada	**205**	162
	$ 52,570	$ 43,504

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

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 29 – 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.

	2018	2017
Under 1 year	**$ 90**	$ 92
1 to 5 years	**251**	267
Over 5 years	**226**	287
Total minimum future commitments	**$ 567**	$ 646

Lease payments recognized as expenses for the year ended December 31, 2018 totalled $98 million ($105 million in 2017).

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:

	2018	2017
Under 1 year	**$ 83**	$ 63
1 to 5 years	**240**	188
Over 5 years	**384**	360
Total future minimum payments	**$ 707**	$ 611

No contingent rents were recognized as income for the years ended December 31, 2018 and 2017.

NOTE 30 – 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. In addition, as a result of adopting IFRS 9 on January 1, 2018, information on credit risk related to the recognition and measurement of expected credit losses are presented in these Combined Financial Statements, mainly in Note 2, “Basis of presentation and significant accounting policies”, and in Note 7, “Loans and allowance for credit losses”.

NOTE 31 – 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, 2018
Assets								
Cash and deposits with financial institutions	$ 929	$ 1,486	$ -	$ -	$ -	$ -	$ 969	$ 3,384
Effective interest rate		*2.04%*						
Securities	411	8,433	1,825	1,685	22,057	18,972	6,549	59,932
Effective interest rate		*2.30%*	*1.82%*	*2.14%*	*2.10%*	*3.60%*		
Securities borrowed or purchased under reverse repurchase agreements	-	11,934	-	-	-	-	-	11,934
Effective interest rate		*1.76%*						
Loans	47,545	25,915	18,210	26,882	67,666	3,442	850	190,510
Effective interest rate		*3.86%*	*3.52%*	*3.59%*	*3.80%*	*4.33%*		
Segregated fund assets and other assets(1)	-	-	-	-	-	-	29,705	29,705
	$ 48,885	$ 47,768	$ 20,035	$ 28,567	$ 89,723	$ 22,414	$ 38,073	$ 295,465
Liabilities and equity								
Deposits	$ 36,290	$ 29,875	$ 6,403	$ 14,300	$ 50,035	$ 2,259	$ 43,996	$ 183,158
Effective interest rate		*1.70%*	*1.73%*	*1.81%*	*1.84%*	*2.43%*		
Commitments related to securities sold short	209	101	-	39	4,968	4,968	544	10,829
Effective interest rate		*0.52%*		*1.83%*	*2.07%*	*3.27%*		
Commitments related to securities lent or sold under repurchase agreements	-	16,845	-	-	-	-	-	16,845
Effective interest rate		*1.80%*						
Insurance contract liabilities	-	-	-	-	-	-	28,740	28,740
Other liabilities(1)	5	10	-	-	-	13	29,586	29,614
Subordinated notes	-	-	-	-	879	499	-	1,378
Effective interest rate					*5.19%*	*4.95%*		
Equity	-	-	-	-	-	-	24,901	24,901
	$ 36,504	$ 46,831	$ 6,403	$ 14,339	$ 55,882	$ 7,739	$ 127,767	$ 295,465
Gap – Combined Balance Sheet items	$ 12,381	$ 937	$ 13,632	$ 14,228	$ 33,841	$ 14,675	$ (89,694)	$ -
Gap – Derivative financial instruments, based on notional amounts	-	(17,013)	(4,930)	1,406	13,881	6,656	-	-
Total gap	$ 12,381	$ (16,076)	$ 8,702	$ 15,634	$ 47,722	$ 21,331	$ (89,694)	$ -

(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 32 – 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. 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.

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, payment, 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 Wealth Management and Life and Health Insurance segment provides various categories of service offerings aimed at increasing the wealth of members and clients of Desjardins Group and helping them protect their financial security. These offerings are intended for individuals and businesses, while group insurance or savings plans meet the needs of employees through their businesses or those of individuals who are part of any other group. This segment designs several lines of life and health insurance protection and savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private management products. This segment also includes asset management for institutional clients. Its products and services are distributed through employees of the caisse network and Desjardins Business centres, financial security advisors, investment advisors, private managers, exclusive agents, independent partners, actuarial consulting firms and group plan representatives. Certain product lines are also distributed online, via applications for mobile devices and through client care centres. This segment includes the operations of Qtrade and the interest in Northwest & Ethical up to April 1, 2018, as well as the operations of the interest in Aviso Wealth since that same date.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. and Western Financial Group Inc. until its disposal by Desjardins Group on July 1, 2017. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in 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 32 – 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Net interest income	**$ 4,374**	$ 3,916	**$ 4**	$ 1	**$ -**	$ 1	**$ 516**	$ 539	**$ 4,894**	$ 4,457
Net premiums	**-**	-	**4,676**	4,406	**4,402**	3,896	**(255)**	(253)	**8,823**	8,049
Other income	**2,107**	2,205	**2,103**	2,920	**148**	292	**(765)**	(770)	**3,593**	4,647
Total income	**6,481**	6,121	**6,783**	7,327	**4,550**	4,189	**(504)**	(484)	**17,310**	17,153
Provision for credit losses	**385**	345	**(1)**	4	**-**	-	**-**	-	**384**	349
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**3,369**	4,233	**3,209**	2,555	**1**	(71)	**6,579**	6,717
Non-interest expense	**4,406**	4,305	**2,296**	2,329	**1,127**	1,099	**(344)**	(333)	**7,485**	7,400
Operating surplus earnings	**1,690**	1,471	**1,119**	761	**214**	535	**(161)**	(80)	**2,862**	2,687
Income taxes on surplus earnings	**418**	363	**225**	149	**41**	89	**(148)**	(65)	**536**	536
Surplus earnings before member dividends[(1)]	**1,272**	1,108	**894**	612	**173**	446	**(13)**	(15)	**2,326**	2,151
Member dividends, net of income tax recovery	**185**	148	**-**	-	**-**	-	**-**	-	**185**	148
Net surplus earnings for the year after member dividends	**$ 1,087**	$ 960	**$ 894**	$ 612	**$ 173**	$ 446	**$ (13)**	$ (15)	**$ 2,141**	$ 2,003
of which:										
Group's share	**$ 1,087**	$ 960	**$ 894**	$ 610	**$ 132**	$ 405	**$ (13)**	$ (15)	**$ 2,100**	$ 1,960
Non-controlling interests' share	**-**	-	**-**	2	**41**	41	**-**	-	**41**	43

(1) For the year ended December 31, 2018, the Group's share of "Surplus earnings before member dividends" was $1,272 million ($1,108 million in 2017) for the Personal and Business Services segment $894 million ($610 million in 2017) for the Wealth Management and Life and Health Insurance segment, $132 million ($405 million in 2017) for the Property and Casualty Insurance segment and $(13) million ($(15) million in 2017) 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, 2018	**$ 232,526**	**$ 41,916**	**$ 13,007**	**$ 8,016**	**$ 295,465**
As at December 31, 2017	$ 211,447	$ 42,005	$ 13,138	$ 8,505	$ 275,095

NOTE 33 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and employee benefit plans, as well as certain entities for which the substance of the relationship indicates that they are related to 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:

	2018			2017		
	Associates / Joint ventures	**Other related parties**	**Total**	Associates / Joint ventures	Other related parties	Total
Combined Statements of Income						
Investment income	**$ 4**	**$ 58**	**$ 62**	$ -	$ -	$ -
Brokerage and investment fund services	**2**	**544**	**546**	1	503	504
Other income	**12**	**135**	**147**	16	23	39
Other expenses	**(5)**	**(3)**	**(8)**	(7)	1	(6)
Combined Balance Sheets						
Securities	**$ 99**	**$ 178**	**$ 277**	$ 103	$ 316	$ 419
Securities borrowed or purchased under reverse repurchase agreements	**-**	**347**	**347**	-	676	676
Segregated fund net assets	**-**	**1,237**	**1,237**	-	1,234	1,234
Loans	**76**	**-**	**76**	65	-	65
Other assets	**23**	**72**	**95**	2	23	25
Deposits	**50**	**192**	**242**	69	334	403
Commitments related to securities lent or sold under repurchase agreements	**-**	**149**	**149**	-	50	50
Other liabilities	**1**	**19**	**20**	1	(12)	(11)
Other						
Credit commitments given	**$ -**	**$ 227**	**$ 227**	$ -	$ 198	$ 198
Guarantees given	**-**	**149**	**149**	-	50	50
Guarantees received	**-**	**347**	**347**	-	676	676

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:

	2018	2017
Short-term benefits	**$ 15**	$ 12
Other long-term and post-employment benefits	**6**	5
Termination benefits	**-**	2
	$ 21	$ 19

SIMPLE, PEOPLE-FOCUSED GOVERNANCE

The values and democratic structure of Desjardins Group (Desjardins) are central to the organization's strategic vision and initiatives. When we shape and define our strategic priorities at the Congress and general meetings, members have a voice—the directors of local and group caisses are there to represent them.

Our governance has undergone considerable change. We've updated how members participate in the democratic process, modernized caisse supervision structures and transformed regional decision-making bodies into collaborative groups committed to building closer relationships with our members and their communities. We've also introduced an enhanced group profile to help the Board of Directors (Board) achieve a balanced representation of members and boast a wide range of expertise and experience that reflect our strategic priorities of always doing what's best for our members and clients, showing our cooperative difference and harnessing the full potential of our cooperative group.

Governance highlights

In 2018, we focused on implementing the priorities identified at the 23rd Congress of Elected Officers, which took place in 2017. These priorities are all about simplifying and modernizing Desjardins's democratic governance structure. By giving local caisse directors the opportunity to weigh in on the priorities in the early stages, we were able to gain their support. While the proposed changes were being implemented, we rolled out an initiative challenging our directors, managers and employees to question our business and management practices and systems, and explore the profiles and skills we need to become everyone's #1 choice and enrich the lives of people and communities.

These are the main changes:

A. Federation governance

- We abolished the regional councils and the group caisse council and set up community collaboration groups that bring local caisses together to focus on communities. The groups are made up of one director from each caisse, young directors and general managers.
- At the network level, we abolished the Assembly of Representatives and created the Desjardins Collaboration Forum. This forum of influence, liaison and alignment brings together caisse board chairs and general managers, and young directors. Since forum directors are also members of the community collaboration groups, they know what's happening at the local level and are able to weigh in on broader issues.
- Following a three-year transition period, an enhanced group profile will be in place to ensure the Board is representative and includes members with the right skillsets. Membership will go from 22 to 20, including 15 caisse directors and two general managers who will now all be elected at Desjardins's annual general meetings, plus Desjardins's President and CEO. The Board will ensure its skills target is met by appointing two external members in April.
- Similar changes are being made to Desjardins's Board of Ethics and Professional Conduct (BEPC). It now has five members instead of eight, and membership is now based on an enhanced group profile. Members of the BEPC will also be elected at Desjardins's annual general meetings.
- To reflect Desjardins's status as a cooperative group under the *Act Respecting Financial Services Cooperatives*, the *Bylaws of the Groupe coopératif Desjardins* (group bylaws) have replaced the Federation bylaws. The group bylaws include the standard caisse bylaws which apply to all caisses.

B. A single Election Committee for electing Desjardins's President, Board directors and BEPC members

The Election Committee oversees the proper conduct of the election process for positions on the Board and the BEPC. It is also responsible for overseeing all processes for electing the President and CEO. The committee provides guidelines for the electoral process and ensures compliance with them, sets up processes that enable the electoral colleges to properly fulfill their role, and assesses the nominations according to the profile adopted by the Board and by the BEPC for the purposes of reporting at the general meeting. The Election Committee is made up of five caisse directors who are neither directors of the Federation nor members of its BEPC.

C. Election of Desjardins's President

The electoral college is now made up of one director from each caisse. This director is the person who represents the caisse on the community collaboration group and the Desjardins Collaboration Forum.

The new electoral college:

- Fosters a balance between member and caisse representation in choosing the person who will become Desjardins's President and CEO
- Ensures all caisses are involved in the election process
- Is smaller to give electors the support they need, streamline the election process and maintain confidentiality

We've redefined the eligibility criteria to better reflect the duties of the chief representative of Desjardins, and its members and clients. On top of the legal requirements that must be met to run for President of Desjardins, candidates must meet certain criteria, including being a member and client of Desjardins for at least one year and being able to demonstrate that they do regular business with Desjardins.

D. Caisse governance

We dissolved the boards of supervision and created two new mandatory committees for the Board (Audit and Professional Conduct Committee and Governance and Ethics Committee).

We updated the areas of responsibility of caisse boards of directors and the Board committees' mandate to take into account the priorities identified at the 23rd Congress. The changes are mainly related to the Board's broader role in ensuring that member needs are being met and the new caisse monitoring approach following the dissolution of the boards of supervision. Responsibility for professional conduct has been transferred to the Audit and Professional Conduct Committee and a Governance and Ethics Committee is now mandatory for Quebec caisses. Caisses can decide whether the Governance and Ethics Committee or a separate committee will be responsible for cooperation.

Enhanced group profile with representation and skills targets

Just like the Federation's Board of Directors, the caisse boards must now adopt an enhanced group profile with representation and skills targets that take into account member circumstances and needs. Since it's impossible for a single person to possess all the required skills, the group of directors as a whole must have the appropriate levels of knowledge, experience and professional expertise to carry out their responsibilities. The enhanced group profiles will be used to identify criteria for electing directors or filling Board vacancies.

Rules for electing caisse directors

From now on, the call for nominations will include the enhanced group profile criteria. Nominations will be assessed by the Nomination Committee. During the general meeting, the Chair of this committee will go over the nominations received and how well they correspond to the criteria. During the election period, the candidates will have the opportunity to explain to members why they want to be a director and demonstrate how they are a good fit for the target profile. Starting in 2019, there's a 12-year limit on caisse board Chair positions.

Mandatory training

All directors agree to take the mandatory training. If they haven't completed this training by the end of their first term, they won't be eligible for re-election.

E. Amendments to the *Act Respecting Financial Services Cooperatives*

On June 13, 2018, the National Assembly of Quebec passed Bill 141, an act to improve the regulation of the financial sector. The changes will come into force in stages. Some changes took effect on July 13, 2018, and the Federation adopted the group bylaws on December 7, 2018. We've started taking a closer look at our internal governance documents to ensure they reflect all the changes. The amended *Act Respecting Financial Services Cooperatives* now specifically recognizes the Groupe coopératif Desjardins (the Group) as a cooperative group consisting of the Federation, the Quebec caisses and the Desjardins Security Fund. It also sets out new obligations and powers that, together, formalize the financial solidarity between the entities belonging to the Group. These powers and obligations include:

- The obligation of directors of entities belonging to the Group to act not only in the interest of their own component, but also in the interest of the Group (in case of conflict, the Group's interests will prevail)
- New responsibilities for the Federation, including overseeing the Group's financial security
- New powers for the Federation and the Desjardins Security Fund to intervene in matters regarding caisses and their directors and managers

The financial solidarity established under the act allows us to take a holistic approach to managing the capitalization of entities belonging to the Group. The Federation is now also responsible for overseeing the caisses' financial performance in areas that have an impact on Desjardins's capitalization, such as surplus earnings, growth and the payment of dividends.

The amended *Act Respecting Financial Services Cooperatives* provides a modern legislative framework that meets the highest international standards and that allows Desjardins to quickly and effectively respond to member and client needs, continue to grow and ensure the organization's long-term success.

Governance structure

The purpose of Desjardins'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 the Desjardins-wide governance structure, which takes into account Desjardins's cooperative nature, its social responsibility objectives, the complexity of its activities, and Autorité des marchés financiers (AMF) guidelines. This structure covers the activities of the Federation, the Desjardins Security Fund, the Fédération des caisses populaires de l'Ontario Inc., the Desjardins subsidiaries and the caisses. As certain components are subject to specific laws and regulations, the structure largely complies with rules established by the Canadian Securities Administrators (CSA) and the Office of the Superintendent of Financial Institutions, as well as industry best practices.

Mandate of the Board of Directors

1. Administration of the Federation

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Board is responsible for managing the affairs of the Federation, with support from its commissions and committees. It ensures that the necessary mechanisms and structures are in place for it to play its role as the organization that guides, plans, coordinates, monitors and controls all Desjardins operations. As part of its fiduciary role, it makes the necessary decisions and coordinates the components' actions to ensure Desjardins'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 is responsible for promoting the corporate culture based on Desjardins's values: money at the service of human development, democratic action, personal commitment, integrity and rigour in the cooperative enterprise, and solidarity with the community and intercooperation, with a view to earning the trust of the public and ensuring members and clients have confidence in their financial services cooperative. The Board is also responsible for enforcing Desjardins's rules of professional conduct.

At the heart of this ever-evolving culture is the strategic framework defined by the Board, which is based on Desjardins's purpose: *At Desjardins, we enrich the lives of people and communities through our members and clients*. All our decision-making and actions are guided by our goal of becoming everyone's #1 choice by doing what's best for our members and clients.

The Federation has a Board of Ethics and Professional Conduct (BEPC) whose members are all independent from management and from the Board of Directors (Board). For Desjardins caisses in Quebec, responsibility for ethics and professional conduct is assumed by an Audit and Professional Conduct Committee and a Governance and Ethics Committee made up of caisse directors. For caisses in Ontario, this responsibility is assumed by an Audit Committee made up of caisse directors. Desjardins also has a policy for reporting regulatory violations and violations of Desjardins's *Code of Professional Conduct*. This policy is combined with a confidential reporting mechanism that protects the anonymity of those who use it.

Desjardins's *Code of Professional Conduct*, which is available to the public on Desjardins.com, is applicable to all Desjardins components. It includes a section on ethics and Desjardins's mission and values, and a section that describes all the rules of professional conduct. All Desjardins employees and directors and members of the BEPC must sign an annual acknowledgement that they have read and agree to uphold the Code.

b. Strategic and financial planning process

The Board has an ongoing strategic and financial planning process for Desjardins that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. This process is the basis for all other plans (for the caisse network, business sectors and support functions) and focuses on maintaining continuity, setting priorities and fostering commitment. The Board adopts a rolling strategic plan that is updated periodically, with input from the caisses, Desjardins's democratic bodies and business sectors, as well as the decision-making bodies of its subsidiaries.

The respective boards of directors of Desjardins Financial Security Life Assurance Company, Desjardins General Insurance Group Inc., Desjardins Securities Inc., Desjardins Capital Inc. and Desjardins Trust Inc. adopt their own strategic and financial plan that is in line with Desjardins's strategic and financial plan, but specific to their own sector.

Desjardins is unique in that the strategic planning process occasionally calls on the Congress, which is an assembly of more than 1,000 caisse delegates. Mechanisms are in place to ensure that all components are aligned with key strategic directions.

The Board plays a supervisory and monitoring role in this process, with support from the Desjardins Group Management Committee (DGMC). The DGMC produces regular reports via the performance review so the Board can monitor the progress made on Desjardins's strategic plan and the business plans, and make changes as needed.

c. Identification and management of main risks

The Board is responsible for identifying the main risks facing Desjardins, 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 (RMC), the Board works with the Audit and Inspection Commission (AIC), which is responsible for risks related to the financial disclosure process. The DGMC also supports the Board in carrying out its financial disclosure responsibilities. All RMC sessions include closed-door meetings with the Risk Management Executive Division, as well as closed-door meetings which are not attended by management.

A detailed presentation of the risk management principles applied at Desjardins Group can be found in the Risk Management section of the Management's Discussion and Analysis on page 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 Desjardins's website at www.desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp. Additional information specifically about the RMC and its governance practices can also be found there.

d. Succession planning

The Board oversees the senior management succession and development program 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 DGMC, as it promotes personal development, supports succession planning, and helps protect the organization against human resources-related risks.

Talent development, succession planning and hiring processes promote professional qualification and diversity among Desjardins staff.

President and CEO

In keeping with Desjardins's cooperative nature, the President and CEO of Desjardins is chosen by an electoral college made up of representatives from all Quebec and Ontario caisses. Although the Board does not have the power to appoint the President and CEO, it does have a role to play in succession planning, mainly through the senior management succession program and skills development for directors at local caisses, subsidiaries or the Federation.

The electoral process is governed by the group bylaws and Desjardins's *Code of Professional Conduct* and is overseen by an Election Committee made up of directors who are independent from the Board and the BEPC, whose responsibility is to establish the rules of the electoral process and the rules of conduct applicable to the electoral college, candidates, employees and directors from local caisses. There is a two-term limit for the position of President and CEO of Desjardins. In addition to these parameters, the Board also establishes the profile for the position 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 COO

To bolster independence, stability and succession planning, the Board approves the appointment of the Senior Executive Vice-President and COO who assumes, for the purposes of the law and the group bylaws, the role of general manager of the Federation. The Senior Executive Vice-President and COO also recommends a working organizational structure for Federation and Desjardins senior executives to the President and CEO.

e. Integrity of internal control and management reporting systems

The Board, backed by its Audit and Inspection Commission (AIC), ensures the implementation of effective control systems and obtains the required reporting information from management. The Board is supported in this responsibility by Desjardins's Chief Monitoring Officer, whose annual work plan is approved by the AIC. A rigorous financial governance process is applied throughout Desjardins to properly support the Executive Vice-President of Finance, Treasury and Administration and CFO who, together with Desjardins's President and CEO, is responsible for certifying Desjardins's Combined Financial Statements.

Desjardins discloses financial information in compliance with CSA *National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*. Desjardins is not, on a combined basis, a reporting issuer according to the National Instrument. However, it has elected to comply with the National Instrument to show its willingness to observe best practices in financial governance. Under Desjardins'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 boards of directors with reasonable assurance that the network is achieving its business objectives in compliance with regulatory requirements.

The Board ensures that the DGMC provides the Board and its commissions and committees with information that is accurate, timely and adapted to the specific needs of its directors so they can take advantage of business opportunities and measure the risks involved. Board members are invited to assess the quality of documents used in the decision-making process.

The Board benefits from the information used by each business sector to effectively monitor key performance indicators, as it allows its members to quickly obtain strategic information pertinent to the decision-making process.

Board members receive financial and operating reports at least quarterly so they can assess Desjardins's situation and the status of the Federation's projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of this information.

To effectively carry out its duties, the Board holds regular meetings on a predetermined schedule. Board members receive the meeting agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process. The Board constantly seeks to increase its efficiency and focus its efforts on strategic issues by optimizing meeting agendas and by delegating certain operational responsibilities to the DGMC.

Directors have access to technological tools so they can easily and securely access all meeting-related documentation and management guidelines for Desjardins's operations. They are required to comply with Desjardins's information security policy.

f. Strategic communications

The Board adopts a communications policy and strategic communications priorities for Desjardins, in line with the Desjardins Group strategic plan, including actions to be taken and targets. The Federation also draws up internal and external communications plans or strategies in order to better manage its relations with the caisses and their members; the business sectors and their clients; its employees; socio-economic, community and non-governmental organizations; opinion makers; the public; the media; rating agencies; and the government. It ensures consistent, quality communications across Desjardins, helps promote Desjardins's cooperative difference, contributes to the promotion, development and growth of the Desjardins brand; and listens to internal and external audiences.

The Federation oversees the financial reporting process and the disclosure of any major changes that may affect Desjardins's financial position. It uses different teams and various channels to communicate effectively with its stakeholders.

These teams and channels include: the Office of the Ombudsman, the Desjardins ethics and professional conduct support team and the caisse complaint-handling procedure (*Your Satisfaction, Our Priority*); as well as, within Desjardins: the annual general meetings, the disclosure of quarterly financial results, publications (including our annual report, 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 directors), the website (which includes information on the Co-opme Program on education, cooperation and dialogue with our members and clients, as well as a Member Relations section), the Federation's member services, the procedure for reporting violations of Desjardins's *Code of Professional Conduct* and other regulatory instruments, newsletters, and social media (Facebook, YouTube, LinkedIn, Twitter, etc.).

In addition, the Federation maintains relations with international rating agencies and coordinates Desjardins's relationships with the different levels of government in compliance with applicable lobbying legislation.

2. Composition of the board of directors

The Federation's Board consists of 20 members, the majority of whom are independent directors. There are 15 representatives from the caisse network, two caisse general managers, two external directors and the President and CEO, who is also Chair of the Board. The changes to the Board's membership, which came into effect on December 7, 2018, provide a transition period to allow members of the Board, directors and managing directors in office at the time to finish their terms. The Board's managing director seats are currently filled by the vice-presidents of two regional councils (Outaouais, Abitibi-Témiscamingue and Nord du Québec; and Bas-Saint-Laurent and Gaspésie–Îles-de-la-Madeleine). With the regional councils being dissolved, these two managing directors will remain Board members until their respective terms end. As was the case with their previous positions on the Board, they do not have voting rights.

Additionally, the following members of management support the Board by attending its meetings: the Senior Executive Vice-President and COO; the Executive Vice-President, Finance, Treasury and Administration and CFO; the Secretary General and Vice-President, Governance and Sustainable Development; and the Vice-President, President's Office, Cooperation and Director Support.

3. Nomination process

In accordance with Desjardins's democratic structure and the principle of delegation, the 15 members of the Board and the two general managers, who are all from the caisse network, are elected by the delegates of the Federation member caisses during the annual general meeting. The Federation therefore benefits from having directors who have in-depth knowledge of their community and the activities of Desjardins yet remain independent from management. Their knowledge of the organization is one of the considerable advantages of Desjardins's democratic structure. Having two caisse general managers sit on the Board also helps ensure that the priorities adopted and implemented by the Board reflect the caisses' needs and priorities.

The two external directors, who are neither caisse directors nor general managers, are appointed by the Board for a one-year term renewable for up to 12 years.

The final position is reserved for the President and CEO of Desjardins.

Board members have three-year renewable terms, and each year one-third of the Board members are outgoing. Federation directors and members of the BEPC are subject to a limit of four three-year terms, consecutive or not.

Board membership is also based on an enhanced group profile, in accordance with the group bylaws. The Board adopts and updates, as needed, this enhanced group profile, which it strives to achieve, and which takes into account the following criteria: skills related to the individual qualities required to be a member of the Board; representation from diverse communities, members and clients, and the caisse network; skills relevant to the reality of a regulated cooperative financial institution and skills relevant to Desjardins's strategic priorities. The Federation has designed tools to help electors understand what is expected of directors, so they can make an informed choice.

Desjardins has a voluntary gender parity commitment for the boards of directors of its caisses, subsidiaries and the Federation. Parity is taken into account when selecting members of boards and subsidiaries. At the caisse and Federation levels, each board has an enhanced group profile that addresses parity. An Election Committee oversees the electoral process and helps the Federation's Board of Directors in achieving group profiles. However, achieving parity, at both the caisse and Federation levels, is ultimately dependent on the electoral process inherent to Desjardins's democratic structure.

4. Application of independent director

A director is considered independent if they do not have any significant relationship with Desjardins that, in the opinion of the Board, may affect the independence of their judgment.

There are three non-independent members of the Board of Directors: Desjardins's President and CEO, plus two caisse general managers. The President and CEO is a non-independent party because they are a member of Federation management, and the caisse general managers are non-independent parties because they are employees of cooperatives belonging to Desjardins (the caisses). The directors do not have any business or personal relationships with members of the DGMC; nor do they have any interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of the Groupe coopératif Desjardins, or any interests of any other nature which, in the opinion of the Board, could reasonably be perceived as harmful. As a result, the members of the Board, both individually and collectively, are able to exercise objective and impartial judgment on Desjardins business free of undue influence from senior management or third parties.

For guidance in these matters, the Board refers to the provisions of Desjardins's *Code of Professional Conduct*, which governs the actions of its directors, and to the declarations of interests filed annually by the directors. None of the directors sits on the board of directors of a public company.

Independent directors

In the opinion of the Board, and in accordance with CSA *National Instrument 52-110 – Audit Committees* and the AMF *Governance Guideline*, the following directors are independent:

- Louis Babineau
- Claude Chapdelaine
- Stéphane Corbeil
- André Grenier
- Jean-François Laporte
- Camil Maltais
- Serge Rousseau
- Michel Tourangeau
- Yvon Vinet
- Annie P. Bélanger
- Carole Chevalier
- Michel Doré
- Nadine Groulx
- Jean-Robert Laporte
- Roch Ouellet
- Mario Simard
- Stéphane Trottier

Michel Doré's and André Grenier's terms began on March 24, 2018.
Christian Savard's and Serge Tourangeau's terms ended on March 24, 2018.
Michel Allard and Pierre Perras are managing directors. They are independent in the same way directors are independent.

Non-independent directors

In the opinion of the Board, and in accordance with CSA *National Instrument 52-110 – Audit Committees* and the AMF *Governance Guideline*, the following directors are not independent:

- Guy Cormier
- Benoît Bélanger
- Neil Hawthorn

Sylvain Dessureault's term ended on September 9, 2018, and Yves Genest's term ended on December 31, 2018.

5. Performance reviews and director skills

Performance reviews

The Board and its commissions and committees conduct a review of their performance every two years. A two-year action plan based on these performance reviews is then submitted to the Board by the Corporate Governance Commission (CGC), which oversees the plan.

This exercise is accompanied by individual meetings between each director and the Chair of the Board. These meetings, whether formal or not, are intended to enhance the performance of decision-making bodies and each director's contribution. Directors have regular meetings with the Chair throughout the year.

Director skills

The Board has adopted an enhanced group profile with criteria to help elect members of the Board at the general meeting. The profile also guides the disclosure of how well the membership of the Federation's board lines up with these criteria.

Moreover, on the recommendation of its CGC and in accordance with the AMF *Guideline Governing Integrity and Competency Criteria*, the Board performs a self-assessment of the skills of its members. Every two years, each member completes a self-assessment grid for this purpose. The results are used to establish the skills development plan.

The matrix below shows that the members of the Federation's Board collectively possess a wide range of experience and complementary skills that enable them to make an active and enlightened contribution to Desjardins's governance. The new enhanced group profile adopted by the Board in 2018 and this matrix were reviewed together and the results show what the Board needs to focus on to gradually achieve this profile. This voluntary disclosure will evolve over time. The weighting for self-assessments is determined by the Chair and Vice-Chair of the Board and presented to the CGC.

Directors	Financial institution skills that meet AMF requirements							Strategic planning skills					Expertise recognized by a professional title and relevant experience					Representation									
																		Sex				Community[2]			Network[3]		
	Financial services market	Cooperation	Business and distribution model	Risk management	Entrepreneurship/Economic sectors	Education	Sustainable development	Doing what's best for our members and clients	Member and client experience	Digital innovation and IT management	Insurance market	Canadian market	Accounting and finance	Law	Human resources	Actuarial services	Governance	Male	Female	Age	Cultural community[1]	Urban	Semi-urban	Rural	Large caisse	Medium caisse	Small caisse
Allard, Michel		✔		✔				✔	✔	✔								✔		63			✔				✔
Babineau, Louis	✔	✔		✔		✔	✔	✔	✔	✔			✔				✔	✔		60		✔			✔		
Bélanger, Annie P.		✔				✔	✔	✔	✔		✔	✔			✔		✔		✔	70				✔			✔
Bélanger, Benoît	✔	✔	✔	✔	✔			✔	✔				✔		✔			✔		48			✔		✔		
Chapdelaine, Claude	✔	✔	✔		✔	✔		✔	✔	✔					✔			✔		65		✔				✔	
Chevalier, Carole		✔				✔	✔	✔	✔						✔		✔		✔	61		✔			✔		
Corbeil, Stéphane		✔		✔	✔			✔	✔			✔	✔					✔		52		✔				✔	
Cormier, Guy	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔		✔		✔	✔		49		✔			[redacted]		
Dessureault, Sylvain[4]	✔	✔	✔	✔	✔	✔		✔	✔				✔		✔			✔		58		✔				✔	
Doré, Michel		✔						✔	✔				✔		✔			✔		55				✔			GC[5]
Genest, Yves[6]	✔	✔	✔	✔	✔	✔	✔	✔	✔				✔		✔			✔		61				✔		✔	
Grenier, André		✔			✔	✔		✔	✔									✔		55				✔		✔	

[1] Director from a cultural community
[2] Based on Statistics Canada's classification:
- Urban: Caisse located in a census metropolitan area
- Semi-urban: Caisse located in a census agglomeration
- Rural: Caisse located in an agglomeration with less than 10,000 persons that is not contiguous with an urban or semi-urban centre

[3] Small caisse: 1 to 15,000 members; Medium caisse: 15,001 to 35,000 members; Large caisse: Over 35,000 members; and Group caisse
[4] Term ended on September 9, 2018
[5] GC = Group caisse
[6] Term ended on December 31, 2018

Directors	Financial institution skills that meet AMF requirements							Strategic planning skills					Expertise recognized by a professional title and relevant experience					Representation									
	Financial services market	Cooperation	Business and distribution model	Risk management	Entrepreneurship/Economic sectors	Education	Sustainable development	Doing what's best for our members and clients	Member and client experience	Digital innovation and IT management	Insurance market	Canadian market	Accounting and finance	Law	Human resources	Actuarial services	Governance	Sex		Age	Cultural community[1]	Community[2]			Network[3]		
																		Male	Female			Urban	Semi-urban	Rural	Large caisse	Medium caisse	Small caisse
Groulx, Nadine		✔			✔	✔		✔	✔								✔		✔	47				✔		✔	
Hawthorn, Neil	✔	✔	✔	✔	✔			✔	✔	✔		✔	✔		✔			✔		56		✔			✔		
Laporte, Jean-François		✔		✔				✔	✔		✔	✔	✔		✔			✔		59				✔		✔	
Laporte, Jean-Robert	✔	✔		✔		✔		✔	✔		✔	✔		✔	✔		✔	✔		68			✔		✔		
Maltais, Camil		✔			✔			✔	✔									✔		55				✔			✔
Ouellet, Roch		✔						✔	✔									✔		68				✔		✔	
Perras, Pierre		✔						✔	✔				✔					✔		61		✔				✔	
Rousseau, Serge		✔		✔		✔		✔	✔						✔		✔	✔		52			✔			✔	
Simard, Mario		✔				✔		✔	✔				✔		✔			✔		60		✔				✔	
Tourangeau, Michel		✔						✔	✔		✔			✔			✔	✔		62		✔			✔		
Trottier, Stéphane	✔	✔			✔	✔		✔	✔		✔	✔						✔		53		✔				✔	
Vinet, Yvon	✔	✔				✔		✔	✔		✔	✔		✔	✔		✔	✔		59			✔		✔		
TOTAL / 24 =	10	24	6	11	11	14	5	24	24	5	7	8	11	3	14	0	9	21	3	n/a	0	11	5	8	7	12	4

6. Onboarding and training program for new Federation directors and BEPC members

The Federation organizes onboarding and training programs for all its directors and members of the Board of Ethics and Professional Conduct (BEPC). It develops individual and group knowledge acquisition and enhancement activities, so Board and BEPC members can learn more about the various aspects of their roles and responsibilities. All new directors and members of the BEPC attend orientation sessions where they meet with members of management and receive a reference manual containing all the information they need to carry out their duties. Onboarding sessions are held to ensure effective and efficient integration of new members of Board commissions and committees.

The training program for Board and BEPC members is based on needs identified through their skills self-assessments. The CGC reviews these needs and creates a two-year skills development program for both boards. The Board also holds conferences on specific topics related to strategic planning and the associated challenges. These conferences, which are also attended by members of the DGMC, prove to be intensive skills development opportunities for Board members.

7. Compensation policy for Federation directors and BEPC members

The Board reviews, whenever it deems it necessary and at least every three years, its policy on the compensation of Federation directors and BEPC members. It receives recommendations from the CGC, which keeps a close eye on industry developments. The policy's compensation rates are consistent with those of comparable cooperative organizations in Quebec, Canada and Europe.

The policy includes guidelines for calculating the compensation for caisse directors, Federation directors, Federation BEPC members and subsidiary directors. The policy was reviewed and came into effect on July 1, 2018.

In accordance with the *Act Respecting Financial Services Cooperatives*, the total budget for the payment of attendance fees to directors and BEPC members is authorized by the Federation's general meeting. The total compensation budget (annual stipends plus attendance fees) is reported to the general meeting. The general meeting receives a report on changes to the compensation budget every year. The total budget for 2018 was $2,880,500, the same as in 2017.

The policy's compensation rates can be found on page 243 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 management: the President and CEO of Desjardins, who is also a director elected by an electoral college made up of representatives from all caisses. Since the President and CEO does not select the members of the Board, its legitimacy and independence are ensured.

- The Vice-Chair of the Board, an independent director, presides over the Board's meetings, playing the role of lead director, when the issues being discussed require the recusal of the President and CEO. The group bylaws specify that the Vice-Chair of the Board replaces the Chair when the latter is unable to act, such as when the Chair is in a real or perceived conflict of interest. Descriptions of the positions of Vice-Chair and Secretary of the Board are attached to the governance policy adopted by the Board.

- The directors hold periodic informal meetings among themselves. The Chair of the Board and CEO of Desjardins provides updates to the members of the DGMC, who are not present at these meetings. Both independent and non-independent directors attend these meetings, given that the discussions pertain to matters that do not bear any risk of conflict of interest for the non-independent directors.

- Closed-door sessions not attended by management (except for the Chair of the Board and CEO) are held at the end of each meeting of the Board and of the Executive Committee. The same is true for Board commissions and committees.

- Once a year, the Board holds a closed-door meeting with the BEPC.

- Closed-door sessions not attended by the President and CEO are held with the individuals in independent oversight functions, namely the Executive Vice-President, Finance, Treasury and Administration and CFO; the Executive Vice-President, Risk Management; the Chief Monitoring Officer of Desjardins; and the Vice-President and Chief Compliance Officer.

- The Corporate Governance Commission (CGC), the Audit and Inspection Commission (AIC) and the Risk Management Commission (RMC) are chaired by independent directors.

- The CGC, 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 and the DGMC
  - Ensuring that the Board fulfills its duties (however, the responsibility of drawing up and overseeing meeting agendas for the Board and its commissions/committees falls to the Chair of the Board and is subject to the process for assessing the performance of governing bodies).

- Only independent directors serve on the CAR.

- The division of responsibilities between the Board and the DGMC is formally documented in the group bylaws, the governance policy and the mandates of these two governing bodies, which define their respective areas of activity.

- The members of the Human Resources Commission (HRC) and the Committee on the Aggregate Remuneration of the President and CEO of Desjardins Group (CAR) are supported, when needed, by an external consultant when dealing with issues involving the aggregate remuneration of senior management.

Position against separating the functions of Chair of the Board from those of CEO

The responsibilities of Desjardins's President and CEO are set out in the group bylaws. The functions of Desjardins's Chair of the Board and CEO are concurrent. This decision, which was made by the Federation's general meeting and reaffirmed in 2018, has been integrated into its bylaws.

At the 23rd Congress held in the fall of 2017, caisse delegates adopted a priority confirming that the roles of Desjardins's Chair of the Board and CEO should be held by the same person. The priority was integrated into the group bylaws. Considering the fact that risk management for Desjardins's leadership transition process is the responsibility of the Federation's Board, the bylaws also allow for the following: when someone new assumes this role, it happens promptly and there is a structured transition process lasting up to six months, under the Board's supervision.

The main reasons for making the responsibilities concurrent are:

- The CEO is elected by an electoral college made up of a representative from each caisse. This individual's primary responsibility is to ensure the group is always doing what's best for members and clients, the group's interests are protected, democratic bodies are functioning properly and cooperative values are respected.

- The Chair of the Board and CEO has no influence over the choice of directors, who are elected at the annual general meeting. Their observations are used to select the two external directors; however, the Board of Directors has decision-making powers, on the recommendation of the CGC, which is chaired by the lead director (who is an independent director). The Chair of the Board and CEO also has no influence on the selection of BEPC members.

- The Board created the CAR, which is chaired by the lead director (Vice-Chair of the Board) and made up entirely of independent directors, to eliminate any risk of conflict of interest. CAR meetings are closed-door. The committee also holds working sessions with the Board of Directors, which the President and CEO does not attend.

- Owing to the complex nature of Desjardins's management structure and activities, and to the expectations of regulators and the general public, it is essential that the Chair of the Board be thoroughly familiar with the activities, business and projects of both the Federation and Desjardins in order to effectively act as a leader for the democratic and decision-making bodies, the management teams of the Desjardins subsidiaries and employees.

- Desjardins's structure frees its President and CEO from the everyday operational concerns of the Federation and Desjardins. This person can therefore focus on other areas, such as: managing Desjardins; defining, developing and overseeing the implementation of key strategic directions; listening to members and clients; overseeing development, innovation and governance; engaging people; and representing Desjardins as a socio-economic leader.

- With a view to freeing the President and CEO from such responsibilities, the Senior Executive Vice-President and COO oversees all Desjardins business sectors and support functions.

9. Senior management reviews

a. Setting annual management objectives and performance reviews

President and CEO

The annual objectives of Desjardins's President and CEO are recommended to the Board by the CAR. The CAR is chaired by the lead director in accordance with the established independence standards. The President and CEO is not present for the committee's deliberations.

The degree to which these objectives are achieved is measured through a year-end review process. The CAR supervises the performance review of Desjardins's President and CEO and sets out how Board members participate in the process.

Senior Executive Vice-President and COO

The annual objectives of the Senior Executive Vice-President and COO are set by the Board, on the recommendation of the President and CEO.

Executive vice-presidents on the DGMC

The objectives of the executive vice-presidents on the DGMC are set by the President and CEO and the Senior Executive Vice-President and COO, and provided to the Board for information purposes.

b. Variable compensation evaluation

President and CEO

The compensation paid to the President and CEO of Desjardins is determined by an evaluation of the annual objectives by the Board of Directors and the results of certain indicators in the general incentive plan.

Senior Executive Vice-President and COO and executive vice-presidents on the DGMC

The Board has established guidelines for setting objectives for the various indicators to ensure sound management of Desjardins's general incentive plan. The results are reviewed by the HRC and approved by the Board.

10. External consultants

A director may require the Board to retain the services of an external consultant at the Federation's expense. However, to ensure that such services are relevant, a request must be submitted to the CGC.

Mandates and membership of the Federation's commissions, committees and BEPC

As at December 31, 2018

The Board of Directors (Board) creates committees and commissions and defines their mandates in order to support and streamline its guidance, planning, monitoring and control activities. These commissions and committees are made up entirely or almost entirely of independent parties. At the end of each meeting, these commissions and committees hold closed-door sessions which members of management do not attend, except for the Chair of the Board and CEO (unless this individual's recusal is necessary for independence reasons). The composition and mandate of these commissions and committees are reviewed annually. Any work carried out by a commission or committee is documented in a 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. A double asterisk (**) indicates that the person is also a managing director.

EXECUTIVE COMMITTEE

This committee has the same functions and powers as the board, with the exception of those which the Board may reserve for itself or assign to another committee or commission. It held 8 meetings, including 5 conference calls, in 2018.

The Executive Committee is composed of seven directors:

- Guy Cormier, Chair of the Board and Chair of the Committee
- Serge Rousseau*, Vice-Chair of the Board
- Jean-Robert Laporte*, Secretary of the Board
- Annie P. Bélanger*
- Carole Chevalier*
- Neil Hawthorn(i)
- Yvon Vinet*

(i) Term began on March 24, 2018

Yves Genest was a member until March 24, 2018.

COOPERATION AND NETWORK LIAISON COMMISSION

This commission assists the Board with issues related to Desjardins's cooperative culture and the relationship between the Federation's governing bodies and the caisse network. The commission ensures the effective and efficient implementation of mechanisms for collaboration, participation and connection with the network. In addition, it examines Desjardins's Social and Cooperative Responsibility Report and recommends its adoption to the Board. It also makes recommendations to the Board, if need be. It held 6 meetings, including 1 conference call, in 2018.

The Cooperation and Network Liaison Commission is composed of six directors:

- Nadine Groulx*, Chair
- Michel Allard*/**
- Benoît Bélanger
- Claude Chapdelaine*
- André Grenier*(i)
- Camil Maltais*(i)

(i) Terms began on May 15, 2018

Mario Simard* and Pierre Perras*/** were members until May 15, 2018.
Sylvain Dessureault was a member until September 9, 2018.
Yves Genest was a member until December 31, 2018.

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 to give its members a clear understanding of their oversight duties. It reviews all financial information, supervises the required reporting activities and plays a lead role in overseeing financial disclosure controls and assessing their accuracy. The AIC has a direct line of communication with the Desjardins Group Monitoring Office (DGMO), which oversees the internal audit of the Desjardins subsidiaries and components and the inspections of the Quebec and Ontario caisses. It also has a line of communication with the external auditors, should the need arise to discuss and review any issues.

The DGMO provides independent opinions on the management of the caisses. Through its inspections, it monitors the risks associated with network activities and determines whether these risks are being managed according to sound and prudent practices and in compliance with applicable legislation, regulations, standards and rules of conduct. The AIC ensures the independence of Desjardins's internal audit function and adopts its annual action plan. It held 7 meetings, including 1 conference call, in 2018.

The AIC is composed of five directors:

- Louis Babineau*, Chair
- Michel Doré*(i)
- Pierre Perras*/**(i)
- Mario Simard*(i)
- Michel Tourangeau*

(i) Terms began on May 15, 2018

Serge Tourangeau* was a member until March 24, 2018.
Stéphane Corbeil* and Jean-François Laporte* were members until May 15, 2018.
Jean-François Laporte*, Michel Magnan and Robert Saint-Aubin sit on the AIC as observers.

RISK MANAGEMENT COMMISSION

The Risk Management Commission (RMC) is main role is to assist the Board with overall strategies and directions for risk management. It ensures the implementation of an integrated risk management framework, standards and policies that establish the rules for accepting, monitoring, managing and reporting the material risks that Desjardins is exposed to. The commission also monitors compliance with Desjardins's risk appetite framework and examines the steps that need to be taken when established limits have been exceeded. It held 8 meetings, including 1 conference call, in 2018.

The RMC is composed of five directors:

- Jean-François Laporte*(i) Chair
- André Grenier*(i)
- Camil Maltais*
- Roch Ouellet*
- Stéphane Trottier*

(i) Terms began on May 15, 2018

Christian Savard* and Serge Tourangeau* were members until March 24, 2018.
Stéphane Corbeil* was a member until May 15, 2018.
Louis Babineau*, Benoît Bélanger, Claudia Champagne and Sonia Gauthier sit on the RMC as observers.

HUMAN RESOURCES COMMISSION

The Human Resources Commission (HRC) supports the Board in the following areas: governance and risk management of issues relating to human resources and overall compensation across Desjardins; creation and maintenance of the integration and skills development program for general managers, managers and employees; the senior management succession plan; creation and maintenance of the profile of general managers, managers and employees; annual salary recommendations, including incentive plans; the group insurance plan; changes to the pension plan; union relations; the management structure, etc. The mandate of the HRC does not include the terms of employment for the President and CEO. It held 7 meetings, including 2 conference calls, in 2018.

The HRC is composed of five directors:

- Guy Cormier, Chair of the Board and Chair of the Commission
- Serge Rousseau*(i), Vice-Chair of the Board
- Jean-Robert Laporte*, Secretary of the Board
- Carole Chevalier*
- Mario Simard*

(i) Terms began on May 15, 2018

Annie P. Bélanger* and Yvon Vinet* were members until May 15, 2018.

COMMITTEE ON THE AGGREGATE REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

This committee, whose members are all independent directors, is mandated to make recommendations to the Board regarding the President and CEO's remuneration, working conditions, annual objectives and performance review. It held 3 meetings in 2018.

The CAR is composed of four directors:

- Serge Rousseau*(i), Vice-Chair of the Board and Chair of the Committee
- Jean-Robert Laporte*, Secretary of the Board(i)
- Carole Chevalier*(i)
- Mario Simard*

(i) Terms began on May 15, 2018

Annie P. Bélanger* and Yvon Vinet* were members until May 15, 2018.

CORPORATE GOVERNANCE COMMISSION

The Corporate Governance Commission (CGC) supports the Board in applying and updating Desjardins's corporate governance framework and policy. The CGC examines guidelines and reports issued by regulatory authorities. It also assists the Board in applying its enhanced group profile. The CGC oversees the selection process for the directors of Desjardins's subsidiaries, the performance review program for members of the Board and its commissions and committees, as well as the integration and skills development program for Federation directors. It also administers various policies, including the policy on the compensation of directors and BEPC members and the policy on Desjardins's commitment to sustainable development. It held 10 meetings, including 5 conference calls, in 2018.

The CGC is composed of five directors:

- Serge Rousseau*, Vice-Chair of the Board and Chair of the Commission(i)
- Annie P. Bélanger*(i)
- Guy Cormier, Chair of the Board
- Nadine Groulx*
- Camil Maltais*(i)

(i) Terms began on May 15, 2018

Christian Savard* was a member until March 24, 2018.
Carole Chevalier* and Yvon Vinet* were members until May 15, 2018.

DESJARDINS GROUP INVESTMENT COMMISSION

The Investment Commission (IC) is role is to monitor the markets and develop an integrated overview to provide a Desjardins-wide framework for portfolio positioning and asset distribution. The IC also follows up on strategies and directions and acts as an advisory body. The commission's activities complement—but do not overlap—the RMC and Desjardins's various other investment committees. It held 4 meetings in 2018.

The IC is composed of five directors:

- Carole Chevalier*, Chair
- Benoît Bélanger(i)
- Stéphane Corbeil*(i)
- Neil Hawthorn
- Stéphane Trottier*

(i) Terms began on May 15, 2018

Robert J. Boucher and Normand Provost sit on the IC as observers.
Yves Genest and Camil Maltais* were members until May 15, 2018.
Sylvain Dessureault was a member until September 9, 2018.

ELECTION COMMITTEE

This committee oversees the proper conduct of the election process for positions on the Board and BEPC. It's also responsible for overseeing all processes for electing the President and CEO. The committee provides guidelines for the electoral process and ensures compliance with them, sets up processes that enable the electoral college to properly fulfill its role and assesses the nominations received based on the enhanced group profile adopted by the Board. The committee also establishes any other measures or rules necessary for the electoral process to run properly and makes any other decisions regarding the process. The Election Committee was formed when the Federation bylaws were adopted on September 25, 2018, and committee members assumed their roles on December 7, 2018. While the committee is not composed of directors, it is accountable to the Board. The committee met for the first time on December 19, 2018.

The Election Committee is composed of five caisse directors who are neither Federation directors nor BEPC members:

- Lorraine Bédard, Chair
- Marie-Claude Beaudin, Vice-Chair
- Érik Asselin
- Marie Caron
- Marc Lemieux

DESJARDINS GROUP RETIREMENT COMMITTEE

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the *Desjardins Group Pension Plan Regulation*, the Retirement Committee (DGRC) is in charge of administering the Desjardins Group Pension Plan (DGPP), managing the pension fund and paying members and their survivors the benefits they are entitled to. The committee members, who represent employers, active members, non-active members and beneficiaries, share the role of trustee for the pension fund. It held four meetings in 2018.

The Federation assumes the responsibilities of the DGPP's sponsor. The Federation's Board has decision-making powers in certain areas, including the *Desjardins Group Pension Plan Regulation*, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. The Federation stands surety for the obligations (payment of benefits) resulting from the participation of all Desjardins employers in the DGPP.

The DGRC is composed of 14 members: six employer representatives (including the Chair), four who represent active members, three who represent non-active members and beneficiaries, and one external member. The employer representatives and the external member are appointed by the Federation's Board, and those who represent active members, non-active members and beneficiaries are elected. The DGRC's governance structure will be changing in 2019 as a result of the new governance structure adopted in late 2018. It held 4 meetings in 2018.

Employer representatives:

- Yvon Vinet*, Chair*(i)
- Michel Allard*/**
- Claude Chapdelaine*
- Stéphane Corbeil*(i)
- Roch Ouellet*
- Pierre Perras*/**

(i) Terms began on May 15, 2018

Christian Savard* was a member until March 24, 2018.
Serge Rousseau* was a member until May 15, 2018.

Active member representatives:

- Robert Bastien
- Vincent Coulombe(i)
- Dominique Laurin
- Julie Tremblay

(i) Term began on March 23, 2018

David Gingras was a member until March 23, 2018.

External member:

- Marc Saint-Pierre

Non-active member and beneficiary representatives:

- Michel-Pierre Bergeron: member selected by retirees, beneficiaries and members entitled to a deferred pension
- Mario Lévesque: observer selected by active members
- Robert Desbiens: observer selected by retirees, beneficiaries and members 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 committee approves investments and ensures they are monitored. It held 12 meetings, including six conference calls and three videoconferences, in 2018. The committee's membership and mandate will be changing in 2019 as a result of the new governance structure adopted in late 2018.

The DGRC Investment Committee is composed of eight members:

- Yvon Vinet*(i), Chair
- Michel Allard*/**
- Robert Bastien
- Claude Chapdelaine*
- Stéphane Corbeil*(i)
- Pierre Perras*/**
- Marc Saint-Pierre, external member
- Nicolas Richard, observer

(i) Terms began on May 15, 2018

Christian Savard* was a member until March 24, 2018.
Serge Rousseau* was a member until May 15, 2018.

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 RCIC. It held nine meetings, including five conference calls and four videoconferences, in 2018. The committee's membership and mandate will be changing in 2019 as a result of the new governance structure adopted in late 2018.

The DGRC Risk Management Advisory Committee is composed of six members:

- Renaud Coulombe, Vice-President, Legal Affairs, Desjardins Group
- Marie-Claude Desroches, Manager, Credit Analysis, Investments, Desjardins Group
- François Hudon, Director, Liability Management, Asset Allocation and Risk, Desjardins Group Pension Plan
- 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 DGRC

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Federation has a Board of Ethics and Professional Conduct (BEPC) that is independent from its Board of Directors (Board). Five members are directors of local caisses. The BEPC is supported by a team that reports to the Office of the Secretariat General and Governance and Sustainable Development Division, which enables it to organize education and training activities and provide advisory services.

One of the main responsibilities of the BEPC is to ensure the independence and objectivity of the Federation's inspection service for the caisses (DGMO) and make recommendations to the Board regarding the appointment of the person responsible for managing this service. In addition to the above-mentioned responsibilities, the BEPC's role includes adopting the rules of conduct applicable to the directors of Desjardins and its subsidiaries and to the employees of the Federation and the caisses; presenting these rules for approval to the Board and ensuring the caisses and the Federation comply with them; supporting the caisses and the Federation in applying the rules of conduct; issuing advice, observations and recommendations on ethical and professional conduct issues (Desjardins's mission and values), particularly in cases of misconduct; notifying the Board of violations of the rules of professional conduct or of violations by the Federation of the *Act Respecting Financial Services Cooperatives* or the regulations governing restricted party transactions and conflicts of interest; and ensuring that complaints about the Federation originating from the caisses or other Federation members (holding companies or subsidiaries) are addressed. Members of the BEPC and directors attend meetings with AMF representatives. In 2018, the BEPC made changes to Desjardins's *Code of Professional Conduct* that were approved by the Federation's Board. The BEPC holds closed-door meetings that are not attended by management.

The BEPC held seven meetings, including three conference calls, in 2018. Its members were also invited to attend the annual conference of the Réseau d'éthique organisationnelle du Québec.

The BEPC is composed of five members:

- Michel Guénette, Chair
- Normand Gingras
- Maryse Lapierre
- Ronald Pichette
- Michel Yelle

Michel C. Bélisle, Lucie Tremblay and Roger Turcotte were members until December 7, 2018.

DESJARDINS GROUP MANAGEMENT COMMITTEE

This committee supports the President and CEO and the Board in their responsibility of managing Desjardins. The Desjardins Group Management Committee (DGMC) helps the Board incorporate the strategic directions of the cooperative network, business sectors and support functions and implement business development strategies. It also oversees operations in accordance with the rules and requirements set by the Board and other Desjardins governing bodies. The DGMC is responsible for operational files with economic, environmental and social significance that have an impact on Desjardins. It held 21 meetings, including 1 conference call, in 2018.

The DGMC is composed of 11 members of management, including four women (36%):

- **Guy Cormier**
  President and CEO of Desjardins
- **Denis Berthiaume**
  Senior Executive Vice-President and COO
- **Réal Bellemare**
  Executive Vice-President, Finance, Treasury and Administration and CFO
- **Marie-Claude Boisvert**
  Executive Vice-President, Business Services
- **Francine Champoux**
  Executive Vice-President, Risk Management
- **Gregory 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 Vice-President, President's Office, Cooperation and Director Support, always attends DGMC meetings.

DGMC members are deemed to be Federation managers within the meaning of section 93 of the *Act Respecting Financial Services Cooperatives*. The following individuals are also considered Federation managers:

- Daniel Dupuis, Chief Monitoring Officer, Desjardins Group
- Sylvain Perreault, Vice-President and Chief Compliance Officer
- Renaud Coulombe, Vice-President and Chief Legal Officer
- Isabelle Garon, Vice-President, President's Office, Cooperation and Director Support
- Pauline D'Amboise, Secretary General and Vice-President Governance and Sustainable Development

The DGMC has Desjardins-wide coordination committees in the following areas:

- Disclosure
- Environmental, social and governance issues
- Finance and risk management
- Development planning and follow-up

DIRECTOR COMPENSATION

Certain Desjardins components, namely the Federation and Desjardins Capital Inc., are subject to obligations regarding the disclosure of director compensation. As required by CSA *National Instrument 51-102 Respecting Continuous Disclosure Obligations*, the compensation of directors from these components is presented in the Federation's Annual Information Form and the disclosure document filed by Desjardins Capital 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, Desjardins Technology Group Inc. and Desjardins Trust Inc., and the members of the board of ethics and professional conduct of the Federation

	Federation (1)	*Subsidiaries*
Chair of the Board of Directors (2)	$0 This position is held by the President and CEO of Desjardins	$11,500
Annual stipend for the Chair of a commission or committee of the Board of Directors (3)	$7,400 (not including the AIC)	$7,500
Additional annual stipend for the Chair of the AIC	$14,800	N/A
Annual stipend for the Vice-Chair of the Board of Directors	$22,800	N/A
Annual stipend for a member of the Board of Directors (4)	$51,500	$11,500
Annual stipend for a member of a commission or a committee of the Board of Directors (5)	$2,300	$2,300
Additional annual stipend for a member of the AIC	$2,300	$2,300 (Audit and Risk Management Committee)
Attendance fee for a meeting of the Board of Directors	$1,375 (daily maximum)	$1,400 (daily maximum)
Attendance fee for a meeting of a commission or committee of the Board of Directors (6)	$1,375 (daily maximum) $685 (per half-day)	$1,400 (daily maximum) $700 (per half-day)
Conference call	$230	$230
Attendance fee for a meeting of the Board of Ethics and Professional Conduct or the Professional Conduct Committee (7)	$2,750 (for the Chair) $1,375 (for members)	$700 (per half-day)

*** The compensation rates were updated in 2018 further to the review of the policy on the compensation of directors and BEPC members and changes to the organization's governance structure.

N/A: Not applicable

(1) The director compensation indicated for the Federation includes, where applicable, the portion paid to members of the Board to also serve as directors for Desjardins Trust Inc. and Desjardins Technology Group Inc.
(2) The position of Chair of the boards of directors of the following subsidiaries is held by a member of the Federation's Board: Développement international Desjardins, Desjardins General Insurance Group Inc., Desjardins Financial Security Life Assurance Company and Desjardins Financial Corporation Inc.
(3) The attendance fee is doubled in lieu of the annual stipend for the Chairs of commissions or committees that hold fewer than four meetings per year, except for the Chair of the CAR.
(4) The stipend paid to the two managing directors is $35,800.
(5) A member's annual stipend is paid regardless of the number of commissions or committees they sit on for the Federation, Desjardins Trust Inc. or Desjardins Technology Group Inc. In other words, a single stipend is paid for all positions held for all three entities.
(6) The maximum daily attendance fee for the Federation, Desjardins Trust Inc. and Desjardins Technology Group Inc. is $1,375, regardless of the number of board of directors, commission or committee meetings a member attends in a single day. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Federation's Board may invite any caisse director to sit on any of its committees. The Board determines the compensation to be paid based on the nature of the responsibilities entrusted to the caisse director and the compensation schedule. General managers who sit on the Board or on a commission or committee do not receive an attendance fee.
(7) This represents the fee for full-day meetings of the Federation's BEPC. The fee for half-day meetings is $1,375 for the Chair and $685 for members.

Director compensation

The compensation paid to each member in 2018 for the duties they assume as directors of the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc., Desjardins Capital Inc. or for other duties listed below is detailed as follows:

	Compensation received as a director of the Federation, Desjardins Technology Group Inc., Desjardins Trust Inc. and Desjardins Capital Inc.(9)		Other fees(1)		
Name	**Attendance fees**	**Annual stipend**	**Attendance fees**	**Annual stipend**	**2018 TOTAL**
Allard, Michel*	$36,264.99	$40,125.00	$9,240.00	$10,000.00	$95,629.99
Babineau, Louis	$46,217.61	$68,301.00	$2,232.40	$24,276.00	$141,027.01
Bélanger, Annie P. (Chair of the Board, DID)(2)	$40,346.57	$51,401.00	$16,178.43	$50,650.00	$158,576.00
Bélanger, Benoît	$1,200.00	$40,151.00	$0	$0	$41,351.00
Chapdelaine, Claude	$35,834.99	$51,401.00	$0	$10,000.00	$97,235.99
Chevalier, Carole	$43,214.92	$58,351.00	$1,750.09	$10,747.00	$114,063.01
Corbeil, Stéphane	$39,355.37	$51,401.00	$604,62	$9,972.21	$101,333.20
Cormier, Guy (Chair of the Board, DSF)(2)(4)	N/A	N/A	N/A	N/A	N/A
Dessureault, Sylvain(7)	$900.00	$24,462.31	$0	$0	$25,362.31
Doré, Michel(3)	$29,595.94	$40,980.72	$1,374.04	$3,514.89	$75,465.59
Genest, Yves(8)	$1,200.00	$41,300.00	$0	$3,000.00	$45,500.00
Grenier, André(3)	$32,989.99	$39,830.72	$0	$0	$72,820.71
Groulx, Nadine	$41,324.99	$55,931.56	$0	$0	$97,256.55
Hawthorn, Neil	$1,400.00	$40,151.00	$0	$11,050.00	$52,601.00
Laporte, Jean-François	$45,410.36	$61,612.12	$604.62	$1,847.22	$109,474.32
Laporte, Jean-Robert (Chair of the Board, DGAG)(2)	$42,052.76	$51,401.00	$20,172.25	$41,970.00	$155,596.01
Maltais, Camil	$45,274.99	$51,401.00	$0	$0	$96,675.99
Ouellet, Roch	$38,384.99	$51,401.00	$0	$7,500.00	$97,285.99
Perras, Pierre*	$38,315.94	$41,275.00	$554.04	$13,514.89	$93,659.97
Rousseau, Serge(6)	$39,768.66	$81,356.82	$1,456.35	$21,212.50	$143,794.33
Savard, Christian(5)	$18,300.00	$11,148.88	$200.00	$2 275.28	$31,924.16
Simard, Mario (Chair of the Board, FSD)(2)	$43,325.94	$54,952.39	$10,774.04	$7,027.78	$116,080.15
Tourangeau, Michel	$40,378.82	$52,551.00	$1,036.16	$5,376.00	$99,341.98
Tourangeau, Serge(5)	$16,780.00	$14,106.74	$720.00	$1,137.64	$32,744.38
Trottier, Stéphane	$43,784.99	$51,401.00	$3,800.00	$12,500.00	$111,485.99
Vinet, Yvon	$42,397.92	$61,602.95	$1,832.09	$27,025.00	$132,857.96
Total	$804,020.74	$1,187,997.21	$72,529.13	$274,596.41	$2,327,893.49

N/A: Not applicable

* Managing director

(1) Amounts received for chairing the board of a subsidiary, sitting on the DGRC or the RCIC, sitting on the board of directors of Desjardins Financial Corporation Inc., Desjardins Capital Inc., Desjardins Security Fund, Desjardins Technology Group Inc., Desjardins Shared Services Group Inc. and contributing to other ad hoc committees.
(2) Développement international Desjardins, Desjardins General Insurance Group Inc., Desjardins Financial Security Life Assurance Company and Desjardins Security Fund.
(3) Term began on March 24, 2018.
(4) Desjardins's President and CEO does not receive any compensation for the position of Chair of the boards of directors of the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc., Desjardins Capital Inc., Desjardins General Insurance Group and Desjardins Financial Security.
(5) Christian Savard's and Serge Tourangeau's terms ended on March 24, 2018.
(6) Serge Rousseau receives compensation for his roles as Vice-Chair of the Board, Chair of the CGC and Chair of the CAR.
(7) Sylvain Dessureault was a member until September 9, 2018.
(8) Yves Genest was a member until December 31, 2018.
(9) These amounts include fees paid for regional council and group caisses council meetings (these councils were abolished on September 25, 2018)

Compensation of members of the Federation's board of ethics and professional conduct

Name	Attendance fees
Belisle, Michel C., Secretary	$6,805.00
Guénette, Michel, Chair	$11,770.00
Gingras, Normand	$6,345.00
Lapierre, Maryse	$6,345.00
Pichette, Ronald	$6,345.00
Tremblay, Lucie	$5,660.00
Turcotte, Roger	$6,345.00
Yelle, Michel	$6,245.00

Michel C. Bélisle, Lucie Tremblay and Roger Turcotte were members until December 7, 2018.

Record of attendance for Federation directors

Name	BoD	BoD conf. calls	EC	CNLC	AIC	RMC	HRC	CAR	CGC	IC	DGRC	RCIC
Allard, Michel*/**	14/14	4/5		6/6							4/4	12/12
Babineau, Louis*	14/14	5/5			7/7	8/8						
Bélanger, Annie P.*	13/14	3/5	8/8				3/3	2/2	5/6			
Bélanger, Benoît	14/14	5/5		4/4		8/8				3/3		
Chapdelaine, Claude*	14/14	4/5		6/6							4/4	12/12
Chevalier, Carole*	14/14	4/5	8/8				4/4	1/1	4/4	4/4		
Corbeil, Stéphane*	14/14	5/5			3/3	4/4				3/3	3/3	6/7
Cormier, Guy	14/14	5/5	8/8				7/7		10/10			
Dessureault, Sylvain	9/11	3/3		4/4						1/2		
Doré, Michel*	9/9	3/3			3/4							
Genest, Yves	10/14	3/5	1/1	2/4	1/4					1/1		
Grenier, André*	9/9	3/3		4/4		4/4						
Groulx, Nadine*	14/14	5/5		6/6					10/10			
Hawthorn, Neil	14/14	4/5	7/7		3/3					4/4		
Laporte, Jean-François*	14/14	5/5			6/7	4/4						
Laporte, Jean-Robert*	14/14	4/5	8/8				6/7	3/3				
Maltais, Camil*	14/14	5/5		4/4		8/8			6/6	1/1		
Ouellet, Roch*	13/14	4/5				8/8					4/4	
Perras, Pierre*/**	14/14	5/5		2/2	3/4						4/4	11/12
Rousseau, Serge*	14/14	5/5	8/8				4/4	1/1	8/8		1/1	4/4
Savard, Christian*	5/5	2/2				3/3			2/2		1/1	2/3
Simard, Mario*	14/14	5/5		2/2	4/4		7/7	3/3				
Tourangeau, Michel*	14/14	5/5			7/7							
Tourangeau, Serge*	5/5	2/2			2/2	3/3						
Trottier, Stéphane*	14/14	5/5				8/8				4/4		
Vinet, Yvon*	14/14	5/5	8/8				3/3	2/2	4/4		3/3	7/7

BoD = Board of Directors, EC = Executive Committee, CNLC = Cooperation and Network Liaison Commission, AIC = Audit and Inspection Commission, RMC = Risk Management Commission, HRC = Human Resources Commission, CAR = Committee on the Aggregate Remuneration of the President and CEO of Desjardins, CGC = Corporate Governance Commission, IC = Desjardins Group Investment Commission, DGRC = Desjardins Group Retirement Committee and RCIC = Desjardins Group Retirement Committee Investment Committee

Note: In the above table, when the name of a director is followed by an asterisk (*), it means that the person is an independent director. A double asterisk (**) indicates that the person is also a managing director.

The Board held 14 meetings over 22 days and 5 conference calls, in 2018. The Board may invite any caisse director to sit on any of its committees. The Board determines the compensation to be paid based on the nature of the responsibilities entrusted to them and the compensation schedule. Directors may be absent for professional or personal reasons, but justification is required in all instances.

Record of attendance for the members of the Federation's Board of Ethics and Professional Conduct

Name	Number of meetings
Bélisle, Michel C., secrétaire	7/7
Guénette, Michel, président	5/7
Gingras, Normand	7/7
Lapierre, Maryse	7/7
Pichette, Ronald	7/7
Tremblay, Lucie	6/7
Turcotte, Roger	7/7
Yelle, Michel	7/7

Michel C. Bélisle, Lucie Tremblay and Roger Turcotte were members until December 7, 2018.

Main components and subsidiaries[1]

As at December 31, 2018

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, Desjardins Group's financial agent on the Canadian and international markets and payment solution and credit card issuance
DESJARDINS CAPITAL INC.	Capital issuances on financial markets and financing for the Desjardins caisses
COLLABRIA FINANCIAL SERVICES INC.	Payment solution and credit card issuance
DESJARDINS FINANCIAL SERVICES FIRM INC.	Mutual fund brokerage and financial planning services
DESJARDINS CAPITAL MANAGEMENT INC.	Development and venture capital fund management
DESJARDINS FINANCIAL HOLDING INC.	Holding company
Zag Bank	Financial institution
Desjardins Financial Corporation Inc.	Holding company
Desjardins Global Asset Management Inc.	Asset management
Desjardins General Insurance Group Inc.	Property and casualty insurance
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.	Asset custody and trust services
Desjardins Investment Management Inc.	Investment management
Desjardins Technology Group Inc.	Development, maintenance and modernization of Desjardins Group technology
Aviso Wealth	Wealth management company held in equal shares by Desjardins Group and the partnership between five provincial credit union centrals and CUMIS Group
Desjardins Securities Inc.	Securities brokerage
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 2018 Management's Discussion and Analysis.

Glossary

Acceptance

Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

Allowance for credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Amortized cost

For a financial asset or a financial liability, represents the historical cost at initial recognition, decreased or increased by amortization and any differences that made it fluctuate from initial recognition to maturity.

Annuity premium

Amount invested by a policyholder in order to receive annuity payments, immediately or after an accumulation period.

Assets under administration

Assets administered by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of such assets are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions. Assets 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, for the reinsurance program retention.

  - Natural catastrophes can take many forms and include, but are not limited to, hurricanes, tornados, windstorms, hailstorms, heavy rainfalls, ice storms, floods, extreme weather conditions and wildfires.
  - Catastrophes other than natural catastrophes include, but are not limited to, terrorist acts, riots, explosions, crashes, train wrecks, large-scale cyber attacks.
- Notable event

  In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the impact on the loss ratio and claims frequency is deemed significant by Desjardins Group's management.

Commercial mortgage-backed security

Security created through the securitization of a pool of commercial mortgage loans.

Commitment

- Direct commitment

  Any agreement entered into by a Desjardins Group component with a natural or legal person creating a on- or off-balance sheet exposure, either disbursed or non-disbursed, revocable or irrevocable, with or without condition, that may lead to losses for the component if the debtor is unable to meet its obligations.

- Indirect commitment

  Any financial receivable creating a credit exposure that is acquired by a Desjardins Group component in connection with a purchase on the market or the delivery of a financial asset pledged as collateral by a client or a counterparty, whose value may change in particular as a result of the deterioration of the creditworthiness of the counterparty associated to this receivable or changes in market prices.

Counterparty and issuer risk

Credit risk related to different types of securities, derivative financial instruments and securities lending transactions.

Covered bond

Full recourse on-balance sheet bond issued by a financial institution and secured by assets, comprised mainly of mortgage loans, over which investors enjoy a priority claim in the event of an issuer's insolvency or bankruptcy. These assets are separated from the issuer's assets in the event of the issuer's insolvency or bankruptcy and belong to a bankruptcy remote structured entity that guarantees the bond.

Credit commitment

Unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit, whose primary purpose is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Credit-impaired loan

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated cash flows of that financial asset have occurred or when contractual payments are 90 days past due.

Credit instrument

Credit facility offered in the form of a loan or other financing vehicle recognized in the 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 or social risk
Risk that the impact of an environmental event or a social issue in connection with Desjardins Group's operations or its financing, investing or insurance activities could result in financial losses or damage Desjardins Group's reputation.

Exposure at default
Estimate of the amount of a given exposure at time of default. For balance sheet exposures, it corresponds to the balance as at observation time. For off-balance sheet exposures, it includes an estimate of additional draws that may be made between observation time and default.

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.

Incremental risk charge (IRC)
Additional capital charge related to default and migration risks of positions with issuer risk in trading portfolios.

Indemnification commitment related to securities lending
Commitment made to 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.

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 insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance risk

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

Insurance sales

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to annualized gross new premiums under group and individual insurance policies.

Internal Model Method

Approach used to calculate, with internal models, risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on different risk measures, such as Value at Risk, stressed Value at Risk and the incremental risk charge (IRC).

Internal Ratings-Based Approach

Approach under which risk weighing is based on the type of counterparty (individuals, small or medium-sized business, large corporation, etc.) and risk-weighting factors determined using internal parameters: the borrower's probability of default, loss given default, effective maturity and exposure at default.

Large loss

In property and casualty insurance, single claim having a significant cost.

Legal and regulatory risk

Risk associated with the non-compliance by Desjardins Group with obligations arising from the interpretation or application of a legislative or regulatory provision or a contractual commitment, which could have an impact on the conduct of its operations, its reputation, its strategies and its financial objectives.

Leverage ratio

Ratio calculated as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items.

Liquidity coverage ratio

Basel III metric representing a liquidity standard that measures the sufficiency of high quality liquid assets available to face net short-term financial obligations over a 30 day period in an acute liquidity stress scenario.

Liquidity risk

Risk related to Desjardins Group's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the 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 reduce risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

Member dividend

As a cooperative financial group, Desjardins Group distributes to its members a portion of its surplus earnings for a given year, taking into account its financial capacity. This distribution, called member dividend, is paid by the caisses and tailored to each member based on the use they make of their cooperative's financial services.

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.

Off-balance sheet exposure

Includes guarantees, commitments, derivatives and other contractual agreements whose total notional amount may not recognized on the balance sheet.

Office of the Superintendent of Financial Institutions (OSFI)

Organization whose mission is to enforce all laws governing the financial industry in Canada, particularly as concerns banks, insurance companies, trust companies, loan companies, cooperative credit associations, fraternal companies and private pension plans subject to federal oversight.

Operational risk

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

Option

Contractual agreement that grants the right, but not the obligation, to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

Other retail client exposures

In accordance with the regulatory capital framework, risk category that includes all loans granted to individuals except for exposures related to residential mortgage loans and qualifying revolving retail client exposures.

Pension plan

Contract under which participants receive retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made either by the employer alone or by both the employer and the participants.

Pension plan risk

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

Permanent share or capital share

Equity security offered to Desjardins caisse members.

Price risk

Risk of potential loss resulting from a change in the market value of assets (shares, commodities, real estate properties, index-based assets) but not resulting from a change in interest or foreign exchange rates or in the credit quality of a counterparty.

Probability of default

Probability that a borrower defaults on his obligations over a period of one year.

Qualifying revolving retail client exposures

In accordance with the regulatory capital framework, risk category that includes credit card loans and unsecured credit margins granted to individuals.

Regulatory capital

In accordance with the definition set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, the regulatory capital under Basel III comprises Tier 1A capital, Tier 1 capital and Tier 2 capital. The composition of these various tiers is presented in the "Capital management" section of the Management's Discussion and Analysis.

Regulatory funds

Funds needed to cover unexpected losses, calculated according to parameters and methods prescribed by regulatory authorities.

Reinstatement premium

Premium payable to restore the original reinsurance coverage limit that has been reduced by the occurrence of a catastrophe. Reinstatement premiums are recognized in net premiums.

Reinsurance treaty

Agreement whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the treaty, the original insurer remains fully liable to its policyholders for the insurance obligations.

Repurchase agreement

Agreement involving both the sale of securities for cash and the repurchase of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Reputation risk

Risk that a negative perception by the stakeholders, whether or not justified, of Desjardins Group's practices, actions or lack of action could have an unfavourable impact 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.

Scaling factor

Adjustment representing 6.0% of assets valuated according to the Internal Ratings-Based Approach, applied to credit exposures in compliance with section 1.3 of the AMF guideline on the capital adequacy standards applicable to financial services cooperatives.

Securitization

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities and transferred to a trust.

Security borrowed or purchased

Security typically borrowed or purchased to cover a short position. The borrowing or purchase usually requires that an asset, taking the form 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. Segregated funds are comprised of investment funds with capital guaranteed upon death or at maturity.

Segregated fund deposits

Amounts paid by annuity contract holders in order to invest in segregated funds. Individual annuity contracts provide for a guarantee of the principal on death or at maturity.

Standardized Approach

- Credit risk

  Default approach used to calculate risk-weighted assets. Under this method, the financial institution uses valuations performed by external credit assessment institutions recognized by the AMF to determine the risk-weighting factors related to the various exposure categories.
- Market risk

  Default approach used to calculate risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on predefined rules such as those on the size and nature of the financial instruments held.
- Operational risk

  Risk measurement approach used to assess the capital charge for operational risk. For this measurement, activities are divided into predefined business lines for a financial institution. The capital charge is calculated by multiplying each business line's gross income by a specific factor. The total capital charge represents the three-year average of the summation of the capital charges across each of the business lines in each year.

Strategic risk

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

Stressed Value at Risk (VaR)

Value calculated in the same way as the Value at Risk, except for the historical data used, which are for a one-year stress period.

Structural interest rate risk

Risk related to the potential impact of interest rate fluctuations on net interest income and the economic value of equity.

Structured entity

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

Subordinated note

Unsecured note whose repayment in the event of liquidation is subordinated to the prior repayment of certain other creditors.

Subsidiary

Company controlled by the *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.

Unused exposure

Amount of credit authorizations offered in the form of margins or loans that is not yet used.

Used exposure

Amount of funds invested in or advanced to a member or client.

Value at Risk (VaR)

Estimate of the potential loss over a certain period of time at a given confidence level, calculated using historical data for a one-year interval.

Written premiums

In life and health insurance, insurance or annuity premiums for the policies or certificates issue during the year.


Desjardins