ADVANTAGES FOR EVERYONE

ADVANTAGES FOR ME

2013 ANNUAL REPORT

DESJARDINS GROUP

Desjardins

Cooperating in building the future

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This Annual Report was produced by the Desjardins Group Marketing, Member-Client Experience and Communications Executive Division (Graphic Design Department) and the Finance Executive Division and Office of the CFO (Finance Division).

MESSAGE FROM THE PRESIDENT

OUR STRONG PERFORMANCE IS GOOD NEWS FOR OUR GROWTH AMBITIONS

2013 was a big year for Desjardins Group. It was a year of significant achievements and solid results. Our surplus earnings exceeded expectations, ending the year at $1.5 billion. Our operating income grew by nearly 6%. Assets were up 7.7%, standing at $212 billion.

As at December 31, 2013, our Tier 1a capital and total capital ratios stood at 15.7% and 18.4%—some of the best capital ratios in the Canadian financial industry. Our financial position was also reinforced by support from caisse members, who acquired the last of our $1.5 billion in capital shares in 2013, bringing our first share issue to a close.

STAYING ON TRACK WITH SERVICE, GROWTH AND EFFICIENCY

Throughout the year, we kept our efforts focused on our three key strategic priorities: service, growth and efficiency.

Our biggest motivation remains the satisfaction of our members and clients. As part of our efforts to continually improve our services, we've been looking for new ways to demonstrate the Desjardins advantage. Some of the concrete advantages we introduced this year include the exclusive Travel Assistance and Identity Theft Assistance services we provide our caisse members free of charge.

BRANCHING OUT AND OPENING UP NEW TERRITORY

We continued our efforts to improve our efficiency and bolster our growth. 2013 was an eventful year in terms of acquisitions and new partnerships, and thanks to these efforts, the future looks promising.

Firstly, we signed a partnership agreement with B.C.based credit union Coast Capital, and our subsidiary Western Financial Group acquired Coast Capital Insurance Services. We also acquired a 40% interest in Qtrade Financial Group, which provides wealth management services to credit union members across Canada. And as part of our cooperative agreement with Crédit Mutuel, we launched Monetico International, which we hope to make a world leader in the global payment solutions industry.

Finally, we began 2014 by announcing our planned acquisition of the Canadian operations of mutual insurer State Farm, the largest property and casualty insurer in the U.S. The deal is expected to close in January 2015 and will position Desjardins as the second largest P&C insurer in Canada.

REMAINING COMMITTED TO SOCIAL RESPONSIBILITY AND DEMOCRATIC GOVERNANCE

As we pursue our ambitions, we remain committed to socially responsible business practices.

In 2013, more than $250 million was returned to our members and reinvested in our communities. We introduced new financial education initiatives for students and young adults. The caisses and the Desjardins Foundation handed out $3.5 million in awards and scholarships.

In April, our 21st Congress drew together nearly 1,200 elected caisse officers. One of the decisions to come out of the meeting was a commitment to ensure that the diversity of our members is better reflected in our decision-making processes.

FOCUSING ON GROWTH FOR THE BENEFIT OF INDIVIDUALS AND COMMUNITIES

Everything we accomplished in 2013 would not have been possible without the hard work and unwavering commitment of our elected officers, our managers and our employees. My sincere thanks to all of you.

I also want to thank all our members and clients for their continued support.

As Desjardins continues to grow, it's good news for each of us as individuals. A stronger Desjardins means a stronger financial partner to help us carry out our personal goals.

It's also good for our communities. As one of the largest cooperative financial groups in the world, Desjardins contributes positively to the economy and our society. That's something everyone can benefit from.

Monique F. Leroux, C.M., O.Q., FCPA, FCA
Chair of the Board, President and
Chief Executive Officer of Desjardins Group

2013 HIGHLIGHTS

As at December 31, 2013

MORE THAN 6 MILLION MEMBERS AND CLIENTS

5,106 ELECTED OFFICERS

45,219 EMPLOYEES

$81 MILLION IN DONATIONS AND SPONSORSHIPS

In Quebec and Ontario:

376 CAISSES

864 SERVICE OUTLETS

2,270 ATMs

44 BUSINESS CENTRES

We also offer financial and insurance services outside the caisse network at approximately

400 LOCATIONS across canada

$212 BILLION IN ASSETS

$1,530 MILLION IN SURPLUS EARNINGS

TIER 1a CAPITAL RATIO OF 15.7%

OPERATING INCOME OF $11,951 MILLION

13TH STRONGEST FINANCIAL INSTITUTION IN THE WORLD

On October 1, 2013, ***Bloomberg News*** **ranked Desjardins 13th on its list of the World's 20 Strongest Banks,** ahead of all U.S. banks that made the list.

FOURTH SAFEST FINANCIAL INSTITUTION IN NORTH AMERICA

Desjardins took **fourth place on the annual list of the World's 50 Safest Banks,** ahead of all U.S. financial institutions that made the list.

ONE OF THE 50 BEST CORPORATE CITIZENS IN CANADA

Toronto-based *Corporate Knights Magazine* ranked Desjardins **eighth on its list of the 50 Best Corporate Citizens in Canada.**

ONE OF THE WORLD'S MOST SUSTAINABLE COOPERATIVES

Desjardins was ranked the **world's third most sustainable cooperative** by *Corporate Knights Magazine.*

ONE OF CANADA'S TOP EMPLOYERS

For a second year in a row, Desjardins Group was recognized as one of **Canada's Top 100 Employers** by MediaCorp Canada.

MEMBER AND CLIENT ADVANTAGES

HELPING OUR MEMBERS FIND THE RIGHT FEE PLAN: THE FIRST SERVICE OF ITS KIND IN THE INDUSTRY

With the Select a plan feature on AccèsD, Desjardins members can use their transaction histories to find out if there's a better plan for them.

- Since it was launched, some 27,000 members have used this feature.

EASILY ACCESSIBLE SAVINGS PRODUCTS

A new range of online savings products are available exclusively to AccèsD users:

- High Interest S@vings Account
- Term S@vings (available for three- to five-year terms)

Members can also count on the expertise of our financial planners and advisors to help develop a financial plan or get advice about more complex products.

MEMBER-EXCLUSIVE ASSISTANCE SERVICES AT NO CHARGE

A Canadian first: We provide all our individual members with access to identity theft and travel assistance services, at no cost.

Identity Theft Assistance helps restore the identity of members whose personal information has been stolen or used fraudulently. Travel Assistance helps members deal with medical emergencies or other problems while they're travelling in Canada or abroad, and also provides pre-trip advisory services.

SECURE FUND TRANSFERS

Available on the AccèsD website and mobile app, Interac e-Transfers are an easy way for members to transfer funds in Canadian dollars to anyone with an account at any financial institution in Canada. All they need is the recipient's email address or mobile number.

As at December 31, 2013, Desjardins members:

- Sent 196,000 transfers
- Received 185,000 transfers

EASIER INTER-CAISSE WITHDRAWALS

Starting in 2013, members can now withdraw up to $5,000 from any Desjardins caisse provided they use their Desjardins debit card.

- Every year, our members make more than 200,000 inter-caisse withdrawals.

DESJARDINS MAKES BUYING A CAR EASY

1. The online preauthorization service available for the Desjardins Ready-to-Drive Loan makes it easy for our members to set a budget and shop for their next vehicle with peace of mind. Plus, they don't have to disclose any personal financial information to the dealership.

2. We launched eSpaceAuto.com in April 2013—and welcomed nearly 195,000 visitors already! Some of the website's features:
   - Search tools to find and compare new and used cars
   - Purchasing tools
   - Quick access to Desjardins online services (insurance quotes and preauthorized financing)

3. With Ajusto, clients can **SAVE UP TO 25%** on their car insurance premiums.

   Ajusto helps Desjardins Insurance clients save up to 25% on their car insurance premiums based on the way they drive.
   - As at December 31, 2013, there were 43,784 clients participating in the Ajusto and Intelauto[1] programs.

SOCIALLY RESPONSIBLE INVESTMENT

Our investment offering includes products from companies that ascribe to socially responsible and environmentally friendly practices.

- Total assets of our socially responsible investment funds in 2013: $1,299.8 million

FLEXIBLE BUSINESS TRANSFER SOLUTIONS

The Desjardins business transfer loan offers flexible financing terms and conditions that can be adapted to the specific needs of each member, with amortization periods of up to 10 years.

1. Intelauto is a similar program offered by The Personal, Desjardins's group property and casualty insurance provider.

ACCESSIBILITY AND PROXIMITY

THE NEW AND IMPROVED DESJARDINS.COM

The new Desjardins.com reflects the changing personal and professional needs of our members and clients. Features of the new website:

- Easier to navigate
- Quick links to transactional services
- New calculation and selection tools to give users the information they need to make informed decisions

ADAPTING TO NEW TRENDS

We're always adapting our distribution models to better meet our members' changing needs. In 2013 alone, our members made a total of 881 million online transactions—755 million via AccèsD and 126 million from their mobile devices.

Some caisses have also extended their business hours and are now open on weekends to better accommodate their members' schedules.

Plus, many of our caisses participate in a telephone service* that's available for members weekdays between 6:00 a.m. and 10:00 p.m. and weekends between 8:30 a.m. and 4:00 p.m.

HELPING THOSE IN FINANCIAL DIFFICULTY

We work to build strategic partnerships with organizations at the community level so that we can help people in need make the best decisions, and provide them with suitable financing solutions.

DESJARDINS MUTUAL ASSISTANCE FUNDS

Through the Desjardins Mutual Assistance Funds, we take a practical approach to personal financial planning: recipients are given a microloan, with flexible repayment terms, to help them meet their immediate essential needs.

2013 RESULTS:
Caisse participation rate: 59.6%
Number of loans granted: 661
Total loans: $406,717

*96% OF MEMBERS SURVEYED WERE SATISFIED WITH THE SERVICE PROVIDED BY THE ADVISOR THEY SPOKE WITH.

TWO FINANCING PRODUCTS FOR VERY SMALL BUSINESSES

The *Créavenir* program is a financing program designed to help young entrepreneurs get their businesses started.

2013 RESULTS:
Caisse participation rate: 21.8%
Total loans: $622,831
Total grants: $220,206

The Desjardins Microcredit to Businesses program provides micro-entrepreneurs and self-employed workers with the support they need to consolidate their business or get it off the ground.

2013 RESULTS:
Caisse participation rate: 30.1%
Total financing amount: $891,021

IN THE HEART OF TORONTO'S FINANCIAL DISTRICT

In 2013, we opened a brand-new financial centre in Toronto offering the full range of Desjardins products and services:

- Personal and commercial banking services
- Card services
- Wealth management
- Online brokerage
- Property and casualty insurance
- Life and health insurance

DESJARDINS ON SOCIAL MEDIA

At Desjardins, we believe in the power of social media. Some statistics:

- 173,000 Facebook followers (Desjardins Group and caisse pages combined)
- 630,000 YouTube views
- 11,200 Twitter followers
- 25,800 LinkedIn members

152 caisses are active on Facebook, which they use to communicate with their members and get their feedback on various topics. More than one million people visit Desjardins's Facebook pages every month.

CO-OPME EDUCATIONAL AND COOPERATIVE INITIATIVES

We launched the Co-opme Program three years ago as a way to develop initiatives for our members, our clients and the general public, while showcasing our commitment to cooperation and education.

2013 HIGHLIGHTS

- We invested nearly $15.9 million in Co-opme initiatives.
- The Co-opme section on Desjardins.com had more than 400,000 visitors.

SUPPORTING VOLUNTEER INVOLVEMENT THROUGH THE DESJARDINS FOUNDATION

The Desjardins Foundation hands out more scholarships in Quebec than any other non-profit organization. In 2013, it awarded more than $990,000 in awards and scholarships:

- 85 Desjardins Foundation Prizes for Volunteer Involvement
- 515 awards and scholarships to students across all disciplines and all levels of study in Quebec and Ontario

DESJARDINS MUTUAL ASSISTANCE CAMPAIGN – MORE THAN $400,000 RAISED FOR THE DESJARDINS FOUNDATION

Our employees, officers and retirees participated in the second annual Desjardins Mutual Assistance Campaign to raise money for United Way and the Desjardins Foundation.

MORE THAN $240,000 FOR SCHOOL DROPOUT PREVENTION INITIATIVES

The Desjardins Foundation invested 60% of the funds raised by the Desjardins Mutual Assistance Campaign in school dropout prevention initiatives. More than $240,000 will be given to programs that help young dropouts go back to school and follow their dreams.

A TAILOR-MADE PROGRAM FOR YOUNG ADULTS

Mes finances, mes choix is a French-language educational program designed to equip people between the ages of 16 and 25 with the tools they need to evaluate their options and make informed and responsible financial decisions.

It was launched as a pilot program in 2013 in the following four regions:

- Outaouais
- Est-de-Montréal
- Centre-du-Québec
- Haute-Gaspésie

2013 RESULTS:

- 4,404 registrations (including 1,631 participants who registered for more than one module)
- Satisfaction rate of 93% ("satisfied" and "very satisfied")

INTERACTIVE GAME* FOR KIDS AGES 6 TO 11

We developed an educational game for kids ages 6 to 11 called "Charly & Max Get Involved!" By visiting Charlyandmax.com, they can:

- Follow a web series with weekly episodes
- Participate in surveys
- Take quizzes
- Collect points toward a charitable cause

*THREE MONTHS AFTER IT WAS LAUNCHED, THE GAME'S WEBSITE HAD **107,027 VISITORS**, WITH 2,770 ACCOUNTS CREATED.

EASY AND SECURE BUDGETING ON ACCÈSD

My Budget is an easy way for members to manage their money based on their actual transaction histories. In just three steps, they can:

1. Get a clear picture of their incoming and outgoing funds
2. Gain better control over their spending
3. Create savings objectives for all their projects

AN AVERAGE OF **80,000 MEMBERS** USE MY BUDGET **EACH MONTH**.

SUPPORTING OUR COMMUNITIES

ECONOMIC SPINOFFS

Desjardins is a driver of socioeconomic development in Canada. Primarily through our presence in sparsely populated areas in Quebec (where 32% of our service outlets are located), we contribute to the socioeconomic development of communities.

INDIRECT ECONOMIC SPINOFFS
For the years ended December 31
(in millions of dollars)

	2013	2012	2011
Income taxes	**$ 439**	$ 428	$ 415
Indirect taxes	**960**	817	751
Salaries	**2,541**	2,396	2,321
Benefits	**584**	634	587

SUPPORTING BUSINESS OWNERS

We run a number of programs that provide development support to business owners, such as:

- Development capital investments from *Capital régional et coopératif Desjardins*
- Support programs for up-and-coming farmers
- Desjardins Entrepreneur Awards

CAPITAL INVESTMENTS MANAGED BY
DESJARDINS VENTURE CAPITAL IN 2013

Development capital investments (at cost) in Quebec	**$835.2 million**
Investments (at cost) in cooperatives or other businesses located in resource regions	**$203.9 million**
Number of Quebec businesses, cooperatives and funds supported	**407**

COMMUNITY DEVELOPMENT FUNDS

Our Community Development Funds (CDFs) are a concrete example of the spirit of solidarity shared by Desjardins caisse members. In 2013, the CDFs paid out $37.2 million to support local initiatives.

An example of projects funded by the CDFs:

DAY TRIPS FOR SENIORS

Thanks to a new vehicle purchased by *Partage Humanitaire*, a charitable organization for seniors in Laval, it'll be able to continue organizing 50 day trips a year for local seniors.

The purchase was made possible by a contribution from *Caisse Desjardins de Chomedey*. The project, nicknamed "independence on four wheels," will help promote the social inclusion of people living in retirement homes.

DONATIONS, SPONSORSHIPS AND CHARITABLE PARTNERSHIPS

Year after year, we remain strongly involved in the communities we serve.

In 2013, we invested **$81 MILLION** in our communities through donations, sponsorships, charitable partnerships and scholarships.

DESJARDINS AND SUSTAINABLE DEVELOPMENT

In our 2013–2016 Strategic Plan, we adopted a set of socially responsible action priorities that will see the following principles incorporated into our financial product design process:

- Social responsibility
- Energy efficiency
- Waste management
- Responsible procurement
- Influential leadership for sustainable development

CARBON DISCLOSURE PROJECT

Desjardins Group is a signatory of the Carbon Disclosure Project, an initiative that encourages companies to disclose their greenhouse gas (GHG) emissions, management approaches, and climate-related risks and events.

In 2013, we put together a working group to conduct a high-level analysis of the climate change risks for all of our operations. The results of this work have now been incorporated into our overall risk management approach.

ECO-FRIENDLY TRANSPORTATION CHOICES

Launched in 2010, our "A new route for your commute!" program encourages employees to use other transportation methods as an alternative to the one person, one car model.

In 2013:

- 138 three-month trial public transit passes were handed out to our employees in Lévis.
- 15,710 employees used the Desjardins shuttle, which made 790 trips. If these employees had each used their own car to make these trips, 655 metric tons of GHG emissions would have been added to the atmosphere, or the equivalent of 168 extra cars on the road.

2013 CAR-FREE CHALLENGE WINNER

We took first place in the supra-regional category of the 2013 car-free challenge (*Défi sans auto*). Some statistics:

- 48 participating employers
- 565 employees registered
- 4.5 metric tons of GHG emissions savings in a single day

GHG EMISSIONS

At Desjardins, we assess the climate impact of our operations every year under ISO 14064. Here's a breakdown of our direct and indirect emissions for 2013:

- Total GHG emissions in metric tons of CO_2 equivalent: 42,629
- Emission intensity: 0.98 metric ton per employee
- Variation in emission intensity since 2008: +4%

ECO-FRIENDLY EVENT PLANNING

In 2013, we held 16 eco-friendly events, eight of which were certified under Quebec standard BNQ 9700-253:

- 81.2% of waste was recycled or recovered (BNQ-certified events only)
- 381.5 metric tons of GHG were offset by carbon credits (all events)

INVESTING IN OUR PEOPLE

THE CHANGING ROLE OF THE ELECTED OFFICER

Elected officers have always been key players in the caisses. In 2013, we introduced a number of initiatives to increase the influence our officers have on caisse activities, as well as their influence within their regions, the group caisses and Desjardins Group.

At the 21st Congress of Elected Officers held in April 2013, delegates voted in favour of measures to:

- Increase the number of officers to ensure better member representation
- Improve officer representation, specifically equal gender representation on caisse boards and committees.
- Implement mechanisms enabling caisses to participate in the activities of their region or the groups they serve
- Ensure fairer representation of large caisses in Desjardins Group's decision-making processes

CREATING THE CONDITIONS FOR JOB SATISFACTION

The success of our efforts to foster a stimulating working environment is evidenced by our employee retention and promotion rates.

	2013
Employee retention	**95.3%**
Employee promotion	**6.9%**

REPRESENTATION OF WOMEN	2013
Senior management	**24.9%**
Managers	**59.2%**
Employees	**74.7%**

DESJARDINS COOPERATIVE INSTITUTE – OUR CORPORATE UNIVERSITY

The Desjardins Cooperative Institute (DCI) provides training for Desjardins officers, managers and employees. The DCI's programs are developed to address the issues and needs of Desjardins Group.

- In 2013, officers from Desjardins and representatives from other cooperative groups signed up for the DCI's programs.
- The DCI introduced a coaching approach for the collective skills development of senior managers.
- The DCI now offers a complete range of training programs designed for careers in the caisse network and Desjardins Business centres across Quebec and Ontario.

COOPERATION IN ACTION

A SHOW OF SOLIDARITY

In 2013, the derailment disaster in Lac-Mégantic and the Alberta floods brought an outpouring of support from thousands of people across Canada.

LAC-MÉGANTIC DERAILMENT

Desjardins Group introduced a series of measures to support the individuals and businesses affected by the tragedy. For example:

- Desjardins donated $500,000[2] to the Red Cross.
- The caisse network set up an account to collect donations.
- A team of life and health insurance experts were on site for the first few weeks after the disaster to assist grieving members and clients.
- Claims advisors were on site to help victims submit claims.
- Financial assistance was provided through the Desjardins Disaster Relief Fund.

ALBERTA FLOODS

In June 2013, we pitched in with our subsidiary Western Financial Group to donate $200,000 to assist the victims of the floods that devastated many rural and urban communities in Alberta. We also raised funds for the Red Cross Alberta Floods Fund through the Quebec and Ontario caisse network.

SHARING OUR EXPERTISE AROUND THE WORLD THROUGH DID

For more than 40 years, we've been supporting the creation and growth of community-based financial institutions in developing and emerging countries through *Développement international Desjardins* (DID).

2013 HIGHLIGHTS

- Number of DID partner institution members and clients: 9,016,861
- Savings volume at these institutions: $3,913 million
- Outstanding credit volume: $3,998 million

SUPPORTING THE COOPERATIVE MOVEMENT

We share our expertise in cooperative governance and contribute financial support to a number of national and international cooperative organizations.

IN 2013, WE CONTRIBUTED NEARLY
$1.8 MILLION
TO COOPERATIVE ORGANIZATIONS.[3]

2. $100,000 from the Desjardins Group Fund (a budget for corporate donations managed by the Desjardins Foundation) and $400,000 from the caisse network.
3. These amounts don't include financial contributions made by the caisses to these cooperatives and other local/regional cooperatives.

BALANCE SHEET AS AT DECEMBER 31

SOME HIGHLIGHTS FROM 2013

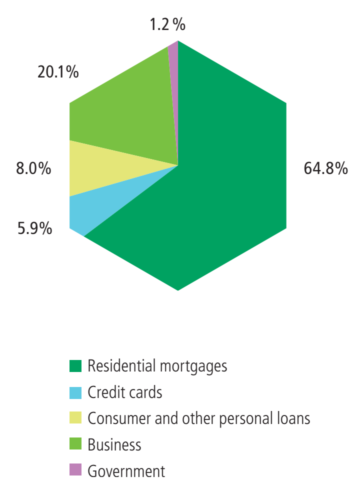
- Annual growth of 7.7% in total assets, which amounted to $212.0 billion as at December 31, 2013
- Residential mortgage loans outstanding up $5.5 billion, or 6.4%, to total $91.4 billion
- Quality loan portfolio, with a ratio of gross impaired loans to total gross loans of 0.33%
- Increase of 5.5% in savings recruitment, which amounted to $136.7 billion
- Year-over-year growth of $27.3 billion in assets under management and under administration, to total $334.2 billion at the end of 2013
- Tier 1a capital ratio of 15.7% as at December 31, 2013, still among the highest in the banking industry
- Investment in Qtrade Canada Inc. and acquisition of Coast Capital Insurance Services Ltd.
- Signing of an agreement on January 15, 2014, to acquire all the Canadian property and casualty and life and health insurance businesses of State Farm, as well as the shares of its Canadian mutual fund, loan and living benefits companies

BALANCE SHEETS AND RATIOS
As at December 31
(in millions of dollars, as a percentage and as a coefficient)

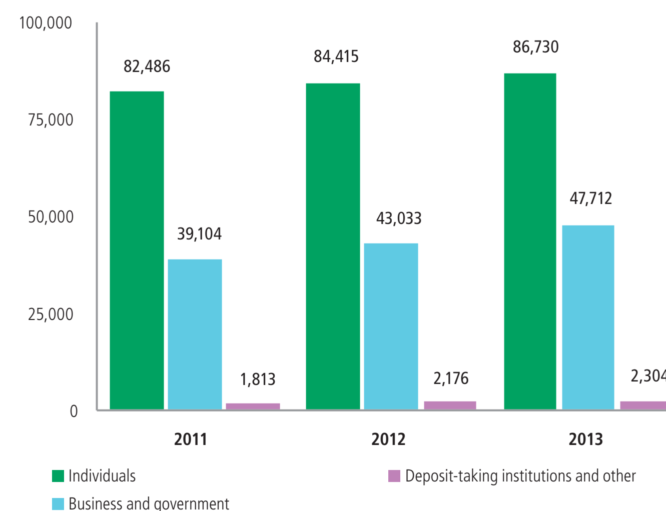
	2013	2012[1]	2011[1]
Balance sheet			
Assets	**$ 212,005**	$ 196,818	$ 190,182
Net loans	**140,533**	132,576	125,154
Deposits	**136,746**	129,624	123,403
Equity	**17,232**	15,459	13,672
Ratios			
Tier 1a capital[2]	**15.7%**	N/A	N/A
Tier 1 capital[2]	**15.7%**	16.8%	17.3%
Total capital[2]	**18.4%**	19.3%	19.3%
Gross impaired loans/gross loans	**0.33%**	0.35%	0.41%
Gross loans/deposits	**1.03**	1.03	1.02

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013.
(2) The 2013 ratios were calculated pursuant to the AMF guideline on the adequacy of capital base standards applicable to financial services cooperatives under Basel III, while the 2012 and 2011 ratios were calculated in accordance with Basel II.

LOAN DISTRIBUTION
BY BORROWER CATEGORY
As at December 31, 2013



DEPOSITS BY CATEGORY
(in millions of dollars)



FINANCIAL RESULTS AS AT DECEMBER 31

SOME HIGHLIGHTS FROM 2013

- Combined surplus earnings before member dividends of $1,530 million, up from 2012
- A total of $252 million returned to members and the community, including the provision for member dividends, sponsorships and donations
- Growth of 5.8% in operating income, which totalled $12.0 billion
- Productivity index of 73.5% comparable to the 2012 ratio

FINANCIAL RESULTS AND RATIOS
For the years ended December 31
(in millions of dollars and as a percentage)

	2013	2012[1]	2011[1]
Results			
Net interest income	**$ 3,818**	$ 3,848	$ 3,921
Net premiums	**5,558**	5,126	4,851
Other operating income	**2,575**	2,326	2,164
Operating income	**11,951**	11,300	10,936
Investment income (loss)	**(217)**	1,178	2,269
Total income	**11,734**	12,478	13,205
Provision for credit losses	**277**	241	237
Claims, benefits, annuities and changes in insurance and investment contract liabilities	**3,259**	4,397	5,292
Non-interest expense	**6,229**	5,908	5,749
Income taxes on surplus earnings	**439**	428	415
Surplus earnings before member dividends	**$ 1,530**	$ 1,504	$ 1,512
Amount returned to members and the community			
Provision for member dividends	**$ 171**	$ 279	$ 320
Sponsorships and donations	**81**	85	81
	$ 252	$ 364	$ 401
Ratios			
Return on equity	**9.4%**	10.2%	12.0%
Productivity index	**73.5**	73.1	71.1

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013.

SEGMENT HIGHLIGHTS

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

- Quebec's leader in residential mortgages and a leading player in consumer loans, including point-of-sale financing, with market shares of 35.4% and 23.0%, respectively
- Annual growth of 6.2% in the outstanding volume of business loans, to total $27.5 billion as at December 31, 2013
- Number one credit and debit card issuer in Quebec. More than 5.3 million credit cards and 5.7 million debit cards issued by Card and Payment Services in Canada
- Annual growth of $2.9 billion in on-balance sheet savings in Quebec, helping Desjardins maintain the leadership in the province with a 43.3% market share

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- Growth of 76.9% in net sales of Desjardins Funds to reach $1,744 million compared to $986 million in 2012
- Increase of 8.0% in net life and health insurance premium volume
- Growth of 16.5% in net sales for the Private Management Group. Assets under management amounted to $4.1 billion at the end of 2013
- Increase of 145.3% in total sales of group retirement savings products, which reached the $1 billion mark

PROPERTY AND CASUALTY INSURANCE

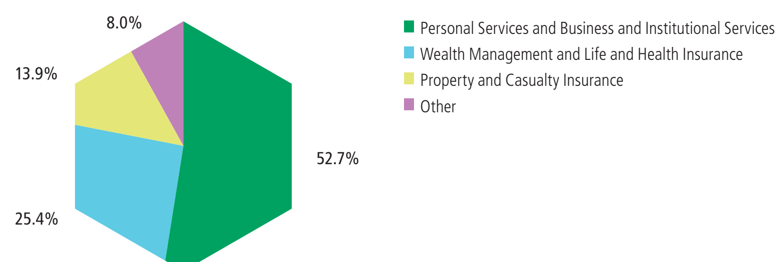
- Growth of $152 million in net premiums, which totalled $2.1 billion, a 7.7% increase compared to 2012
- A positive underwriting experience for a 21st consecutive year, a remarkable performance in a cyclical industry
- Improvement in the loss ratio to 65.5% in 2013, compared to 69.1% in 2012
- 52,000 additional clients insured by Desjardins General Insurance Group Inc., bringing the total number of clients to 1.96 million

SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS
(in millions of dollars)

	2013	2012[1]	2011[1]
Contribution to combined surplus earnings by business segment			
Personal Services and Business and Institutional Services	**$ 807**	$ 811	$ 919
Wealth Management and Life and Health Insurance	**389**	231	273
Property and Casualty Insurance	**212**	200	142
Other	**122**	262	178
	$ 1,530	$ 1,504	$ 1,512

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013.

SEGMENT CONTRIBUTION TO SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS IN 2013



CREDIT RATINGS AND MATERIAL EVENTS

CREDIT RATINGS OF SECURITIES ISSUED BY DESJARDINS GROUP

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
Caisse centrale Desjardins				
Short-term	R-1 (high)	A-1	P-1	F1+
Medium- and long-term, senior	AA	A+	Aa2	AA-
Capital Desjardins inc.				
Medium- and long-term, senior	AA (low)	A	A2	A+

In the first quarter of 2013, Moody's downgraded the credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*, as well as the ratings of five other Canadian financial institutions. This agency stated that this decision was essentially due to the economic situation in Canada, which showed signs for concern such as high consumer debt levels and elevated housing prices. Moody's also said that financial institutions are more vulnerable than in the past to downside risks weighing on the Canadian economy. Desjardins Group management is of the opinion that this decision has more to do with this agency's concern about Canada's economic situation than with the quality of Desjardins Group's loan portfolio or balance sheet.

In the following quarters, the four rating agencies confirmed the credit ratings of the securities issued by Desjardins Group. Moreover, the outlook for these ratings is stable.

Following the announcement on January 15, 2014, of the agreement reached by Desjardins Group to acquire State Farm's Canadian businesses, Standard & Poor's, Moody's and DBRS stated that Desjardins's credit rating had not changed.

On January 24, 2014, Fitch affirmed the credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*, as well as those of the six major Canadian banks. The agency mentioned that these financial institutions were well positioned to deal with deterioration in the real estate market and consumer credit conditions because of their stable surplus earnings, good credit quality, excellent funding and liquidity positions and sound capital ratios. On January 27, 2014, Moody's reaffirmed the ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*, both with a stable outlook.

CAISSE CENTRALE DESJARDINS AND *CAPITAL DESJARDINS INC.* THUS HAVE CREDIT RATINGS THAT ARE AMONG THE BEST OF THE MAJOR CANADIAN AND INTERNATIONAL BANKING INSTITUTIONS.

ACQUISITIONS

QTRADE CANADA INC.

On April 3, 2013, Desjardins Group acquired, through Desjardins Financial Corporation Inc., a wholly owned subsidiary of the Federation, 40% of the outstanding shares of Qtrade Canada Inc. (Qtrade) on a fully diluted basis for an aggregate amount of $65 million. Qtrade is a company specializing in online brokerage and wealth management services, primarily for credit unions.

COAST CAPITAL INSURANCE SERVICES LTD.

On July 2, 2013, Desjardins Group acquired, through Western Financial Group Inc., a wholly owned subsidiary of Desjardins Financial Corporation Inc., 100% of the outstanding shares of Coast Capital Insurance Services Ltd. (CCIS) for an aggregate amount of $99 million, in addition to CCIS's excess working capital of $17 million. CCIS offers property and casualty and commercial insurance products on the western Canada retail market.

SUBSEQUENT EVENTS

ACQUISITION OF STATE FARM'S CANADIAN BUSINESS

On January 15, 2014, Desjardins Group entered into a final agreement to acquire all the property and casualty and life and health insurance businesses of State Farm, as well as the shares of its Canadian mutual fund, loan and living benefits companies.

As part of the agreement, State Farm will invest $450 million in non-voting preferred shares of Desjardins Group's property and casualty insurance main subsidiary, while *Groupe des assurances du Crédit Mutuel s.a.*, currently a minority partner in this property and casualty insurance subsidiary, will invest $200 million in common shares, non-voting preferred shares and subordinated notes.

Desjardins Group will also allocate approximately $700 million in additional capital in the same property in casualty subsadiary to promote post-acquisition growth. In addition, its life and health insurance subsidiary and other entities will allocate approximately $250 million in capital for the life and health insurance, mutual fund, loan and living benefits components acquired from State Farm.

The transaction is expected to close on January 1, 2015, subject to approval from regulators and compliance with customary closing conditions.

DESJARDINS GROUP MANAGEMENT'S DISCUSSION AND ANALYSIS

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SECTION 1.0 **Desjardins Group**

This section gives a brief overview of Desjardins Group and its 2013 financial highlights. It also includes a description of the economic environment in 2013, industry trends, the economic outlook for 2014, priority financial objectives and the financial outlook for 2014.

SECTION 2.0 **Review of financial results**

This section provides an analysis of Desjardins Group's results for the year ended December 31, 2013. It contains information on each of Desjardins Group's business segments, including a profile, a description of the industry, the strategy and priorities for 2014, and an analysis of fourth quarter results and quarterly trends.

SECTION 3.0 **Balance sheet review**

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

SECTION 4.0 **Risk management**

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

SECTION 5.0 **Additional information**

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

NOTE TO THE READER

Desjardins Group (hereinafter also referred to as Desjardins) comprises the Desjardins caisse network in Quebec and Ontario (the caisses), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries (including *Capital Desjardins inc.*), *Caisse centrale Desjardins*, 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 25, 2014, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the year ended December 31, 2013, in comparison to previous fiscal years. Desjardins Group reports financial information in compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this National Instrument. However, it has chosen to apply the practices provided therein to demonstrate its willingness to comply with best practices in financial governance. A section on 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, 2013.

Additional information about Desjardins Group is available on the SEDAR website at **www.sedar.com** (under the *Capital Desjardins inc.* profile), where the Annual Information Forms of *Capital Desjardins inc.*, *Caisse centrale Desjardins* (under the *Caisse centrale Desjardins* profile) and the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can also be found. More information is also available on the Desjardins website at **www.desjardins.com/en/a_propos/investisseurs**; however, none of the information presented on these sites is incorporated by reference into this report.

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. For further information about the accounting policies applied, see the Combined Financial Statements. Desjardins Group amended certain accounting policies in connection with the new standards that took effect on January 1, 2013. The retrospective application of these amendments resulted in certain changes in the Combined Financial Statements. For further information, see Note 3, "Changes in accounting policies and disclosures", 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, 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 – Average deposits – Average equity

The average balance for these items is equal to the average of the amounts at the end of the previous five quarters, calculated starting from December 31.

Growth in operating income

Growth in operating income is equal to the percentage change in operating income in relation to the corresponding period of the previous year.

Gap between income growth and expense growth

The gap, expressed as a percentage, between income growth and expense growth is equal to the difference between the growth in total income, net of claims, benefits, annuities and changes in insurance and investment contract liabilities, compared to the corresponding period of the previous year, and the growth in non-interest expense from the corresponding period of the previous year.

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 claims, benefits, annuities and changes in insurance and investment contract liabilities, expressed as a percentage. A lower ratio indicates greater productivity.

Return on equity

Return on equity, which is expressed as a percentage, is equal to surplus earnings before member dividends, excluding the non-controlling interests' share, divided by average equity before non-controlling interests.

Income

Operating income

The concept of operating income is used to analyze financial results. This concept allows for better structuring of financial data and makes it easier to compare operating activities from one period to the next by excluding investment income. 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, net premiums and other operating income such as deposit and payment service charges, lending fees and credit card service revenues, income from brokerage and investment fund services, management and custodial service fees, foreign exchange income as well as other income. These items, taken individually, correspond to those presented in the Combined Financial Statements.

Investment income

Investment income includes net income on securities at fair value through profit or loss, net income on available-for-sale securities and net other investment income. These items, taken individually, correspond to those presented in the Combined Financial Statements. Investment income also includes income from the insurance subsidiaries' matching activities and from derivatives not designated as part of a hedging relationship.

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

(in millions of dollars)	**2013**	2012	2011
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 3,818**	$ 3,848	$ 3,921
Net premiums	**5,558**	5,126	4,851
Other income			
Deposit and payment service charges	**498**	499	512
Lending fees and credit card service revenues	**549**	517	483
Brokerage and investment fund services	**855**	731	658
Management and custodial service fees	**300**	283	298
Net income (loss) on securities at fair value through profit or loss	**(667)**	674	1,706
Net income on available-for-sale securities	**221**	268	299
Net other investment income	**229**	236	264
Foreign exchange income	**61**	63	72
Other income	**312**	233	141
Total income	**$ 11,734**	$ 12,478	$ 13,205
Presentation of income in Management's Discussion and Analysis			
Net interest income	**3,818**	3,848	3,921
Net premiums	**5,558**	5,126	4,851
Other operating income			
Deposit and payment service charges	**498**	499	512
Lending fees and credit card service revenues	**549**	517	483
Brokerage and investment fund services	**855**	731	658
Management and custodial service fees	**300**	283	298
Foreign exchange income	**61**	63	72
Other income	**312**	233	141
Operating income	**11,951**	11,300	10,936
Investment income			
Net income (loss) on securities at fair value through profit or loss	**(667)**	674	1,706
Net income on available-for-sale securities	**221**	268	299
Net other investment income	**229**	236	264
	(217)	1,178	2,269
Total income	**$ 11,734**	$ 12,478	$ 13,205

REGULATORY ENVIRONMENT

Regulatory environment

Desjardins Group's operations are governed in particular by the *Act respecting financial services cooperatives* and the *Act respecting the Mouvement Desjardins.* The AMF is the main government agency that oversees and monitors deposit-taking institutions (other than banks) that do business in Quebec, including the caisses and the Federation. Other regulations, including those developed by the Office of the Superintendent of Financial Institutions (OSFI), may also govern some operations of Desjardins Group entities, such as those related to insurance or securities brokerage.

Moreover, Desjardins Group complies with the minimum regulatory capital requirements issued by the AMF, which are adapted to reflect the provisions of the Basel III Accord. As mentioned on page 15, while 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 practices provided in the regulation to demonstrate its willingness to comply with best practices in financial governance. Desjardins Group's financial and corporate governance are discussed on pages 71 and 72 of this MD&A and page 160 of the 2013 Desjardins Group Annual Report.

It should also be mentioned that Desjardins Bank, National Association, a subsidiary of *Caisse centrale Desjardins* incorporated under U.S. federal laws, is supervised by the Office of the Comptroller of the Currency of the United States (OCC), and that *Caisse centrale Desjardins'*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. *Caisse centrale Desjardins* US Branch, the branch of *Caisse centrale Desjardins* operating in the State of Florida and incorporated under U.S. federal laws, is also supervised by the OCC.

Changes in the regulatory environment

Desjardins Group closely monitors changes in the regulatory environment as well as new developments in fraud, corruption, money laundering and terrorist financing and aims to comply with best practices for countering them.

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI), which would subject Desjardins Group to additional obligations. As a D-SIFI, beginning on January 1, 2016, Desjardins Group will be subject to an additional Tier 1a capital requirement corresponding to 1% of risk-weighted assets. Therefore, from January 1, 2016, Desjardins Group's Tier 1a capital target will be 8%. Other major obligations include that, based on the recommendations issued by the Enhanced Disclosure Task Force of the Financial Stability Board contained in the document "Enhancing the Risk Disclosures of Banks", Desjardins Group is continuing to develop its external disclosures and is currently working on integrating these recommendations into its risk management disclosure framework. Furthermore, Desjardins Group will be obliged to produce its living will, detailing the actions to be taken to restore its financial position in the event of a crisis. Note that the OSFI has also determined that Canada's six major financial institutions meet the criteria for designation as D-SIFI.

In addition, Desjardins Group continues to monitor changes in capital and liquidity requirements under global standards developed by the Basel Committee on Banking Supervision (Basel III).

Regulations in the United States, which are constantly changing, represent an important part of the regulatory environment of financial institutions, even of foreign institutions, and place Desjardins Group under additional obligations. Following the adoption in 2010 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (DFA), many rules have come into force to implement the various parts of these regulations. Some of these rules apply to Desjardins Group as a foreign financial institution with U.S. operations, including those designed to implement provisions on swap trading and proprietary trading (the Volcker rule), as well as those concerning the submission of a resolution plan. Desjardins Group must also comply with requirements under the *Foreign Account Tax Compliance Act* (FATCA), which was designed to combat tax evasion in the United States. FATCA requires that financial institutions identify and qualify account holders who are U.S. taxpayers for disclosure to the competent authorities.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements. Such forward-looking statements are contained in this MD&A, and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements in this MD&A include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. These forward-looking statements include those appearing under section 1.2 "Monitoring of financial objectives", 1.3 "Changes in the economy and the industry", section 2.0 "Review of the financial results", section 3.0 "Balance sheet review" and section 5.0 "Additional information." Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate" and "may", words and expressions of similar import, and future and conditional verbs.

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

A number of factors, many of which are beyond Desjardins Group's control, 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 risks related to the regulatory and legal environment, including legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies, reporting guidance and liquidity regulatory guidance, or interpretations thereof, amendments to and new interpretations of capital guidelines, and environmental risk, which represents the risk that Desjardins Group may incur financial, operational or reputational losses as a result of environmental impacts or problems, whether due to Desjardins Group's credit or investment activities or its operations.

Factors that could influence the accuracy of the forward-looking statements in this MD&A also include general economic and business conditions in the regions in which Desjardins Group operates, changes in the economic and financial environment in Quebec, Canada or globally, including short- and long-term interest rates, inflation, debt security market fluctuations, foreign exchange rates, the volatility of capital markets, including tighter liquidity conditions in certain markets, the strength of the economy, and the volume of business conducted by Desjardins Group in a given region, monetary policies, competition, amendments to standards, laws and regulations, to the accuracy and completeness of information concerning clients and counterparties, the accounting policies used by Desjardins Group, new products and services to maintain or increase Desjardins Group's market shares, the ability to recruit and retain key management personnel, including senior management, the business infrastructure, geographic concentration, partnerships and acquisitions and credit ratings.

Other factors that could influence the accuracy of the forward-looking statements in this MD&A include amendments to tax laws, unexpected changes in personal spending and savings habits, technological developments, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts or natural disasters, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk 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." Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions. Readers who rely on Desjardins Group's forward-looking statements must carefully consider these risk factors and other uncertainties and potential events.

Any forward-looking statements contained in this report 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 verbal or written forward-looking statements that may be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

1.0 DESJARDINS GROUP

1.1 PROFILE AND STRUCTURE

WHO WE ARE

Desjardins Group is the largest cooperative financial institution in Canada, with assets of $212.0 billion. It brings together 376 caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* and its subsidiaries (including *Capital Desjardins inc.*), *Caisse centrale Desjardins*, 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. Its "Personal Services and Business and Institutional Services", "Wealth Management and Life and Health Insurance", and "Property and Casualty Insurance" business segments offer a full range of financial products and services adapted to the needs of members and clients, individuals and businesses alike. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 45,000 employees and the commitment of more than 5,100 elected officers.

The tasks of carrying out treasury operations and acting as Desjardins's official representative with the Bank of Canada and the Canadian banking system are assumed by *Caisse centrale Desjardins*, also a cooperative financial institution that is an integral part of Desjardins Group.

MISSION

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

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

VISION

Desjardins,
the leading cooperative financial group in Canada,
inspires trust around the world
through the commitment of its people,
its financial strength and
its contribution to sustainable prosperity.

WHAT MAKES US DIFFERENT

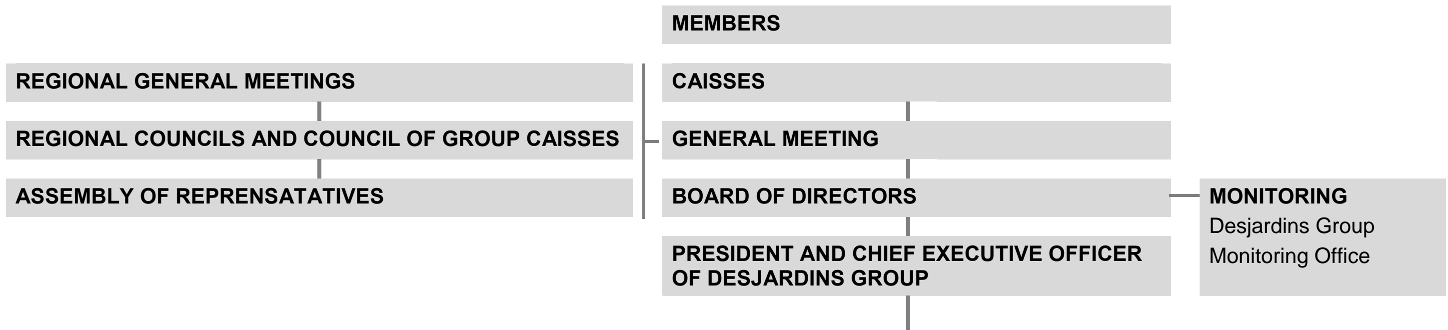
At Desjardins Group we stand out from other Canadian financial institutions because of our cooperative nature. Our mission and strong values reflect our cooperative nature and are championed by our officers, managers and employees. Our mission and our values are echoed in our orientations and help us achieve our vision to promote sustainable prosperity within the communities we serve. Since the first caisse was founded in 1900 in Lévis, Desjardins Group has been a key player in financial education. We believe that the cooperative business model is more relevant than ever.

What guides us in our actions is the resolve to be close to our members and clients. Thanks to our varied distribution channels, numerous intermediary networks and personnel who strive to deliver the highest quality of service, we are able to stay close to members and their communities. In order to best meet our members' increasingly diverse needs, we pay special attention to the number of caisses and our range of service delivery methods. We also seek, in this way, to ensure the vitality of cooperation at the caisse level, in terms of democracy, representation, education and training, intercooperation and support for community development.

Another hallmark of Desjardins Group is the active participation of elected officers in the caisses and in the organization's decision-making structure through the regional general meetings, the regional councils and the council of group caisses.

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 Services and Business and Institutional 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 CORPORATE EXECUTIVE DIVISION	BUSINESS SEGMENTS			
	Personal Services and Business and Institutional Services		**Wealth Management and Life and Health Insurance**	**Property and Casualty Insurance**
SUPPORT FUNCTIONS	Regular, convenience and savings transactions	Card and payment services	Insurance for individuals and business people	Automobile insurance
Finance and Office of the CFO	Financing	Development capital and business ownership transfer	Group insurance plans	Motorcycle and recreational vehicle insurance
Performance, Risk Management, Compliance, Procurement and Real Estate	Integrated offer for businesses	Capital markets	Savings for individuals and business people	Home insurance
Technology and Shared Services	Integrated offer for the agricultural and agri-food industries	Telephone and Internet access services	Specialized savings	Business insurance
Treasury and Shared Services	Specialized services	Payroll services	Group retirement savings	Pet insurance
Human Resources			Brokerage and private management	Distribution of financial products
Marketing, Client-Member Experience and Communications				

DESJARDINS GROUP HIGHLIGHTS

Combined surplus earnings before member dividends of $1,530 million, up from 2012

A total of $252 million returned to members and the community, including the provision for member dividends, sponsorships and donations

Growth of 5.8% in operating income, which totalled $12.0 billion

Productivity index of 73.5%, comparable to the 2012 ratio

Tier 1a capital ratio of 15.7% as at December 31, 2013, still among the highest in the banking industry

Investment in Qtrade Canada Inc. and acquisition of Coast Capital Insurance Services Ltd.

Annual growth of 7.7% in total assets, which amounted to $212.0 billion as at December 31, 2013

Residential mortgage loans outstanding up by $5.5 billion, or 6.4%, to total $91.4 billion

Quality loan portfolio, with a ratio of gross impaired loans to total gross loans of 0.33%

Increase of 5.5% in savings recruitment, which amounted to $136.7 billion

Year-over-year growth of $27.3 billion in assets under management and under administration to total $334.2 billion at the end of 2013

Signing of an agreement on January 15, 2014 to acquire all the Canadian property and casualty and life and health businesses of State Farm, as well as the shares of its Canadian mutual fund, loan and living benefits companies

SEGMENT HIGHLIGHTS

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

The segment's surplus earnings before member dividends were $807 million in 2013, comparable to 2012

Quebec's leader in residential mortgages and a leading player in consumer loans, including point-of-sale financing, with market shares of 35.4% and 23.0%, respectively

Annual growth of 6.2% in the outstanding volume of business loans, to total $27.5 billion as at December 31, 2013

Improvement in the ratio of gross impaired loans to total loans from 0.36% to 0.33%, reflecting the excellent quality of Desjardins Group's loan portfolio

Number one credit and debit card issuer in Quebec. More than 5.3 million credit cards and 5.7 million debit cards issued by Card and Payment Services in Canada

Year-over-year growth of $35 million in the Fixed Income Group's trading income, essentially due to higher trading volume on the secondary market

Annual increase of $5.4 billion in residential mortgages, helping Desjardins maintain its Quebec market share

Annual growth of $2.9 billion in on-balance sheet savings in Quebec, helping Desjardins maintain its leadership in the province with a 43.3% market share

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

Increase of 68.4% in the segment's surplus earnings from $231 million in 2012 to $389 million in 2013

Growth of 76.9% in net sales of Desjardins Funds to reach $1,744 million compared to $986 million in 2012

Increase of 8.0% in net life and health insurance premium volume

Growth of 16.5% in net sales for the Private Management Group. Assets under management now amounted to $4.1 billion at the end of 2013

Increase of 11.7% in assets under management for full-service and online brokerage

Increase of 145.3% in total sales of group retirement savings products, which reached the $1 billion mark

PROPERTY AND CASUALTY INSURANCE

Increase of 6.0% in the segment's surplus earnings, from $200 million in 2012 to $212 million in 2013

Growth of $152 million in net premiums, which totalled $2.1 billion, a 7.7% increase compared to 2012

The year was marked by the tragedy in Lac-Mégantic, the June flooding in Alberta, and the July flooding in the Greater Toronto Area, with combined claims estimated at $32.8 million

Improvement in the loss ratio to 65.5% in 2013, compared to 69.1% in 2012

52,000 additional clients insured by Desjardins General Insurance Group Inc., bringing the total number of clients to 1.96 million

A positive underwriting experience for a 21st consecutive year, a remarkable performance in a cyclical industry

TABLE 1 – FINANCIAL RESULTS AND RATIOS
For the years ended December 31
(in millions of dollars and as a percentage)

	2013	2012[(1)]	2011[(1)]
Results			
Net interest income	**$ 3,818**	$ 3,848	$ 3,921
Net premiums	**5,558**	5,126	4,851
Other operating income[(2)]	**2,575**	2,326	2,164
Operating income[(2)]	**11,951**	11,300	10,936
Investment income (loss)[(2)]	**(217)**	1,178	2,269
Total income	**11,734**	12,478	13,205
Provision for credit losses	**277**	241	237
Claims, benefits, annuities and changes in insurance and investment contract liabilities	**3,259**	4,397	5,292
Non-interest expense	**6,229**	5,908	5,749
Income taxes on surplus earnings	**439**	428	415
Surplus earnings before member dividends	**$ 1,530**	$ 1,504	$ 1,512
Contribution to combined surplus earnings by business segment[(3)]			
Personal Services and Business and Institutional Services	**$ 807**	$ 811	$ 919
Wealth Management and Life and Health Insurance	**389**	231	273
Property and Casualty insurance	**212**	200	142
Other	**122**	262	178
	$ 1,530	$ 1,504	$ 1,512
Amount returned to members and the community			
Provision for member dividends	**$ 171**	$ 279	$ 320
Sponsorships and donations	**81**	85	81
	$ 252	$ 364	$ 401
Ratios			
Return on equity[(2)]	**9.4%**	10.2%	12.0%
Productivity index[(2)]	**73.5**	73.1	72.7

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.
(2) See "Basis of presentation of financial information" on page 15.
(3) The breakdown by line item is presented in Note 34, "Segmented information", to the Combined Financial Statements.

TABLE 2 – BALANCE SHEET AND RATIOS
As at December 31
(in millions of dollars, as a percentage and as a coefficient)

	2013	2012[(1)]	2011[(1)]
Balance sheet			
Assets	**$ 212,005**	$ 196,818	$ 190,182
Net loans	**140,533**	132,576	125,154
Deposits	**136,746**	129,624	123,403
Equity	**17,232**	15,459	13,672
Ratios			
Tier 1a capital[(2)]	**15.7%**	n.a.	n.a.
Tier 1 capital[(2)]	**15.7%**	16.8%	17.3%
Total capital[(2)]	**18.4%**	19.3%	19.3%
Gross impaired loans/gross loans	**0.33%**	0.35%	0.41%
Gross loans/deposits	**1.03**	1.03	1.02

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.
(2) The 2013 ratios were calculated pursuant to the AMF guideline on the adequacy of capital base standards applicable to financial services cooperatives under Basel III, while the 2012 and 2011 ratios were calculated in accordance with Basel II. See section 3.2, "Capital management".

1.2 MONITORING OF FINANCIAL OBJECTIVES

FINANCIAL OBJECTIVES FOR THE 2013-2016 HORIZON

Desjardins Group's strategic and financial ambitions for 2013-2016 period were adopted by the Board of Directors in January 2013 and are intended to carry on Desjardins's development by focusing on service, growth and efficiency priorities.

The orientation and initiatives that support these ambitions led to the adoption of priority financial objectives on which Desjardins Group will continue to focus its efforts in the coming years with the goal of attaining them in the medium-term.

The priority financial objectives are as follows:
- Growth in operating income between 5% and 10%
- Productivity index lower than 70%
- Gap between income growth and expense growth greater than 2%
- Growth in surplus earnings after taxes between 5% and 10%
- Return on equity greater than 8%
- Tier 1a capital ratio greater than 15%

Following the important announcement in January 2014 concerning the agreement to purchase State Farm, Desjardins Group management will review its strategic and financial objectives, which may lead to adjustments in some of its priority financial objectives.

REVIEW OF 2013 FINANCIAL RESULTS

For the first year of the 2013-2016 Strategic Plan, Desjardins Group's operating income increased by 5.8%, which is within the range for the medium term. This increase is the result of efforts focused on the client experience as well as multiple initiatives in offering new products, in spite of fierce competition and a low interest rate environment.

Desjardins Group reported surplus earnings before member dividends of $1,530 million, higher than expected and higher than in 2012, thanks in particular to the excellent performance of its three business segments. The segments recorded overall growth of 13.4% in surplus earnings, which exceeds the Desjardins Group objective. However, growth in overall surplus earnings before member dividends for 2013 was below the 5% to 10% range set in the 2013-2016 Strategic Plan as a result of lower surplus earnings from the Other category, which had benefited in 2012 from an increase in the asset-backed term notes (ABTN) portfolios.

In 2013, Desjardins Group continued the efforts undertaken in recent years by the caisse network and other Desjardins components to increase their productivity. These various initiatives allowed Desjardins Group to improve its performance and its productivity without sacrificing growth or the quality of the client experience for its members. However, because of a non-recurring reversal of investment portfolio provisions that reduced non-interest expense in 2012, the productivity index remained stable at 73.5% for 2013. In addition, various initiatives aimed at enhancing information systems and processes will continue over the coming years and should enable Desjardins to meet the objectives related to the productivity index, growth in surplus earnings after taxes and gap between income growth and expense growth over the 2013-2016 horizon.

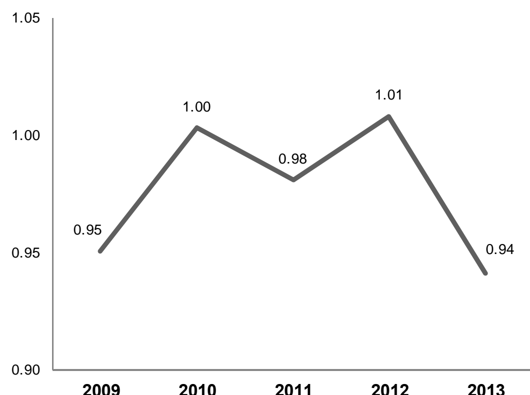
Return on equity was 9.4%, exceeding the 8% target in the financial plan as early as this year, in spite of the upward effect on equity following the issuance of capital shares by the Federation. This issuance and subsequent ones will enable Desjardins Group to maintain excellent capitalization. As at December 31, 2013, Desjardins exceeded the 15% objective set in its 2013-2016 Strategic Plan, with a Tier 1a capital ratio of 15.7%.

FINANCIAL OUTLOOK

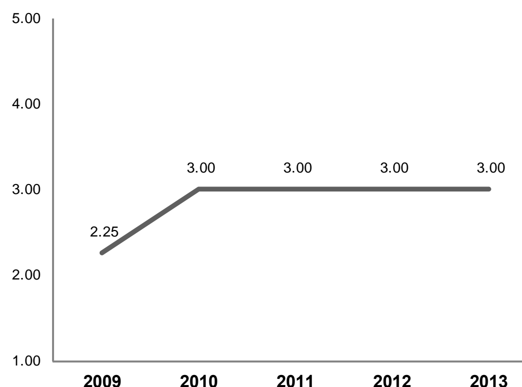
Desjardins Group will begin 2014 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry and sound profitability in an environment where stiff competition in the financing and savings recruitment market puts pressure on net interest income. In addition, improving productivity and controlling costs will remain important priorities for Desjardins Group as it continues to invest considerable amounts in its business and support systems and processes in order to keep its service offer competitive, for the benefit of its members and clients, while moving toward its growth, efficiency and profitability goals. In 2014, Desjardins Group will also finalize the transaction to purchase the Canadian businesses of State Farm® and prepare for the integration scheduled for January 2015.

1.3 CHANGES IN THE ECONOMY AND THE INDUSTRY

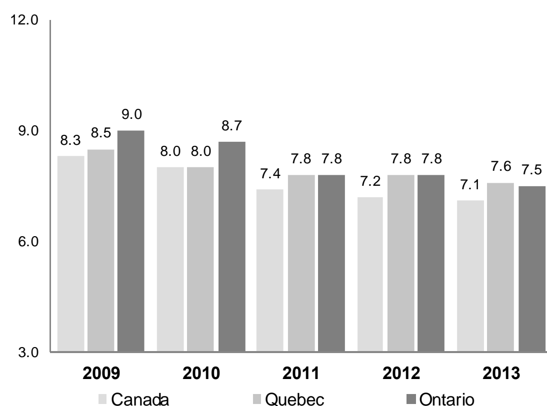
CHANGES IN THE CANADIAN DOLLAR VS. THE U.S. DOLLAR
(Canadian dollars/U.S. dollars)



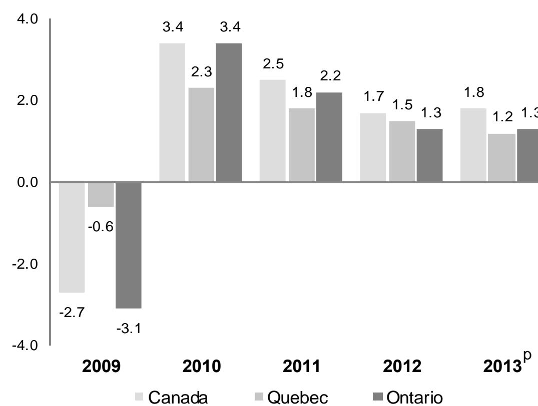
CHANGES IN THE PRIME RATE
(as a percentage)



CHANGES IN THE UNEMPLOYMENT RATE
(as a percentage)



CHANGES IN GDP
(as a percentage)



2013 ECONOMIC ENVIRONMENT

Several obstacles stood in the way of global economic recovery in 2013. Growth in industrialized countries slowed from 1.3% in 2012 to 1.1% in 2013. At the beginning of the year, the eurozone was still in the longest recession in its history, but finally emerged from it in the second quarter. There were some signs of progress in the region as financial tensions began to ease. Anticipating an extended period of low inflation, the European Central Bank reduced its key interest rate in November 2013 for the second time that year. Inflation stood at less than 1.0% in December, still far below the ECB's target. The central banks of the industrialized countries also kept interest rates very low. Many emerging countries suffered as a result of industrialized countries' weak demand, and were also struggling to retain foreign capital and stabilize their currencies in the summer, as U.S. bond rates rose. In China, despite fears of a slowdown, the pace of growth stabilized at 7.7% in 2013.

The United States experienced several difficult periods in 2013, most of which were tied to its political and fiscal situation. After the fiscal cliff at the beginning of the year and the implementation of budget sequestration, a program of automatic government spending cuts, the U.S. economy was disrupted again in the fall by a political stalemate over the budget and the raising of the debt ceiling. This ultimately led to a 16-day government shutdown in October. For these reasons, the U.S. economy saw its growth diminish from 2.8% in 2012 to 1.9% in 2013. A bipartisan agreement was reached on December 10, 2013, reducing fiscal uncertainty, and this bolstered the confidence of Americans in their economy. The labour market continued to recover, as did the residential real estate sector. The Federal Reserve (the Fed) decided to taper its bond purchases by US$10 billion a month, effective January 2014.

The Canadian economy maintained its growth at 1.8% in 2013. The external sector remained plagued by weak global demand. Quebec and, to a lesser extent, Ontario were directly affected, but the resource-producing provinces also suffered from the drop in commodity prices. The Canadian economy as a whole was impacted by the government's deficit-reduction measures and slower business investment growth. The real estate market also showed signs of losing momentum in certain regions, particularly in Quebec.

INDUSTRY DESCRIPTION AND TRENDS

There was little change in the Canadian industry in 2013, reflecting the country's very subdued economic conditions. Canada has over 800 savings and loan cooperatives, slightly less than 50% of which are part of Desjardins Group, as well as some 70 Canadian and foreign banks. Insurance companies are another major industry player. In 2013, more than 300 were in operation across Canada. Although some were present in both property and casualty insurance and life and health insurance, most of them, almost two-thirds, specialized in property and casualty insurance.

There were a few key players in life and health insurance, with the top three accounting for a market share of close to 60% of premiums collected in this industry in Canada. Desjardins Group, through its subsidiary Desjardins Financial Security Life Assurance Company, ranked fourth in this market in 2013. The property and casualty sector is somewhat less concentrated, with a slightly higher number of large institutions. The top three companies therefore accounted for only about 30% of the premiums collected in this industry in 2012. Desjardins Group, through its subsidiary Desjardins General Insurance Group Inc., again moved up in the standings, to rank seventh among Canadian insurers in 2012.

Despite a rather gloomy economic environment due to ongoing uncertainty about the U.S. recovery and slower growth at home, Canadian financial institutions stayed on course in 2013. They continued to help Canadians with their personal finances and their businesses. Strict compliance with international standards and the know-how of Canadian institutions garnered praise once again at the 2013 World Economic Forum. For the sixth consecutive year, the Canadian banking system took top honours as the most stable in the world.

ECONOMIC OUTLOOK FOR 2014

Global economic conditions should improve in 2014, but are likely to remain fragile in several regions, particularly in the eurozone. Austerity measures and weak credit markets should continue to dampen growth in Europe. The European Central Bank may step in again to support the economy and the financial system by lowering its key interest rates or using non-traditional tools.

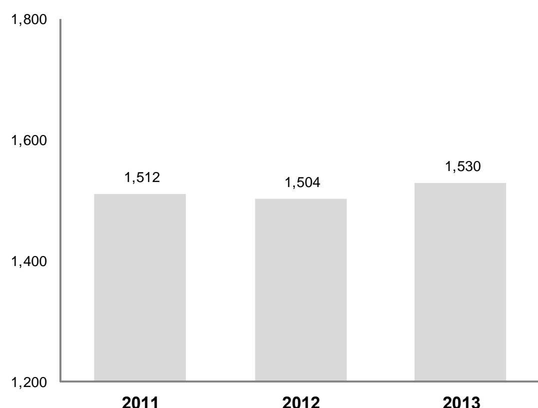
Elsewhere in the world, the economies of emerging countries should gradually recover as the situation improves in Europe and the United States. With the debt ceiling act suspended until March 15, 2015, the U.S. political and fiscal problems no longer represent an immediate threat. The Fed is expected to continue tapering its security purchases until late in the year. U.S. medium- and long-term bond rates should therefore be slightly higher in 2014, even if the Fed is expected to keep its key interest rates at their floor level until the fall of 2015. Despite this, a gradual improvement in household finances and lower unemployment should support consumer spending. The U.S. real estate market should continue trending upward, and economic growth should pick up and reach 2.9%.

The Canadian economy should benefit from growing global demand and a slight rise in commodity prices. Consumer spending is expected to mirror improvements in the labour market and rising income levels, but caution will remain the watchword given the already high debt levels. In Quebec, the real estate market should stabilize in 2014, while it should slow down in most of the other provinces. Overall, economic growth should be approximately 2.0% in Canada as well as in Ontario and Quebec. Economic activity should not be strong enough to drive inflation above the Bank of Canada's target range, and this would encourage the central bank to maintain its key interest rates at current levels.

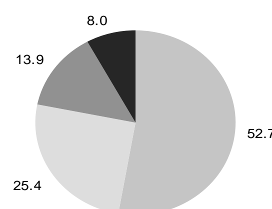
2.0 REVIEW OF FINANCIAL RESULTS

2.1 ANALYSIS OF 2013 RESULTS

SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS[(1)]
(in millions of dollars)



SEGMENT CONTRIBUTIONS TO SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS[(1)]
(as a percentage)



(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.

2013 SURPLUS EARNINGS

For 2013, Desjardins Group reported surplus earnings before member dividends of $1,530 million, compared to $1,504 million for 2012, an increase of $26 million, or 1.7%. It should be noted that 2012 data have been restated to reflect the application of new accounting policies that took effect on January 1, 2013.

These results reflect the contribution of $807 million, or 52.7% of surplus earnings made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $389 million and $212 million, respectively, representing 25.4% and 13.9% of surplus earnings. The operations grouped under the Other category made a contribution of $122 million, or 8.0%, of surplus earnings.

Equity increased as a result of the issuance of capital shares by the Federation, causing return on equity to stand at 9.4%, compared to 10.2% for 2012.

Enhanced capital requirements resulting from changes in regulations affecting financial institutions worldwide, as well as strong competition which has compressed margins and affected the profitability of the caisse network in particular, have prompted Desjardins Group to remain prudent in distributing its surplus earnings. The amount provisioned for member dividends therefore amounted to $171 million for 2013, compared to $279 million for 2012. If we add this amount to the $81 million given to various organizations in the form of donations and sponsorships, the amount returned to the community totalled $252 million in 2013, compared to $364 million in 2012.

OPERATING INCOME

Operating income, which includes net interest income, net premiums and other operating income, as presented in Table 3, totalled $11,951 million, up $651 million, or 5.8%, compared to 2012.

TABLE 3 – OPERATING INCOME
For the years ended December 31
(in millions of dollars)

	2013	2012	2011
Net interest income	**$ 3,818**	$ 3,848	$ 3,921
Net premiums	**5,558**	5,126	4,851
Other operating income (see Table 6)	**2,575**	2,326	2,164
Total operating income	**$ 11,951**	$ 11,300	$ 10,936

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 4 shows the changes in net interest income for the main asset and liability classes. Table 5 details how net interest income was affected by changes in volume and interest rates for the different asset and liability classes.

Expressed as a percentage of average assets, net interest margin was 2.42% in 2013, compared to 2.57% for 2012, a decrease of 15 basis points. The strong competition in the market that compressed margins and rates had a negative impact on net margin. The change in net interest income is explained in Table 5.

Net interest income was $3,818 million at the end of 2013, comparable to the amount for 2012.

Interest income

Interest income amounted to $5,683 million in 2013, a decrease of $182 million, or 3.1%, compared to the previous year. Overall, the $7.7 billion, or 5.4%, growth in the average volume of total interest-bearing assets boosted interest income by $346 million, while the 33 basis point decrease in the average return on these assets reduced it by $528 million.

Interest expense

Interest expense stood at $1,865 billion, a decrease of $152 million, or 7.5%, compared to 2012. The $5.9 billion, or 4.6%, growth in average funding from deposits, borrowings and subordinated notes pushed up interest expense by $83 million while the 18 basis point decrease in the average cost of deposits reduced interest expense by $235 million.

TABLE 4 – NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES
For the years ended December 31
(in millions of dollars and as a percentage)

	2013			2012		
	Average balance	**Interest**	**Average rate**	Average balance	Interest	Average rate
Assets						
Interest-bearing assets						
Securities, cash and deposits with financial institutions	**$ 17,776**	**$ 313**	**1.76 %**	$ 18,112	$ 391	2.16 %
Loans	**133,233**	**5,370**	**4.03**	125,154	5,474	4.37
Total interest-bearing assets	**151,009**	**5,683**	**3.76**	143,266	5,865	4.09
Other assets	**6,280**	**—**	**—**	6,902	—	—
Total assets	**$ 157,289**	**$ 5,683**	**3.61 %**	$ 150,168	$ 5,865	3.91 %
Liabilities and equity						
Interest-bearing liabilities						
Deposits	**$ 132,636**	**$ 1,708**	**1.29 %**	$ 126,604	$ 1,851	1.46 %
Borrowings and subordinated notes	**3,075**	**157**	**5.11**	3,180	166	5.22
Total interest-bearing liabilities	**135,711**	**1,865**	**1.37**	129,784	2,017	1.55
Other liabilities	**9,249**	**—**	**—**	9,190	—	—
Equity	**12,329**	**—**	**—**	11,194	—	—
Total Liabilities and equity	**$ 157,289**	**$ 1,865**	**1.19 %**	$ 150,168	$ 2,017	1.34 %
Net interest income		**$ 3,818**			$ 3,848	
As a percentage of average assets			**2.42 %**			2.57 %

TABLE 5 – IMPACT OF CHANGES IN VOLUMES AND RATES ON NET INTEREST INCOME
For the year ended December 31
(in millions of dollars and as a percentage)

	2013			Increase (decrease)	
	Change in average volume	**Change in average rate**	**Interest**	Average volume	Average rate
Assets					
Securities, cash and deposits with financial institutions	**$ (336)**	**(0.40)%**	**$ (78)**	$ (7)	$ (71)
Loans	**8,079**	**(0.34)**	**(104)**	353	(457)
Change in interest income			**(182)**	346	(528)
Liabilities					
Deposits	**6,032**	**(0.17)**	**(143)**	88	(231)
Borrowings and subordinated bonds	**$ (105)**	**(0.11)**	**(9)**	(5)	(4)
Change in interest expense			**(152)**	83	(235)
Change in net interest income			**$ (30)**	$ 263	$ (293)

Net premiums

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, rose $432 million, or 8.4%, to total $5,558 million for the year ended December 31, 2013.

Wealth Management and Life and Health Insurance segment

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of $3,655 million for the year ended December 31, 2013, compared to $3,366 million in 2012, for an increase of 8.6%, generated mostly by business development. Net insurance premiums were up $249 million, while annuity premiums were up $40 million.

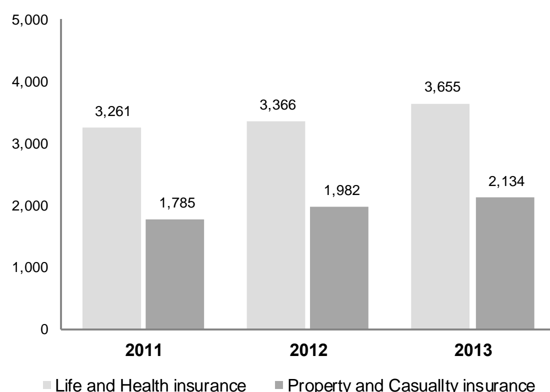
Premium growth is mainly attributable to group insurance operations, with a $228 million increase. Insurance premiums were up 6.6% in Quebec and 11.2% in the other Canadian provinces. Premiums for group insurance purchased by Desjardins Group members rose 6.1%, while group insurance premiums from other client bases rose 9.9%.

Premium volume for individual insurance was $554 million, a $21 million increase compared to 2012. Premium volume from the network of financial security assigned to Desjardins caisses increased by 7.3% compared to the previous year. Premiums from non-caisse distribution networks were up 3.4% to total $335 million, while premiums related to products marketed via direct distribution posted 1.2% growth to stand at $90 million.

Property and Casualty Insurance segment

The overall operations of the Property and Casualty Insurance segment generated net premium income of $2,134 million in 2013, compared to $1,982 million in 2012, a 7.7% increase stemming mainly from an increase in the number of policies issued as a result of multiple growth initiatives implemented across all market segments and regions. Western Financial Group Inc. contributed $130 million to net premium income in 2013.

NET PREMIUMS[1]
(in millions of dollars)



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

Other operating income

TABLE 6 – OTHER OPERATING INCOME
For the years ended December 31
(in millions of dollars)

	2013	2012	2011
Deposit and payment service charges	**$ 498**	$ 499	$ 512
Lending fees and credit card service revenues	**549**	517	483
Brokerage and investment fund services	**855**	731	658
Management and custodial service fees	**300**	283	298
Foreign exchange income	**61**	63	72
Other	**312**	233	141
Total other operating income	**$ 2,575**	$ 2,326	$ 2,164

Other operating income stood at $2,575 million for 2013, an increase of $249 million, or 10.7%, compared to the previous year.

Lending fees and credit card service revenues, consisting mainly of income from the various payment solutions offered by Card and Payment Services, totalled $549 million in 2013, up by $32 million, or 6.2%, compared to the previous year as a result of growth in business volume. Income from brokerage and investment fund services amounted to $855 million, an increase of $124 million, or 17.0%, chiefly due to growth in brokerage operations, including those of Qtrade Canada Inc., a company in which Desjardins Group acquired an interest in the second quarter of 2013, as well as a larger volume of assets under management, an increase in commissions from insurance sales and higher income related to various programs.

Income under “Other” increased by $79 million, or 33.9%, compared to 2012, to total $312 million. The increase was partly due to income generated by the growth in the share in income of limited partnerships and the recent acquisitions as well as higher income related to securitized asset management. This income was however offset by the lower income from other financial instruments used as part of securitized asset management, which are presented in net interest income and under "Net income on securities at fair value through profit or loss".

INVESTMENT INCOME

TABLE 7 – INVESTMENT INCOME
For the years ended December 31
(in millions of dollars)

	2013	2012	2011
Net income (loss) on securities at fair value through profit or loss	**$ (667)**	$ 674	$ 1,706
Net income on available-for-sale securities	**221**	268	299
Net other investment income	**229**	236	264
Total investment income (loss)	**$ (217)**	$ 1,178	$ 2,269

Investment income was down $1,395 million, or 118.4%, compared to the previous year and amounted to a $217 million loss.

Net income on securities at fair value through profit or loss was down $1,341 million, or 199.0%, to stand at a loss of $667 million for 2013. The decrease was chiefly due to the reduction in investment income related to life and health insurance operations resulting from the $1,207 million change in the fair value of assets backing liabilities, which was partly offset by changes in actuarial liabilities and the unfavourable $111 million change in the fair value of the asset-backed term note (ABTN) portfolios net of hedging positions. Net income on available-for-sale securities and net other investment income decreased as realized gains on disposal of investments were lower in 2013 than the previous year.

TOTAL INCOME

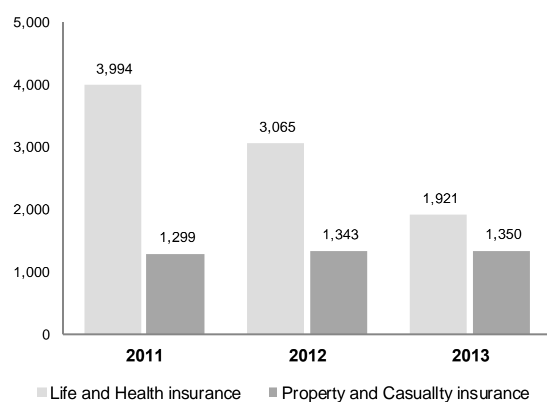
Total income, comprising net interest income, net premiums, other operating income and investment income, amounted to $11,734 million, a decrease of $744 million, or 6.0%, compared to 2012.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $277 million, up $36 million, or 14.9%, compared to 2012, due to loan portfolio growth. In spite of this increase, Desjardins Group's loan portfolio continued to be of excellent quality. As at December 31, 2013, gross impaired loans outstanding stood at $459 million, down slightly by $7 million from December 31, 2012. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.33% as at December 31, 2013, comparable to fiscal 2012. Desjardins Group's ratio remains one of the best in the Canadian banking industry.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE AND INVESTMENT CONTRACT LIABILITIES

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE AND INVESTMENT CONTRACT LIABILITIES(1)
(in millions of dollars)



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

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities totalled $3,259 million, down $1,138 million, or 25.9%, compared to 2012.

Wealth Management and Life and Health Insurance segment

Expenses for the Wealth Management and Life and Health Insurance segment amounted to $1,921 million, down $1,144 million, or 37.3%, compared to 2012, mainly as a result of a $1,334 million decrease in actuarial liabilities presented under "Insurance and investment contract liabilities", which includes the $1,207 million decrease in the fair value of investments. In addition, changes in valuation assumptions in the normal course of business reduced expenses by $56 million, whereas they had pushed them up by $60 million in 2012. On the other hand, these expenses were affected by an increase in benefits related to the growth in business volumes.

Property and Casualty Insurance segment

Expenses for the Property and Casualty Insurance segment totalled $1,350 million in 2013, which is comparable to 2012. This stability is due to the combined effect of business growth and an improvement in the loss ratio, which decreased from 69.1% in 2012 to 65.5% in 2013. This improvement was mainly attributable to a reduction in the automobile loss experience in Ontario and an increase in the interest rates used to determine provisions, in spite of the deterioration in the property and casualty loss experience in Ontario.

NON-INTEREST EXPENSE

Non-interest expense totalled $6,229 million, compared to $5,908 million in 2012, for an increase of $321 million, or 5.4%. The significant efforts made by the caisse network and the components to enhance productivity contained this increase resulting from sustained business growth.

SALARIES AND FRINGE BENEFITS

Salary and fringe benefit expenses rose $95 million, or 3.1%, to $3,125 million in 2013, mainly attributable to business growth, which increased the number of employees, as well as annual salary indexing and fringe benefits. This increase was mitigated by a reduction in pension expense. This item represented 50.2% of total non-interest expense, down slightly compared to 2012. For 2013, salaries amounted to $2,541 million, up 6.1% compared to $2,396 million in 2012.

The ratio of fringe benefits to total base compensation was down from 26.5% in 2012 to 23.0% in 2013, primarily because of the decrease in pension expense.

OTHER EXPENSES

For 2013, expenses related to premises, equipment and furniture (including depreciation) totalled $570 million, compared to $519 million in 2012, an increase of $51 million, or 9.8%, mainly as a result of the purchase of computer hardware. Communications expenses, which include telephone systems, advertising, courier services and stationery costs, were $287 million in 2013, an increase of $16 million, or 5.9%, compared to 2012, due to the cost of various advertising campaigns conducted in 2013 to support business development.

Other expense categories totalled $2,015 million, for an increase of $155 million, or 8.3%, compared to 2012. This increase is due, among other things, to the reversal of provisions related to the investment portfolio in 2012, which had a significant downward impact on non-interest expense, and greater use of the BONUSDOLLARS Rewards Program by Card and Payment Services clients. Growth in business and the integration of non-interest expense following the acquisition of an interest in Qtrade Canada Inc. also pushed up commission expenses.

PRODUCTIVITY INDEX

The productivity index, which is the ratio of non-interest expense to total income, net of claims, benefits, annuities and changes in insurance and investment contract liabilities, stood at 73.5% for 2013, compared to 73.1% for 2012. The significant efforts made by the caisse network and the components to enhance productivity as a result of tight control of non-interest expense in a sustained business growth environment were offset by the stability of net interest income as well as the effect on the productivity index of the non-recurring reversal of provisions related to the investment portfolio in 2012 and lower investment income in 2013.

TABLE 8 – NON-INTEREST EXPENSE
For the years ended December 31
(in millions of dollars and as a percentage)

	2013	2012[1]	2011[1]
Salaries and fringe benefits			
Salaries	**$ 2,541**	$ 2,396	$ 2,321
Fringe benefits	**584**	634	587
	3,125	3,030	2,908
Premises, equipment and furniture, including depreciation	**570**	519	526
Service agreements and outsourcing	**232**	228	270
Communications	**287**	271	247
Other	**2,015**	1,860	1,798
Total non-interest expense	**$ 6,229**	$ 5,908	$ 5,749
Desjardins Group productivity index[2]	**73.5%**	73.1%	72.7%

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.
(1) See "Basis of presentation of financial information" on page 15.

INCOME TAXES AND INDIRECT TAXES

Desjardins Group is a cooperative financial group, and each of its entities that operate as a financial services cooperative—mainly the caisses, *Caisse centrale Desjardins*, 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 financial institutions, which are large public corporations. Each caisse is therefore subject to the private company tax regime and benefits, when tax rules allow it, from certain preferential tax rates under the credit union tax regime. Legislators have adapted this regime to allow the caisses to accumulate a sufficient general reserve to serve as a capital base for the protection of members' deposits. When the general reserve reaches the legislated limit, the caisse is subject to the same tax rates as a large corporation. Further to legislative amendments made in 2013, the preferential tax rates set out in the federal credit union tax regime will be phased out between now and 2017.

Desjardins entities that are not financial services cooperatives are subject to the large corporation tax regime.

Income taxes on surplus earnings before member dividends presented in the Combined Statements of Income totalled $439 million in 2013, an increase of $11 million, or 2.6%, compared to 2012. The effective tax rate was 22.3% for the year ended December 31, 2013, which was comparable to the 2012 rate. Note 27, "Income taxes on surplus earnings", to the Combined Financial Statements of Desjardins Group 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 2013, Desjardins entities paid $960 million in indirect taxes, compared to $817 million in 2012.

COMPARISON OF 2012 AND 2011

The following analysis presents a comparison between the results for the years ended December 31, 2012 and 2011. It should be noted that 2012 and 2011 data have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, Changes in accounting policies and disclosures", to the Combined Financial Statements.

For 2012, Desjardins Group posted surplus earnings before member dividends of $1,504 million, which was comparable to the amount for 2011. Return on equity was 10.2%, compared to 12.0% in 2011. This decline was caused by the increase in equity as a result of the issuance of $1.0 billion of capital shares by the Federation and growth in undistributed surplus earnings.

These results included a contribution of $811 million, or 53.9% of 2012 surplus earnings, made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance and the Property and Casualty Insurance segments contributed $231 million and $200 million, respectively, representing 15.4% and 13.3% of surplus earnings. The operations grouped under the Other category made a contribution of $262 million, or 17.4%, of surplus earnings.

In 2012, operating income, comprising net interest income, net premiums and other operating income, totalled $11,300 million, up $364 million, or 3.3%, compared to 2011. Net interest income was $3,848 million in 2012, down $73 million, or 1.9%, from the previous year. Expressed as a percentage of average assets, this net margin was down 22 basis points. Accordingly, the change in interest rates and its effect on the credit, investment and savings products and maturities selected by members shaved 28 basis points off the average return on loans, while the average cost of deposits decreased 6 points.

Net premiums, comprising life and health insurance, annuity and property and casualty insurance premiums, rose $275 million, or 5.7%, to total $5,126 million for the year ended December 31, 2012. Net premiums from life and health insurance posted an increase of 5.3% compared to 2011, to stand at $3,099 million. Property and casualty insurance operations generated net premium income of $1,982 million in 2012, compared to $1,785 million in 2011, an 11.0% increase.

Other operating income stood at $2,326 million for fiscal 2012, up $162 million, or 7.5%, over 2011. Lending fees and credit card service revenues, consisting mainly of income from the various payment solutions offered by Card and Payment Services, had totalled $517 million in 2012, up by $34 million, or 7.0%, over 2011, as a result of growth in business volume. Income from brokerage and investment fund services amounted to $731 million, an increase of $73 million, or 11.1%, chiefly due to growth in average assets under management. Income presented under “Other” increased by $92 million, or 65.2%, over 2011, to total $233 million. The increase was partly due to higher commission income from the insurance sales generated by Western Financial Group Inc., a subsidiary acquired in the second quarter of 2011.

Investment income totalled $1,178 million for 2012, a decrease of $1,091 million, or 48.1%, compared to the previous year. Net income on securities at fair value through profit or loss was down $1,032 million, or 60.5%, to $674 million in 2012. The decrease was chiefly due to the $1,073 million reduction in investment income related to life and health insurance operations resulting from the change in the fair value of assets backing liabilities, which was partly offset by changes in actuarial liabilities. This decrease was mitigated by the $154 million favourable change in the fair value of the ABTN portfolios net of hedging positions. Net income on available-for-sale securities and net other investment income had decreased as realized gains on disposal of investments were lower in 2012 than in 2011.

The provision for credit losses totalled $241 million, up $4 million, or 1.7%, compared to 2011 as a result, among other things, of the increase in loans outstanding for credit card financing in 2012, which was offset by adjustments related to changes in the parameters of the provision. Desjardins Group's loan portfolio continued to be of excellent quality in 2012. As at December 31, 2012, gross impaired loans outstanding stood at $466 million, down $54 million since December 31, 2011.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities had decreased by $895 million, or 16.9%, to $4,397 million as at December 31, 2012. The Wealth Management and Life and Health Insurance segment had expenses of $3,065 million, down $929 million, or 23.3%, compared to 2011, mainly as a result of a $987 million decrease in changes in actuarial liabilities presented under “Insurance and investment contract liabilities”, attributable in particular to the fluctuation in the fair value of investments. Changes in valuation assumptions in the normal course of business pushed expenses up by $60 million, whereas they had decreased by $43 million in 2011. Gains related to underwriting experience in individual insurance narrowed the unfavourable difference created by these changes in assumptions. Expenses for the Property and Casualty Insurance segment were $1,343 million, compared to $1,299 million in 2011, for an increase of $44 million, or 3.4%. The loss ratio was 69.1% in 2012, compared to 73.1% in 2011.

Non-interest expense totalled $5,908 million, compared to $5,749 million in 2011, an increase of $159 million, or 2.8%, essentially reflecting the increase in salaries as a result of business growth and annual indexing. This increase was offset, however, by a reduction in provisions related to the investment portfolio.

2.2 ANALYSIS OF BUSINESS SEGMENT RESULTS

Desjardins Group's financial reporting is organized by operations, which are defined based on the needs of its members and clients, and by the markets in which it operates, thereby reflecting its internal management structure. Desjardins Group's financial results are therefore divided into the following three business segments: Personal Services and Business and Institutional 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 segment.

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.

2.2.1 PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

PROFILE

The Personal Services and Business and Institutional Services segment offers Desjardins Group's members and clients a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions and cooperatives through the Desjardins caisse network, its business centres as well as the major accounts and capital markets teams. Its offering includes regular and convenience transactions, securities investments, payment and credit cards, financing, specialized services, access to capital markets, development capital, business ownership transfers and advisory services.

It also makes its products and services available through complementary distribution networks and mortgage representatives, by phone, online, via applications for mobile devices, as well as ATMs.

ACTIVITIES

Regular, convenience and savings activities include transactions carried out at the caisse counter, requests for information and specialty services, such as drafts and safety deposit boxes. They also include variable savings, such as chequing accounts, regular savings accounts and term savings. In addition, this segment supports businesses of all sizes through every stage of their growth in the Quebec, Canadian and international markets.

Financing activities include the following:

Residential mortgage loans, 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 and student loans.

Commercial credit, which makes it possible to offer financing in the commercial and industrial, agricultural and agri-food, public and institutional sectors, as well as for commercial real estate.

The activities of **Card and Payment Services** include card payment services for individuals and businesses, merchant payment services, financing solutions (Accord D) and point-of-sale financing for automobiles and durable goods.

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

The **development capital and business ownership transfer** activities enable investments, both directly and through funds, in Quebec cooperatives and SMEs with promising projects and guide them through every stage of their growth. Through the assets it manages, Desjardins Venture Capital Inc. supports the growth of businesses, cooperatives and funds all across Quebec.

Services that complement financing include international services, cash management services, custodial and trust services, as well as payroll and human resources solutions.

Access Services activities make products and services available at anytime, anywhere in the world, by phone, online and via applications for mobile devices.

INDUSTRY

The Canadian banking services industry represents an outstanding volume of $2,307 billion in financing and $1,167 billion in on-balance sheet savings, both variable- and fixed-rate.

In 2013, demand stalled in Quebec for residential mortgage loans, in parallel with the slowdown in the housing sector. The market turned in an annual increase estimated at 6.1% as at December 31, 2013, compared to 8.1% at the end of 2012. Annual growth in consumer loans was estimated at 6.1% as at December 31, 2013, an increase over the end of 2012, when it was 3.8%. Demand for commercial and industrial credit in Quebec decreased as well in 2013, with annual growth estimated at 5.1% as at December 31, 2013, compared to an increase of 10.3% at the end of 2012. In agricultural loans, Quebec recorded annual growth estimated at 4.0% as at December 31, 2013, compared to 2.4% a year ago.

On-balance sheet savings grew 3.0% in Quebec during the year, compared to an increase of 3.8% in 2012. Low interest rates and the solid stock market performance made on-balance sheet savings products slightly less attractive to individuals.

Certain risks and concerns, particularly those related to the international situation, influence the economic environment in which this segment operates in Canada. Key rates in Canada have not budged since September 2010, and even if the Bank of Canada intends to eventually raise them, they will likely remain where they are for now, given the current economic climate in Canada, in spite of the improved growth outlook for the Canadian economy in 2014. This will keep up the pressure on the industry's interest margins.

This economic environment is changing and competitive. The already widespread competition has intensified in the industry and is creating added pressure in Quebec. Desjardins Group's competitors have been energetic in launching strategies to acquire client segments and have implemented development strategies for points of service and other channels, thereby expanding their offer through virtual and complementary channels. Several banks have invested in marketing to promote their presence in communities as well as the customer experience they offer. In addition, competition among commercial lenders continued to be fierce in 2013, and a general easing in the credit conditions offered to Canadian businesses has been noted since the end of the financial crisis of 2008.

The financial services industry remains concerned with customer satisfaction. Customers have become more and more demanding, especially since the financial crisis, and expect close, high-quality relationships with their financial institutions, competitively priced products and services, and easier access to credit. The key success factors for thriving in this environment are service quality, productivity, and tailoring products to the specific needs of individual client segments.

The industry is also investing considerable effort in technology in order to better meet the needs of customers. A number of players have been investing heavily in their online products and services, particularly those directly related to savings and loan transactions and specialized services. In addition, online tools are being introduced for businesses to improve the management of their own operations and thereby increase their productivity.

In spite of this strong competition, Desjardins Group remains a leader in services to individuals and businesses. As Quebec's leader in residential mortgages and an important player in consumer loans, including point-of-sale financing, with market shares of 35.4% and 23.0%, respectively, Desjardins Group is also the number one credit and debit card issuer in Quebec, with more than 5.3 million credit cards and 5.7 million debit cards issued by Card and Payment Services in Canada. In on-balance sheet savings, Desjardins Group once again comes in at the top of the list with 43.3% of the market. Finally, with market shares of 23.2% and 42.3% in commercial and industrial credit and agricultural credit, respectively, Desjardins Group is a leader in the business market.

2014 STRATEGY AND PRIORITIES

The Personal Services and Business and Institutional Services segment intends to strengthen its lead in financing, savings and transactional services, while increasing satisfaction among Desjardins Group members and clients. This strategy will rely on offering high-quality and innovative products and services with respect to financing, savings, payments, regular transactions and convenience services, and remaining highly accessible. It also aims to contribute to the sustainable economic growth of the businesses and communities it serves. Its strategy is based on establishing relationships of trust with its members, clients and partners, and on a sustainable development philosophy. The strategy is supported by strong foundations in the regions and long-standing commitments in the socio-economic community.

The segment's priorities in 2014 are to deliver superior services to its members and clients, to achieve sustained growth, particularly in certain high-potential markets, and to continue its efforts to enhance efficiency. More specifically, this segment will aim to:

- Increase the number of members and clients, the number of products owned and business volumes by using an approach tailored to client needs
- Constantly strive to make the financing offer more competitive while maintaining growth
- Boost growth in the payments sector to maintain market share
- Develop automated services to make it simpler and easier for members and clients to access Desjardins products and services, particularly savings products
- Create value for members and clients by focusing on satisfaction and building lasting and evolving relationships with them
- Maximize its business ownership transfer offering, particularly through better support to buyers and sellers
- Maintain strong leadership in financing by enhancing support to small businesses and developing business with specific agricultural client bases
- Develop the international product and service offering for Canadian businesses
- Continue efforts to improve efficiency, particularly through continued investments in technology and process optimization

ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES SEGMENT

TABLE 9 – PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES – SEGMENT RESULTS
For the years ended December 31
(in millions of dollars)

	2013	2012(1)	2011(1)
Net interest income	**$ 3,678**	$ 3,690	$ 3,715
Other operating income	**1,764**	1,666	1,623
Operating income	**5,442**	5,356	5,338
Investment income	**51**	58	106
Total income	**5,493**	5,414	5,444
Provision for credit losses	**277**	241	236
Non-interest expense	**4,189**	4,112	3,995
Income taxes on surplus earnings	**220**	250	294
Surplus earnings before member dividends	**807**	811	919
Provision for member dividends, net of tax recovery	**126**	206	230
Net surplus earnings for the year after member dividends	**$ 681**	$ 605	$ 689
Of which:			
Group's share	**$ 679**	$ 604	$ 688
Non-controlling interests' share	**2**	1	1

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.

Comparison of 2013 and 2012

For 2013, the Personal Services and Business and Institutional Services segment reported surplus earnings before member dividends of $807 million, comparable to 2012.

Operating income amounted to $5,442 million, up $86 million, or 1.6%. It was impacted by a $12 million, or 0.3%, decrease in net interest income. In spite of growth of $8.3 billion, or 6.4%, across the loan portfolio over the year, fierce competition in the market that compressed margins and low interest rates had an unfavourable effect on net interest income. Further information on net margin can be found in the subsection "Net interest income" on pages 25 and 26.

Other operating income was up $98 million, or 5.9%, compared to 2012, to total $1,764 million, primarily because of growth in credit card and point-of-sale financing activities, an increase in caisse network sales of Desjardins Group products designed by the subsidiaries, and higher income from various programs.

Investment income was $51 million, down $7 million, or 12.1%, compared to the year ended December 31, 2012. The small decline was largely due to lower gains on disposal of securities related to liquidity surpluses and investments of the caisse network as well as the non-recurring disposal of an investment that had generated a $21 million gain in the first quarter of 2012. This decline was offset by higher trading income in 2013 arising from increased business opportunities for the Fixed Income Group as a result of investors being more active on the market as the global economy showed signs of recovery.

Total income for the segment was $5,493 million, an increase of $79 million, or 1.5%, compared to 2012.

The provision for credit losses was $277 million in 2013, up $36 million, or 14.9%, compared to 2012, primarily because of growth in the loan portfolio. In spite of this increase, the Personal Services and Business and Institutional Services segment's loan portfolio continued to be of excellent quality. As at December 31, 2013, gross impaired loans outstanding stood at $457 million, down slightly by $4 million since December 31, 2012. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.33% at the end of 2013, an improvement over the ratio of 0.36% as at December 31, 2012.

Non-interest expense totalled $4,189 million, an increase of $77 million, or 1.9%, compared to 2012. This increase is mainly attributable to business growth, which increased the number of employees, as well as annual salary indexing, fringe benefits, the expansion of the BONUSDOLLARS Rewards Program and higher commission expenses related to various programs. The effect of this growth was contained, however, by the decrease in pension expense.

2.2.2 WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

PROFILE

The Wealth Management and Life and Health Insurance segment offers Desjardins Group members and clients a complete range of products and services tailored to the changing wealth management and financial security needs of individuals, groups, businesses and cooperatives.

Wealth Management includes investment fund and guaranteed investment manufacturing and distribution activities, group retirement savings activities as well as full-service and direct (online) securities brokerage. It also includes private management services and trust services.

The insurance operations of Desjardins Financial Security Life Assurance Company generate premium and annuity income of over $3.6 billion from the life and health insurance products and retirement savings products it offers to individuals and groups. This subsidiary offers its products and services to both Desjardins Group members and other client bases across Canada.

Wealth Management and Life and Health Insurance products and services are distributed by advisors and financial planners in the Desjardins caisse network and the Private Management sector, financial security representatives, life and health insurance and employee benefit agents and brokers, and securities brokers. Some product lines are also distributed directly online, via applications for mobile devices and through client care centres.

ACTIVITIES

Insurance activities for individuals and business people offer these clients insurance products that protect their quality of life, their health, their families and their loved ones, and also help them face life's unforeseen events.

Group insurance plan activities meet the needs of businesses, cooperatives and organizations of all sizes with solutions that are tailored to their specifications by group plan implementation and administration experts.

Savings activities for individuals and business people feature a comprehensive range of financial security products to help clients with projects such as preparing for retirement, planning trips and financing their children's education.

Specialized savings activities include specialized savings and investment products, such as investment funds and other investment solutions as well as market-linked guaranteed investments to meet the needs of caisse members and clients of various complementary networks.

Group retirement savings activities are geared to the needs of business members and other clients in the area of employee retirement savings plans.

Brokerage and private management activities include full-service and online brokerage for members and clients, private management and management of investment companies of large business families with complex needs.

INDUSTRY

Canadian households' discretionary net worth totalled $3,118 billion at the end of 2012. These assets have grown annually at 4.1% in the past five years, and 6.6% in the past year, primarily as a result of the stock market's performance.

All major banking and life and health insurance financial groups as well as investment fund companies have a wealth management sector that designs and distributes diversified products and services to meet the investment and financial, tax and estate planning needs of affluent clients. Changes in the socio-demographic profile of the Canadian population, favouring a higher concentration of wealth in these segments, have led the major players to outdo each other in terms of their product and service offer so that they can win over and retain these demanding clients with their diverse needs.

The Canadian life and health insurance industry recorded premium income of $83.3 billion in 2012. Some 21 million Canadians provide financial security for their families through individual or group life insurance, representing the equivalent of $3.9 billion in total coverage. Benefits paid by the industry in 2012 totalled $63.6 billion. In 2013, the industry once again had to deal with low long-term interest rates and weak economic growth. In spite of this, it has grown 2.5% in the past five years across Canada.

Advisors, whether "mobile" or working in an establishment, still play a key role in providing advice, making sales and building relationships in this industry. In such an environment, the key success factors are related to products tailored to client segments' specific and constantly changing needs, customized advice, service quality and productivity. The industry is also proactively meeting certain clients' desire for autonomy and is diversifying the means to access services by making the most of virtual interfaces.

The top five Canadian life and health insurers accounted for 76.0% of the market in 2012, which shows that the industry is highly consolidated. Desjardins Financial Security Life Assurance Company ranked fourth in Canada.

2014 STRATEGIES AND PRIORITIES

The Wealth Management and Life and Health Insurance segment reiterates its priority to ensure the profitable growth of its operations, which is aimed at positioning it as a leader in wealth management for affluent individuals and entrepreneurs in Quebec through a unique offer combining investments, insurance and advisory services. It intends to maintain its leadership position in life and health insurance in both the group and personal markets through accelerated development across Canada while preserving its excellent financial strength.

This priority is based on strategies primarily focused on improving service offers to better meet the expectations of each client segment and is intended to provide higher quality, distinctive service and to increase the satisfaction of caisse members and clients. Growth in the Wealth Management and Life and Health Insurance segment will come from better use of its distribution strengths by taking full advantage of all the possibilities provided by Desjardins Group, the marketing of new targeted offers as well as acquisition and partnership opportunities in designated priority areas. By setting up streamlined and automated operational processes, this segment will reduce its unit costs and achieve efficiency gains that will bring benefits to members and clients.

Its priorities for 2014 are described below.

Wealth Management

- Offer caisse members an exceptional client experience by applying an integrated financial planning and advisory service approach tailored specifically to the expectations of priority client bases
- Continue to develop the savings and investment product offer so it is adapted to the specific needs of each client segment by taking its diversified distribution networks into consideration
- Improve the characteristics of this offer and the related virtual functionalities
- Review the business and technology architecture of investment operations so as to improve the quality of service and achieve efficiency gains

Life and Health Insurance

- Accelerate growth across Canada by optimizing the potential of each distribution network and capitalizing on competitive service offers and solid business partnerships
- Finalize the acquisition of the Canadian businesses of State Farm and prepare for the integration scheduled for January 2015
- Constantly focus on the key moments associated with our individual and group insurance service offer to always better meet the specific expectations of members and clients and thereby ensure their continued satisfaction
- Continue to transform the processes related to client service delivery to support its performance and meet the needs of members and clients to their complete satisfaction

ANALYSIS OF SEGMENT FINANCIAL RESULTS

TABLE 10 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE – SEGMENT RESULTS

For the years ended December 31
(in millions of dollars)

	2013	2012[1]	2011[1]
Net interest income	**$ 3**	$ 3	$ 4
Net premiums	**3,655**	3,366	3,261
Other operating income	**1,014**	880	830
Operating income	**4,672**	4,249	4,095
Investment income (loss)	**(452)**	734	1,807
Total income	**4,220**	4,983	5,902
Claims, benefits, annuities and changes in insurance and investment contract liabilities	**1,921**	3,065	3,994
Non-interest expense	**1,777**	1,628	1,570
Income taxes on surplus earnings	**133**	59	65
Surplus earnings before member dividends	**389**	231	273
Provision for member dividends, net of tax recovery	**—**	—	7
Net surplus earnings for the year after member dividends	**$ 389**	$ 231	$ 266
Of which:			
Group's share	**$ 392**	$ 183	$ 251
Non-controlling interests' share	**(3)**	48	15

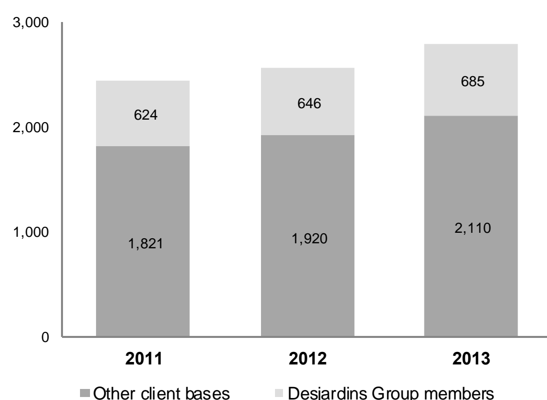
(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.

TABLE 11 – EXPENSES ATTRIBUTABLE TO POLICYHOLDERS

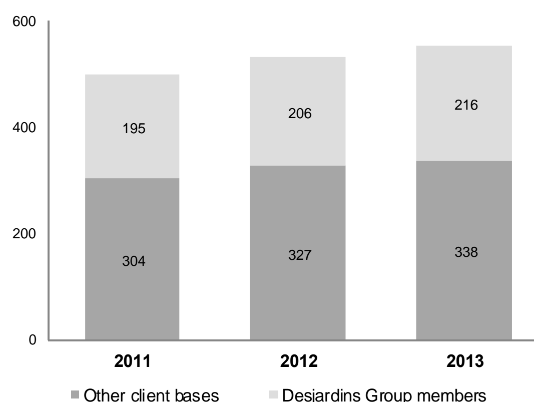
For the years ended December 31
(in millions of dollars)

	2013	2012	2011
Insurance and annuity benefits	**$ 2,602**	$ 2,436	$ 2,378
Changes in actuarial liabilities	**(826)**	508	1,495
Interests of policyholders, refunds and other	**145**	121	121
Total	**$ 1,921**	$ 3,065	$ 3,994

GROUP INSURANCE PREMIUMS BY DISTRIBUTION NETWORK
(in millions of dollars)



INDIVIDUAL INSURANCE PREMIUMS BY DISTRIBUTION NETWORK
(in millions of dollars)



Comparison of 2013 and 2012

For 2013, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of $389 million, up $158 million, or 68.4%, compared to 2012, essentially due to life and health insurance operations. The higher profitability of these operations was mainly attributable to business growth, market conditions that were favourable to experience gains throughout 2013, as well as to the change in certain actuarial assumptions.

Operating income amounted to $4,672 million, up $423 million, or 10.0%, compared to 2012. Net premiums were impacted by a $249 million increase in net insurance premiums and a $40 million increase in annuity premiums, and totalled $3,655 million for 2013. Net insurance premiums were up 8.0% to total $3,349 million. In Quebec, net insurance premiums grew by 6.6%, while in the rest of Canada, they shot up by 11.2%, mainly as a result of group insurance operations, whose increase was $228 million. Premiums for group insurance purchased by Desjardins Group members increased by 6.1% and group insurance premiums from other client bases were up 9.9%.

Other operating income grew by $134 million or 15.2%, to total $1,014 million for 2013, chiefly as a result of the growth in average assets under management from the sale of various products and the recognition of brokerage income following the acquisition of an interest in Qtrade Canada Inc. in the second quarter of 2013.

Investment income was down $1,186 million primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This decrease was offset by the change in actuarial liabilities, leading to lower expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities. The increase in medium- and long-term interest rates in 2013 mainly accounted for these changes.

The segment's total income was $4,220 million, down $763 million, or 15.3%, compared to 2012.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities stood at $1,921 million, down $1,144 million, or 37.3%, compared to the previous year. This change essentially results from a $1,334 million decrease in the actuarial liabilities recognized under "Insurance and investment contract liabilities", which includes the drop of $1,207 million in the fair value of investments. Changes in valuation assumptions made in the normal course of business reduced expenses by $56 million, while they had pushed them up by $60 million in 2012. However, these expenses were affected by the increase in benefits related to higher business volumes.

Non-interest expense was $1,777 million as at December 31, 2013, for an increase of $149 million, or 9.2%, compared to 2012. This rise was mainly due to a higher remuneration paid as a result of an increase in Desjardins Funds outstanding, higher salaries and fringe benefits, and the expenses related to the growth in brokerage activities arising from Qtrade Canada Inc. In addition, it should be noted that the non-recurring reversal of provisions related to the investment portfolio had reduced non-interest expense in 2012.

2.2.3 PROPERTY AND CASUALTY INSURANCE SEGMENT

PROFILE

The Property and Casualty Insurance segment provides insurance products allowing Desjardins Group members and clients to protect themselves against disasters. It includes the operations of Desjardins General Insurance Group Inc. and those of Western Financial Group Inc.

Desjardins General Insurance Group Inc. directly offers the general public and members of partner groups across Canada a line of home and automobile insurance products and provides businesses in the Quebec market with insurance products.

Desjardins General Insurance Group's products are distributed through property and casualty (P&C) insurance agents in the Desjardins caisse network, a number of client care centres (call centres) and business centres, through an exclusive agent network in the field, online and via applications for mobile devices.

Western Financial Group Inc. operates an extensive insurance product distribution network serving more than 790,000 clients in western Canada. Its P&C insurance products are distributed to individuals and businesses through a network of brokers, as well as to the general public online and through customer care centres, under the Western Direct Insurance brand. Western Financial Group Inc. also distributes its own life insurance and pet insurance products.

Desjardins General Insurance Group Inc., which has more than 1.96 million clients, markets its products to the Canada-wide individual market under the Desjardins General Insurance Group Inc. banner, and to the group market—including members of professional associations and unions, and the employers' staff—under the banner of The Personal.

The Property and Casualty Insurance segment is also active on the white label market, notably with well-established Canadian financial institutions, as well as with Western Financial Group Inc., for the direct insurance offer launched in certain target urban markets under the Western Direct Insurance brand.

ACTIVITIES

Automobile insurance operations, including motorcycle and recreational vehicle insurance, offer insurance coverage tailored to clients' specific needs and their vehicle features. Automobile insurance also includes the necessary coverage to obtain financial compensation for bodily injury in provinces where such coverage is not provided under a public plan.

Property insurance operations offer owners and tenants insurance coverage for primary and secondary residences to protect their physical property. In addition, with all-risk insurance coverage and optional coverage, they can obtain comprehensive protection tailored to their actual needs.

Business insurance operations meet the insurance requirements for commercial vehicles, commercial property and public liability for businesses in Quebec. Service is provided to the following sectors: service firms, retailers and wholesalers, garages, self-employed workers, general or specialized contractors, restaurants, commercial buildings, condominiums and apartment buildings.

Pet insurance operations cover the healthcare needs of domestic dogs and cats. Western Financial Group Inc. has the necessary licences to write this type of insurance in all provinces and territories of Canada.

Distribution operations within Western Financial Group Inc. comprise a network of independent brokers representing some 160 points of sale in British Columbia, Alberta, Saskatchewan and Manitoba. This network offers primarily P&C insurance products as well as other financial products such as life insurance.

INDUSTRY

The Canadian P&C insurance industry offers insurance coverage for vehicles, personal and commercial property, and public liability. In 2012, the total amount of direct premiums written was $44.3 billion, of which 62.3% was individual insurance and 37.7% was business insurance. For Canada as a whole, brokers have a market share of 65.4%, while direct writers have 24.2%, and exclusive agents hold 10.4%. In Quebec, direct writers have gained significant market share since their arrival and now hold 44.3% of the market, compared to 54.9% for brokers, and 0.8% for exclusive agents. Direct writers continue to post the strongest growth, both in Quebec and across Canada.

The Canadian P&C insurance market is mature and cyclical, with an average annual growth rate of 4.0% and an average return of 8.3% over the past five years. Its growth is influenced by the level of premiums, which varies in particular according to changes in the value of insured property and the loss experience in the different business lines. The industry's financial performance is dependent on the profitability of insurance operations, which in turn is based on the insurance premiums collected less claims and operating expenses, as well as on the investment portfolio return.

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

The Ontario market accounts for close to 50% of the gross premiums written in the Canadian industry, and automobile insurance is highly regulated in this province. In 2013, the end of the hard market cycle and a sharp decline in the number of clients served contributed to the slowdown in the growth of insurers underway since the middle of 2012. High claim costs remain a political issue, especially in the Toronto area. In August 2013, the Ontario government unveiled a new reform plan to continue to curb fraud and reduce claim costs. This plan calls for insurers to reduce their rates and includes an auto insurance premium reduction target of 15% by August 2015. Fraud is also still a major concern in Ontario, and insurers, the government and regulators continue to work together to find long-term solutions.

Consolidation in the Canadian P&C insurance market continues to increase. In 2012, the top 10 P&C insurers in Canada represented 63.0% of the market, up 5 basis points since 2008, while the top five insurers represented 42.0% of the market, compared to 36.0% in 2008. The trend toward consolidation in this market continues with large insurers' transactions putting additional pressure on their smallest rivals because of the advantages related to size.

The various industry players are competing on several fronts. Marketing efforts continue to be stepped up, with most investors investing heavily in advertising to increase visibility and market share. Significant investments are also being made to develop new technology infrastructure capacity and data management. In addition, a number of insurers are working to make their interaction with consumers easier through multi-channel logic so that an insurer can be contacted in the way consumers prefer (in person, by phone or online). Finally, the industry also tends to review its insurance processes to address loss experience developments and the coverage of new insurable risks.

The Property and Casualty Insurance segment relies on its operational excellence, and its key competencies in distribution, risk segmentation and claims management to enhance the value offered to members and clients. Desjardins Group holds an enviable place in the Canadian P&C insurance market, ranking 7th in 2012, as a result of 8.2% annual growth in its gross premiums written. In the past year, Desjardins General Insurance Group Inc. helped transform the face of the industry by launching a usage based insurance pricing program (UBIP). i.e. a pricing program based on how clients actually drive their cars. This type of auto insurance program is based on telematics and is offered for the first time on such a large scale across Canada.

2014 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's objective is to stand out by offering Desjardins Group members and clients close and committed service. Initiatives to enhance the client experience are pursued to increase the proportion of clients who would recommend doing business with Desjardins Group. These initiatives position the client experience at the heart of Desjardins's reflections so that clients can be transformed into genuine "promoters" of Desjardins Group.

This segment will also continue to implement its profitable growth plan to remain a leading industry player in Quebec and to strengthen Desjardins Group's position in Ontario and western Canada. In Quebec, the segment intends to pursue growth by fully leveraging its membership in Desjardins Group. In addition, it will continue to develop its Business and Institutional Services sector, in particular by expanding its product offer for medium-sized businesses. In Ontario, efforts will continue to raise the visibility of the Desjardins brand and make it more widely known. In western Canada, Western Financial Group Inc. will first focus on its organic growth plan and on increasing the visibility of its brand in its market.

Strategic priorities for 2014 to promote profitable growth are described below.

Desjardins General Insurance Group Inc.

- Improve client and member satisfaction by simplifying and enhancing their experience
- Finalize the acquisition of the Canadian businesses of State Farm and prepare for the integration scheduled for January 2015
- Continue to develop virtual distribution channels to meet members' and clients' growing expectations in this regard
- Continue to modernize systems by making major changes to client care centres
- Strengthen advantages in claims settlement management for the members' and clients' benefit

Western Financial Group Inc.

- Promote strong organic growth while remaining open to growth through acquisitions in order to remain the largest network of brokers in western Canada
- Implement joint development initiatives with Desjardins Group components to expand Desjardins Group's presence in western Canada

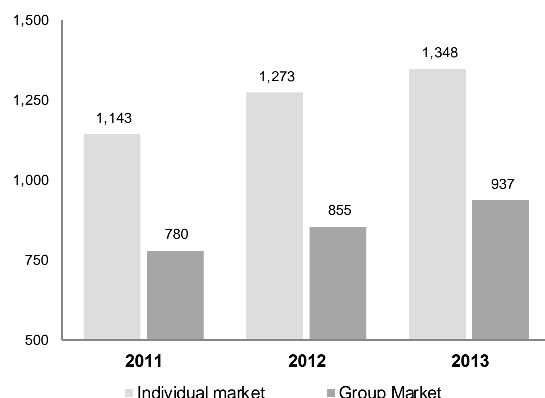
ANALYSIS OF SEGMENT FINANCIAL RESULTS

TABLE 12 – PROPERTY AND CASUALTY INSURANCE – SEGMENT RESULTS
For the years ended December 31
(in millions of dollars)

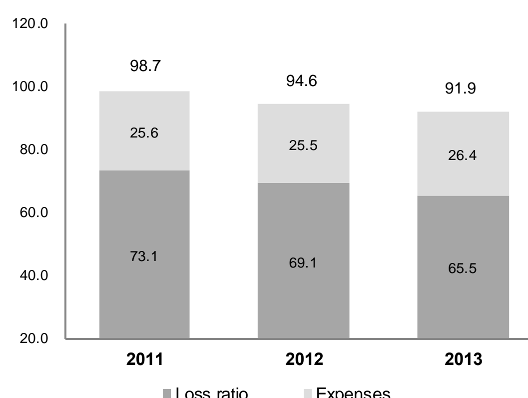
	2013	2012(1)	2011(1)
Net interest income	**$ 7**	$ 11	$ 11
Net premiums	**2,134**	1,982	1,785
Other operating income	**165**	133	87
Operating income	**2,306**	2,126	1,883
Investment income	**88**	142	165
Total income	**2,394**	2,268	2,048
Provision for credit losses	**—**	—	1
Claims, benefits, annuities and changes in insurance and investment contract liabilities	**1,350**	1,343	1,299
Non-interest expense	**766**	668	553
Income taxes on surplus earnings	**66**	57	53
Net surplus earnings for the year	**$ 212**	$ 200	$ 142
Of which:			
Group's share	**$ 193**	$ 179	$ 125
Non-controlling interests' share	**19**	21	17

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.

GROSS PREMIUMS WRITTEN
(in millions of dollars)



COMBINED RATIO(1)
(as a percentage of net premiums earned)



(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.

Comparison of 2013 and 2012

For 2013, the Property and Casualty Insurance segment posted net surplus earnings of $212 million, up $12 million, or 6.0%, compared to 2012, mainly as result of an increase in net premiums and a lower loss ratio.

Operating income totalled $2,306 million, up $180 million, or 8.5%, due to growth of $152 million, or 7.7%, in net premium income. This growth stemmed from an increase in the number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income was up $32 million, or 24.1%, to total $165 million, essentially attributable to higher commission income resulting partly from the acquisition of Coast Capital Insurance Services Ltd. early in the third quarter.

Investment income was down $54 million compared to 2012 basically due to the lower gains on disposal in 2013 and the drop in the value of fixed income securities as a result of the increase in interest rates in 2013, compared to a positive change in their value recorded in 2012. This decline in value was essentially offset by a corresponding decrease in claims due to a matching strategy.

The segment's total income was $2,394 million in 2013, up $126 million, or 5.6%, compared to 2012.

The Property and Casualty Insurance segment's claims totalled $1,350 million in 2013, an amount comparable to 2012. This stability resulted from the combined effect of business growth and an improved loss ratio for P&C insurers. The loss ratio was 65.5% in 2013, versus 69.1% in 2012, an improvement that was essentially attributable to a reduction in automobile loss experience in Ontario and an increase in the interest rates used to determine provisions, in spite of the deterioration in the property and casualty loss experience in Ontario.

Non-interest expense was $766 million in 2013, an increase of $98 million, or 14.7%, compared to the previous year, mainly as a result of salaries and fringe benefits, commissions and marketing expenses incurred to support and stimulate business growth in the segment. Professional fees incurred to acquire the Canadian businesses of State Farm also accounted for this increase.

2.2.4 OTHER CATEGORY

The Other category includes financial information that is not specific to any particular business segment. It mainly includes treasury activities related to *Caisse centrale Desjardins's* operations and financial intermediation between liquidity surpluses and needs of the caisses. This category also includes the support functions of the Federation, the operations of *Capital Desjardins inc.* and *Fonds de sécurité Desjardins*, as well as the operating results related to asset-backed term notes (ABTN) held by Desjardins Group. 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, the intersegment balance eliminations are classified in this category.

Desjardins Group does not consider an item-by-item comparative analysis of 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 before member dividends.

CONTRIBUTION TO SURPLUS EARNINGS

Net surplus earnings for the year before member dividends arising from operations grouped under the Other category totalled $122 million as at December 31, 2013, compared to $262 million in 2012.

2013

Net surplus earnings totalled $122 million and were mainly attributable to treasury activities, the $78 million increase in the fair value of the ABTN portfolio, net of hedging positions, as well as the surplus earnings from the *Fonds de sécurité Desjardins*' investments. These items were offset by the unfavourable net impact of changes in the fair value of derivatives used in hedging operations.

2012

Net surplus earnings of $262 million were mainly the result of the $159 million increase in the fair value of the ABTN portfolio, net of hedging positions, treasury activities, the surplus earnings from the *Fonds de sécurité Desjardins'* investments as well as an adjustment to the provisions related to the investment portfolio.

2.3 ANALYSIS OF FOURTH QUARTER RESULTS

TABLE 13 – QUARTERLY RESULTS FOR THE PREVIOUS EIGHT QUARTERS
(unaudited, in millions of dollars and as a percentage)

	2013				2012[(1)]			
	T4	T3	T2	T1	T4	T3	T2	T1
Net interest income	$ 956	$ 975	$ 953	$ 934	$ 948	$ 967	$ 969	$ 964
Net premiums	1,515	1,380	1,340	1,323	1,325	1,278	1,295	1,228
Other operating income								
Deposit and payment service charges	131	129	122	116	124	127	125	123
Lending fees and credit card service revenues	144	136	135	134	137	125	127	128
Brokerage and investment fund services	220	220	222	193	196	172	183	180
Management and custodial service fees	78	75	75	72	70	72	64	77
Foreign exchange income	15	15	16	15	19	16	9	19
Other	100	64	76	72	72	43	64	54
Operating income	3,159	2,994	2,939	2,859	2,891	2,800	2,836	2,773
Investment income								
Net income (loss) on securities at fair value through profit or loss	11	(63)	(619)	4	38	312	411	(87)
Net income on available-for-sale securities	69	23	66	63	45	56	52	115
Net other investment income	51	49	64	65	66	56	57	57
Investment income (loss)	131	9	(489)	132	149	424	520	85
Total income	3,290	3,003	2,450	2,991	3,040	3,224	3,356	2,858
Provision for credit losses	73	76	68	60	47	50	62	82
Claims, benefits, annuities and changes in insurance and investment contract liabilities	1,050	893	395	921	991	1,235	1,425	746
Non-interest expense	1,695	1,473	1,533	1,528	1,605	1,399	1,388	1,516
Income taxes on surplus earnings	121	147	67	104	90	121	101	116
Surplus earnings before member dividends	351	414	387	378	307	419	380	398
Provision for member dividends, net of tax recovery	42	37	20	27	65	54	49	38
Net surplus earnings for the period after member dividends	$ 309	$ 377	$ 367	$ 351	$ 242	$ 365	$ 331	$ 360
Of which:								
Group's share	$ 322	$ 367	$ 352	$ 343	$ 201	$ 354	$ 320	$ 349
Non-controlling interests' share	(13)	10	15	8	41	11	11	11
Total assets	$ 212,005	$ 210,048	$ 204,751	$ 201,633	$ 196,818	$ 199,844	$ 194,063	$ 196,372
Return on equity	8.6%	9.7%	9.4%	9.8%	7.2%	11.5%	10.9%	11.7%
Tier 1a capital ratio	15.7	16.4	16.4	16.0	16.8	16.5	16.1	16.0
Total capital ratio	18.4	19.2	19.2	18.9	19.3	19.0	18.8	19.2

(1) Data for 2012 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.

FOURTH QUARTER COMBINED RESULTS

For the fourth quarter ended December 31, 2013, Desjardins Group posted surplus earnings before member dividends of $351 million, compared to $307 million for the corresponding quarter in 2012. Data for 2012 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013.

These results reflect the contribution of the Personal Services and Business and Institutional Services segment, which totalled $201 million. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $77 million and $90 million, respectively. As for the operations grouped under the Other category, they reduced surplus earnings by $17 million.

Return on equity for the quarter was 8.6%, compared to 7.2% for the fourth quarter of 2012, as a result of the higher surplus earnings in 2013.

Operating income

Operating income stood at $3,159 million, up $268 million, or 9.3%, compared to the fourth quarter of 2012.

Net interest income remained stable at $956 million, compared to $948 million for the same period in the previous year. Even though the entire loan portfolio grew by $8.0 billion, or 6.0%, during the year, fierce competition in the market compressed margins, resulting in an adverse impact on net interest income.

Business growth in the insurance operations resulted in an increase of $190 million, or 14.3%, in net premiums, which totalled $1,515 million.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted income from net insurance and annuity premiums of $1,028 million for the fourth quarter of 2013, compared to $862 million for the same period in 2012, a 19.3% increase. More specifically, group annuity premiums grew by $107 million with the arrival of new clients, to total $141 million for the fourth quarter of 2013. In addition, net insurance premiums were up 5.7%, totalling $849 million, essentially as a result of group insurance operations, which recorded an increase of $43 million. Premiums for group insurance purchased by Desjardins Group members increased by 7.6%, while group insurance premiums from other client bases were up 6.1%.

The Property and Casualty Insurance segment's operations generated net premium income of $545 million for the fourth quarter of 2013, compared to $521 million for the same period in 2012, a 4.6% increase attributable to the growing number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income totalled $688 million, up $70 million, or 11.3%, compared to the corresponding quarter in 2012. This increase was partly due to the growth in brokerage activities, including those of Qtrade Canada Inc., in which Desjardins Group acquired an interest in the second quarter of 2013, as well as the higher volume of assets under management and credit card activities.

Investment income

Investment income was down $18 million compared to the corresponding quarter in 2012, chiefly due to the change in the fair value of assets backing liabilities related to life and health insurance operations. The decline in the fair value of assets related to life and health insurance operations was 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 and investment contract liabilities. These changes mainly resulted from the increase in medium- and long-term interest rates in 2013. The lower increase in the fair value of ABTN in 2013 also contributed to the decrease in investment income.

Total income

Total income was $3,290 million, up $250 million, or 8.2%, compared to the same period in 2012.

Provision for credit losses

The provision for credit losses totalled $73 million for the fourth quarter of 2013, up $26 million, or 55.3%, compared to the corresponding quarter of 2012 as a result of loan portfolio growth. In spite of this increase, Desjardins Group's loan portfolio continued to be of excellent quality. As at December 31, 2013, gross impaired loans outstanding stood at $459 million, down slightly by $7 million since December 31, 2012. The ratio of gross impaired loans, as a percentage of the total gross loans portfolio, was 0.33% at the end of the fourth quarter of 2013, comparable to the corresponding quarter in 2012.

Claims, benefits, annuities and changes in insurance and investment contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities totalled $1,050 million, up $59 million, or 6.0%, from the same period in 2012.

The Wealth Management and Life and Health Insurance segment recorded expenses of $761 million, an increase of $90 million, or 13.4%, compared to the fourth quarter of 2012. This increase was due mainly to higher sales of group savings, which resulted in an equivalent increase in insurance and investment contract liabilities, which was offset by the downward effect on changes in actuarial liabilities of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.

Expenses for the Property and Casualty Insurance segment totalled $292 million for the fourth quarter of 2013, compared to $324 million for the same period in 2012, for a decrease of $32 million, or 9.9%, as a result of the improved loss ratio for P&C insurers in this segment. The loss ratio fell from 64.8% in the fourth quarter of 2012 to 54.6% for the same period in 2013, primarily because of the favourable development of prior years' claims, mainly in Ontario, and in spite of the violent winds in Quebec and freezing rain in several regions of Canada that occurred in the fourth quarter.

Non-interest expense

Non-interest expense was $1,695 million, up $90 million, or 5.6%, compared to the fourth quarter of 2012. This increase was due in particular to business growth, which increased the number of employees, as well as annual salary indexing and fringe benefits. These expenses for fourth quarter 2013 were also affected by the integration of $16 million in non-interest expense from Qtrade Canada Inc., following the acquisition of an interest in Qtrade in the second quarter of 2013. This increase was partially offset by a decrease in the pension expense.

The productivity index, which is the ratio of non-interest expense to total income, net of expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities, was 75.7% for the fourth quarter, compared to 78.3% for the same quarter a year earlier. Tight control of non-interest expense during the fourth quarter of 2013 caused operating income to rise more quickly than non-interest expense, at 9.3% and 5.6%, respectively.

SEGMENT RESULTS FOR THE FOURTH QUARTER

Personal Services and Business and Institutional Services

The Personal Services and Business and Institutional Services segment recorded surplus earnings before member dividends of $201 million for the fourth quarter of 2013, compared to the same period of 2012.

Operating income totalled $1,405 million, up $19 million, or 1.4%. Net interest income remained stable, sustained by growth of $8.3 billion, or 6.4%, in the aggregate loan portfolio outstanding over the past year, in spite of the adverse impact of fierce competition in the market, which compressed margins.

Other operating income was up $18 million, or 4.0%, compared to the fourth quarter of 2012, to total $471 million, primarily as a result of increased caisse network sales of various Desjardins Group products designed by the subsidiaries and growth in credit card activities.

Investment income was $23 million, an increase of $14 million, or 155.6%, compared to the fourth quarter of 2012, largely due to increased business opportunities for the Fixed Income Group as a result of investors being more active on the market as the global economy showed signs of recovery.

The segment's total income was $1,428 million, up $33 million, or 2.4%, compared to the same period in 2012.

The provision for credit losses totalled $73 million for the fourth quarter of 2013, for an increase of $26 million, or 55.3%, compared to the corresponding period in 2012, because of loan portfolio growth.

Despite this increase, the Personal Services and Business and Institutional Services segment's loan portfolio continued to be of excellent quality. As at December 31, 2013, gross impaired loans outstanding stood at $457 million, down slightly by $4 million since December 31, 2012. The ratio of gross impaired loans, as a percentage of the total gross loans portfolio, was 0.33% at the end of the fourth quarter of 2013, an improvement over the ratio of 0.36% at the end of the fourth quarter of 2012.

Non-interest expense rose to $1,103 million, up $47 million, or 4.5%, compared to the same period in 2012. This change is mainly attributable to business growth, which increased the number of employees, as well as annual salary indexing and fringe benefits and the expansion of the BONUSDOLLARS Rewards Program.

Wealth Management and Life and Health Insurance

The Wealth Management and Life and Health Insurance segment posted net surplus earnings of $77 million for the fourth quarter of 2013, up $31 million, or 67.4%, compared to the same quarter in 2012, essentially attributable to life and health insurance operations.

Operating income was $1,303 million, up $215 million, or 19.8%, compared to the fourth quarter of 2012. Net insurance and annuity premium income amounted to $1,028 million for the fourth quarter of 2013, up 19.3%, compared to $862 million for the same period in 2012. More specifically, group annuity premiums grew by $107 million with the arrival of new clients, to total $141 million for the fourth quarter of 2013. In addition, net insurance premiums were up 5.7%, totalling $849 million, essentially as a result of group insurance operations, which recorded an increase of $43 million. Premiums for group insurance purchased by Desjardins Group members increased by 7.6%, while group insurance premiums from other client bases were up 6.1%.

Other operating income was up $274 million, up $49 million, or 21.8%, because of factors such as income from the sale of brokerage services by Qtrade Canada Inc., a company in which Desjardins Group acquired an interest in the second quarter of 2013, as well as growth in average assets under management from the sale of various products.

Investment income was down $34 million due mainly to the change in the fair value of assets backing liabilities related to life and health insurance operations. This decline in the fair value of assets related to life and health insurance operations was 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 and investment contract liabilities. These changes mainly resulted from the increase in short- and medium-term interest rates in 2013.

Total income for the segment was $1,329 million, up $181 million, or 15.8%, compared to the same period in 2012.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities amounted to $761 million, up $90 million, or 13.4%, compared to the fourth quarter of 2012. This increase was due mainly to higher sales of group savings that resulted in an equivalent increase in insurance and investment contract liabilities, which was offset by the downward effect on changes in actuarial liabilities of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.

Non-interest expense totalled $471 million for the fourth quarter of 2013, an increase of $45 million, or 10.6%, compared to the corresponding quarter in 2012. This rise was mainly due to a higher remuneration paid as a result of an increase in Desjardins Funds outstanding, higher salaries and fringe benefits and the integration of $16 million in non-interest expense following the acquisition of an interest in Qtrade Canada Inc.

Property and Casualty Insurance

The Property and Casualty Insurance segment recorded net surplus earnings of $90 million for the fourth quarter of 2013, an increase of $26 million, or 40.6%, compared to the corresponding quarter of 2012. This quarter was characterized by growth in premium income, an improved loss ratio and higher non-interest expense.

Operating income totalled $595 million, up $36 million, or 6.4%. This increase was attributable to the $24 million, or 4.6%, rise in net premium income generated by the increasing number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income was up $13 million, or 36.1%, to total $49 million essentially because of higher commission income mainly resulting from the acquisition of Coast Capital Insurance Services Ltd. early in the third quarter.

Investment income rose by $6 million compared to the same period a year earlier, essentially due to an increase in net gains on the disposal of available-for-sale securities during the fourth quarter of 2013, versus the same quarter in 2012.

Total income for the segment was $628 million for the fourth quarter of 2013, for a $42 million, or 7.2%, increase over the same period in 2012.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities were down $32 million, or 9.9%, to stand at $292 million, as a result of the improved loss ratio of P&C insurers. The loss ratio fell from 64.8% in the fourth quarter of 2012 to 54.6% in the corresponding quarter of 2013, primarily because of the favourable development of prior years' claims, mainly automobile insurance in Ontario, and in spite of the violent winds in Quebec and freezing rain in several regions of Canada that occurred in the fourth quarter.

Non-interest expense was $219 million, up $40 million, or 22.3%, compared to the same period in 2012, primarily due to business growth in the segment resulting in higher salaries and fringe benefits, as well as an increase in all other expenses, particularly in fees. Lastly, fees incurred during the negotiations to acquire the Canadian businesses of State Farm also accounted for the growth in non-interest expense.

Other category

The net deficit of $17 million for the fourth quarter of 2013 was mainly due to the net unfavourable effects of changes in the fair value of derivatives associated with hedging activities and to business growth, which increased the number of employees, to which annual salary indexing and fringe benefits are added. These items were offset by treasury activities, surplus earnings from the *Fonds de sécurité Desjardins'* investments and a $19 million increase in the fair value of the ABTN portfolio, net of hedging positions.

The net deficit of $14 million for the fourth quarter of 2012 was mainly due to the asset revaluation expense, which was offset by the $37 million increase in the fair value of the ABTN portfolio, net of hedging positions, and treasury activities.

QUARTERLY TRENDS

Quarterly income, expenses and surplus earnings before member dividends fluctuate based on certain trends, including seasonal variations and changes in general economic and market conditions. Table 14 presents the results for the past eight quarters.

The fierce competition in the market that compressed margins and low interest rates adversely affected net interest income and caused it to stagnate even though loans outstanding increased throughout the year. Net premiums have grown steadily since the first quarter of 2012, partly as a result of the various acquisitions made by the insurance segments and business development initiatives.

Since the fourth quarter of 2011, Desjardins Group has posted lower investment income primarily because of a change in the fair value of assets backing liabilities related to its life and health insurance operations. The decrease in the fair value of assets related to life and health insurance operations, which mainly affected the second quarter of 2013, was offset by the change in actuarial liabilities, resulting in lower expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities. The increase in medium- and long-term interest rates in 2013 mainly accounted for these changes.

The provision for credit losses has been stable despite the continuous increase in outstanding loans, which reflects the good quality of the loans.

Expenses related to claims, benefits, annuities and changes in insurance and investment contract liabilities experienced quarterly fluctuations as a result of the change in the fair value of investments related to life and health insurance operations, which mainly affected the second quarter of 2013. There was also a decrease in the cost of claims, mainly in automobile insurance in Canada, despite the tragedy in Lac-Mégantic, the flooding in Toronto and the heavy rains and violent winds in Quebec that occurred in the third quarter of 2013.

Given the pace of business growth, non-interest expense has been stable, demonstrating that it is under tight control.

3.0 BALANCE SHEET REVIEW

3.1 BALANCE SHEET MANAGEMENT

TABLE 14 – COMBINED BALANCE SHEETS
As at December 31
(in millions of dollars and as a percentage)

	2013		2012[(1)]		2011[(1)]	
Assets						
Cash and deposits with financial institutions	**$ 1,320**	**0.6%**	$ 1,669	0.8%	$ 1,356	0.7%
Securities	**42,577**	**20.1**	40,312	20.5	41,205	21.7
Securities borrowed or purchased under reverse repurchase agreements	**7,710**	**3.6**	4,377	2.2	4,959	2.6
Loans	**140,533**	**66.4**	132,576	67.4	125,154	65.8
Net segregated fund assets	**7,252**	**3.4**	6,066	3.1	5,362	2.8
Other assets	**12,613**	**5.9**	11,818	6.0	12,146	6.4
Total assets	**$ 212,005**	**100.0%**	$ 196,818	100.0%	$ 190,182	100.0%
Liabilities and equity						
Deposits	**$ 136,746**	**64.6%**	$ 129,624	65.9%	$ 123,403	64.9%
Other liabilities	**54,964**	**25.9**	48,654	24.6	49,757	26.1
Subordinated notes	**3,063**	**1.4**	3,081	1.6	3,350	1.8
Equity	**17,232**	**8.1**	15,459	7.9	13,672	7.2
Total liabilities and equity	**$ 212,005**	**100.0%**	$ 196,818	100.0%	$ 190,182	100.0%

(1) Data for 2012 and 2011 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.

TOTAL ASSETS

As at December 31, 2013, Desjardins Group's total assets stood at $212.0 billion, up $15.2 billion, or 7.7%, over the year, compared to a year-over-year increase of $6.6 billion, or 3.5%, during 2012. This sustained rise was the result of growth in the loan portfolio, despite the slowdown in the housing market in Quebec and Ontario. Strong growth in securities as well as in securities borrowed or purchased under reverse repurchase agreements also contributed to this excellent result. Other assets were up $795 million, or 6.7%, during the same period, to total $12.6 billion as at December 31, 2013, compared to a decrease of $328 million, or 2.7%, during 2012.

Desjardins Group also posted very good results as at December 31, 2013 in individual, business and government savings recruitment. Its deposit liabilities, which totalled $136.7 billion as at that date, grew by $7.1 billion, or 5.5%, over the year, compared to a year-over-year increase of $6.2 billion, or 5.0% during 2012. In addition, it also capitalized on the improvement in the stock market in 2013, as demonstrated by its performance in off-balance sheet savings, namely savings from members and clients held in the form of investments in investment funds and other securities. Off-balance sheet savings outstanding were up $7.4 billion, or 14.1%, to total $60.0 billion as at December 31, 2013, compared to a year-over-year increase of $4.0 billion, or 8.1%, during 2012.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at December 31, 2013, Desjardins Group's cash and deposits with financial institutions amounted to $1.3 billion, a decrease of $349 million, or 20.9%, over the year, compared to a year-over-year increase of $313 million, or 23.1%, in 2012. Securities, including securities borrowed or purchased under reverse repurchase agreements, were up $5.6 billion, or 12.5%, during the year, to total $50.3 billion as at December 31, 2013, compared to a decrease of $1.5 billion, or 3.2%, during 2012. The changes in Desjardins Group's liquidity are explained in more detail in section 3.3, "Analysis of cash flows".

LOANS

As at December 31, 2013, Desjardins Group's outstanding loan portfolio, net of the allowance for credit losses, was $140.5 billion, an increase of $8.0 billion, or 6.0%, over the year, compared to year-over-year growth of $7.4 billion, or 5.9%, during 2012. The main credit categories offered by Desjardins Group that contributed the most to this excellent result include residential mortgages, which accounted for 64.8% of its portfolio as at December 31, 2013.

As Table 15 shows, financing, which comprises residential mortgages, consumer loans, credit card advances and other personal loans, represented 78.7% of Desjardins Group's total loan portfolio as at December 31, 2013. These loans grew $6.5 billion, or 6.2%, during the year, to total $110.9 billion as at December 31, 2013, whereas they had recorded a year-over-year increase of $6.8 billion, or 6.9%, during 2012. In spite of the slowdown in the housing market in Quebec and Ontario in 2013, Desjardins Group performed well in residential mortgages, which account for most of this type of financing.

Moreover, Desjardins Group is also very active in business and government financing. Its outstanding loans to this borrower category amounted to $30.0 billion as at December 31, 2013, up $1.5 billion, or 5.1%, compared to a year-over-year increase of $596 million, or 2.1%, during 2012.

TABLE 15 – LOANS BY BORROWER CATEGORY
As at December 31
(in millions of dollars and as a percentage)

	2013		2012		2011	
Residential mortgage	**$ 91,389**	**64.8 %**	$ 85,931	64.6 %	$ 79,686	63.4%
Consumer, credit and as a percentage	**19,549**	**13.9**	18,520	13.9	17,985	14.3
Business	**28,371**	**20.1**	26,869	20.2	25,998	20.7
Government	**1,642**	**1.2**	1,675	1.3	1,950	1.6
	140,951	**100.0 %**	132,995	100.0 %	125,619	100.0%
Allowance for credit losses	**(418)**		(419)		(465)	
Total loans by borrower category	**$ 140,533**		$ 132,576		$ 125,154	
Loans guaranteed and/or insured by governments and other public and parapublic institutions included above	**$ 39,598**		$ 40,415		$ 36,362	
Loans guaranteed and/or insured by governments and other public and parapublic institutions as a percentage of total gross loans	**28.1%**		30.4%		28.9%	
Residential mortgages and consumer, credit card and other personal loans as a percentage of total gross loans	**78.7**		78.5		77.8	

Residential mortgages

The housing market experienced a slowdown in Quebec and Ontario in 2013, both in new constructions and resales. Even so, Desjardins Group was still able to capitalize on this less favourable environment. The reputation it has forged over the years in this area with its members and clients is a factor in its excellent results. The quality and diversity of its mortgage products, combined with its extensive distribution network, have made it a leading player in this industry. Outstanding residential mortgages grew at a sustained pace of $5.5 billion, or 6.4%, since the beginning of 2013, to total $91.4 billion as at December 31, 2013, compared to a year-over-year increase of $6.2 billion, or 7.8%, during 2012. It should be noted that Desjardins Group is still the leading residential mortgage lender in Quebec, with a market share estimated at 35.4% as at December 31, 2013.

Consumer, credit card and other personal loans

As at December 31, 2013, Desjardins Group's consumer, credit card and other personal loans amounted to $19.5 billion, an increase of $1.0 billion, or 5.6%, over the year, compared to a year-over-year increase of $535 million, or 3.0%, as at December 31, 2012. This improved performance was mainly due to the excellent results posted by Card and Payment Services in this market in 2013, particularly in automobile financing. Desjardins Group's share of the consumer, credit card and other personal loan market in Quebec was estimated at 23.0% as at December 31, 2013.

Business loans

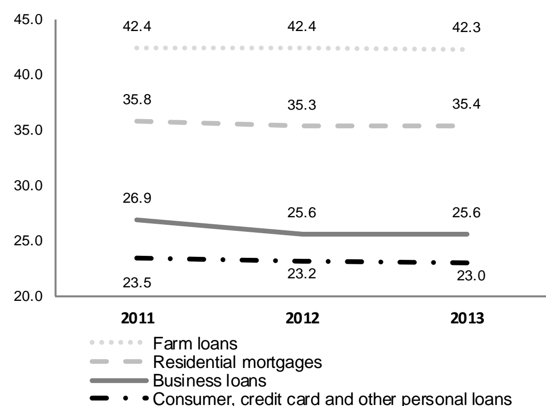
As at December 31, 2013, Desjardins Group's business loans, which mainly comprise commercial and industrial loans, totalled $28.4 billion, an increase of $1.5 billion, or 5.6%, over the year, compared to year-over-year growth of $871 million, or 3.4%, during 2012. In spite of slightly less favourable economic conditions, business investment remained fairly strong and helped to maintain business credit demand. Desjardins Group's share of the business loan market in Quebec was estimated at 25.6% as at December 31, 2013.

Outstanding agricultural loans, which are included in Desjardins Group's business loan portfolio, amounted to $5.7 billion as at December 31, 2013, a $226 million, or 4.1%, increase over the year, compared to a year-over-year increase of $105 million, or 2.0%, during 2012. In Quebec, Desjardins Group is the leading lender in this sector, with a market share estimated at 42.3% as at December 31, 2013.

Government loans

As at December 31, 2013, Desjardins Group's outstanding government loans, mainly loans to municipalities, stood at $1.6 billion, down slightly by $33 million, or 2.0%, over the year, compared to a year-over-year decrease of $275 million, or 14.1%, during 2012. It should be noted that a large proportion of Desjardins Group's credit outstandings in this area are in the form of lines of credit that fluctuate significantly, due to the nature of government financing needs.

QUEBEC MARKET SHARE
FINANCING ACTIVITIES
(as a percentage)



CREDIT QUALITY

Desjardins Group's loan portfolio continues to be of excellent quality. Its outstanding gross impaired loans totalled $459 million as at December 31, 2013, down slightly by $7 million since December 31, 2012. The gross impaired loans ratio, as a percentage of the total gross loan portfolio, stood at 0.33% at the end of the fourth quarter, which constitutes an improvement compared to the ratio of 0.35% at year-end 2012. Desjardins Group continues to have one of the best ratios in the Canadian banking industry.

Desjardins Group's loans guaranteed and/or insured by governments and other public and parapublic institutions represented 28.1% of its total loan portfolio as at December 31, 2013.

Additional information about the quality of Desjardins Group's credit portfolio is presented in section 4.1, "Risk management", on pages 59 and 60 of this MD&A.

DEPOSITS

TABLE 16 – DEPOSITS
As at December 31
(in millions of dollars and as a percentage)

	2013					2012		2011	
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	**Total**	Total	Total	Total	Total
Individuals	**$ 30,839**	**$ 3,949**	**$ 51,942**	**$ 86,730**	**63.4%**	$ 84,415	65.1%	$ 82,486	66.8%
Business and government	**16,168**	**337**	**31,207**	**47,712**	**34.9**	43,033	33.2	39,104	31.7
Deposit-taking institutions and other	**41**	**—**	**2,263**	**2,304**	**1.7**	2,176	1.7	1,813	1.5
Total deposits	**$ 47,048**	**$ 4,286**	**$ 85,412**	**$ 136,746**	**100.0%**	$ 129,624	100.0%	$ 123,403	100.0%

As at December 31, 2013, Desjardins Group's outstanding deposits totalled $136.7 billion, up by $7.1 billion, or 5.5%, over the year, compared to a year-over-year increase of $6.2 billion, or 5.0%, during 2012. This sustained growth was the result of savings recruitment from individuals, businesses and governments. These savings constitute Desjardins Group's main source of financing and represented 98.3% of the outstanding deposit portfolio as at December 31, 2013.

Savings from individuals

Savings from individuals are Desjardins Group's main source of financing, accounting for 63.4% of its deposit liabilities as at December 31, 2013. They totalled $86.7 billion as at December 31, 2013, up by $2.3 billion, or 2.7%, over the year, compared to a year-over-year increase of $1.9 billion, or 2.3%, during 2012. In spite of the low interest rate environment and the popularity of off-balance sheet savings products, such as investment funds and other securities, Desjardins Group turned in an improved performance in this market.

Of the three broad categories of deposits offered by Desjardins Group to its individual members and clients, savings payable on a fixed date is unquestionably the most popular. This type of deposit represented 59.9% of savings from individuals as at December 31, 2013. It was down $1.8 billion, or 3.4%, over the year to total $51.9 billion at year-end, while it had recorded a year-over-year increase of $2.9 billion, or 5.7%, during 2012. Savings payable on demand and upon notice, which accounted for 40.1% of deposits made by individuals as at December 31, 2013, totalled $34.8 billion, up by $4.1 billion, or 13.4%, over the year, while they had recorded a year-over-year decrease of $972 million, or 3.1%, during 2012.

As at December 31, 2013, Desjardins Group's Quebec market share of on-balance sheet savings from individuals was estimated at 42.3%. Its focus on savings recruitment over the years has enabled it to maintain this leadership position, in spite of stronger competition.

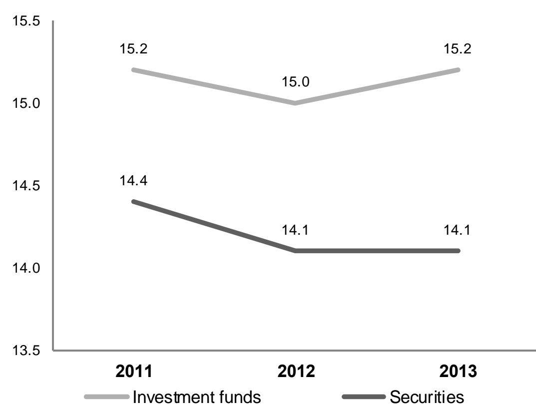
Savings from businesses and governments and from deposit-taking institutions and other sources

Savings from individuals account for a dominant share of Desjardins Group's deposit liabilities. However, savings from businesses and governments account for a considerable share as well, representing 34.9% of its deposit liabilities as at December 31, 2013, compared to 33.2% as at December 31, 2012. These deposits, which totalled $47.7 billion as at December 31, 2013, were up $4.7 billion, or 10.9%, over the year, partly as a result of the various issuances made by *Caisse centrale Desjardins* on the U.S. and Canadian markets in 2013. In 2012, this growth amounted to $3.9 billion, or 10.0%.

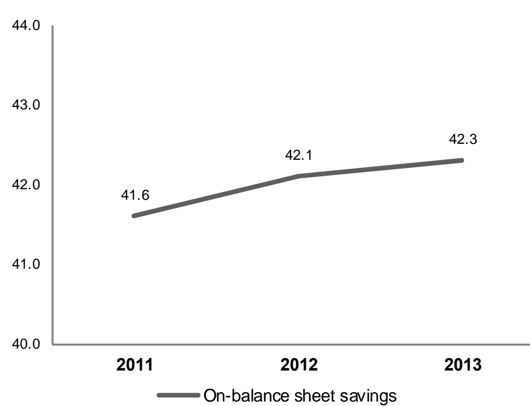
Savings from deposit-taking institutions and other sources represented only 1.7% of deposit liabilities as at December 31, 2013, which is comparable to the proportion as at December 31, 2012. Outstanding savings totalled $2.3 billion as at December 31, 2013, up $128 million, or 5.9%, over the year, compared to a year-over-year increase of $363 million, or 20.0%, during 2012.

Additional information about Desjardins Group's sources of refinancing can be found on pages 64 and 65, while its liquidity risk management policy is discussed on pages 62 and 63.

QUEBEC MARKET SHARE
PERSONAL SAVINGS RECRUITMENT ACTIVITIES
SECURITIES AND INVESTMENT FUNDS
(as a percentage)



QUEBEC MARKET SHARE
PERSONAL SAVINGS RECRUITMENT ACTIVITIES
ON-BALANCE SHEET SAVINGS
(as a percentage)



OTHER LIABILITIES

Other liabilities amounted to $55.0 billion as at December 31, 2013, compared to $48.7 billion as at December 31, 2012, which represents a $6.3 billion, or 13.0%, increase attributable mainly to growth in commitments related to securities sold short and securities lent or sold under repurchase agreements. As at December 31, 2013, they totalled $7.8 billion and $9.6 billion, respectively. Other liabilities also comprise mainly insurance and investment contract liabilities, which amounted to $17.1 billion, and segregated fund liabilities, which amounted to $7.3 billion, as at December 31, 2013.

EQUITY

As at December 31, 2013, equity amounted to $17.2 billion, compared to $15.5 billion as at December 31, 2012, for an increase of $1.7 billion, or 11.5%. The main sources of this growth were net surplus earnings for the year after member dividends, which were $1,404 million, and the $473 million of capital shares issued by the Federation. Note 22, "Capital stock", to the Combined Financial Statements, provides additional information about Desjardins Group's capital stock.

3.2 CAPITAL MANAGEMENT

Capital management is crucial to Desjardins Group's financial management. 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 profitability targets, growth objectives, rating agencies' expectations and regulators' requirements. In addition, it must serve to 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. As at December 31, 2013, Desjardins Group's Tier 1a and Tier 1 capital ratios, as well as its total capital ratio, were 15.7%, 15.7% and 18.4%, respectively. Desjardins's prudent management is reflected in the quality of the credit ratings assigned by the various rating agencies.

The global financial crisis prompted the industry to place more emphasis on sound capitalization of its operations. Now more than ever, the 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 minimum target for Tier 1a and Tier 1 capital at 15%, and has adopted strategies to meet its commitments in preparation for the eventual acquisition of the Canadian operations of State Farm.

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 and to assign targets to its components, to establish strategies to ensure that targets are met, to quickly raise capital, to ensure that the components' performance is appropriately measured, and to optimize internal capital flow and use mechanisms.

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 for all of its components and assess the financial and regulatory repercussions. This procedure makes it possible to determine if the required capital, as established in the capitalization plan, is adequate in view of the risks to which Desjardins is exposed.

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 Finance and Risk Management Committee to ensure that Desjardins Group has a sufficient and reliable capital base. The Finance Executive Division and Office of the CFO is responsible for preparing, on an annual basis and with the help of Desjardins Group's components, a capitalization plan that sets and updates capital objectives and targets.

The current situation and the forecast show that Desjardins Group has a solid capital base overall and, therefore, sufficient latitude to pursue its growth strategy.

Desjardins Group's regulatory capital ratios are calculated according to the AMF's guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline). This guideline was updated effective January 1, 2013 to take into account the updated framework for international convergence of capital measurement and capital standards (Basel III) issued by the Bank for International Settlements in order to make the financial system safer and more resilient in periods of stress. Additionally, following the transition to the new Basel III requirements, Desjardins Group is working to refine all the procedures and parameters it uses to calculate regulatory capital.

The AMF requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components, mainly the caisses, the Federation (non-consolidated), *Caisse centrale Desjardins*, *Fonds de sécurité Desjardins*, *Capital Desjardins inc.*, Western Financial Group Inc., Desjardins Securities Inc. and Desjardins Trust Inc.

This capital takes into consideration investments made in other Desjardins Group components. Some of these components are subject to separate requirements regarding regulatory capital, liquidity or financing, which are set by regulatory bodies governing banks and securities. These requirements may be subject to changes and may vary according to operations. Desjardins Group oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulation. Details concerning the guideline and the regulatory framework for the capitalization of each Desjardins Group component are provided in Note 33, "Capital management", to the Combined Financial Statements.

Basel III

The new Basel III regulatory framework increases capital requirements. The new framework, combined with global liquidity standards, forms an essential element of the global financial reform program. 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 capital ratio requirements for 2019 in the first quarter of 2013. For the Tier 1 and total capital ratios, the AMF requires Desjardins Group to meet the levels established in 2019 in the first quarter of 2014.

The minimum Tier 1 capital ratio that Desjardins Group must maintain to meet the regulatory requirements of the guideline is now 8.5%. In addition, the Tier 1a capital ratio must be above 7%, including a 2.5% capital conservation buffer. Lastly, the total capital ratio must be above 10.5%, also including this buffer.

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI). Effective January 1, 2016, Desjardins Group, as a D-SIFI, will be subject to an additional Tier 1a capital requirement corresponding to 1% of its risk-weighted assets. Therefore, Desjardins Group's Tier 1a capital target will be 8% effective January 1, 2016. OSFI has determined that Canada's six major financial institutions meet the criteria for designation as D-SIFI.

Under the Basel III regulatory framework, Desjardins Group uses the Internal Ratings-Based Approach, subject to certain conditions, for credit risk related to retail loan portfolios (individuals). Under one of the conditions set out by the AMF, the total capital ratio must be above 11.5% instead of 10.5%, as stated in the guideline. Other exposures to credit and market risk are measured according to the Standardized Approach, while operational risk is calculated based on the Basic Indicator Approach. The AMF's approval is still valid under the Basel III regulatory framework.

In addition to minimum Tier 1a, Tier 1 and total capital ratios, the AMF requires that Desjardins Group maintain an assets-to-regulatory capital ratio of under 20 to 1. This measure allows Desjardins's overall capital adequacy to be determined against its total assets, including certain off-balance sheet items. With a ratio of 10.7 to 1 as at December 31, 2013, Desjardins Group was amply within the limit set by the AMF.

The main components of Desjardins Group's capital are presented in the table below.

TABLE 17 – MAIN CAPITAL COMPONENTS

	TOTAL CAPITAL		
	Tier 1 capital		**Tier 2 capital**
	Tier 1a	**Tier 1b**	
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • F capital shares • Permanent shares and surplus shares subject to phase-out • Non-controlling interests[1]	• Non-controlling interests[1]	• Eligible collective allowance • Subordinated notes subject to phase-out • Eligible qualifying shares • Non-controlling interests[1]
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carry forwards • Shortfall in allowance		
Deductions	• Significant investments in financial institutions[2]		• Investment in preferred shares of a component deconsolidated for regulatory capital purposes

(1) The amount of non-controlling interests allocated to the various capital tiers is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(2) Represents the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc.) that exceeds 10% of capital net of regulatory adjustments. The non-deducted balance will be subject to risk-weighting at a rate of 250%.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013. However, in accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began January 1, 2013. These instruments include permanent shares and surplus shares issued before September 12, 2010, which total $2.1 billion. These shares were eligible for inclusion in Tier 1 capital under Basel II as at December 31, 2012.

In addition, the subordinated notes issued by *Capital Desjardins 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. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group does not plan to issue any financial instruments of this type until these requirements have been further clarified.

Compliance with requirements

As at December 31, 2013, the Tier 1a, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 15.7%, 15.7% and 18.4%, respectively. Desjardins Group therefore still has excellent capitalization, with a Tier 1a capital ratio above the 15% target in its 2013-2016 Financial Plan.

Capital, risk-weighted assets and capital ratios are presented in the table below.

TABLE 18 – CAPITAL, RISK-WEIGHTED ASSETS AND CAPITAL RATIOS
(in millions of dollars and as a percentage)

	As at December 31, 2013[1]	As at September 30, 2013[1]	As at December 31, 2012[2]
Capital			
Tier 1a capital	**$ 14,022**	$ 14,174	n. a.
Tier 1 capital	**14,043**	14,195	$ 12,925
Total capital	**16,432**	16,589	14,827
Risk-weighted assets			
Credit risk	**$ 68,548**	$ 66,757	$ 57,242
Market risk	**2,648**	2,759	1,644
Operational risk	**12,282**	12,104	11,884
Threshold adjustment	**6,029**	4,876	6,125
Total risk-weighted assets	**$ 89,507**	$ 86,496	$ 76,895
Capital ratios			
Tier 1a capital	**15.7%**	16.4%	n. a.
Tier 1 capital	**15.7**	16.4	16.8%
Total capital	**18.4**	19.2	19.3

(1) According to the AMF guideline under Basel III.
(2) According to the AMF guideline under Basel II.

The amendments to IAS 19, *Employee Benefits*, concerning accounting for defined benefit pension plans specify in particular that the use of the "corridor approach" is no longer allowed and that all actuarial gains and losses must now be recognized when they occur. Moreover, it is no longer permitted to amortize past service costs, which will accelerate their recognition. At the same time, the amended IAS 19 allows risk-sharing features to be taken into account. The total negative impact of these amendments on the Tier 1a capital ratio would have been 74 basis points as at January 1, 2013. However, the initial negative impact has been deferred and amortized on a straight-line basis over the period from January 1, 2013 to December 31, 2014 because Desjardins Group elected to use the transitional provision stipulated by the AMF for that purpose.

On May 1, 2012, the Federation obtained venture reporting issuer status from the AMF. As mentioned in Note 12, “Capital stock”, to the Combined Financial Statements, the Federation issued shares for net proceeds of $473 million in 2013, compared to $1,025 billion in 2012. The maximum amount provided for in the prospectus for this issuance was reached in June 2013. In addition, on December 20, 2013, the Federation obtained the AMF's authorization to continue its initial program and therefore filed a new prospectus to issue additional shares totalling $500 million.

In addition, on April 1, 2014, *Capital Desjardins inc.* plans to call all Series E subordinated notes for an amount of $500 million.

In the fourth quarter, the growth in surplus earnings and reserves, as well as the increase in accumulated other comprehensive income helped to raise the Tier 1a capital ratio by 29 and 6 basis points, respectively. Conversely, the quarterly remeasurement of defined benefit plan liabilities resulted in a decline of 36 basis points in the Tier 1a capital ratio, while the increase in risk-weighted assets pushed it down by 71 basis points.

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, 2013.

3.3 ANALYSIS OF CASH FLOWS

Because of the nature of Desjardins Group’s operations, most of the items on the Combined Statements of Income and the Combined Balance Sheets are liquidities. Normal operations therefore cause considerable fluctuations in liquidity and influence numerous items, such as loans, deposits and securities. The main changes are explained in the following paragraphs.

During the year ended December 31, 2013, cash and cash equivalents decreased by $349 million, compared to an increase of $313 million during 2012. Cash and cash equivalents stood at $1,320 million as at December 31, 2013, compared to $1,669 million a year earlier.

In 2013, cash flows from operating activities totalled $360 million, mainly because of surplus earnings of $1,969 million for the year and an increase of $7,122 million in deposits, of $2,777 million in commitments related to securities sold short, and of $1,569 million in commitments related to securities lent or sold under repurchase agreements. These cash flows were largely offset by an increase of $8,234 million in loans and of $3,333 million in securities borrowed or purchased under reverse repurchase agreements. In 2012, cash flows used in operating activities totalled $412 million, chiefly because of an increase of $7,663 million in loans and a net change of $947 million in other operating assets and liabilities. These cash outflows were essentially offset by surplus earnings of $1,932 million for the year, as well as by growth of $6,221 million in deposits and the net change in insurance and investment contract liabilities of $769 million.

Cash flows from financing activities amounted to $388 million in 2013, notably as a result of the capital share issue of $473 million, net of expenses. In 2012, cash flows from these activities amounted to $687 million, essentially because of the capital share issue of $1,025 million, net of expenses, offset by the redemption of $300 million in subordinated notes.

Cash flows used in investing activities totalled $1,097 million in 2013, chiefly because of the purchase of available-for-sale securities amounting to $48,545 million, which was essentially offset by proceeds from disposals and maturities of available-for-sale securities of $40,780 million and $6,980 million, respectively. In 2012, cash flows from these activities were $38 million due to proceeds from disposals and maturities of available-for-sale securities for the respective amounts of $34,883 million and of $1,201 million, offset by the purchase of available-for-sale securities amounting to $35,716 million.

3.4 OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of its 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, 2013, Desjardins Group had assets totalling $334.2 billion under administration and under management on behalf of its members and clients. This represented an increase of $27.3 billion, or 8.9%, since the beginning of 2013, compared to a year-over-year increase of $26.0 billion, or 9.2%, during 2012. Financial assets placed with Desjardins Group as wealth manager amounted to $37.9 billion at the close of 2013, compared to $30.9 billion as at December 31, 2012, for a year-over-year increase of $7.1 billion, or 22.9%, versus an increase of $4.2 billion, or 15.6%, during 2012.

Desjardins Group is one of Canada's leading trustees and wealth managers. As at December 31, 2013, the assets entrusted to Desjardins Group by its members and clients in the form of off-balance sheet savings products, such as investment funds and other securities, totalled 60.0 billion, up $7.4 billion, or 14.1%, on an over the year, compared to a year-over-year increase of $4.0 billion, or 8.1%, during 2012. This outstanding performance is the result of Desjardins Group's dynamism in this area. It was able to capitalize on the improvement in stock market activity in Canada and the rest of the world. For instance, at the close of trading on the Toronto Stock Exchange on December 31, 2013, the S&P/TSX index was up 9.6% over the year, compared to an advance of 4.0% recorded during 2012.

Assets under management and under administration are comprised chiefly 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 in the Combined Balance Sheets.

TABLE 19 – ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION
As at December 31
(in millions of dollars)

	2013	2012	2011
Assets under management			
Institutions and individuals	**$ 7,708**	$ 6,442	$ 8,006
Investment funds[1]	**30,241**	24,434	18,694
Total assets under management	**$ 37,949**	$ 30,876	$ 26,700
Assets under administration			
Individual and institutional and assets custodial services	**$ 265,676**	$ 261,260	$ 247,239
Investment funds[1]	**68,569**	45,696	33,743
Total assets under administration	**$ 334,245**	$ 306,956	$ 280,982

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

CREDIT INSTRUMENTS

In order to meet its members' and clients' financing needs, Desjardins Group makes credit instruments available to them. Credit instruments include credit commitments, documentary letters of credit, guarantees and standby letters of credit. The risks associated with credit instruments are managed according to the same strict rules as those applied to Combined Balance Sheet items. In management's opinion, no unusual risk results from these off-balance sheet items.

These instruments expose Desjardins Group to credit and liquidity risks. Management of these risks is described on pages 55 to 60 and pages 62 and 63 of this MD&A. Table 20 shows the contractual amounts of the credit instruments by remaining maturities. Since several of these instruments will mature or will be terminated without any cash outflow, the contractual amounts of these commitments do not necessarily represent future liquidity needs.

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

TABLE 20 – CREDIT INSTRUMENTS BY MATURITIES
As at December 31
(in millions of dollars)

				2013	2012	2011
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total	Total
Credit commitments	**$ 58,714**	**$ 6,818**	**$ 52**	**$ 65,584**	$ 61,360	$ 55,704
Documentary letters of credit	**77**	**1**	**—**	**78**	57	51
Guarantees and standby letters of credit	**697**	**170**	**2**	**869**	849	682
Total credit instruments	**$ 59,488**	**$ 6,989**	**$ 54**	**$ 66,531**	$ 62,266	$ 56,437

CONTRACTUAL COMMITMENTS

Desjardins Group has contractual commitments to make future payments on borrowings, subordinated notes and leases. Borrowings and subordinated notes are presented on the Combined Balance Sheets, while other contractual commitments, including credit commitments and leases, are not. Note 8, "Securities", Note 18, "Other liabilities – Other", Note 19, "Subordinated notes", and Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements provide information on these contractual commitments.

ASSETS HELD AS COLLATERAL

Desjardins Group holds and repledges financial assets as collateral as a result of transactions involving securities borrowed or purchased under reverse repurchase agreements. Such transactions are carried out under normal conditions for these types of transactions. Note 29, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides additional information about assets held as collateral.

OTHER COMMITMENTS AND GUARANTEES

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

STRUCTURED ENTITIES

In the normal course of operations, Desjardins Group enters into various financial transactions with structured entities to diversify its sources of financing and manage its capital. Structured entities are usually created for a unique and distinct purpose, and they often have limited operations. They are sometimes used to legally isolate the financial assets they hold from the transferring organization. These entities may be included in Desjardins Group's Balance Sheets if it controls them. Detailed information concerning significant exposure to structured entities is provided below.

Master Asset Vehicle (MAV) trusts

Desjardins Group holds financial interests in MAV trusts, which are structured entities not included in its Combined Balance Sheets. These trusts carry out transactions involving synthetic assets, ineligible assets and traditional assets associated with the ABTN portfolio. Desjardins Group entered into several different types of transactions to reduce the risk associated with the ABTN portfolio, the margin funding facility (MFF) related to the ABTN portfolio and other restructured securities. The implementation of credit index hedges on a significant portion of the MAV 1 portfolio, the acquisition of protection for Desjardins Group's commitments under the MFF, and the disposal of various restructured portfolios very significantly reduced the risk related to these portfolios.

These trusts had assets of approximately $13,818 million as at December 31, 2013, and they had no equity. As at December 31, 2013, Desjardins Group had an MFF of $1,193 million and held notes with a fair value of $1,630 million, compared to the respective amounts of $1,193 million and $1,705 million as at December 31, 2012. The aggregate of these amounts represents the maximum risk of loss with respect to the MAVs, excluding the effect of the economic hedging strategy. Note 8, "Securities", to Desjardins Group's Combined Financial Statements provides more information on this subject.

Securitization

Desjardins Group participates in the Mortgage-Backed Securities Program under the *National Housing Act* to manage its liquidities and capital. Transactions carried out under this Program require the use of a structured entity, the Canada Housing Trust, set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 10, "Derecognition of financial assets", to the Combined Financial Statements provides more information about the financial assets transferred by Desjardins Group through securitization transactions.

To carry out securitization transactions, Desjardins Group bundles CMHC-guaranteed residential mortgages into mortgage-backed securities (NHA MBSs), and transfers them to the structured entity in exchange for monetary consideration. The structured entity then finances these purchases by issuing CMB to investors. However, as part of these transactions, Desjardins Group retains substantially all the risks and rewards related to the securities transferred. Consequently, the loans continue to be recognized on the Combined Balance Sheets, and a liability, which is equal to the consideration received from CMHC for the sale of the NHA MBSs that do not meet derecognition criteria, is recognized.

As at December 31, 2013, outstanding NHA MBSs issued by Desjardins Group and sold to CHT totalled $5.4 billion, compared to $5.0 billion as at December 31, 2012. However, some securitization transactions entered into before January 1, 2010, resulted in derecognition, as Desjardins Group elected to apply the derecognition requirements prospectively. At the time of transfer, these transactions were therefore accounted for as sales, and Desjardins Group retains certain interests in excess interest margins, which are retained interests, and assumes responsibility for servicing the transferred mortgages. The aggregate outstanding of the original assets transferred and derecognized was $154 million as at December 31, 2013, compared to $562 million at the end of 2012. As at december 31, 2013 assets representing retained interests that Desjardins Group continues to recognize with respect to these transactions amounted to $1 million ($7 million as at December 31, 2012) and there were no assumed servicing liabilities ($1 million as at December 31, 2012).They are recognized upon the transfer of loans under "Other assets – Other" and "Other liabilities – Other" in the Combined Balance Sheets. These assets and liabilities will mature no later than December 31, 2014.

4.0 RISK MANAGEMENT

4.1 RISK MANAGEMENT

The shaded areas 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 are an integral part of the Combined Financial Statements, as explained in Note 31, "Financial instrument risk management", to the Combined Financial Statements.

Desjardins Group is exposed to different types of risks in its normal course of operations, including credit risk, market risk, liquidity risk, operational risk, insurance risk, strategic risk, reputation risk, environmental risk, and legal and regulatory environment 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 stability 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 culture in which each of its employees and managers is responsible for risk management.

INTEGRATED RISK MANAGEMENT FRAMEWORK

Desjardins Group's objective in risk management is to optimize the risk-return trade-off, within set tolerance limits, by applying integrated risk management and control strategies, policies and procedures to all its activities. It also aims to provide, through the Integrated Risk Management Framework, a prudent and appropriate framework that complies with accepted accountability and independence principles.

As important components of this management framework, risk appetite and tolerance determine the type and level of risk that Desjardins is prepared to assume to achieve its business and strategic objectives. They provide a basis for integrated risk management by promoting a better understanding of the risks and their impact on the risk profile. This framework provides for a system of risk indicators that are monitored on a regular basis to ensure that Desjardins Group's risk profile matches the degree of risk appetite and tolerance sought by senior management and the Board of Directors in view of Desjardins Group's mission, vision and values. The Board of Directors is responsible for approving the risk appetite and tolerance framework, which must reflect Desjardins Group's financial and strategic objectives.

Desjardins Group's Integrated Risk Management Framework also includes the operational infrastructure and the risk management governance structure, which are supported by all the implicit or explicit rules, values and ways of thinking and acting within Desjardins Group. This framework promotes exchanges between Desjardins Group's risk management function and its other support functions, business sectors and regulated entities.

In addition, given Desjardins Group's designation as a domestic systemically important financial institution (D-SIFI), the AMF has requested that it follow the recommendations of the Financial Stability Board, under which all systemically important institutions are required to produce a living will. An initial version of this living will is planned for December 2014 and will be incorporated into the Integrated Risk Management Framework.

To promote sound risk management and enhance risk management capabilities, risk management training sessions are held on a regular basis. Desjardins Group has a continuing professional development plan, through which it intends to continue updating the knowledge of the members of participating bodies.

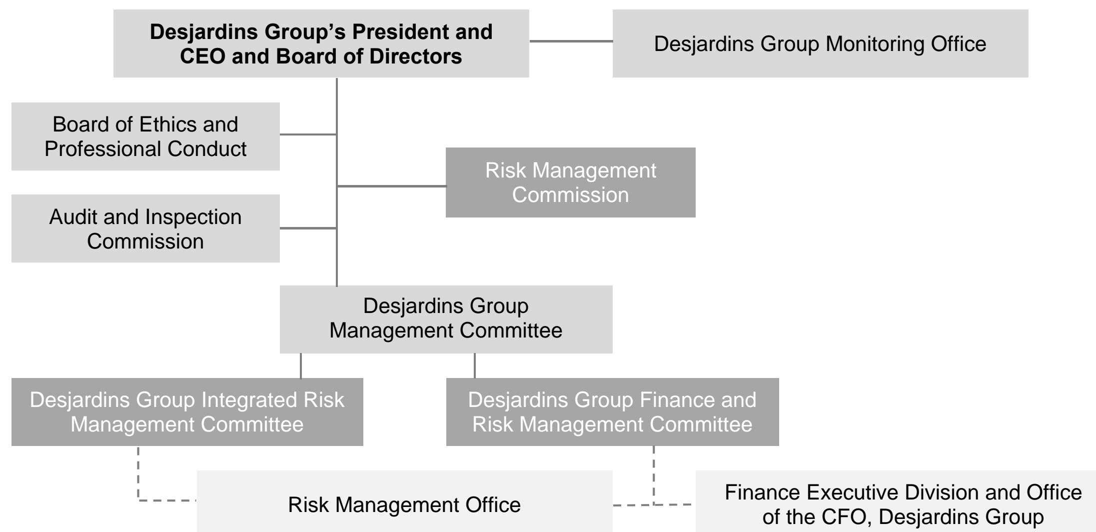
RISK MANAGEMENT GUIDELINES

The Integrated Risk Management Framework is based on risk management guidelines that provide in particular for the following:

- The accountability of Desjardins Group's business sectors and other functions with regard to the risks inherent to their operations
- Application at every level of the organization in order to obtain a comprehensive vision of risk exposure
- 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, business strategies and in the resulting decisions
- Thorough risk assessment prior to launching new products or introducing projects with a strong financial impact

RISK MANAGEMENT GOVERNANCE

The Integrated Risk Management Framework is based on a solid risk governance structure and reflects Desjardins Group's organizational structure. The main risk management decision-making bodies are as follows:



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. The Board of Directors is primarily responsible for adopting the general 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 and the Board of Ethics and Professional Conduct. Further information about these bodies is found on page 160 of the Corporate Governance section of the *2013 Desjardins Group Annual Report*.

The Desjardins Group Management Committee must, in particular, make recommendations to the Board of Directors concerning risk management policies and strategies and ensure that they are implemented effectively and efficiently. Two committees support the Management Committee in discharging its risk management responsibilities: the Integrated Risk Management Committee and the Finance and Risk Management Committee, made up of the heads of Desjardins Group's strategic functions and Desjardins experts. These two committees are themselves supported by subcommittees that specialize in specific aspects of risk management.

The Desjardins Group Risk Management Office 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 while ensuring the longevity of Desjardins Group. In partnership with the business sectors, the Desjardins Group risk management function is responsible for recommending and establishing risk management policies, and setting up the appropriate infrastructure, processes and practices to target all major Desjardins-wide risks. Monitoring and oversight of the various risks is a shared responsibility at Desjardins Group that is assumed, in particular, by the teams responsible for regulatory compliance and financial governance. They complement the work of those responsible for risk management to ensure that services are delivered in line with growing regulatory requirements.

The Desjardins Group Monitoring Office is an independent and objective advisory and assurance body that assists Desjardins Group's management personnel in carrying out their governance responsibilities. It also oversees and advises management with respect to its duty to manage in a sound and prudent manner. In so doing, it contributes to improving Desjardins Group's overall performance and maintaining the confidence of its members, the public and the regulatory bodies. The Desjardins Group Monitoring Office includes the internal audit services of Desjardins Group's subsidiaries and other components as well as audit and inspection services for the caisse network.

RISK IDENTIFICATION, MEASUREMENT AND DISCLOSURE

Risk identification

Desjardins Group has a procedure for identifying all existing and emerging risks within the organization. The risk log sets out the main categories and related subcategories of risks that Desjardins Group takes and to which it is exposed. The objective is to ensure that all risks that may have an impact on Desjardins are listed and considered.

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.

Risks are quantified based on both the current economic context as well as hypothetical situations simulating crises applied across the entire organization. Desjardins-wide sensitivity tests and crisis scenarios are used as additional risk analysis tools to measure the potential impact of exceptional but plausible events on profitability and capital levels. Organization-wide crisis scenarios are developed based on the anticipated economic outlook under distress conditions. The results of these analyses help detect potential vulnerabilities to risk factors for various operations.

Risk disclosure

Risk reports on all significant risks are regularly prepared for and presented to the Integrated Risk Management Committee, the Finance and Risk Management Committee, the Desjardins Group Operations Committee, the Desjardins Group Management Committee, the Risk Management Commission, the Audit and Inspection Commission, and the Board of Directors. These reports provide relevant information on changes in the main risk indicators 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 so that decision-making bodies receive timely information on major risks that is both practical and forward-looking.

In addition, given Desjardins Group's designation as a D-SIFI, disclosure will be further enhanced in coming years as a result of compliance with the principles for effective risk data aggregation and risk reporting, which will strengthen risk governance, risk data aggregation and risk reporting capabilities. Compliance with these principles will facilitate implementation of the recommendations of the Financial Stability Board regarding disclosure contained in the document "Enhancing the Risk Disclosures of Banks", issued on October 29, 2012.

BASEL CAPITAL ACCORD

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

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

In compliance with the guideline on adequacy of capital base standards, which was adapted to reflect the provisions of Basel III, Desjardins Group uses the Internal Ratings-Based Approach, subject to conditions, for credit risk related to retail loan portfolios (personal). Other credit and market risk exposures are currently assessed using the Standardized Approach, while operational risk is calculated using the Basic Indicator Approach. This provision is used to calculate Desjardins Group's capital ratios, among other things.

Again this year, numerous efforts were made throughout Desjardins Group to support 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 main 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 measurement of risk-weighted assets, Basel III has, under Pillar 2, introduced new liquidity requirements and raised expectations for a number of management practices. Disclosure standards, which fall under Pillar 3, have also been enhanced. Desjardins Group will continue its development by integrating these new regulatory requirements into its risk management framework.

Additional information about capital management is presented in section 3.2, "Capital management", on pages 47 to 50.

CREDIT RISK

Credit risk is the risk of losses resulting from a borrower'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 represented 66.3% of assets on the Combined Balance Sheets as at December 31, 2013, compared to 67.4% a year earlier. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments and securities.

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 clientele. The units and components that make 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 a certain amount of latitude in terms of frameworks, approvals, and the corresponding management and monitoring tools and structures.

To provide assistance in this area, Desjardins Group has set up centralized structures and procedures to ensure that its risk management framework allows for effective, sound and prudent management.

Desjardins Group has a Risk Management Office which includes two divisions that are primarily responsible for credit risk management. These divisions share responsibilities based on major activities: credit approval, quantification, monitoring and reporting.

Credit risk framework

A set of policies 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.

Approval and credit risk management units assume responsibility for credit granting and management and for providing a framework specific to their products and operations. These units establish their own policies and practices based on their products and clients in compliance with the general policies that govern all credit activities.

Together, these frameworks, policies and practices govern Desjardins's credit risk management and control activities.

Credit granting

The caisses, Desjardins business centres and other business centres in contact with clients are primarily responsible for approving files. Some approval limits are set, and loans for an amount above these limits are approved by the Desjardins Group Risk Management Office.

Professionals are assigned to the two credit risk management divisions according to client type. Their qualifications, their approval responsibilities and the depth of the analyses required depend on product features as well as the complexity and extent of transaction risk.

Retail loans

Retail portfolios consist of residential mortgages, personal loans, credit card loans to individuals and small business loans. To assess the risk of credit activities involving individuals and smaller businesses, credit scoring systems based on proven statistics are used.

These systems were developed based on a history of behaviour among borrowers with a profile or characteristics similar to those of the applicant and based on the products used, including the type of collateral offered, to determine the transaction risk.

Such systems are used for initial approval as well as subsequently when behavioural ratings, calculated using member-borrowers' transaction data, are used to assess portfolio risk on an ongoing basis. A monthly update of borrowers' risk level allows for proactive management of the portfolios' credit risk.

The performance of these systems is continually assessed and adjustments are made regularly with a view to determining transaction and borrower risk as adequately as possible.

Risk parameters are set for each exposure category analyzed and make it possible to determine probabilities of default, loss given default and exposure at default for groups with similar characteristics.

Probability of default is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. Loss given default is the magnitude of loss that may be incurred in the event a borrower defaults. Exposure at default is the amount likely to be engaged in the event of default.

The units responsible for the development process ensure that adequate controls are in place to guarantee the stability and performance of rating systems and internal models. These, in turn, are validated by a unit independent from the development process to ensure that they are conceptually sound and properly take into account all major risks. This validation is performed when the model is initially set up and subsequently, on an annual basis, as well as when major changes are made to it. A policy determines the events requiring validation by the independent unit, the approved rating systems and internal models concerned, and the scope and nature of the unit's work.

Business loans

The granting of credit to businesses is based on an analysis of the various parameters of each file, where each borrower is assigned a risk rating. These ratings are assigned individually following a detailed examination of the financial, market and management characteristics of the business. For the main commercial portfolios, the scoring system used has 19 ratings, broken down into 12 levels, each representing a probability of default.

Table 21 provides a comparison of internal ratings and ratings assigned by external agencies.

TABLE 21 – RATINGS BY RISK LEVER

Cotes	Moody's	S&P	Description
1 to 2	Aaa to Aa3	AAA to AA-	
2.5	A1 to A3	A+ to A-	High quality
3 to 4	Baa1 to Baa3	BBB+ to BBB-	
4.5 to 5.5	Ba1 to Ba3	BB+ to BB-	
6 to 7.5	B1 to Caa1	B+ to CCC+	Lower quality
8 and 9	Caa2 to C	CCC to C-	
10 to 12	D	D	Impaired loans or loans in default

The following table presents the credit quality of the business and government loan portfolio appearing in Desjardins Group's Combined Balance Sheets. The amounts presented are before the impact of the allowance for credit losses.

TABLE 22 – CREDIT RISK EXPOSURE OF THE BUSINESS AND GOVERNMENT LOAN PORTFOLIO
As at December
(in millions of dollars)

	2013		2012	
Business and government loans				
High quality	**$ 10,947**	**36.5%**	$ 10,685	37.4%
Lower quality	**18,572**	**61.9**	17,375	60.9
Impaired loans or loans in default	**494**	**1.6**	484	1.7
Total	**$ 30,013**	**100.0%**	$ 28,544	100.0%

The characteristics of each borrower are analyzed using models based on internal and external historical data, taking into account the specific features of the borrower's economic sector and the performance of comparable businesses. These analyses are performed using systems that can make quantitative comparisons, and are supplemented by the professional judgment of the personnel involved with the file.

The use of internal ratings and estimates has been expanded to other risk management and governance activities such as establishing analysis requirements and file authorization levels, determining the different types of follow-up activities, as well as assessing and disclosing portfolio risk quality.

Mitigating credit risk

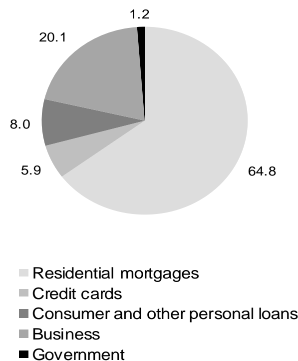
In its lending operations, Desjardins Group obtains collateral if deemed necessary for a member's or client's borrowing facility following an assessment of their creditworthiness. Collateral normally takes the form of assets such as capital assets, receivables, inventory, cash, government securities or equities. For some portfolios, programs offered by organizations such as Canada Mortgage and Housing Corporation and *La Financière agricole du Québec* are used in addition to customary collateral. As at December 31, 2013, Desjardins Group loans guaranteed by governments and other public and parapublic organizations represented 28.1% of total gross loans, compared to 30.4% at the end of 2012. Policies and procedures, adapted to each product, contain the requirements for appraising collateral, its legal validation and follow-up.

Where required, Desjardins Group uses mechanisms for sharing risk with other financial institutions, such as loan syndication.

Lending in Quebec accounts for 93.2% of Desjardins Group's total loans, with 6.6% in the rest of Canada and 0.2% in the United States.

The large number of borrowers—for the most part individuals, but also small- and medium-sized businesses from most sectors of the economy—helps ensure the sound diversification of Desjardins Group's financing portfolio.

LOAN DISTRIBUTION BY BORROWER CATEGORY
As at December 31
(as a percentage)



The above chart presents the distribution of loans by borrower category. Over half of the portfolio consists of residential mortgages, for which, statistically, the loss experience is lower. Additional information about credit risk is presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

Counterparty and issuer risk

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

The Desjardins Group Risk Management Office sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. The amounts are then allocated to the various components based on their needs.

To properly manage its risk exposure, Desjardins Group assigns a credit rating to each counterparty and issuer, based on the ratings of four external credit assessment institutions (DBRS, Moody's, S&P and Fitch). Desjardins uses this rating to establish exposure limits and to calculate capital requirements using the Standardized Approach. These four external credit assessment institutions meet the eligibility criteria of the Basel Accord and are authorized by the AMF and OSFI.

A large proportion of Desjardins's exposure is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. In addition, Desjardins Group is not directly exposed to the sovereign debt of Greece, Portugal, Italy, Ireland and Spain, and its exposure to U.S. and European financial institutions is low.

In its derivative financial instrument and securities lending transactions, which include repurchase and 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. These financial instruments are contracts whose value is based on an underlying asset, such as interest rates, exchange rates or financial indexes. The vast majority of Desjardins Group's derivative financial instruments are negotiated by mutual agreement 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.

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. This risk normally represents a small fraction of the notional amount. The replacement cost and the credit risk equivalent are two measures used to quantify it. 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 future credit exposure.

Desjardins Group limits the credit risk associated with derivative financial instruments by doing business with counterparties that have a high credit rating. Note 20, "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 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.

Desjardins Group also limits credit risk related to certain counterparties by using master agreements called International Swaps and Derivatives Association (ISDA) agreements, which define the terms and conditions for the transactions. These agreements are legal contracts that bind the counterparties. Most of Desjardins Group's agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to these agreements in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold. Taking into account master netting agreements, the risk-weighted balance for all Desjardins Group's derivative financial instruments as at December 31, 2013 amounted to $318 million, compared to $344 million as at December 31, 2012. As at December 31, 2013, the amount of collateral that Desjardins Group would have had to provide in the event of a downgrade was marginal because the replacement cost was positive for the majority of its contracts.

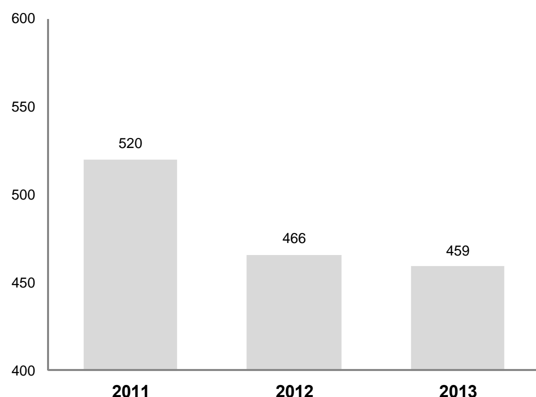
Securities lending transactions are regulated by Investment Industry Regulatory Organization of Canada participation agreements. Desjardins Group also uses netting agreements with its counterparties to mitigate its credit risk exposure and requires a percentage of collateralization (a pledge) on these 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 20, "Derivative financial instruments and hedging activities", and Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

QUALITY OF LOAN PORTFOLIO

GROSS IMPAIRED LOANS
(in millions of dollars)



Desjardins Group's loan portfolio continued to be of excellent quality. As at December 31, 2013, gross impaired loans outstanding were $459 million, down slightly by $7 million compared to December 31, 2012. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.33% as at December 31, 2013, an improvement over the ratio of 0.35% as at December 31, 2012.

Individual allowances for credit losses, which totalled $133 million as at December 31, 2013, made it possible to obtain a total coverage ratio of 29.0% of the gross impaired loans portfolio as at December 31, 2013, compared to a ratio of 29.6% at the end of 2012.

The collective allowance stood at $285 million as at December 31, 2013, up slightly over the $281 million recorded at the close of 2012. In addition, an allowance for risk related to off-balance sheet arrangements of $101 million as at December 31, 2013 was recognized under "Other liabilities – Other" on the Combined Balance Sheets, unchanged from a year earlier. The collective allowance reflects management's best estimate of allowances for credit losses regarding loans not yet individually identified as impaired. These results confirm that the entire portfolio is performing well.

The methods for measuring the collective allowance and individual allowances, as well as the method for determining an impaired loan, are described in section 5.4, "Critical accounting policies and estimates – Impairment of financial assets", on page 75 of this MD&A.

Tables 23 and 24 present impaired loans by borrower category as well as the specific coverage ratio for these loans.

TABLE 23 – IMPAIRED LOANS BY BORROWER CATEGORY
As at December 31
(in millions of dollars and as a percentage)

	2013					2012	2011
	Gross loans	**Gross impaired loans**		**Individual allowances for credit losses**	**Net impaired loans**	Net impaired loans	Net impaired loans
Residential mortgage	**$ 91,389**	**$ 136**	**0.15%**	**$ 14**	**$ 122**	$ 116	$ 120
Consumer, credit card and other personal loans	**19,549**	**75**	**0.38**	**25**	**50**	53	52
Business and government loans	**30,013**	**248**	**0.83**	**94**	**154**	159	189
Total	**$ 140,951**	**$ 459**		**$ 133**	**$ 326**	$ 328	$ 361
As a percentage of gross loans			**0.33%**		**0.23%**	0.25%	0.29%

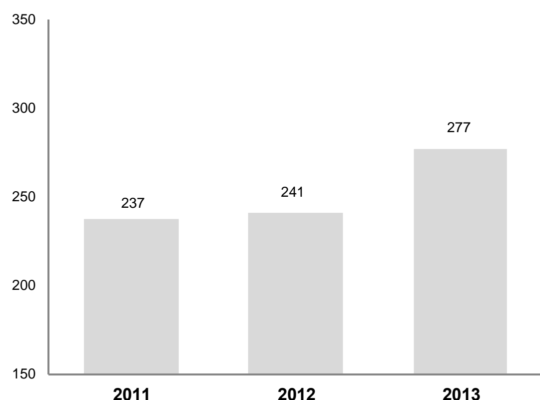
TABLE 24 – SPECIFIC COVERAGE RATIO
As at December 31
(as a percentage)

	2013	2012	2011
Residential mortgages	**10.3%**	10.1%	9.1%
Consumer, credit card and other personal loans	**33.3**	36.9	42.2
Business and government loans	**37.9**	37.2	36.6
Impaired loan portfolio coverage ratio	**29.0**	29.6	30.6

Provision for credit losses

Desjardins Group's provision for credit losses totalled $277 million for 2013, up $36 million compared to the corresponding period in 2012, due to growth in the loan portfolio. This provision consists entirely of the provision for loan losses of $277 million, compared to the provision for loan losses of $232 million and the off-balance sheet commitments of $9 million for 2012. The provision for loan losses represented 0.20% of average gross loans, unchanged from 2012.

PROVISION COVERAGE RATIO
(in millions of dollars)



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 primarily through positions taken in the course of its traditional financing and savings recruitment activities. It is also exposed to market risk through its trading activities. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

INTEREST RATE RISK MANAGEMENT

Desjardins Group is exposed to 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.

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 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.

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, member behaviour and pricing. Desjardins Group's asset and liability management committee (the Asset/Liability Committee) is responsible for analyzing and approving the global matching strategy on a monthly basis while respecting the parameters defined in interest rate risk management policies.

Table 25 presents the potential impact before income taxes on the non-trading portfolio 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.

TABLE 25 – INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)
As at December 31
(in millions of dollars)

	2013		2012	
	Net interest income[1]	**Economic value of equity[2]**	Net interest income[1]	Economic value of equity[2]
Impact of a 100 basis point increase in interest rates	**$ (44)**	**$ (206)**	$ 5	$ (96)
Impact of a 100 basis point decrease in interest rates	**31**	**239**	(26)	41

(1) Represents the sensitivity of net interest income for the next 12 months.
(2) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.

Interest rate sensitivity is based on the earlier of the repricing or maturity date of the assets, liabilities and derivative financial instruments used to manage 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 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.

FOREIGN EXCHANGE RISK

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.

Overall, Desjardins Group's exposure to this risk is low because the majority of its transactions are conducted in Canadian dollars. However, 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. To ensure that this risk is properly controlled and their exposure is limited, Desjardins Group and its components use, among other things, derivative financial instruments such as forward exchange contracts and currency swaps.

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. The main tool used to measure this risk is "Value at Risk" (VaR), which represents an estimate of the potential loss over a certain period of time at a given confidence level.

A Monte Carlo VaR is calculated daily on the trading portfolios, using a 99% confidence level and a holding horizon of one day. It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

Table 26 presents the aggregate VaR of the trading activities by risk category as well as the diversification effect. Equity price risk, interest rate risk and foreign exchange risk are the three risk categories to which Desjardins Group is exposed. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

TABLE 26 – VaR BY RISK CATEGORY (TRADING PORTFOLIO)
(in millions of dollars)

	As at December 31, 2013	**For the year ended December 31, 2013**			As at December 31, 2012	For the year ended December 31, 2012		
		Average	**High**	**Low**		Average	High	Low
Equities	**$ 0.1**	**$ 0.1**	**$ 0.6**	**$ 0.1**	$ 0.1	$ 0.2	$ 0.4	$ 0.1
Foreign exchange	**0.1**	**0.1**	**1.0**	**—**	0.1	0.1	0.1	—
Interest rate	**3.3**	**2.9**	**5.2**	**1.5**	1.9	3.0	7.8	1.1
Diversification effect(1)	**(0.2)**	**(0.2)**	**n. a.(2)**	**n. a.(2)**	(0.2)	(0.3)	n. a.(2)	n. a.(2)
Aggregate VaR	**$ 3.3**	**$ 2.9**	**$ 5.1**	**$ 1.5**	$ 1.9	$ 3.0	$ 7.7	$ 1.1

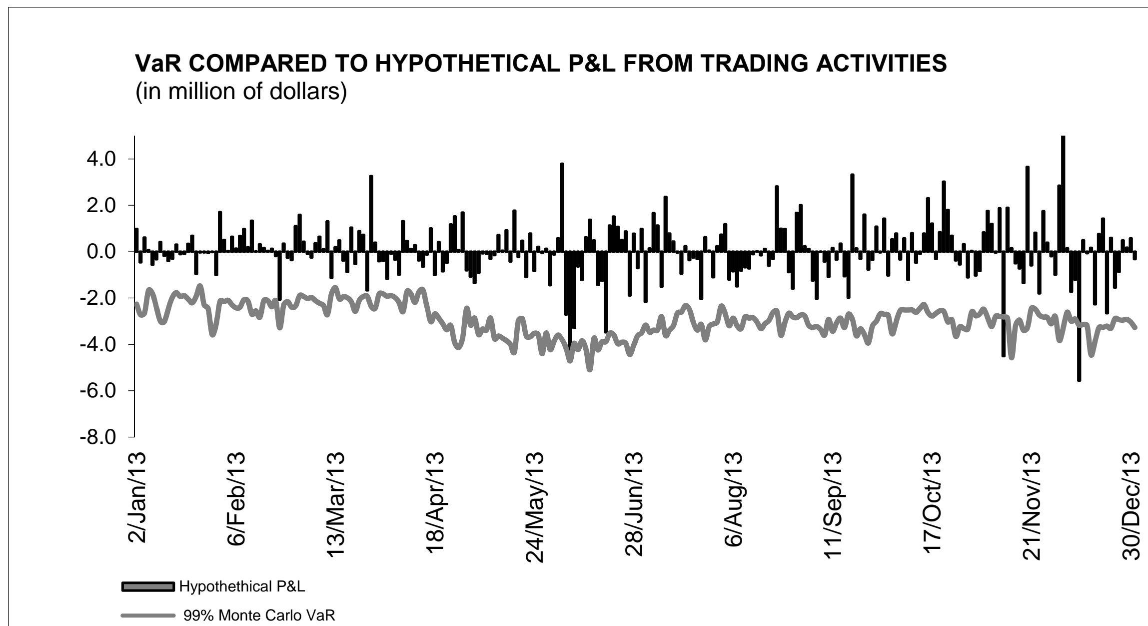
(1) Represents the risk reduction related to diversification, namely the difference between the sum of the VaR for the various market risks and the aggregate VaR.
(2) Not applicable: The highs and lows of the various market risk categories can refer to different dates.

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.

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

The following chart presents changes in VaR for trading activities as well as profit and losses related to these activities. Hypothetical P&L was exceeded twice during 2013 as a result of significant changes in market data.



Stress testing

Certain events that are considered highly unlikely and that may have a significant impact on trading portfolios may occur from time to time. These events are at the tail-end of the distribution and are the result of extreme situations.

The approach used to measure the risk related to highly unlikely but plausible events requires the use of a stress-testing program (sensitivity tests, historical scenarios and hypothetical scenarios) at regular intervals. Stress-testing results are analyzed together with VaR calculations in order to detect Desjardins Group's vulnerability to such events. The stress-testing program is reviewed periodically to ensure that it is kept current.

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 funding, monitoring indicators and adopting a contingency plan to implement 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 and tolerance 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.

The implementation of Basel III will strengthen international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). The Basel Committee recently issued a timetable and guidance for phase-in of the LCR effective 2015. The rules for applying NSFR requirements are still under review and should come into effect in 2018. Under its liquidity risk management policy, Desjardins Group already monitors these two ratios on a regular basis and intends to comply with the new standards once they become effective.

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 financing needs.

It should be noted that systems are in place for the issuance of covered bonds and the securitization of CHMC-insured loans. Furthermore, Desjardins Group is eligible for the Bank of Canada's various intervention programs and loan facilities for Emergency Lending Assistance advances.

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 reserves of high-quality liquid 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 the caisse network, the Federation on a consolidated basis and *Caisse centrale Desjardins* are specifically prescribed by policies. Daily management of securities and the reserve level to be maintained is centralized at Desjardins Group Treasury and is subject to monitoring by the Risk Management Division 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 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 make it possible to measure the extent of potential cash outflows in a crisis situation, to implement liquidity ratios and levels to be maintained across Desjardins Group and to assess the potential marginal cost of such events, depending on the type, severity and level of the crisis.

Liquid assets

Table 27 presents a summary of Desjardins Group's liquid assets comprising available reserves in the event of a crisis. This data does not include assets held by Desjardins Group's insurance subsidiaries because these assets are committed to cover insurance liabilities and not the liquidity needs of Desjardins Group's other components. Unencumbered liquid assets as at December 31, 2013 accounted for 8% of Desjardins Group's total assets, excluding those of insurance subsidiaries. Encumbered liquid assets mainly included liquid assets that are pledged as collateral or cannot be used as a result of internal policies or regulatory requirements.

TABLE 27 – LIQUID ASSETS[(1)]
As at December 2013
(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	$ 237	$ —	$ 237	$ —	$ 237
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	22,335	7,102	29,437	16,889	12,548
Other securities in Canada	2,825	29	2,854	438	2,416
Issued or guaranteed by foreign issuers	52	271	323	952	(629)
Loans					
Insured residential mortgage-backed securities	138	—	138	—	138
Total	$ 25,587	$ 7,402	$ 32,989	$ 18,279	$ 14,710

(1) Excluding assets held by subsidiaries.

TABLE 28 – LIQUID ASSETS BY ENTITY[(1)]
As at December 31
(in millions of dollars)

	Total liquid assets
Caisse Centrale Desjardins	$ 8,228
Caisse network	6,674
Other entities	18,087
Total	$ 32,989

(1) Excluding assets held by subsidiaries.

Liquidity risk indicators

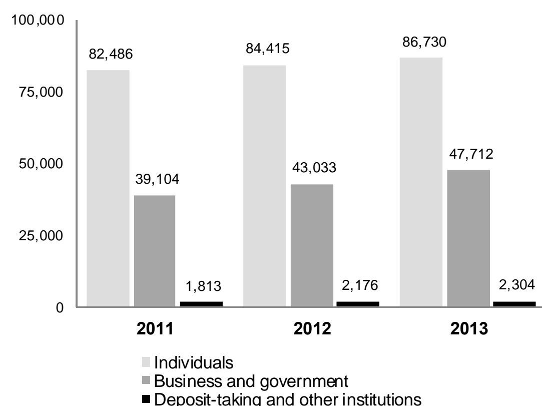
The purpose of monitoring liquidity indicators daily is to quickly identify a lack of liquidity, whether potential or real, within Desjardins Group and on capital markets. Warning levels subject to an escalation process are established for each of these indicators. If one or more indicators trigger a 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.

Desjardins Group has a liquidity contingency plan providing for, in particular, an internal crisis committee vested with special decision-making powers to deal with crisis situations. 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 possible 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.

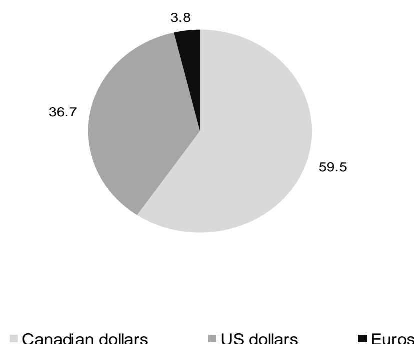
SOURCES OF REFINANCING

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. Total deposits presented on the Combined Balance Sheets amounted to $136.7 billion as at December 31, 2013, up $7.1 billion since December 31, 2012. This growth was mainly due to individual deposits and borrowings on the markets, which are Desjardins Group's preferred categories of funds. In addition, Desjardins Group diversifies its refinancing sources in order to limit its dependence on a single currency. The chart "Refinancing 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 and exclude member deposits.

DEPOSITS BY CATEGORY
(in millions of dollars)



REFINANCING BY CURRENCY
Borrowings on the markets and subordinated notes
As at December 31
(as a percentage)



Refinancing programs and strategies

As Desjardins Group's treasurer, *Caisse centrale Desjardins* meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks. These activities are regulated by a liquidity sufficiency and administration policy and a refinancing management policy. In 2013, *Caisse centrale Desjardins* managed to maintain a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional refinancing and the contribution of the caisse network.

To secure long-term refinancing at the lowest cost on the market, *Caisse centrale Desjardins* continues to be present in the federally-guaranteed mortgage loan securitization market under the Mortgage-Backed Securities Program CHT under the *National Housing Act*. In addition, to ensure stable refinancing, *Caisse centrale Desjardins* 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 *Caisse centrale Desjardins* are:

TABLE 29 – MAIN REFINANCING PROGRAMS
As at December 31

Refinancing program	Maximum authorized amount
Medium-term notes	$5 billion
Covered bonds (multi-currency)	€5 billion(1)
Short-term notes (European)	€1 billion
Short-term notes (U.S.)	US$7 billion
Medium-term notes (multi-currency)	€7 billion

(1) This maximum authorized amount covers *Caisse centrale Desjardins*'s Structured Covered Bond Program and its Legislative Covered Bond Program.

In 2013, *Caisse centrale Desjardins* also participated in new issues under the Mortgage-Backed Securities Program CHT under the *National Housing Act*. The aggregate amount of assets securitized through this program was $1.7 billion in 2013. In addition, *Caisse centrale Desjardins* issued $2.2 billion of medium-term notes on the Canadian market and US$500 million through its multi-currency medium-term note program during the same period. It should also be mentioned that on January 29, 2014, *Caisse centrale Desjardins*'s Legislative Covered Bond Program was accredited by the CMHC.

Caisse centrale Desjardins medium-term notes totalled $14.8 billion as at December 31, 2013, compared to $10.8 billion as at December 31, 2012. *Capital Desjardins inc.*'s subordinated notes outstanding totalled $3.1 billion as at December 31, 2013 and 2012.

In addition, on April 1, 2014, *Capital Desjardins inc.* plans to redeem in advance all Series E subordinated notes for a consideration of $500 million.

Furthermore, to round out its refinancing and increase its capital base, Desjardins Group, through the Federation, issued capital shares amounting to $473 million, net of issuance expenses, in 2013, thereby reaching $1.5 billion under this program as at December 31, 2013. Also, on December 20, 2013, the Federation obtained the AMF's approval to continue its initial program and therefore filed a new prospectus to issue additional shares totalling $500 million.

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

For Desjardins Group, maintaining competitive credit ratings is instrumental to accessing sources of wholesale funding, obtaining low funding costs and boosting its credibility and recognition among institutional investors and counterparties.

The rating agencies analyze Desjardins Group primarily on a combined basis because the credit ratings of *Caisse centrale Desjardins*, a reporting issuer, and *Capital Desjardins inc.*, a venture issuer, are backed by the financial strength of Desjardins Group. The agencies recognize its solid capitalization, the stability of its operating surplus earnings, its significant market shares in Quebec and the quality of its assets.

In the first quarter of 2013, Moody's downgraded the credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*, as well as the ratings of five other Canadian financial institutions. This agency stated that this decision was essentially due to the economic situation in Canada, which showed signs for concern such as high consumer debt levels and elevated housing prices. Moody's also said that financial institutions are more vulnerable than in the past to downside risks weighing on the Canadian economy. Desjardins Group management is of the opinion that this decision has more to do with this agency's concern about Canada's economic situation than with the quality of Desjardins Group's loan portfolio or balance sheet.

In the following quarters, the four rating agencies confirmed the credit ratings of the securities issued by Desjardins Group. Moreover, the outlook for these ratings is stable.

Following the announcement on January 15, 2014 of the agreement reached by Desjardins Group to acquire State Farm's Canadian businesses, Standard & Poor's, Moody's and DBRS stated that Desjardins's credit rating had not changed.

On January 24, 2014, Fitch affirmed the credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*, as well as those of the six major Canadian banks. The agency mentioned that these financial institutions were well positioned to deal with deterioration in the real estate market and consumer credit conditions because of their stable surplus earnings, good credit quality, excellent funding and liquidity positions and sound capital ratios. On January 27, 2014, Moody's reaffirmed the ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*, together with a stable outlook.

Caisse centrale Desjardins and *Capital Desjardins inc.* thus have credit ratings that are among the best of the major Canadian and international banking institutions.

TABLE 30 – CREDIT RATINGS OF SECURITIES ISSUED

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
Caisse centrale Desjardins				
Short-term	R-1 (high)	A-1	P-1	F1+
Medium- and long-term, senior	AA	A+	Aa2	AA-
Capital Desjardins inc.				
Medium- and long-term, senior	AA (low)	A	A2	A+

CONTRACTUAL OBLIGATIONS

Contractual obligations are commitments with respect to minimum future payments and impact Desjardins Group's liquidity needs. Such contractual obligations are recognized in the Combined Balance Sheets or are off-balance sheet.

Table 31 presents financial liabilities as well as off-balance sheet items by remaining contractual term to maturity. The amounts presented include principal and interest, if any.

TABLE 31 – CONTRACTUAL OBLIGATIONS BY TERM TO MATURITY
As at December 31
(in millions of dollars)

2013	**Payable on demand**	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Deposits	**$ 51,000**	**$ 40,933**	**$ 48,611**	**$ 206**	**$ 140,750**
Acceptances	**—**	**985**	**—**	**—**	**985**
Commitments related to securities sold short	**7,283**	**250**	**209**	**34**	**7,776**
Commitments related to securities lent or sold under repurchase agreements	**—**	**9,579**	**—**	**—**	**9,579**
Subordinated notes	**—**	**174**	**712**	**3,285**	**4,171**
Amounts payable to clients, brokers and financial institutions	**2,768**	**1,018**	**—**	**—**	**3,786**
Other financial liabilities	**110**	**1,535**	**177**	**49**	**1,871**
Derivative financial instruments with net settlement	**—**	**42**	**428**	**61**	**531**
Derivative financial instruments with gross settlement[1]					
Cash flows to be paid on liabilities	**—**	**5,399**	**297**	**36**	**5,732**
Cash flows to be paid on assets	**—**	**7,735**	**3,903**	**36**	**11,674**
Off-balance sheet items					
Credit commitments	**24,221**	**34,493**	**6,818**	**52**	**65,584**
Indemnification commitments related to securities lending	**1,302**	**842**	**—**	**—**	**2,144**
Documentary letters of credit	**76**	**1**	**1**	**—**	**78**
Guarantees and standby letters of credit	**467**	**230**	**170**	**2**	**869**
Credit default swaps	**—**	**—**	**545**	**—**	**545**

2012	Payable on demand	Less than 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities					
Deposits	$ 46,100	$ 42,415	$ 44,599	$ 338	$ 133,452
Acceptances	—	841	—	—	841
Commitments related to securities sold short	4,790	131	44	18	4,983
Commitments related to securities lent or sold under repurchase agreements	1	7,982	—	—	7,983
Subordinated notes	—	175	746	3,425	4,346
Amounts payable to clients, brokers and financial institutions	1,752	797	—	—	2,549
Other financial liabilities	31	1,704	89	2	1,826
Derivative financial instruments with net settlement	—	167	265	13	445
Derivative financial instruments with gross settlement[1]					
Cash flows to be paid on liabilities	—	4,896	1,422	—	6,318
Cash flows to be paid on assets	—	4,420	2,737	—	7,157
Off-balance sheet items					
Credit commitments	22,576	32,660	6,103	21	61,360
Indemnification commitments related to securities lending	1,052	1,325	—	—	2,377
Documentary letters of credit	55	1	1	—	57
Guarantees and standby letters of credit	435	233	143	38	849
Credit default swaps	—	10	549	—	559

(1) Derivative financial instruments with gross settlement include cash flows to be paid on both derivative financial instruments recorded as liabilities and on derivative financial instruments recorded as assets. Contractual cash outflows for derivative financial instruments with gross settlement are accompanied by related cash inflows that are not included in this table.

OPERATIONAL RISK

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

OPERATIONAL RISK MANAGEMENT

Operational risk is inherent to all business activities as well as internal and outsourced activities. It may lead to losses mainly resulting from fraud, damage to tangible assets, illegal acts, systems failures, or problems in process management.

Operational risk management framework

The primary objective of Desjardins Group's operational risk management framework is to maintain operational risk at an acceptable level while focusing on the quality of service provided to members and clients, as well as organizational agility. The development of frameworks to identify, measure, monitor and disclose operational risk ensures its sound and prudent management.

Practices in place to foster efficient and proactive management of events that could lead to operational risk include, among other things, risk assessment, outsourcing risk management, technology risk management, protection of information and insurance coverage, as well as business continuity and crisis management.

The operational risk management framework is periodically reviewed based on regulatory authorities' expectations and industry practices.

Business continuity and crisis management

Desjardins Group has a business continuity program whose purpose is to ensure that services related to essential operations will continue to be provided to members and clients in the event of a business interruption, system disruption or crisis.

Information risk management

Desjardins Group is aware of the importance of protecting information and has implemented an information risk management program as well as a training and awareness program to protect privacy and ensure the safety of its members' and clients' property.

Technology risk management

Desjardins Group has a specific framework for technology risk management. The purpose of this framework is to define the concept of technology risks for Desjardins Group, the scope of application of the technology risk management approach, the governance structure and related management activities.

Outsourcing risk management

A program has been set up to manage Desjardins Group's outsourcing activities. Major outsourcing agreements have been identified and are monitored to ensure they are properly managed.

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.

The risk associated with designing and pricing products is the risk that the initial pricing is or will become insufficient. The risk of incorrectly estimating actuarial reserves is due to the possibility of selecting an inadequate model for estimating the loss ratio or calculating the reserves. Loss ratio means the estimated benefits that will be required to be paid, contractual clause management and risk selection.

INSURANCE RISK MANAGEMENT

Product design and pricing 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. Insurance components adopt strict pricing standards and policies and perform spot checks to compare their forecasts with actual results. Some product pricing may be adjusted depending on the accuracy of forecasts.

Desjardins Group limits potential losses through reinsurance treaties. Such treaties do not, however, release the insurance components from their obligations toward clients in the event that reinsurers experience financial difficulties. Consequently, the components are also exposed to a credit risk related to the reinsurers. To minimize this risk, the components enter into reinsurance treaties with stable, financially solid and, in most cases, duly accredited companies.

The insurance subsidiaries comply with the standards for sound management practices established by the regulatory bodies that govern them and are subject to dynamic capital adequacy testing. Various unfavourable scenarios were tested in 2013 to measure their effect on the capitalization ratio of Desjardins insurance subsidiaries. Test results showed that capital was adequate in each case.

STRATEGIC RISK

Strategic risk refers to a possible 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 Desjardins Group's strategic orientations according to the consultation processes specific to Desjardins. Events that could compromise the achievement of Desjardins Group's strategic objectives and initiatives are systematically and regularly monitored by Desjardins Group's management personnel and senior management. Business sectors and support functions periodically assess events and risks that could prevent the achievement of strategic objectives, and report thereon to the appropriate bodies.

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 income and equity, or 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 spheres of activity is a constant concern for Desjardins Group.

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

ENVIRONMENTAL RISK

Environmental risk is the risk of financial, operational or reputational loss for Desjardins Group as a result of the impact of environmental issues, whether they occur through Desjardins Group's credit or investment activities or its operations. In addition to potential financial losses that could result from poor environmental risk management, there is also, in particular, an increase in credit risk arising from an impairment loss on assets taken as collateral, as well as greater reputation risk resulting from assets taken as collateral that are likely to become social and environmental issues in the public arena.

Environmental risk is an integral part of Desjardins Group's Integrated Risk Management Framework. Risks associated with climate change were subjected to a comprehensive assessment in 2013 in order to identify any significant risks that should be integrated into current risk management.

Moreover, Desjardins Group has been a pioneer in responsible investing for more than a decade, offering its members and clients investment products that take into account the environmental risks and opportunities of investees, in an effort to contribute to sustainable development.

LEGAL AND REGULATORY ENVIRONMENT RISK

Legal and regulatory environment risk refers to the risk that Desjardins Group could be adversely affected in the event of non-compliance with the laws, regulations, standards and practices governing its operations.

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, and the fight against money laundering and terrorist financing, 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, Canadian securities authorities, the Office of the Superintendent of Financial Institutions, 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 major statutory and regulatory provisions found in the *Foreign Account Tax Compliance Act*, the *Dodd-Frank Act* or the Basel accords requires Desjardins Group to make significant investments of financial and human resources.

Legal and regulatory environment risk entails, *inter alia*, effectively preventing and handling possible disputes and claims that may lead in particular to judgments or decisions by a court of law or regulatory agency that could result in financial penalties. They may also end in unfavourable judgments, decisions or settlements that could negatively affect the conduct of Desjardins Group's current operations and lead to further costs associated with legal proceedings that could have an adverse impact on Desjardins Group's financial position and corporate image.

The Office of the Chief Compliance Officer of Desjardins Group 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 on an ongoing basis by the compliance function in cooperation with Legal Affairs. 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. Lastly, Desjardins Group has set up a formal reporting process related to compliance for its senior management and various decision-making bodies. This overall management of compliance provides reasonable assurance that Desjardins Group's operations comply with applicable regulations.

4.2 OTHER RISK FACTORS THAT COULD IMPACT FUTURE RESULTS

As indicated in the caution concerning forward-looking statements, general and 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.

General economic and business conditions in regions in which Desjardins Group operates

General economic and business conditions in the regions in which Desjardins Group operates may significantly affect its revenues. 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 strength of the economy and the volume of business conducted by Desjardins Group in a given region.

Changes in standards, laws and regulations

Changes made to standards, laws and regulations, including changes affecting their interpretation or implementation, could have an impact on Desjardins Group by restricting its product or service offer or by enhancing the ability of competitors to compete with its products or services. In addition, Desjardins Group's failure to comply with applicable laws, regulations and other guiding principles, even though it strives to avoid such a possibility, could result in penalties and fines that may have an unfavourable impact on its reputation and financial results. Such changes could also affect the capital and liquidity levels that Desjardins Group elects to maintain.

Foreign exchange rates

Exchange rate fluctuations in the Canadian dollar, the U.S. dollar and other foreign currencies may affect Desjardins Group's financial position and its future surplus earnings. Fluctuations in the Canadian dollar may also adversely impact the earnings of Desjardins Group's business clients in Canada.

Monetary policies

The monetary policies of the Bank of Canada and the Federal Reserve Board in the United States, 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. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.

Competition

The level of competition in markets in which Desjardins Group operates affects its performance. Client retention depends on many factors, such as product and service pricing, changes to the products and services offered, and customer service delivery.

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 accuracy and completeness of such information, and on auditors' reports regarding the financial statements. The financial position and income of Desjardins Group could be adversely affected if it relied on financial statements that do not comply with accounting standards, are misleading or do not present fairly, in all material respects, the financial position and the results of the operations of its 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.

Accounting policies

The accounting policies that Desjardins Group uses determine how it reports its financial position and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Any change to these estimates and assumptions may have a significant impact on Desjardins Group's results of operations and financial position.

New products and services to maintain or increase Desjardins Group's market share

The ability of Desjardins Group to maintain or increase its market share depends partly on its skill in adapting its products and services to changing standards in the financial services industry. Financial services companies are subject to increasing pressure regarding the pricing of their products and services. This factor may reduce Desjardins Group's net interest income or revenues from fee-based products and services. Moreover, the adoption of new technologies could require Desjardins Group to modify or adapt its products and services, resulting in major expenses.

Ability to recruit and retain key management personnel, including senior management

Desjardins Group's future performance depends partly on its ability to recruit and retain key management personnel, including senior management, as there is fierce competition in this area in the financial services industry. Desjardins Group cannot be sure that it will be able to continue to recruit and retain key management personnel, including its senior management, even though this is one of the objectives of its human resources management policies and practices.

Business infrastructure

Third parties provide some of the essential components of Desjardins Group's business infrastructure, such as Internet connections and network access. Interruptions in network access services or other communication services provided by such third parties could adversely affect the ability of Desjardins Group to offer products and services to customers and otherwise conduct its business.

Geographic concentration

Desjardins Group's operations are heavily concentrated in Quebec. As at December 31, 2013, Desjardins Group's loans to members and clients in Quebec therefore accounted for 93,2% 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 the 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 process. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in approval of transactions by regulators and shareholders, the inability to apply the strategic plan in its original form, difficulties in integrating or retaining key employees or clients or even 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, thereby impacting Desjardins Group's future surplus earnings.

Acquisition of State Farm's Canadian businesses

The timeline and completion of the proposed acquisition of the Canadian business of State Farm Mutual Automobile Insurance Company (State Farm) and its subsidiaries (State Farm's Canadian businesses) by the Federation and some of its subsidiaries are subject to closing conditions and other risks and uncertainties, including approval from regulators, which does not guarantee that the acquisition will be completed or that it will not be modified or restructured or that the anticipated benefits will be fully realized.

Although the Federation conducted what it considers to be a prudent and thorough investigation before the announcement of the acquisition, it may nevertheless find after closing that it has acquired greater obligations or liabilities than expected or not previously disclosed, or that it may be unable to retain the clients, exclusive independent contractors or current employees of State Farm's Canadian businesses. The fact that the Federation may experience problems during the integration and transition process could also have an unfavourable impact on the Federation's activities, financial situation, operating results and cash flows.

Credit ratings

The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. There is no guarantee that the credit ratings and outlooks assigned by agencies to Desjardins Group's various securities will be maintained. Furthermore, a downgrade to any ratings could raise Desjardins Group's cost of funding and reduce its access to capital markets.

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, technological changes, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact on Desjardins Group's business of international conflicts or natural disasters, 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.

4.3 ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

The tables below provide more details about more complex, higher-risk financial instruments.

TABLE 32 – ASSET-BACKED SECURITIES
As at December 31
(in millions of dollars)

	2013		2012	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Commercial mortgage-backed securities[(1)]	**$ 193**	**$ 201**	$ 236	$ 249
Financial asset-backed securities[(2)]	**54**	**54**	94	91

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

TABLE 33 – DERIVATIVE FINANCIAL INSTRUMENTS
As at December 31
(in millions of dollars)

	2013			2012		
	Notional amounts	**Positive value**	**Negative value**	Notional amounts	Positive value	Negative value
Credit default swaps[(1)]	**$ 545**	**$ 10**	**$ —**	$ 559	$ 1	$ —
Total return swaps[(2)]	**10**	**1**	**—**	7	—	—

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

TABLE 34 – LEVERAGED FINANCE LOANS AND SUBPRIME LOANS
As at December 31
(in millions of dollars)

	2013	2012
Leveraged finance loans[(1)]	**$ 141**	$ 165
Alt-A mortgage loans[(2)]	**32**	36
Subprime residential mortgage loans[(3)]	**1**	2

(1) Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
(2) Alt-A mortgages are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Combined Balance Sheets, under "Loans – Residential mortgages", and are measured at amortized cost.
(3) These loans are defined as loans to borrowers with a high credit risk profile. None of these loans is currently in default. 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 CSA. However, it has chosen to apply the practices provided in this National Instrument to demonstrate its willingness to comply with best practices in financial governance.

During 2013, Desjardins Group carried out work so that it could provide certification as at December 31, 2013 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 Chair of the Board, President and CEO as well as the Senior Vice-President of Finance and Chief Financial Officer 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 key role in the overseeing and assessing of the adequacy of disclosure controls and procedures.

As at December 31, 2013, Desjardins Group management assessed the design and effectiveness of its disclosure controls and procedures in accordance with the control framework developed in 1992 by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

This assessment of the design and effectiveness of disclosure controls and procedures was performed by Desjardins Group management under the supervision of the Chair of the Board, President and CEO, and the Senior Vice-President of Finance and Chief Financial Officer of Desjardins Group. Based on the results of this assessment, these senior officers concluded that disclosure controls and procedures were adequately designed and effective, and did not contain any material weakness, thereby ensuring that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that Desjardins Group provides investors with complete and reliable information.

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 COSO's control framework (1992) 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 misstatements, whether due to error or fraud. Moreover, 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 Chair of the Board, President and CEO, and the Senior Vice-President, Finance, and Chief Financial Officer. Based on the results of this assessment, these senior officers concluded that as at December 31, 2013, internal control over financing reporting was adequately designed and effective, and did not contain any material weakness.

Moreover, as at December 31, 2013, three Desjardins Group components had complied with Regulation 52-109 requirements, namely *Caisse centrale Desjardins, Capital Desjardins inc.* and the Federation. Note that the Federation became a venture issuer on May 1, 2012, but it decided to apply non-venture issuer practices in the last quarter of 2013.

Under the supervision of the certifying officers, the respective management of *Caisse centrale Desjardins*, *Capital Desjardins inc.* and the Federation 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, 2013, Desjardins Group did not make any changes to its internal control over financial reporting that had materially affected, or may materially affect, its operations.

Various other aspects of corporate governance are examined in more detail on pages 181 to 198 of the *2013 Desjardins Group Annual Report*.

5.2 RELATED PARTY DISCLOSURES

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

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

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

Such related party transactions are explained in Note 35, "Related party disclosures", to Desjardins Group's Combined Financial Statements, on page 179 of the *2013 Desjardins Group Annual Report*.

5.3 MATERIAL EVENTS

ACQUISITIONS

Qtrade Canada Inc.

On April 3, 2013, Desjardins Group acquired, through Desjardins Financial Corporation Inc., a wholly owned subsidiary of the Federation, 40% of the outstanding shares of Qtrade Canada Inc. on a fully diluted basis for an aggregate amount of $65 million. Qtrade is a company specializing in online brokerage and wealth management services, primarily for credit unions.

Coast Capital Insurance Services Ltd.

On July 2, 2013, Desjardins Group acquired, through Western Financial Group Inc., a wholly owned subsidiary of Desjardins Financial Corporation Inc., 100% of the outstanding shares of Coast Capital Insurance Services Ltd. (CCIS) for an aggregate amount of $99 million, in addition to CCIS's excess working capital of $17 million. CCIS offers property and casualty and commercial insurance products on the western Canada retail market.

SUBSEQUENT EVENTS

Acquisition of State Farm's Canadian business

On January 15, 2014, Desjardins Group entered into a final agreement to acquire all the property and casualty and life and health insurance businesses of State Farm, as well as the shares of its Canadian mutual fund, loan and living benefits companies.

As part of the agreement, State Farm will invest $450 million in non-voting preferred shares of Desjardins Group's property and casualty insurance main subsidiary, while *Groupe des assurances du Crédit Mutuel s.a.*, currently a minority partner in this property and casualty insurance subsidiary, will invest $200 million in common shares, non-voting preferred shares and subordinated notes.

Desjardins Group will also allocate approximately $700 million in additional capital in the same property and casualty insurance subsidiary to promote post-acquisition growth. In addition, its life and health insurance subsidiary and other entities will allocate approximately $250 million in capital for the life and health insurance, mutual fund, loan and living benefits components acquired from State Farm.

The transaction is expected to close on January 1, 2015, subject to approval from regulators and compliance with customary closing conditions.

5.4 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, 2013. The significant accounting policies are described in Note 2, “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 an entity of Desjardins Group. 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 15, “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 three levels of the fair value hierarchy, reflecting the importance of the inputs used for the measurements. Level 1 denotes measurement based on quoted prices 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. 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 inputs, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is made in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

Loans

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

Deposits

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

Subordinated notes

The fair value of subordinated notes is based on market prices.

Derivative financial instruments

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

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 6, “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 10, "Derecognition of financial assets", to the Combined Financial Statements.

IMPAIRMENT OF FINANCIAL ASSETS

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

<u>Allowance for credit losses</u>

Measuring the allowance for credit losses is very important for Desjardins Group given the size of its loan portfolio.

Evidence of impairment results from a loss event that occurs after a loan has been granted but before the reporting date, and that has an impact on the estimated future cash flows of the loan.

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

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

The allowance resulting from this impairment is established using two components: individual allowances and collective allowance.

For individual allowances, Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

The method used by Desjardins Group to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as the probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and risk rating of each loan. The measurement of the collective allowance relies heavily on management's judgment and depends on management's assessment of current credit quality trends with respect to business sectors, 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 9, "Loans and allowance for credit losses", to the Combined Financial Statements.

<u>Available-for-sale securities</u>

Securities classified in the "Available-for-sale" category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the decline in value, Desjardins Group takes into account many facts specific to each investment and all the factors that could indicate that there has been impairment. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring and the disappearance of an active market for the financial asset. Management also uses its judgment to determine when to recognize an impairment loss.

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

Additional information about the recognition of available-for-sale securities and fair value measurement is presented in Note 5, "Carrying amount of financial instruments", Note 6, "Fair value of financial instruments", and Note 8, "Securities", to the Combined Financial Statements.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount obtainable from the sale, less costs of disposal, 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 if it is impaired also requires that management make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

Goodwill and intangible assets with indefinite useful lives

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

The impairment test for goodwill and intangible assets with indefinite useful lives is performed based on the recoverable amount of the asset or each cash-generating unit (CGU) (or each group of CGUs) to which goodwill or the intangible asset with an indefinite useful life 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 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 13, "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

The calculation of actuarial liabilities requires that assumptions be made with respect to the timing of many factors such as death, disability, investment income, inflation, policy cancellations, expenses, income taxes, premiums, commissions and participating policyholders' dividends as well as the amounts they represent. The life and health insurance subsidiaries use assumptions that are established using the best estimates for future underwriting experience, but some of these assumptions refer to events that are likely to occur in the distant future and therefore may need to be adjusted based on information received at a later date.

Property and casualty insurance contract liabilities

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 underlying asset rate, with a margin for adverse deviations.

Note 17, "Insurance and investment contract liabilities", to the Combined Financial Statements provides information about accounting for the various insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS

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

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

CONTINGENT LIABILITIES

In the normal course of its business operations, Desjardins Group is involved in various litigation matters and lawsuits relating to its various products, services, investments and other activities.

It is not currently possible to determine the outcome of some of these litigation matters and lawsuits, the timing of such outcome 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 lawsuits, 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.

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

INCOME TAXES ON SURPLUS EARNINGS

The income tax expense on surplus earnings comprises the current tax expense and the deferred tax expense. Income taxes on surplus earnings are recognized in the Combined Statements of Income unless they relate to items that were recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity. In such cases, income taxes on surplus earnings are also recognized outside profit or loss, except for the income tax consequences of dividends and remuneration on capital stock when certain conditions are met.

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

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

PROVISION FOR 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. The amount of the provision is estimated based on, among other things, the surplus earnings recorded for the year by the caisses, taking into consideration the financial framework for the appropriation of surplus earnings in relation to the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid, in cash or in shares, following the general meetings held by the caisses, and the estimated amount of the provision is charged to combined profit or loss for the year in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. The surplus earnings distribution plan takes into account a program under which members may elect to receive their dividends in the form of shares, in which case their value is greater than the equivalent dividends paid in cash. The caisses can pay out member dividends when legal and regulatory requirements have been met.

EMPLOYEE BENEFITS

Desjardins Group offers the majority of its employees group pension plans and group supplemental pension plans, which are defined benefit plans. It also offers medical, dental and life insurance plans to retiring employees and their dependents through defined benefit group plans. The other defined benefit plans offered are pension plans as well as medical, dental and life insurance plans whose risks are not shared by entities under common control.

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 whose risks are shared by the participating employers of Desjardins Group. 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 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 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 participants' 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 other group plans and other 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 the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

Note 28, "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.

5.5 FUTURE ACCOUNTING CHANGES

Accounting standards that have been issued by the IASB but were not yet effective as at December 31, 2013 are presented below. Regulatory authorities have stated that early adoption of these standards will not be permitted, unless they indicate otherwise.

IAS 32, "Financial Instruments: Presentation"

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation", to clarify the criteria for offsetting financial assets and financial liabilities.

Desjardins Group is currently assessing the impact of the amendments made to this standard, which are effective for annual periods beginning on or after January 1, 2014.

IAS 39, "Financial Instruments: Recognition and Measurement" – Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued amendments to IAS 39, "Financial Instruments: Recognition and Measurement". According to these amendments, hedge accounting should be continued when a derivative financial instrument designated as a hedging instrument is novated from one counterparty to a central counterparty or an entity acting in that capacity and certain conditions are met.

The amendments to this standard, which are effective for annual periods beginning on or after January 1, 2014, will have no impact on Desjardins Group's profit or loss or financial position.

Annual improvements

In December 2013, the IASB issued *Annual Improvements 2010-2012 Cycle* and *Annual Improvements 2011-2013 Cycle*, which contain necessary, but not urgent, amendments to certain standards. Some of these amendments are effective for annual periods beginning on or after July 1, 2014, while others are effective for transactions entered into on or after July 1, 2014. These amendments will have no material impact on Desjardins Group's profit or loss or financial position.

IFRS 9, "Financial Instruments"

The IASB issued in November 2009 and amended in October 2010 the first phase of a project that will replace IAS 39, "Financial Instruments: Recognition and Measurement". This standard defines a new way of classifying and measuring financial assets and liabilities. Financial assets will be classified in two categories (amortized cost and fair value through profit or loss) based on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the financial assets. However, an exposure draft issued in November 2012 proposes the introduction of a third financial instrument category for debt securities: fair value through other comprehensive income.

Financial liabilities will be classified in the same categories as those defined in IAS 39, but their measurement under the fair value option has been modified.

In November 2013, the IASB also issued the phase of its IAS 39 replacement project addressing hedging activities. The IFRS 9 hedge accounting model retains the current types of hedging relationships (fair value, cash flows and net investment hedges) but includes significant changes that will allow hedge accounting to better reflect the entity's risk management policies. The assessment of the effectiveness of a hedge has been replaced by the economic relationship principle, and changes have been made to the accounting for certain derivative financial instruments designated as part of a hedging relationship. The obligation to retrospectively assess the effectiveness of a hedge and the option under which a hedging relationship may be voluntarily terminated have been eliminated, while disclosure requirements about the entity's risk management activities have been enhanced. Entities that will apply IFRS 9 will be able to choose an accounting policy under which they will continue to apply the IAS 39 hedge accounting model instead of adopting the IFRS 9 model until the IASB completes its project dealing with accounting for macro hedging.

The IASB's project phase dealing with financial asset impairment methodology is still ongoing. The IASB has temporarily removed the mandatory effective date of IFRS 9, which was January 1, 2015, and will determine a new effective date when all the phases of this project have been finalized.

Desjardins Group is currently assessing the impact of the adoption of IFRS 9.

5.6 FIVE-YEAR STATISTICAL REVIEW

TABLE 37 - COMBINED BALANCE SHEET
For the years ended December 31
(in millions of dollars)

	2013	2012[1]	2011[1]	2010[1]	2009[2]
ASSETS					
Cash and deposits with financial institutions	**$ 1,320**	$ 1,669	$ 1,356	$ 1,621	$ 1,086
Securities					
Securities at fair value through profit or loss	**23,536**	21,986	22,479	21,490	19,349
Available-for-sale securities	**19,041**	18,326	18,726	15,930	12,064
Securities held to maturity	**—**	—	—	—	18
	42,577	40,312	41,205	37,420	31,431
Securities borrowed or purchased under reverse repurchase agreements	**7,710**	4,377	4,959	7,034	5,055
Loans					
Residential mortgages	**91,389**	85,931	79,686	74,466	67,667
Consumer, credit card and other personal loans	**19,549**	18,520	17,985	17,504	16,915
Business and government loans	**30,013**	28,544	27,948	26,777	26,259
	140,951	132,995	125,619	118,747	110,841
Allowance for credit losses	**(418)**	(419)	(465)	(489)	(541)
	140,533	132,576	125,154	118,258	110,300
Segregated fund net assets	**7,252**	6,066	5,362	4,774	—
Other assets					
Clients' liability under acceptances	**985**	841	676	672	751
Premiums receivable	**1,123**	1,040	914	820	730
Derivative financial instruments	**2,322**	2,238	3,059	2,006	2,647
Amounts receivable from clients, brokers and financial institutions	**1,891**	1,195	1,525	1,073	703
Reinsurance assets	**648**	778	797	600	524
Investment property	**475**	512	597	616	—
Property, plant and equipment	**1,322**	1,312	1,218	1,187	1,008
Goodwill	**456**	353	348	109	109
Intangible assets	**507**	360	335	150	112
Deferred tax assets	**810**	936	966	941	—
Other	**2,074**	2,253	1,711	1,720	2,986
	12,613	11,818	12,146	9,894	9,570
TOTAL ASSETS	**$ 212,005**	$ 196,818	$ 190,182	$ 179,001	$ 157,442

(1) Data for 2012, 2011 and 2010 has been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.
(2) In accordance with GAAP in effect prior to the adoption of IFRS.

TABLE 37 – COMBINED BALANCE SHEET (CONTINUED)
For the years ended December 31
(in millions of dollars)

	2013	2012[(1)]	2011[(1)]	2010[(1)]	2009[(2)]
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 86,730**	$ 84,415	$ 82,486	$ 78,747	$ 75,420
Business and government	**47,712**	43,033	39,104	33,686	28,101
Deposit-taking institutions	**2,304**	2,176	1,813	2,230	2,640
	136,746	129,624	123,403	114,663	106,161
Other liabilities					
Acceptances	**985**	841	676	672	751
Commitments related to securities sold short	**7,754**	4,977	5,341	7,544	5,038
Commitments related to securities lent or sold under repurchase agreements	**9,579**	7,983	8,500	10,608	10,080
Derivative financial instruments	**1,719**	1,222	1,593	1,774	1,852
Amounts payable to clients, brokers and financial institutions	**3,752**	2,504	3,762	2,612	2,355
Insurance and investment contract liabilities	**17,070**	17,777	17,008	14,942	13,453
Segregated fund net liabilities	**7,260**	6,075	5,362	4,774	—
Defined benefit plan liabilities	**1,825**	2,524	2,578	2,438	782
Deferred tax liabilities	**303**	324	420	250	—
Other	**4,717**	4,427	4,517	3,998	3,950
	54,964	48,654	49,757	49,612	38,261
Subordinated notes	**3,063**	3,081	3,350	2,805	1,294
TOTAL LIABILITIES	**194,773**	181,359	176,510	167,080	145,716
EQUITY					
Capital stock	**3,881**	3,322	2,210	2,129	1,608
Share capital	**82**	80	78	70	71
Undistributed surplus earnings	**1,349**	1,319	1,272	996	805
Accumulated other comprehensive income	**420**	694	1,044	617	489
Reserves	**11,056**	9,642	8,672	7,784	8,373
Equity – Group's share	**16,788**	15,057	13,276	11,596	11,346
Non-controlling interests	**444**	402	396	325	380
Total equity	**17,232**	15,459	13,672	11,921	11,726
TOTAL LIABILITIES AND EQUITY	**$ 212,005**	$ 196,818	$ 190,182	$ 179,001	$ 157,442

(1) Data for 2012, 2011 and 2010 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.
(2) In accordance with GAAP in effect prior to the adoption of IFRS.

TABLE 38 – COMBINED STATEMENTS OF INCOME
For the years ended December 31
(in millions of dollars)

	2013	2012[(1)]	2011[(1)]	2010[(1)]	2009[(2)]
Interest income					
Loans	**$ 5,370**	$ 5,474	$ 5,462	$ 5,250	$ 5,068
Securities	**313**	391	428	439	438
	5,683	5,865	5,890	5,689	5,506
Interest expense					
Deposits	**1,708**	1,851	1,818	1,692	1,920
Subordinated notes and other	**157**	166	151	105	64
	1,865	2,017	1,969	1,797	1,984
Net interest income	**3,818**	3,848	3,921	3,892	3,522
Net premiums	**5,558**	5,126	4,851	4,360	4,247
Other income					
Deposit and payment service charges	**498**	499	512	535	513
Lending fees and credit card service revenues	**549**	517	483	451	444
Brokerage and investment fund services	**855**	731	658	563	498
Management and custodial service fees	**300**	283	298	257	201
Net income (loss) on securities at fair value through profit or loss	**(667)**	674	1,706	984	666
Net income on available-for-sale securities	**221**	268	299	174	79
Net other investment income	**229**	236	264	251	275
Foreign exchange income	**61**	63	72	79	63
Other	**312**	233	141	(3)	162
	2,358	3,504	4,433	3,291	2,901
Total income	**11,734**	12,478	13,205	11,543	10,670
Provision for credit losses	**277**	241	237	203	260
Claims, benefits, annuities and changes in insurance and investment contract liabilities	**3,259**	4,397	5,292	4,136	3,758
Non-interest expense					
Salaries and fringe benefits	**3,125**	3,030	2,908	2,695	2,423
Premises, equipment and furniture, including depreciation	**570**	519	526	425	415
Service agreements and outsourcing	**232**	228	270	363	371
Communications	**287**	271	247	258	237
Restructuring expenses	**—**	—	—	—	101
Other	**2,015**	1,860	1,798	1,733	1,602
	6,229	5,908	5,749	5,474	5,149
Operating surplus earnings	**1,969**	1,932	1,927	1,730	1,503
Income taxes on surplus earnings	**439**	428	415	393	412
Surplus earnings before member dividends	**1,530**	1,504	1,512	1,337	1,091
Provision for member dividends	**171**	279	320	299	311
Tax recovery on the provision for member dividends	**(45)**	(73)	(90)	(81)	(98)
Net surplus earnings for the year after member dividends	**$ 1,404**	$ 1,298	$ 1,282	$ 1,119	$ 878
Of which:					
Group's share	**$ 1,384**	$ 1,224	$ 1,245	$ 1,104	$ 861
Non-controlling interests' share	**20**	74	37	15	17

(1) Data for 2012, 2011 and 2010 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.
(2) In accordance with GAAP in effect prior to the adoption of IFRS.

TABLE 39 – SELECTED FINANCIAL MEASURES
For the years ended December 31
(in millions of dollars and as a percentage)

	2013	2012[1]	2011[1]	2010[1]	2009[2]
Tier 1a capital ratio[3]	**15.7%**	n. a.	n. a.	n. a.	n. a.
Tier 1 capital ratio[3]	**15.7**	16.8%	17.3%	17.7%	15.8%
Total capital ratio[3]	**18.4**	19.3	19.3	18.7	15.8
Return on equity	**9.4**	10.2	12.0	11.8	10.2
Productivity index	**73.5**	73.1	72.7	73.9	74.5
Gross impaired loans / gross loans ratio	**0.33**	0.35	0.41	0.43	0.46
Gross loans/deposits	**1.03**	1.03	1.02	1.04	1.04
Average assets	**$ 205,051**	$ 195,456	$ 186,338	$ 174,146	$ 158,689
Average net loans	**136,539**	128,683	121,279	114,323	107,229
Average deposits	**133,518**	127,409	119,424	111,020	104,584

(1) Data for 2012, 2011 and 2010 have been restated to reflect the application of new accounting policies that took effect on January 1, 2013. For further information, see Note 3, "Changes in accounting policies and disclosures", to the Combined Financial Statements.
(2) In accordance with GAAP in effect prior to the adoption of IFRS.
(3) The 2013 ratios were calculated pursuant to the AMF guideline on the adequacy of capital base standards applicable to financial services cooperatives under Basel III, while the ratios for previous years were calculated in accordance with Basel II. See section 3.2, “Capital management”.

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, their presentation and the quality of the accounting principles adopted, risk management relating to financial reporting, internal control systems, internal audit and independent audit processes, the procedures applied to these audits, and the management of regulatory compliance.

The AIC reviews Desjardins Group's interim and annual financial statements and related press releases, as well as interim and annual management reports (MD&A). The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, asset protection, fraud detection and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the caisse network and Desjardins Group. The AIC analyzes the information resulting from this financial governance process every quarter.

The AIC also examines files relating to developments in the caisse network, including information on the financial position of the caisses and any particular situations detected, follow-up measures, credit losses, and the application of certain accounting policies and practices, such as the method of managing the collective allowance. The AIC oversees the completion of the action plan for the audits and inspections of the caisse network conducted by the Desjardins Group Monitoring Office. It also reviews comment letters, inspection reports, including corrective actions, and follow-up measures. At the end of the fiscal year, the AIC reviews the Monitoring Office's annual report, which presents the results of the year's oversight activities for the caisse network and the highlights of the fiscal year.

The independent auditor is under the authority of the AIC. To fulfil its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence by authorizing all of its non-audit services, by recommending its appointment or the continuance of its engagement, 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 strategy, its reports, its letter to management, and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates can be awarded, and (c) responsibilities of the key players involved. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Desjardins Group entities.

The AIC ensures the independence of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC analyzes the annual internal audit strategy as well as the internal audit team's responsibilities, performance, objectivity and staffing. The AIC also reviews the internal audit team's summary reports and, if necessary, takes appropriate follow-up action. As part of this review, 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), the AIC reviews and follows up on the inspection reports issued by the AMF and examines the financial reports that are submitted each quarter to the AMF.

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

The AIC is made up of five independent directors and four observers. These observers are: the chairs of the audit committees of Desjardins Financial Security Life Assurance Company, Desjardins General Insurance Group Inc. and Desjardins Securities Inc., and a caisse general manager who sits on the Federation's Board of Directors. Except for the general manager, none of the AIC members receives compensation from Desjardins Group, either directly or indirectly, for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entity, including committees.

All members of the AIC 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. In light of the significant changes made to accounting and financial reporting requirements, the members of the AIC attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards (IFRS) and the impact of changes to the normative and regulatory frameworks to which capital management and corporate governance are subject. The members also worked on developing a call for proposals from the major public accounting firms, that allowed the AIC to make a recommendation to the Board of Directors for the appointment of the independent auditor for Desjardins Group and all of its components for 2014.

The AIC held 11 meetings and its members attended one training session in fiscal 2013. As at December 31, the five independent directors who are members of the AIC are: Annie P. Bélanger; Donat Boulerice; André Gagné, CPA, CGA; Pierre Levasseur; and Benoît Turcotte. The four observers are: Serge Hamelin; Roger Desrosiers, FCPA, FCA; Robert St-Aubin, FCPA, FCA; and Yves Genest.

André Gagné, CPA, CGA
Chair

Montreal, Quebec
February 25, 2014

Management's responsibility for financial reporting

The Combined Financial Statements of Desjardins Group and all information included in the 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 compliance 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 in Quebec (AMF), 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 and investment contract liabilities performed by the actuaries of the insurance sectors. All financial information in the annual Management's Discussion and Analysis is consistent with the audited Combined Financial Statements.

Federation management is responsible for the accuracy of Desjardins Group's Combined Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. Such controls include an organizational structure that ensures effective segregation of duties, a code of ethics, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices to ensure the effectiveness of the disclosure controls and procedures over the financial information presented in the annual and interim filings of Desjardins Group.

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 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 employees 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 Board of Directors, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any issues related thereto, including the integrity of the financial information provided and the quality of internal control systems.

Monique F. Leroux, C.M., O.Q., FCPA, FCA
President and Chief Executive Officer
Desjardins Group

Daniel Dupuis, CPA, CA
Senior Vice-President, Finance
and Chief Financial Officer
Desjardins Group

Lévis, Quebec
February 25, 2014

Independent auditor's report

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

We have audited the accompanying combined financial statements of Desjardins Group, which comprise the combined balance sheets as at December 31, 2013, December 31, 2012 and January 1, 2012, and the combined statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, and the accompanying notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2013, December 31, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

(1) CPA auditor, CA, public accountancy permit No. A115888

Montreal, Quebec
February 25, 2014

COMBINED BALANCE SHEETS

(in millions of Canadian dollars)	Notes	**As at December 31, 2013**	As at December 31, 2012 Restated (Note 3)	As at January 1, 2012 Restated (Note 3)
ASSETS				
Cash and deposits with financial institutions		**$ 1,320**	$ 1,669	$ 1,356
Securities	8 et 10			
Securities at fair value through profit or loss		**23,536**	21,986	22,479
Available-for-sale securities		**19,041**	18,326	18,726
		42,577	40,312	41,205
Securities borrowed or purchased under reverse repurchase agreements		**7,710**	4,377	4,959
Loans	9 et 10			
Residential mortgages		**91,389**	85,931	79,686
Consumer, credit card and other personal loans		**19,549**	18,520	17,985
Business and government		**30,013**	28,544	27,948
		140,951	132,995	125,619
Allowance for credit losses	9	**(418)**	(419)	(465)
		140,533	132,576	125,154
Segregated fund net assets	11	**7,252**	6,066	5,362
Other assets				
Clients' liability under acceptances		**985**	841	676
Premiums receivable		**1,123**	1,040	914
Derivative financial instruments	20	**2,322**	2,238	3,059
Amounts receivable from clients, brokers and financial institutions		**1,891**	1,195	1,525
Reinsurance assets	17	**648**	778	797
Investment property	12	**475**	512	597
Property, plant and equipment	12	**1,322**	1,312	1,218
Goodwill	13	**456**	353	348
Intangible assets	13	**507**	360	335
Deferred tax assets	27	**810**	936	966
Other	14	**2,074**	2,253	1,711
		12,613	11,818	12,146
TOTAL ASSETS		**$ 212,005**	$ 196,818	$ 190,182
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits	16			
Individuals		**$ 86,730**	$ 84,415	$ 82,486
Business and government		**47,712**	43,033	39,104
Deposit-taking institutions		**2,304**	2,176	1,813
		136,746	129,624	123,403
Other liabilities				
Acceptances		**985**	841	676
Commitments related to securities sold short		**7,754**	4,977	5,341
Commitments related to securities lent or sold under repurchase agreements		**9,579**	7,983	8,500
Derivative financial instruments	20	**1,719**	1,222	1,593
Amounts payable to clients, brokers and financial institutions		**3,752**	2,504	3,762
Insurance and investment contract liabilities	17	**17,070**	17,777	17,008
Segregated fund net liabilities	11	**7,260**	6,075	5,362
Net defined benefit plan liabilities	28	**1,825**	2,524	2,578
Deferred tax liabilities	27	**303**	324	420
Other	18	**4,717**	4,427	4,517
		54,964	48,654	49,757
Subordinated notes	19	**3,063**	3,081	3,350
TOTAL LIABILITIES		**194,773**	181,359	176,510
EQUITY				
Capital stock	22	**3,881**	3,322	2,210
Share capital	23	**82**	80	78
Undistributed surplus earnings		**1,349**	1,319	1,272
Accumulated other comprehensive income	24	**420**	694	1,044
Reserves		**11,056**	9,642	8,672
Equity - Group's share		**16,788**	15,057	13,276
Non-controlling interests	15	**444**	402	396
TOTAL EQUITY		**17,232**	15,459	13,672
TOTAL LIABILITIES AND EQUITY		**$ 212,005**	$ 196,818	$ 190,182

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,

Monique F. Leroux, C.M., O.Q., FCPA, FCA
Chair of the Board

Denis Paré, LL.L., D.D.N.
Vice-Chair of the Board

COMBINED STATEMENTS OF INCOME

For the years ended December 31

(in millions of Canadian dollars)	Notes	**2013**	2012 Restated (Note 3)
INTEREST INCOME			
Loans		**$ 5,370**	$ 5,474
Securities		**313**	391
		5,683	5,865
INTEREST EXPENSE			
Deposits		**1,708**	1,851
Subordinated notes and other		**157**	166
		1,865	2,017
NET INTEREST INCOME		**3,818**	3,848
NET PREMIUMS	17	**5,558**	5,126
OTHER INCOME			
Deposit and payment service charges		**498**	499
Lending fees and credit card service revenues		**549**	517
Brokerage and investment fund services		**855**	731
Management and custodial service fees		**300**	283
Net income (loss) on securities at fair value through profit or loss	25	**(667)**	674
Net income on available-for-sale securities		**221**	268
Net other investment income		**229**	236
Foreign exchange income		**61**	63
Other		**312**	233
		2,358	3,504
TOTAL INCOME		**11,734**	12,478
PROVISION FOR CREDIT LOSSES	9	**277**	241
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE AND INVESTMENT CONTRACT LIABILITIES	17	**3,259**	4,397
NON-INTEREST EXPENSE			
Salaries and fringe benefits		**3,125**	3,030
Premises, equipment and furniture, including depreciation		**570**	519
Service agreements and outsourcing		**232**	228
Communications		**287**	271
Other	26	**2,015**	1,860
		6,229	5,908
OPERATING SURPLUS EARNINGS		**1,969**	1,932
Income taxes on surplus earnings	27	**439**	428
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS[(1)]		**1,530**	1,504
Provision for member dividends		**171**	279
Tax recovery on the provision for member dividends	27	**(45)**	(73)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		**$ 1,404**	$ 1,298
of which:			
Group's share		**$ 1,384**	$ 1,224
Non-controlling interests' share	15	**20**	74

(1) The Group's share of "Surplus earnings before member dividends" is presented in Note 34, "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)	Notes	2013	2012 Restated (Note 3)
Net surplus earnings for the year after member dividends		**$ 1,404**	$ 1,298
Other comprehensive income, net of income taxes	27		
Item that will not be reclassified subsequently to the Combined Statements of Income			
Remeasurement of net defined benefit plan liabilities		**288**	(115)
		288	(115)
Items that will be reclassified subsequently to the Combined Statements of Income			
Net change in unrealized gains and losses on available-for-sale securities			
Net unrealized gains on available-for-sale securities		**27**	46
Reclassification to the Combined Statements of Income of gains on available-for-sale securities		**(55)**	(104)
		(28)	(58)
Net change in cash flow hedges			
Net losses on derivative financial instruments designated as cash flow hedges		**(174)**	(166)
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	20	**(69)**	(125)
		(243)	(291)
		(271)	(349)
Total other comprehensive income		**17**	(464)
COMPREHENSIVE INCOME FOR THE YEAR		**$ 1,421**	$ 834
of which:			
Group's share		**$ 1,393**	$ 764
Non-controlling interests' share		**28**	70

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

INCOME TAXES ON OTHER COMPREHENSIVE INCOME

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

For the years ended December 31

(in millions of Canadian dollars)	2013	2012 Restated (Note 3)
Item that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ 97**	$ (37)
	97	(37)
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**(17)**	2
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(19)**	(35)
	(36)	(33)
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	**(28)**	(74)
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(37)**	(32)
	(65)	(106)
	(101)	(139)
Total income tax recovery	**$ (4)**	$ (176)

COMBINED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31 (in millions of Canadian dollars)		Capital				Reserves						
		Capital stock (Note 22)	Share capital (Note 23)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 24)	Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves	Equity - Group's share	Non-controlling interests (Note 15)	Total equity
Balance as at January 1, 2012, as reported		**$ 2,210**	**$ 78**	**$ 1,261**	**$ 1,044**	**$ 660**	**$ 461**	**$ 7,911**	**$ 9,032**	**$ 13,625**	**$ 402**	**$ 14,027**
Impact of changes in accounting policies	Note 3	-	-	11	-	-	-	(360)	(360)	(349)	(6)	(355)
Balance as at January 1, 2012 (restated)		**2,210**	**78**	**1,272**	**1,044**	**660**	**461**	**7,551**	**8,672**	**13,276**	**396**	**13,672**
Net surplus earnings for the year after member dividends		-	-	1,224	-	-	-	-	-	1,224	74	1,298
Other comprehensive income for the year		-	-	(112)	(348)	-	-	-	-	(460)	(4)	(464)
Total comprehensive income for the year		-	-	1,112	(348)	-	-	-	-	764	70	834
Issuance of F capital shares		1,026	-	-	-	-	-	-	-	1,026	-	1,026
F capital share issuance costs		(1)	-	-	-	-	-	-	-	(1)	-	(1)
Other net change in capital stock		87	-	-	-	-	-	-	-	87	-	87
Issuance of share capital		-	2	-	-	-	-	-	-	2	-	2
Redemption of share capital		-	-	-	-	-	-	-	-	-	(52)	(52)
Remuneration on capital stock		-	-	(95)	-	-	-	-	-	(95)	-	(95)
Dividends		-	-	(2)	-	-	-	-	-	(2)	(6)	(8)
Transfer from undistributed surplus earnings (to reserves)		-	-	(970)	-	151	20	799	970	-	-	-
Other		-	-	2	(2)	-	-	-	-	-	(6)	(6)
Balance as at December 31, 2012 (restated)	**Note 3**	**$ 3,322**	**$ 80**	**$ 1,319**	**$ 694**	**$ 811**	**$ 481**	**$ 8,350**	**$ 9,642**	**$ 15,057**	**$ 402**	**$ 15,459**
Net surplus earnings for the year after member dividends		**-**	**-**	**1,384**	**-**	**-**	**-**	**-**	**-**	**1,384**	**20**	**1,404**
Other comprehensive income for the year		**-**	**-**	**283**	**(274)**	**-**	**-**	**-**	**-**	**9**	**8**	**17**
Total comprehensive income for the year		**-**	**-**	**1,667**	**(274)**	**-**	**-**	**-**	**-**	**1,393**	**28**	**1,421**
Issuance of F capital shares		**476**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**476**	**-**	**476**
F capital share issuance costs		**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Other net change in capital stock		**84**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84**	**-**	**84**
Issuance of share capital		**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Redemption of share capital		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27)**	**(27)**
Remuneration on capital stock		**-**	**-**	**(119)**	**-**	**-**	**-**	**-**	**-**	**(119)**	**-**	**(119)**
Dividends		**-**	**-**	**(3)**	**-**	**-**	**-**	**-**	**-**	**(3)**	**(5)**	**(8)**
Transfer from undistributed surplus earnings (to reserves)		**-**	**-**	**(1,516)**	**-**	**102**	**(5)**	**1,419**	**1,516**	**-**	**-**	**-**
Impact of acquisitions	Note 21	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**49**	**49**
Impact of the financial liability related to put options written on non-controlling interests	Note 21	**-**	**-**	**-**	**-**	**-**	**-**	**(102)**	**(102)**	**(102)**	**-**	**(102)**
Other		**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**	**(3)**	**(2)**
Balance as at December 31, 2013		**$ 3,881**	**$ 82**	**$ 1,349**	**$ 420**	**$ 913**	**$ 476**	**$ 9,667**	**$ 11,056**	**$ 16,788**	**$ 444**	**$ 17,232**

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)	**2013**	2012 Restated (Note 3)
Cash flows from (used in) operating activities		
Operating surplus earnings	**$ 1,969**	$ 1,932
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property	**178**	177
Net change in insurance and investment contract liabilities	**(707)**	769
Provision for credit losses	**277**	241
Net realized gains on available-for-sale securities	**(89)**	(175)
Other	**175**	175
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(1,501)**	493
Securities borrowed or purchased under reverse repurchase agreements	**(3,333)**	582
Loans	**(8,234)**	(7,663)
Derivative financial instruments, net amount	**116**	59
Net amounts receivable from and payable to clients, brokers and financial institutions	**552**	(703)
Deposits	**7,122**	6,221
Commitments related to securities sold short	**2,777**	(364)
Commitments related to securities lent or sold under repurchase agreements	**1,596**	(517)
Other	**(159)**	(947)
Income taxes paid on surplus earnings	**(126)**	(389)
Payment of member dividends	**(253)**	(303)
	360	(412)
Cash flows from (used in) financing activities		
Redemption of subordinated notes	**-**	(300)
Sale (purchase) of debt securities and subordinated notes to third parties on the market	**(20)**	28
Issuance of F capital shares	**476**	1,026
F capital share issuance costs	**(1)**	(1)
Other net change in capital stock	**84**	87
Remuneration on capital stock	**(119)**	(95)
Issuance of preferred shares - Group's share	**2**	-
Redemption of preferred shares - Non-controlling interests' share	**(26)**	(52)
Dividends paid - Group's share	**(3)**	-
Dividends paid - Non-controlling interests' share	**(5)**	(6)
	388	687
Cash flows from (used in) investing activities		
Purchase of available-for-sale securities	**(48,545)**	(35,716)
Proceeds from disposals of available-for-sale securities	**40,780**	34,883
Proceeds from maturities of available-for-sale securities	**6,980**	1,201
Business acquisitions, net of cash and cash equivalents acquired	**(169)**	(71)
Acquisitions of property, plant and equipment and investment property	**(228)**	(322)
Proceeds from disposals of property, plant and equipment and investment property	**85**	63
	(1,097)	38
Net increase (decrease) in cash and cash equivalents	**(349)**	313
Cash and cash equivalents at beginning of year	**1,669**	1,356
Cash and cash equivalents at end of year	**$ 1,320**	$ 1,669
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 1,855**	$ 1,965
Interest and dividends received	**5,805**	5,995

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 34, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

BASIS OF PRESENTATION OF THE 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, whose mission is to determine the strategic priorities and coordinate the operations of Desjardins Group. The role of the Federation is also to protect the interests of Desjardins Group members and to promote the development of the Group.

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 financial statements of Desjardins Group are a combination of the accounts of the Desjardins caisses, the caisses populaires of Ontario, the Federation, the *Fédération des caisses populaires de l'Ontario* and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The capital stock of Desjardins Group represents the aggregate of the capital stock issued by the caisses, the Federation and the *Fédération des caisses populaires de l'Ontario*.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

a) General information

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.

The Combined Financial Statements for the year ended December 31, 2013 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 25, 2014.

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 require management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, fair value measurement of financial instruments, derecognition of financial assets, allowance for credit losses, objective evidence of impairment of available-for-sale securities, impairment of non-financial assets, insurance and investment contract liabilities, provisions, income taxes on surplus earnings, provision for member dividends and employee benefits as well as goodwill and intangible assets. Consequently, actual results could differ from those estimates.

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 balances, income and expenses and gains and losses on internal transactions have been eliminated.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a) General information *(continued)*

SCOPE OF THE GROUP *(CONTINUED)*

Subsidiaries

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

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

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

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, without however having control or joint control. 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, thereafter, the carrying amount is increased or decreased by Desjardins Group's post-acquisition share of the relevant entities' equity and profit or loss.

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, its liabilities, its revenue and its 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 arrangements are joint ventures. These investments 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 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Financial assets and liabilities

Financial assets mainly consist of securities, securities borrowed or purchased under reverse repurchase agreements, loans and derivative financial instruments, whereas financial liabilities mainly include deposits, commitments related to securities sold short, commitments related to securities lent or sold under repurchase agreements and derivative financial instruments.

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

CLASSIFICATION AND MEASUREMENT

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

The classification of financial assets can be summarized as follows:

<table>
<tr><th colspan="2" rowspan="2">Categories</th><th rowspan="2">Classes</th><th colspan="2">Recognition</th></tr>
<tr><th>Initial</th><th>Subsequent</th></tr>
<tr><td rowspan="5">Financial assets</td><td rowspan="2">At fair value through profit or loss (i)</td><td>Held for trading (ii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through profit or loss (iii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">Loans and receivables (iv)</td><td>Fair value</td><td>Amortized cost</td></tr>
<tr><td colspan="2">Available for sale (v)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">Held to maturity (vi)</td><td>Fair value</td><td>Amortized cost</td></tr>
</table>

(i) Financial assets classified in the “At fair value through profit or loss” category include financial assets “Held for trading” and “Designated as at fair value through profit or loss”. Therefore:

- Changes in fair value of securities classified in this category are recorded in the Combined Statements of Income under “Net income (loss) on securities at fair value through profit or loss”.
- Interest and dividend income from securities classified in the “At fair value through profit or loss” category of the Personal Services and Business and Institutional Services segment and the Other category is recognized under “Interest income – Securities” and, for the other segments, such income is mainly recognized under “Net income (loss) on securities at fair value through profit or loss” using the effective interest method. Interest income from derivative financial instruments is recognized under “Net income (loss) on securities at fair value through profit or loss”.

(ii) Financial assets classified as “Held for trading” include the following:

- Securities acquired for resale purposes in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking; and
- Derivative financial instruments.

Derivative financial instruments designated as fair value or cash flow hedging items cannot be classified in the “At fair value through profit or loss” category. Section p), “Derivative financial instruments and hedging activities”, specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial assets classified as “Designated as at fair value through profit or loss” are essentially securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The assets are part of a group of financial assets or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.
- The assets are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group’s financial assets classified in this category comprise certain investments made in connection with derivative instruments that are not designated as part of a hedging relationship, thereby significantly reducing a recognition inconsistency. In addition, Desjardins Group has designated the asset-backed term notes (ABTN) as part of this category. ABTNs are composed of certain hybrid financial instruments containing embedded derivatives, while some others are considered to be part of a group of assets that are managed and whose performance is evaluated on a fair value basis. Lastly, certain securities in this category that back the life and health insurance actuarial liabilities and the property and casualty provisions for claims have been classified as “Designated as at fair value through profit or loss” to eliminate or significantly reduce a recognition inconsistency.

(iv) Securities classified in the “Loans and receivables” category are non-derivative financial assets with fixed or determinable income that are not quoted in an active market and that are not held for sale upon their acquisition or their granting. Securities in this category comprise those included in “Cash and deposits with financial institutions”, “Securities borrowed or purchased under reverse repurchase agreements”, “Loans”, “Clients’ liability under acceptances”, “Premiums receivable” and “Amounts receivable from clients, brokers and financial institutions” and other assets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Financial assets and liabilities *(continued)*

Outstanding securities classified in the “Loans and receivables” category are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities classified in the “Loans and receivables” category is presented under “Interest income – Loans” in the Combined Statements of Income when it is recognized by the Personal Services and Business and Institutional Services segment and the Other category. Income for the other segments is recognized under “Other income – Other” in the Combined Statements of Income.

(v) Securities classified in the “Available for sale” category are non-derivative financial assets that are initially designated as available for sale or that are not classified in the “At fair value through profit or loss”, “Held to maturity” or “Loans and receivables” categories. Available-for-sale securities can be sold further to or in view of fluctuations in interest rates, exchange rates or prices of equity instruments or changes in financing sources or terms, or to meet the liquidity needs of Desjardins Group.

Gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Combined Statements of Comprehensive Income under “Net unrealized gains on available-for-sale securities” until the financial asset is derecognized. Premiums and discounts on the purchase of available-for-sale securities are amortized over the life of the securities using the effective interest method and recognized in combined profit or loss.

(vi) Securities classified in the “Held to maturity” category are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intention and ability to hold to maturity. These securities are recognized at amortized cost using the effective interest method. Desjardins Group held no instruments in this category at the reporting dates.

The classification of financial liabilities can be summarized as follows:

<table>
<tr><th colspan="2" rowspan="2">Categories</th><th rowspan="2">Classes</th><th colspan="2">Recognition</th></tr>
<tr><th>Initial</th><th>Subsequent</th></tr>
<tr><td rowspan="3">Financial liabilities</td><td rowspan="2">At fair value through profit or loss (i)</td><td>Held for trading (ii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through profit or loss (iii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">At amortized cost (iv)</td><td>Fair value</td><td>Amortized cost</td></tr>
</table>

(i) Financial liabilities classified in the “At fair value through profit or loss” category include financial liabilities “Held for trading” and “Designated as at fair value through profit or loss”. Therefore:

- Changes in fair value of securities classified in this category are recorded in the Combined Statements of Income under “Net income (loss) on securities at fair value through profit or loss”.
- Interest expense related to financial liabilities classified in the "At fair value through profit or loss" category is recognized under “Net income (loss) on securities at fair value through profit or loss”.

(ii) Financial liabilities classified as “Held for trading” are debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments are also classified as “Held for trading”. Derivative financial instruments designated as fair value or cash flow hedging instruments cannot be classified in this category. Section p), “Derivative financial instruments and hedging activities”, specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial liabilities classified as “Designated as at fair value through profit or loss” have been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.
- The liabilities are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group held no instruments in this category at the reporting dates.

(iv) Financial liabilities that are not classified in the “At fair value through profit or loss” category are classified in the “At amortized cost” category. Financial liabilities measured at amortized cost comprise those included in “Deposits”, “Acceptances”, “Commitments related to securities lent or sold under repurchase agreements”, “Amounts payable to clients, brokers and financial institutions” and “Subordinated notes” and other liabilities.

Financial liabilities classified in the “At amortized cost” category are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities classified in the “At amortized cost” category is recognized under “Interest expense” in the Combined Statements of Income for the Personal Services and Business and Institutional Services segment and the Other category. Income for the other segments is mainly recognized under “Net income (loss) on securities at fair value through profit or loss” in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Financial assets and liabilities *(continued)*

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Loans

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

Deposits

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

Subordinated notes

The fair value of Subordinated notes is based on market prices.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. The fair value of derivative financial instruments is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 20, “Derivative financial instruments and hedging activities”, specifies the nature of derivative financial instruments held by Desjardins Group.

Financial instruments whose fair value equals their carrying amount

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

TRANSACTION COSTS

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method, except if such instruments are classified or designated as part of the “At fair value through profit or loss” category, in which case they are expensed as incurred.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Financial assets and liabilities *(continued)*

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are presented on a net basis when there currently is a legally enforceable 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 assets 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.

c) 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 the net amount of cheques and other items in transit. 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. They are classified as “Loans and receivables”.

d) Securities

Securities are instruments classified based on their characteristics and management’s intention in the various categories presented in section b), “Financial assets and liabilities”, above.

SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND SECURITIES BORROWED

Securities purchased under reverse repurchase agreements and securities borrowed for a securities or cash consideration are not recognized in the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been transferred.

Reverse repurchase agreements are accounted for as collateralized lending transactions. 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.

When the consideration for the borrowed securities is paid in cash, the cash pledged as collateral is derecognized from “Cash and deposits with financial institutions” in the Combined Balance Sheets, and an asset representing the right to receive the securities is recognized under “Securities borrowed or purchased under reverse repurchase agreements”.

When the consideration for the borrowed securities is paid in securities, the securities pledged as collateral are not derecognized, as substantially all the risks and rewards of ownership of these securities have not been transferred.

The fair value of securities purchased under reverse repurchase agreements and securities borrowed for a securities or cash consideration for which the securities received can subsequently be resold or repledged is presented in Note 29, “Commitments, guarantees and contingent liabilities”, under assets held as collateral that can be sold or repledged.

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 have not been transferred.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Securities *(continued)*

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS AND SECURITIES LENT *(continued)*

Repurchase agreements are accounted for as collateralized borrowing transactions. The consideration received for the securities sold, including accrued interest, is therefore recognized under “Cash and deposits with financial institutions” in the Combined Balance Sheets, and a liability representing the obligation to return the securities is recognized under “Commitments related to securities sold under repurchase agreements”. The difference between the price received and the repurchase price is recognized as interest expense.

When the consideration received for the securities lent is paid in cash, the cash received as collateral is recognized under “Cash and deposits with financial institutions” in the Combined Balance Sheets, and a liability representing the obligation to return the securities is recognized under “Commitments related to securities lent or sold under repurchase agreements”. These transactions are treated as collateralized financings since the party that pays the consideration takes possession of the securities pledged as collateral for the financing.

When the consideration for the securities lent is paid in securities, the securities held as collateral are not recognized, as substantially all the risks and rewards of ownership of these securities have not been transferred.

The carrying amount of securities sold under repurchase agreements and securities lent is presented in Note 29, “Commitments, guarantees and contingent liabilities”, under financial assets pledged as collateral. When the consideration received for the securities lent is securities and these securities can be sold or repledged, the fair value of the securities received is presented in Note 29, “Commitments, guarantees and contingent liabilities”, under financial assets held as collateral that can be sold or repledged.

SECURITIES SOLD SHORT

Securities sold short as part of trading activities, which represent Desjardins Group’s obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized in the Combined Statements of Income under “Net income (loss) on securities at fair value through profit or loss”. Securities sold short are classified in the “Securities at fair value through profit or loss – Held for trading” category.

e) Loans

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

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

f) Impairment of financial assets

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

ALLOWANCE FOR CREDIT LOSSES

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

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

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

The allowance resulting from this impairment is established using two components: individual allowances and collective allowance.

Individual allowances

Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f) Impairment of financial assets *(continued)*

ALLOWANCE FOR CREDIT LOSSES *(continued)*

Individual allowances (continued)

There is objective evidence of impairment when a loan is considered impaired. A loan is classified as an impaired loan when one of the following conditions is met:

- There is reason to believe that a portion of the principal or interest cannot be collected; or
- The interest or principal repayment is contractually 90 days past due, unless the loan is fully secured and in the process of collection; or
- The interest or principal is more than 180 days past due.

A loan is not classified as impaired when it is fully guaranteed or insured by a Canadian government (federal or provincial) or an agency of a Canadian government.

A loan is considered past due when the borrower has failed to make a payment by the contractual due date.

When a loan becomes impaired, the interest previously accrued but not collected is capitalized to the loan. Payments received subsequently are recorded as a deduction of the principal. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no doubt as to its collection or when it is restructured, and is treated as a new loan, and there is no doubt as to the collection of principal and interest.

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

A loan classified as “Loans and receivables” is written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a loan is written off completely, any subsequent payments are recorded under “Provision for credit losses” in the Combined Statements of Income. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days.

Changes in the individual allowance for credit losses due to the passage of time are recognized under “Interest income - Loans”, while those that are due to a revision of expected receipts are recognized under “Provision for credit losses” in the Combined Statements of Income.

Collective allowance

Loan portfolios for which an individual allowance has not been established are included in groups of financial assets with similar credit characteristics and are subject to a collective allowance.

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

The collective allowance of the loans of the life and health insurance subsidiaries is included in actuarial liabilities, under “Insurance and investment contract liabilities”.

The allowance related to off-balance sheet exposures, such as letters of guarantee and certain unrecognized credit commitments, is recognized under “Other liabilities – Other” in the Combined Balance Sheets and under “Provision for credit losses” in the Combined Statements of Income.

AVAILABLE-FOR-SALE SECURITIES

Securities classified in the “Available-for-sale” category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring a decline in value, Desjardins Group takes into account many facts specific to each investment and all the factors that could indicate that there has been impairment. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring, and the disappearance of an active market for the financial asset in question. Management also uses its judgment to determine when to recognize an impairment loss.

Desjardins Group individually assesses debt securities classified in the “Available for sale” category to determine whether there is any objective evidence of impairment. The impairment loss represents the cumulative loss, which is the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income is calculated on the reduced carrying amount using the interest rate used to discount future cash flows in order to measure the impairment loss. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss had been recognized in the Combined Statements of Income, the impairment loss is reversed through the Combined Statements of Income.

For equity securities classified in the “Available for sale” category, the objective evidence would also include a “significant” or “prolonged” decline in the fair value below cost. When evidence of impairment exists, the cumulative loss (the difference between acquisition cost and current fair value, less any impairment loss previously recognized) is transferred out of other comprehensive income, in the Combined Statements of Comprehensive Income, and recognized in the Combined Statements of Income. Impairment losses on equity securities are not reversed through the Combined Statements of Income, and increases in fair value occurring subsequent to impairment are recorded directly in other comprehensive income, in the Combined Statements of Comprehensive Income. Any impairment loss on securities previously impaired is directly recognized in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Property, plant and equipment and investment property

Property, plant and equipment

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

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

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

Investment property

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

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

The depreciation expense for investment properties is recognized under "Net other investment income" in the Combined Statements of Income.

Depreciation

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

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	2 to 10 years
Furniture, fixtures and other	3 to 10 years
Leasehold improvements	Expected term of the lease

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

Derecognition

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

Impairment

Property, plant and equipment and investment properties are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Assessing whether such events or circumstances exist is subject to management's judgment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h) Goodwill and intangible assets

Goodwill

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

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

Intangible assets

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

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

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

i) 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 obtainable from the sale, less costs of disposal, 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 if it is impaired also requires that management make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

Goodwill and intangible assets with indefinite useful lives

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

The impairment test for goodwill and intangible assets with indefinite useful lives is performed based on the recoverable amount of the asset or each 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.

j) Acceptances and clients’ liability under acceptances

The potential liability of Desjardins Group under acceptances is recorded as a liability in the Combined Balance Sheets. Recourse against the client, in the event of a call on any of these commitments, is recorded as an equivalent offsetting asset. These financial instruments are classified in the “Loans and receivables” category.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Classification of insurance and investment contracts

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. All contracts that do not meet the definition of an insurance contract under IFRS are classified as investment contracts or service contracts. Investment contracts are contracts that comprise a financial risk but no significant insurance risk. Contracts that transfer a significant insurance risk issued by the insurance subsidiaries are classified as insurance contracts, in accordance with IFRS 4, “Insurance Contracts”. Otherwise, contracts issued by the insurance subsidiaries are classified as investment contracts in accordance with International Accounting Standard (IAS) 39, “Financial Instruments: Recognition and Measurement”, or as service contracts in accordance with IAS 18, “Revenue”.

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. However, an investment contract may be reclassified as an insurance contract after its issuance if the insurance risk it carries becomes significant.

Insurance and investment contract liabilities are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

l) Insurance and investment contract liabilities

Insurance and investment contract liabilities include the contract liabilities of the life and health insurance subsidiaries and the property and casualty insurance subsidiaries.

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

The calculation of actuarial liabilities requires that assumptions be made with respect to the timing of many factors such as death, disability, investment income, inflation, policy cancellations, expenses, income taxes, premiums, commissions and participating policyholders’ dividends as well as the amounts they represent. The life and health insurance subsidiaries use assumptions that are established using the best estimates for future underwriting experience, but some of these assumptions refer to events that are likely to occur in the distant future and therefore may need to be adjusted based on information received at a later date.

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.

Cash flows used in the actuarial valuation adjust the gross policy cash flows to reflect the projected cash flows from ceded reinsurance. The cash flow impact of ceded reinsurance varies depending on the amount of ceded reinsurance, the structure of reinsurance treaties, the expected economic benefits from the treaty cash flows and the impact of margins for adverse deviation.

The period used for the projection of cash flows is the policy lifetime for most insurance contracts. For certain types of contracts, a shorter projection period may be used. This period is, however, limited to the term of the liability over which the life and health insurance subsidiaries are exposed to significant risk without the ability to adjust policy premiums or charges.

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 property and casualty subsidiaries are exposed to pricing risk to the extent that unearned premiums could be insufficient to cover future costs related to policies. Future claim costs, related costs, investment income and expected income related to unearned premiums are regularly assessed.

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 underlying asset rate, with a margin for adverse deviations.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

l) Insurance and investment contract liabilities *(continued)*

Investment contract liabilities

Investment contract liabilities are recognized at amortized cost using the effective interest method. Amounts received from clients are initially recognized in the Combined Balance Sheets as liabilities under “Insurance and investment contract liabilities”. Subsequently, amounts received from clients and withdrawals are directly recorded as adjustments to “Insurance and investment contract liabilities”, in the Combined Balance Sheets.

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the policyholder to participate in the profitability related to these contracts. These contracts give the policyholder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health subsidiaries elected not to recognize the participating portion of these contracts separately. The cumulative amount of surplus earnings attributable to these contracts is presented under “Non-controlling interests” in the Combined Balance Sheets.

Reinsurance

The life and health 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. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

To reduce the risk related to claims rate volatility, the property and casualty insurance subsidiaries enter into reinsurance treaties with several reinsurers to limit the exposure to a specific risk or a group of risks following a major event.

These reinsurance treaties do not release the insurance subsidiaries from their obligations toward their policyholders.

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. This reinsurance asset comprises 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.

The reinsurance asset is tested annually for impairment. If there is objective evidence that this asset is impaired, following an event that occurred after initial recognition, the insurance subsidiaries reduce its carrying amount to its recoverable amount, and recognize the resulting loss in the Combined Statements of Income under “Claims, benefits, annuities and changes in insurance and investment contract liabilities”.

m) Segregated funds

Certain insurance contracts allow policyholders 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 policyholders, 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 b), “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 policyholders’ rights to the segregated fund net assets is also recognized separately.

n) Subordinated notes

Subordinated notes are classified in the “Financial liabilities at amortized cost” category.

o) Provisions

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) 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, and currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and mainly consist of futures. The types of contracts used are defined in Note 20, "Derivative financial instruments and hedging activities".

Derivative financial instruments, including embedded derivatives which are required to be recognized separately, are recognized at fair value on the Combined Balance Sheets.

Embedded derivative financial instruments are separated from their host contract and accounted for as derivatives if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative has the same terms as a separate instrument; (c) the hybrid instrument or contract is not measured at fair value with changes in fair value recognized in combined profit or loss. Embedded derivatives that are required to be recognized separately are measured at fair value, and changes in their fair value are recognized under "Net income (loss) on securities at fair value through profit or loss" in the Combined Statements of Income.

Desjardins Group uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of members and clients, and to allow Desjardins Group to generate income on its own trading activities. These derivative financial instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under "Net income (loss) on securities at fair value through profit or loss" 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. These instruments enable Desjardins Group to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Combined Balance Sheets, as well as firm commitments and forecasted transactions.

HEDGING ACTIVITIES

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

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

Desjardins Group may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting. In such circumstances, derivative financial instruments are classified as "Held for trading", and realized and unrealized gains and losses are recognized in the Combined Statements of Income under "Net income (loss) on securities at fair value through profit or loss".

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

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

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. Desjardins Group uses fair value hedge strategies for its securities, loan and deposit portfolios.

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

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Combined Statements of Income, following the underlying instrument, over the remaining life of the hedged item, unless the hedged item ceased to exist, in which case the adjustments for the impact of the designated risk are immediately recognized under "Net income (loss) on securities at fair value through profit or loss" in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Derivative financial instruments and hedging activities *(continued)*

HEDGING ACTIVITIES *(continued)*

Cash flow hedges

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

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

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

q) Financial guarantees

A financial guarantee is a contract or an indemnification agreement that could contingently require a Desjardins Group entity to make payments to the guaranteed party following a loss resulting from the default by a specified third party to make a payment upon maturity in accordance with the original or modified provisions of the borrowing instrument.

Financial guarantees are initially recognized as liabilities in the Combined Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, the guarantee is measured at the higher of the following amounts:

i) The amount initially recorded less, when appropriate, cumulative amortization of costs recognized in the Combined Statements of Income; or

ii) The best estimate of cash outflows required to settle any financial obligation resulting from the guarantee.

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

The carrying value of guarantees does not reflect the maximum potential amount of future payments under guarantees. Therefore, Desjardins Group continues to consider guarantees as off-balance sheet credit instruments.

r) Reserves

Reserves included in equity are mainly from the caisses. They are based on the balance of the reserves as at December 31 of the prior year and the surplus earnings distribution plans for such year, which must be approved by the general meeting of each caisse within the first four months following year-end.

The stabilization reserve of a caisse and the Federation’s stabilization reserve consist of amounts appropriated from the surplus earnings for the year by the caisse or the Federation, as appropriate. Amounts appropriated to the stabilization reserve of a caisse are essentially used for the payment of interest on permanent shares it issued when the annual surplus earnings of such caisse are not sufficient. Amounts appropriated to the Federation’s stabilization reserve are essentially used for the payment of interest on permanent shares issued by a caisse when the amounts appropriated to such caisse’s stabilization reserve are not sufficient, and for the payment of interest on F capital shares issued by the Federation when the annual surplus earnings of the Federation are not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the caisses. This reserve allows them to manage over time the impact of changes in annual surplus earnings on the payment of member dividends.

The general reserve is essentially made up of amounts appropriated by the caisses, the Federation, the *Fonds de sécurité Desjardins* and *Caisse centrale Desjardins*. This reserve can only be used to eliminate a deficit and cannot be divided amongst members nor used to pay a member dividend. Other reserves are mainly made up of amounts appropriated by the caisses that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized by the caisses.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

s) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Desjardins Group and that it can be measured reliably. In addition to the items mentioned in section b), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

Net interest income

Interest income and expense are mainly earned or incurred by the Personal Services and Business and Institutional Services segment and the Other category. They are recognized using the effective interest method for all financial instruments measured at amortized cost, for interest-bearing financial assets classified in the "Available for sale" category and for financial instruments classified in the "At fair value through profit or loss" category.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period, to obtain the net carrying amount of the financial instrument.

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

Premiums

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

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

Service charges, commissions, brokerage fees and other

Desjardins Group earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its members and clients.

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 revenue" 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 revenue" 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

t) Assets under management and assets under administration

Assets under management and 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.

u) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized in the Combined Statements of Income under “Other income – Other”. However, unrealized gains and losses on non-monetary financial instruments classified as “Available for sale”, and gains and losses on derivatives designated as cash flow hedging instruments are presented in other comprehensive income in the Combined Statements of Comprehensive Income.

v) Leases

Under a finance lease, the lessor transfers to the lessee substantially all the risks and rewards inherent to the asset. This type of lease is analyzed as financing granted to the lessee to purchase the asset. In contrast, under an operating lease, the lessor retains substantially all the risks and rewards inherent to the leased asset. Desjardins Group mainly enters into operating leases. The recognition of operating leases depends on Desjardins Group’s position as a lessor or as a lessee.

Lessor

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

Lessee

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

w) Income taxes on surplus earnings

The income tax expense on surplus earnings comprises the current tax expense and the deferred tax expense. Income taxes on surplus earnings are recognized in the Combined Statements of Income unless they relate to items that were recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity. In such cases, income taxes on surplus earnings are also recognized outside profit or loss, except for the income tax consequences of dividends and remuneration on capital stock when certain conditions are met.

The calculation of income taxes on surplus earnings is based on the expected tax treatment of 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 rates and tax laws applied to determine these amounts are those that have been enacted or substantively enacted at the reporting date.

DEFERRED INCOME TAXES

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

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

i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss); and

ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the temporary difference reverses can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

w) Income taxes on surplus earnings *(continued)*

DEFERRED INCOME TAXES *(continued)*

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

i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss); and

ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that a taxable profit will be available against which the temporary difference can be utilized.

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

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

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

x) Provision for 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. The amount of the provision is estimated based on, among other things, the surplus earnings recorded for the year by the caisses, taking into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid, in cash or in shares, following the general meetings held by the caisses, and the estimated amount of the provision is charged to combined profit or loss for the year in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. The surplus earnings distribution plan takes into account a program under which members may elect to receive their dividends in the form of shares, in which case the value is greater than the equivalent dividends paid in cash. Whether paid in shares or cash, member dividends are recognized under “Provision for member dividends” in the Combined Statements of Income. The caisses can pay out member dividends when legal and regulatory requirements have been met. The provision for member dividends is mainly allocated to the Personal Services and Business and Institutional Services segment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

y) 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 other plans

Desjardins Group offers to a majority of its employees defined benefit pension plans and a defined benefit supplemental pension plan. It also offers life, medical and dental insurance coverage to retiring employees and their dependents.

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

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

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

Pension plan and other post-employment benefit plan liabilities are recognized under "Net defined benefit plan liabilities" in the Combined Balance Sheets.

NOTE 3 – CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Presentation of financial statements

On January 1, 2013, Desjardins Group adopted the amendments to IAS 1, "Presentation of Financial Statements". These amendments, which relate to the presentation of other comprehensive income, require the presentation by nature of items of other comprehensive income by distinguishing those that will be reclassified to the Combined Statements of Income in a subsequent period from those that will not.

The retrospective application of these amendments resulted in changes in the presentation of the Combined Statements of Comprehensive Income but had no impact on Desjardins Group's profit or loss or financial position.

Income tax consequences of remuneration on capital stock

On January 1, 2013, Desjardins Group also applied the new requirements of IAS 32, "Financial Instruments: Presentation".

The amendments to this standard specify that the income tax consequences of dividends and remuneration on capital stock must now be recognized in accordance with IAS 12, "Income Taxes". Therefore, when certain conditions are met, these consequences are presented in profit or loss rather than in equity. In addition, cash flows related to these consequences, which were previously classified as financing activities, are now classified as operating activities.

These amendments have been applied retrospectively. Certain comparative figures have been reclassified from the Combined Statements of Changes in Equity to the Combined Statements of Income. For the year ended December 31, 2012, "Income tax recovery on remuneration of permanent shares", amounting to $25 million and presented in the Combined Statement of Changes in Equity, was reclassified to the Combined Statement of Income as a deduction to "Income taxes on surplus earnings". In addition, cash flows related to the income tax recovery on remuneration of permanent shares, which amounted to $25 million for the year ended December 31, 2012 and were previously classified as financing activities, are now classified as operating activities.

NOTE 3 – CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Scope of the Group

On January 1, 2013, Desjardins Group adopted IFRS 10, “Consolidated Financial Statements”, IFRS 11, “Joint Arrangements”, and IFRS 12, “Disclosure of Interests in Other Entities”.

IFRS 10 introduces a new control model that applies to all types of interests in other entities. Consequently, the accounting policy used as a basis to determine the entities that must be included in the Group scope of Desjardins Group has been changed to this new model. Desjardins Group analyzed its interests in other entities to determine whether the accounting for some of them had to be changed.

IFRS 10 has been applied retrospectively. Desjardins Group determined that some investments that were previously consolidated in segregated funds on the basis of ownership interest were not in accordance with the new control model. Under this new model, these investments are not consolidated as Desjardins Group does not control their relevant activities. Accordingly, “Segregated fund net assets” and “Segregated fund net liabilities” that are presented in the Combined Balance Sheets have been decreased by $66 million as at December 31, 2012 and $65 million as at January 1, 2012.

IFRS 11 establishes the principles for accounting for the two types of joint arrangements, namely joint operations and joint ventures, and eliminates the possibility to account for joint ventures using the proportionate consolidation method. Since interests in joint ventures were already accounted for using the equity method, the retrospective application of this standard had no impact on Desjardins Group’s profit or loss or financial position.

IFRS 12 enhances disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Some of the disclosures required by this new standard were already required by standards in effect prior to its application, while others are new, such as disclosures about significant assumptions and judgments the entity has made in determining the nature of its relationship with another entity as well as the nature of, and risks associated with, its interests in other entities.

As IFRS 12 specifically concerns disclosures, its adoption had no impact on Desjardins Group’s profit or loss or financial position. Desjardins Group applied this standard retrospectively and the new disclosure requirements are presented in Note 2, “Significant accounting policies”, Note 8, “Securities”, Note 11, “Segregated funds”, and Note 15, “Interests in other entities”.

Fair value measurement

On January 1, 2013, Desjardins Group adopted IFRS 13, “Fair Value Measurement”. This standard defines fair value and sets out a single framework for measuring the fair value of all transactions and balances for which IFRS require or permit such measurement. It improves the consistency between the various fair value concepts defined in various existing IFRS. In addition, it carries forward disclosure requirements concerning the fair value of financial instruments and expands their scope to all items measured at fair value.

With respect to fair value measurements, the prospective application of this new standard had no impact on Desjardins Group’s profit or loss or financial position. The new IFRS 13 disclosure requirements are presented in Note 2, “Significant accounting policies”, and Note 6, “Fair value of financial instruments”.

Offsetting financial assets and liabilities

On January 1, 2013, Desjardins Group adopted the amendments to IFRS 7, “Financial Instruments: Disclosures”. These amendments enhance the disclosure requirements with respect to offsetting of financial assets and liabilities. Their objective is to help users of financial statements better evaluate the impact of netting agreements on the financial position of an entity and understand how it manages the credit risk associated with such agreements.

Desjardins Group has applied these amendments on a retrospective basis. Since these amendments specifically concern disclosures, they had no impact on the Desjardins Group’s profit or loss or financial position. The new IFRS 7 disclosure requirements are presented in Note 7, “Offsetting financial assets and liabilities”.

Employee benefits

On January 1, 2013, Desjardins Group adopted the amendments to IAS 19, “Employee Benefits”, which change the accounting rules related to employee benefits, mainly those related to defined benefit plans. This standard now requires the following:

- All actuarial gains and losses are immediately recognized in items of other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income. The use of the “corridor approach”, under which the recognition of actuarial gains and losses could be deferred, is no longer allowed;
- The difference between the actual return on plan assets and the interest income included in interest cost must be recognized in items of other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income;
- Past service cost must be directly recognized in the Combined Statements of Income when it occurs; and
- Employee contributions used to make up the deficit that are required and set out in the terms of the defined benefit plans must reduce the liability recognized on the Combined Balance Sheets.

NOTE 3 – CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Employee benefits *(continued)*

The requirements of this amended standard have been applied retrospectively. The impact of adopting these amendments is as follows:

	As at December 31, 2012[(2)]	As at January 1, 2012[(2)]
COMBINED BALANCE SHEETS		
Deferred tax assets	$ 178	$ 110
Net defined benefit plan liabilities[(1)]	778	476
Deferred tax liabilities	(18)	(11)
Undistributed surplus earnings	2	11
Reserves	(574)	(360)
Non-controlling interests	(10)	(6)

(1) Prior to adopting the amended version of IAS 19, this item was entitled “Defined benefit plan liabilities”.
(2) Increase (decrease) in the balance presented in the Combined Balance Sheets prior to adopting the amended version of IAS 19.

	For the year ended December 31, 2012[(3)]
COMBINED STATEMENTS OF INCOME	
Salaries and fringe benefits	$ 148
Income taxes on surplus earnings	(36)
Net surplus earnings for the year after member dividends[(1)]	$ (112)
COMBINED STATEMENT OF COMPREHENSIVE INCOME	
Net surplus earnings for the year after member dividends	$ (112)
Remeasurement of net defined benefit plan liabilities (net of taxes)	(115)
Comprehensive income for the year[(2)]	$ (227)

(1) For the year ended December 31, 2012, the restatement of profit or loss items resulted in a net decrease of $111 million in “Net surplus earnings for the year after member dividends – Group’s share” and a net decrease of $1 million in “Net surplus earnings for the year after member dividends – Non-controlling interests’ share”.
(2) For the year ended December 31, 2012, the restatement of comprehensive income items resulted in a net decrease of $223 million in “Comprehensive income for the year – Group’s share” and a net decrease of $4 million in “Comprehensive income for the year – Non-controlling interests’ share”.
(3) Increase (decrease) in the balance presented in the Combined Statements of Income or the Combined Statements of Comprehensive Income prior to adopting the amended version of IAS 19.

IAS 36, “Impairment of Assets” – Recoverable amount disclosures for non-financial assets

Desjardins Group early adopted the amendments to IAS 36, “Impairment of Assets”, which amendments limit the requirement to disclose the recoverable amount to non-financial assets for which an impairment loss has been recognized or reversed during the year. These amendments also enhance and clarify the disclosures required when the recoverable amount is determined based on fair value less costs of disposal.

Desjardins Group has applied these amendments on a retrospective basis. Since these amendments specifically concern disclosures, they had no impact on Desjardins Group’s profit or loss or financial position.

NOTE 4 – FUTURE ACCOUNTING CHANGES

Accounting standards that have been issued by the IASB but are not yet effective as at December 31, 2013 are presented below. Regulatory authorities have stated that early adoption of these standards will not be permitted, unless they indicate otherwise.

IAS 32, "Financial Instruments: Presentation" – Offsetting financial assets and financial liabilities

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation", to clarify the criteria for offsetting financial assets and financial liabilities.

Desjardins Group is currently assessing the impact of the amendments made to this standard, which are effective for annual periods beginning on or after January 1, 2014.

IAS 39, "Financial Instruments: Recognition and Measurement" – Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued amendments to IAS 39, "Financial Instruments: Recognition and Measurement". According to these amendments, hedge accounting should be continued when a derivative financial instrument designated as a hedging instrument is novated from one counterparty to a central counterparty or an entity acting in that capacity and certain conditions are met.

The amendments to this standard, which are effective for annual periods beginning on or after January 1,2014 will have no impact on Desjardins Group's profit or loss or financial position.

Annual improvements

In December 2013, the IASB issued *Annual Improvements 2010-2012 Cycle* and *Annual Improvements 2011-2013 Cycle*, which contain necessary, but not urgent, amendments to certain standards.

Some of these amendments are effective for annual periods beginning on or after July 1, 2014, while others are effective for transactions entered into on or after July, 1 2014. These amendments will have no material impact on Desjardins Group's profit or loss or financial position.

IFRS 9, "Financial Instruments"

The IASB issued in November 2009 and amended in October 2010 the first phase of a project that will replace IAS 39, "Financial Instruments: Recognition and Measurement". This standard defines a new way of classifying and measuring financial assets and liabilities. Financial assets will be classified in two categories (amortized cost and fair value through profit or loss) based on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the financial assets. However, an exposure draft issued in November 2012 proposes the introduction of a third financial instrument category for debt securities: fair value through other comprehensive income. Financial liabilities will be classified in the same categories as those defined in IAS 39, but their measurement under the fair value option has been modified.

In November 2013, the IASB also issued the phase of its IAS 39 replacement project addressing hedging activities. The IFRS 9 hedge accounting model retains the current types of hedging relationships (fair value, cash flow and net investment hedges) but includes significant changes that will allow hedge accounting to better reflect the entity's risk management policies. The assessment of the effectiveness of a hedge has been replaced by the economic relationship principle, and changes have been made to the accounting for certain derivative financial instruments designated as part of a hedging relationship. The obligation to retrospectively assess the effectiveness of a hedge and the option under which a hedging relationship may be voluntarily terminated have been eliminated, while disclosure requirements about the entity's risk management activities have been enhanced. Entities that apply IFRS 9 may choose an accounting policy under which they continue to apply the IAS 39 hedge accounting model instead of adopting the IFRS 9 model until the IASB completes its project dealing with accounting for macro hedging.

The IASB's project phase dealing with impairment of financial asset methodology is still ongoing. The IASB has temporarily removed the mandatory effective date of IFRS 9, which was January 1, 2015, and will determine a new effective date when all the phases of this project have been finalized.

Desjardins Group is currently assessing the impact of the adoption of IFRS 9.

NOTE 5 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

The following tables present the carrying amount of all financial assets and liabilities according to their classification in the categories defined in the financial instrument standards as well as the carrying amount of financial instruments designated in a hedging relationship.

	At fair value through profit or loss					
As at December 31, 2013	**Held for trading**	**Designated as at fair value through profit or loss**	**Available for sale**	**Loans and receivables, and financial liabilities at amortized cost**	**Derivatives designated as hedging instruments[2]**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ ---	$ ---	$ ---	$ 1,320	$ ---	$ 1,320
Securities						
Securities at fair value through profit or loss	11,211	12,325	---	---	---	23,536
Available-for-sale securities	---	---	19,041	---	---	19,041
Securities borrowed or purchased under reverse repurchase agreements	---	---	---	7,710	---	7,710
Loans[1]	---	---	---	140,533	---	140,533
Other financial assets						
Clients' liability under acceptances	---	---	---	985	---	985
Premiums receivable	---	---	---	1,123	---	1,123
Derivative financial instruments	1,555	---	---	---	767	2,322
Amounts receivable from clients, brokers and financial institutions	---	---	---	1,891	---	1,891
Other	---	---	---	1,013	---	1,013
Total financial assets	**$ 12,766**	**$ 12,325**	**$ 19,041**	**$ 154,575**	**$ 767**	**$ 199,474**
Financial liabilities						
Deposits	$ ---	$ ---	$ ---	$ 136,746	$ ---	$ 136,746
Other financial liabilities						
Acceptances	---	---	---	985	---	985
Commitments related to securities sold short	7,754	---	---	---	---	7,754
Commitments related to securities lent or sold under repurchase agreements	---	---	---	9,579	---	9,579
Derivative financial instruments	1,447	---	---	---	272	1,719
Amounts payable to clients, brokers and financial institutions	---	---	---	3,752	---	3,752
Other	133	---	---	2,793	---	2,926
Subordinated notes	---	---	---	3,063	---	3,063
Total financial liabilities	**$ 9,334**	**$ ---**	**$ ---**	**$ 156,918**	**$ 272**	**$ 166,524**

(1) For more information, see Note 9, "Loans and allowance for credit losses".
(2) For details on derivatives designated as hedging instruments, see Note 20, "Derivative financial instruments and hedging activities".

NOTE 5 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

As at December 31, 2012	At fair value through profit or loss					
	Held for trading	Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ ---	$ ---	$ ---	$ 1,669	$ ---	$ 1,669
Securities						
Securities at fair value through profit or loss	8,994	12,992	---	---	---	21,986
Available-for-sale securities	---	---	18,326	---	---	18,326
Securities borrowed or purchased under reverse repurchase agreements	---	---	---	4,377	---	4,377
Loans[1]	---	---	---	132,576	---	132,576
Other financial assets						
Clients' liability under acceptances	---	---	---	841	---	841
Premiums receivable	---	---	---	1,040	---	1,040
Derivative financial instruments	1,278	---	---	---	960	2,238
Amounts receivable from clients, brokers and financial institutions	---	---	---	1,195	---	1,195
Other	---	---	---	735	---	735
Total financial assets	**$ 10,272**	**$ 12,992**	**$ 18,326**	**$ 142,433**	**$ 960**	**$ 184,983**
Financial liabilities						
Deposits	$ ---	$ ---	$ ---	$ 129,624	$ ---	$ 129,624
Other financial liabilities						
Acceptances	---	---	---	841	---	841
Commitments related to securities sold short	4,977	---	---	---	---	4,977
Commitments related to securities lent or sold under repurchase agreements	---	---	---	7,983	---	7,983
Derivative financial instruments	986	---	---	---	236	1,222
Amounts payable to clients, brokers and financial institutions	---	---	---	2,504	---	2,504
Other	1	---	---	2,965	---	2,966
Subordinated notes	---	---	---	3,081	---	3,081
Total financial liabilities	**$ 5,964**	**$ ---**	**$ ---**	**$ 146,998**	**$ 236**	**$ 153,198**

(1) For more information, see Note 9, "Loans and allowance for credit losses".
(2) For details on derivatives designated as hedging instruments, see Note 20, "Derivative financial instruments and hedging activities".

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

HIERARCHY LEVELS OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The fair value measurement of financial instruments is determined using the following three levels of the 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.

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

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 5,791	$ 542	$ ---	$ 6,333
Provincial governmental entities and municipal corporations in Canada	9,763	459	---	10,222
School or public corporations in Canada	27	128	---	155
Foreign public administrations	525	---	---	525
Other securities				
Financial institutions	22	1,117	61	1,200
Other issuers	1	1,673	2,505	4,179
Equity securities	804	109	9	922
	16,933	4,028	2,575	23,536
Derivative financial instruments				
Interest rate contracts	---	785	---	785
Foreign exchange contracts	---	405	---	405
Other contracts	---	1,131	1	1,132
	---	2,321	1	2,322
Total financial assets at fair value through profit or loss	16,933	6,349	2,576	25,858
Available-for-sale financial assets				
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,392	---	---	6,392
Provincial governmental entities and municipal corporations in Canada	7,870	295	---	8,165
School or public corporations in Canada	5	---	---	5
Foreign public administrations	---	35	---	35
Other securities				
Financial institutions	8	2,298	---	2,306
Other issuers	5	242	104	351
Equity securities	1,457	299	29	1,785
Total available-for-sale financial assets[(1)]	15,737	3,169	133	19,039
Financial instruments of segregated funds	4,479	2,806	---	7,285
Total financial assets	$ 37,149	$ 12,324	$ 2,709	$ 52,182
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 7,427	$ 327	$ ---	$ 7,754
Other	---	---	133	133
	7,427	327	133	7,887
Derivative financial instruments				
Interest rate contracts	---	511	---	511
Foreign exchange contracts	---	85	---	85
Other contracts	---	1,113	10	1,123
	---	1,709	10	1,719
Total financial liabilities	$ 7,427	$ 2,036	$ 143	$ 9,606

(1) As at December 31, 2013, certain available-for-sale securities having a carrying amount of $2 million were recognized at cost since their fair value cannot reliably be measured.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY LEVELS OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE *(continued)*

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 4,520	$ 623	$ ---	$ 5,143
Provincial governmental entities and municipal corporations in Canada	9,343	441	---	9,784
School or public corporations in Canada	31	137	---	168
Foreign public administrations	303	---	---	303
Other securities				
Financial institutions	22	1,629	63	1,714
Other issuers	---	1,714	2,431	4,145
Equity securities	698	30	1	729
	14,917	4,574	2,495	21,986
Derivative financial instruments				
Interest rate contracts	---	1,410	---	1,410
Foreign exchange contracts	---	126	---	126
Other contracts	---	676	26	702
	---	2,212	26	2,238
Total financial assets at fair value through profit or loss	14,917	6,786	2,521	24,224
Available-for-sale financial assets				
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,468	---	---	5,468
Provincial governmental entities and municipal corporations in Canada	7,173	283	4	7,460
School or public corporations in Canada	---	18	---	18
Foreign public administrations	---	34	---	34
Other securities				
Financial institutions	---	3,696	---	3,696
Other issuers	1	171	68	240
Equity securities	1,299	109	2	1,410
Total available-for-sale financial assets	13,941	4,311	74	18,326
Financial instruments of segregated funds	3,962	2,129	---	6,091
Total financial assets	**$ 32,820**	**$ 13,226**	**$ 2,595**	**$ 48,641**
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 4,914	$ 63	$ ---	$ 4,977
	4,914	63	---	4,977
Derivative financial instruments				
Interest rate contracts	---	334	---	334
Foreign exchange contracts	---	174	---	174
Other contracts	---	695	19	714
	---	1,203	19	1,222
Total financial liabilities	**$ 4,914**	**$ 1,266**	**$ 19**	**$ 6,199**

According to Desjardins Group's policy, transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

During the year ended December 31, 2013, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value. During the year ended December 31, 2012, $31 million in bonds was transferred from Level 2 to Level 1, and $6 million in money market securities was transferred from Level 1 to Level 2 due to the availability of quoted prices.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following tables present, by hierarchy level, financial instruments whose carrying amount does not equal fair value.

	As at December 31, 2013				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS					
Loans	**$ 140,533**	**$ 141,087**	**$ ---**	**$ 4,978**	**$ 136,109**
FINANCIAL LIABILITIES					
Deposits	**136,746**	**137,452**	**897**	**136,555**	**---**
Subordinated notes	**3,063**	**3,267**	**---**	**3,267**	**---**

	As at December 31, 2012	
	Carrying amount	Fair value
FINANCIAL ASSETS		
Loans	$ 132,576	$ 133,768
FINANCIAL LIABILITIES		
Deposits	129,624	130,610
Subordinated notes	3,081	3,384

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Changes in fair value of financial instruments categorized within Level 3

The following tables present the reconciliation from the beginning balance to the ending balance for financial instruments categorized within Level 3 of the hierarchy, namely financial instruments whose fair value is determined using valuation techniques not based mainly on observable market data.

	Balance as at January 1, 2013	Realized gains / losses recognized in profit or loss(1)	Unrealized gains / losses recognized in profit or loss(2)	Unrealized gains / losses recognized in other comprehensive income(3)	Transfers of instruments into (out of) Level 3	Purchases/ Issuances	Sales/ Settlements	Balance as at December 31, 2013
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 63	$ ---	$ (2)	$ ---	$ ---	$ ---	$ ---	$ 61
Other issuers								
Hedge funds	17	---	1	---	---	---	---	18
Asset-backed term notes	1,704	2	140	---	---	---	(216)	1,630
Mortgage bonds	667	---	(20)	---	---	183	(13)	817
Financial asset-backed securities	43	---	3	---	---	---	(6)	40
Equity securities	1	---	---	---	(1)	9	---	9
Derivative financial instruments								
Other contracts								
Total return swap	26	---	(25)	---	---	---	---	1
Total financial assets at fair value through profit or loss	2,521	2	97	---	(1)	192	(235)	2,576
Available-for-sale financial assets								
Available-for-sale securities								
Debt securities issued or guaranteed by Provincial governmental entities and municipal corporations in Canada	4	---	---	---	(4)	---	---	---
Other securities								
Other issuers								
Mortgage bonds	68	---	---	20	---	16	---	104
Equity securities	2	---	---	(8)	17	21	(3)	29
Total available-for-sale financial assets	74	---	---	12	13	37	(3)	133
Financial instruments of segregated funds	---	---	---	---	(2)	2	---	---
Total financial assets	$ 2,595	$ 2	$ 97	$ 12	$ 10	$ 231	$ (238)	$ 2,709
Financial liabilities								
Financial liabilities held for trading								
Other liabilities								
Other								
Financial liability related to put options written on non-controlling interests	$ ---	$ ---	$ 31	$ ---	$ ---	$ 102	$ ---	$ 133
Derivative financial instruments								
Other contracts	19	---	(8)	---	---	1	(2)	10
Total financial liabilities	$ 19	$ ---	$ 23	$ ---	$ ---	$ 103	$ (2)	$ 143

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income (loss) on securities at fair value through profit or loss". Realized gains or losses on available-for-sale financial assets are recognized under "Net income on available-for-sale securities".
(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income (loss) on securities at fair value through profit or loss".
(3) Unrealized gains or losses on available-for-sale financial assets are recognized under "Net unrealized gains on available-for-sale securities" in the Combined Statements of Comprehensive Income.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

	Balance as at January 1, 2012	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases/ Issuances	Sales/ Settlements	Balance as at December 31, 2012
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 64	$ ---	$ (1)	$ ---	$ ---	$ ---	$ ---	$ 63
Other issuers								
Hedge funds	13	---	4	---	---	---	---	17
Asset-backed term notes	1,369	---	374	---	---	---	(39)	1,704
Mortgage bonds	632	---	(1)	---	---	63	(27)	667
Financial asset-backed securities	36	---	7	---	---	---	---	43
Equity securities	1	---	---	---	---	---	---	1
Derivative financial instruments								
Other contracts								
Total return swap	160	---	(134)	---	---	---	---	26
Total financial assets at fair value through profit or loss	2,275	---	249	---	---	63	(66)	2,521
Available-for-sale financial assets								
Available-for-sale securities								
Debt securities issued or guaranteed by Provincial governmental entities and municipal corporations in Canada	4	---	---	---	---	---	---	4
Other securities								
Other issuers								
Mortgage bonds	60	1	---	1	---	12	(6)	68
Equity securities	1	---	---	---	---	---	1	2
Total available-for-sale financial assets	65	1	---	1	---	12	(5)	74
Total financial assets	**$ 2,340**	**$ 1**	**$ 249**	**$ 1**	**$ ---**	**$ 75**	**$ (71)**	**$ 2,595**
Financial liabilities								
Financial liabilities held for trading								
Derivative financial instruments								
Other contracts	$ ---	$ (5)	$ ---	$ ---	$ 20	$ 6	$ (2)	$ 19
Total financial liabilities	**$ ---**	**$ (5)**	**$ ---**	**$ ---**	**$ 20**	**$ 6**	**$ (2)**	**$ 19**

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income (loss) on securities at fair value through profit or loss". Realized gains or losses on available-for-sale financial assets are recognized under "Net income on available-for-sale securities".
(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income (loss) on securities at fair value through profit or loss".
(3) Unrealized gains or losses on available-for-sale financial assets are recognized under "Net unrealized gains on available-for-sale securities" in the Combined Statements of Comprehensive Income.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Measurement process for financial assets and liabilities categorized within Level 3

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

Desjardins Group holds few financial assets and liabilities that are categorized within Level 3. ABTNs and the total return swap hedging ABTNs, mortgage bonds and the financial liability related to put options written on non-controlling interests are the most significant financial instruments within this level.

Desjardins Group uses third parties to independently measure every day the value of variables that are some of the inputs to the valuation model used for ABTNs and the total return swap hedging ABTNs, and any significant difference is analyzed. In addition, the results from this model with respect to the fair value measurement of these securities are frequently compared with certain credit indexes and other relevant indicators. To that effect, a scorecard that presents, in particular, an overview of the credit markets and indicators that can be used to follow up on the values and the main risks arising from ABTNs and the total return swap, is regularly sent to the members of a committee that supports the Management Committee of Desjardins Group. Every quarter, this committee approves the fair value of ABTNs and the total return swap as well as their measurement methodology. The Asset-Backed Commercial Paper Department is responsible for monitoring and maintaining the validity of the model, assumptions, variables and inputs used to determine the fair value of ABTNs.

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 measured the financial liability related to put options written on non-controlling interests. The main inputs used in the measurement of this financial liability are derived from internal forecasts prepared by the management of the acquiree and estimates made by Desjardins Group. The internal forecasts and assumptions on which this valuation technique is based have been prepared by an independent third party and have been reviewed and approved by Desjardins Group.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

Sensitivity of financial assets and liabilities 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 this level, except for ABTNs and the total return swap hedging ABTNs, for which a sensitivity analysis is provided in the “Securities – Asset-backed term notes” section of Note 8, “Securities”.

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

As at December 31, 2013	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges		
Financial assets						
Securities						
Hedge funds	$ 18	Adjusted net asset value	Adjusted net asset value [A, C] Illiquidity premium [B, C]	- 40%	 to	- [1] 100%
Asset-backed term notes	1,630	Internal model[2]	Illiquidity premium [B, C] Recovery rate [A, D] Probability of default [B, D]	 13% 1%	5.7% to to	 55% 87%
Mortgage bonds	982	Discounted cash flows	Credit spread [B, C] Comparable inputs [B, C]	0 bp 0 bp	to to	300 bp 520 bp
Financial asset-backed securities	25 15	Internal model Brokers' quotes	Probability of default [B] Brokers' quotes	0% -	to	100% - [3]
Derivative financial instruments						
Total return swap	1	Internal model[2]	Recovery rate [B, D] Probability of default [A, D]	13% 1%	to to	55% 87%
	9	Option valuation model	Proportion of credit spread [B, C] Increase in exercise price [B, C]		75% 5%	
Equity securities	29	Brokers' quotes	Brokers' quotes	-		- [3]
Total financial assets	**$ 2,709**					
Financial liabilities						
Other liabilities – Other						
Financial liability related to put options written on non-controlling interests	$ 133	Discounted cash flows	Enterprise value [A, C] Discount rate [B, C] Put option exercise date [B, C]	- 6 months	 7.5% to	- [4] 6 years
Derivative financial instruments						
Other contracts	10	Option valuation model	Proportion of credit spread [B, C] Increase in exercise price [B, C]		75% 5 %	
Total financial liabilities	**$ 143**					

(1) Since hedge funds are currently being liquidated and due to the nature of this type of investment, no input value range is presented for adjusted net asset value.
(2) For a description of the internal model, see the “Securities – Asset-backed term notes” section of Note 8, “Securities”.
(3) Due to the potential differences between the various brokers' quotes, no input value range has been presented.
(4) Due to wide-ranging operations of the underlying business lines associated with the enterprise value, no input value range has been 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.
(D) An increase (decrease) in the probability of default is generally accompanied by a decrease (increase) in the recovery rate.

NOTE 7 – 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 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 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 the 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 event of default, insolvency or bankruptcy.

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		
As at December 31, 2013	**Gross recognized amounts**	**Set off amounts**	**Net amounts presented in the Combined Balance Sheets(1)**	**Financial instruments(2)**	**Financial collateral held/pledged**	**Net amounts**
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 8,041	$ 331	$ 7,710	$ 3,822	$ 3,886	$ 2
Derivative financial instruments	2,307	---	2,307	442	1,800	65
Amounts receivable from clients, brokers and financial institutions and other	11	7	4	1	---	3
Total financial assets	$ 10,359	$ 338	$ 10,021	$ 4,265	$ 5,686	$ 70
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 9,632	$ 331	$ 9,301	$ 3,822	$ 5,472	$ 7
Derivative financial instruments	625	---	625	442	135	48
Amounts payable to clients, brokers and financial institutions and other	32	7	25	1	---	24
Total financial liabilities	$ 10,289	$ 338	$ 9,951	$ 4,265	$ 5,607	$ 79

(1) 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.
(2) 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 7 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

As at December 31, 2012	Gross recognized amounts	Set off amounts	Net amounts presented in the Combined Balance Sheets[1]	Associated amounts not set off in the Combined Balance Sheets: Financial instruments[2]	Associated amounts not set off in the Combined Balance Sheets: Financial collateral held/pledged	Net amounts
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 4,377	$ ---	$ 4,377	$ 1,882	$ 2,495	$ ---
Derivative financial instruments	2,233	---	2,233	356	1,741	136
Amounts receivable from clients, brokers and financial institutions and other	1,527	1,523	4	---	---	4
Total financial assets	**$ 8,137**	**$ 1,523**	**$ 6,614**	**$ 2,238**	**$ 4,236**	**$ 140**
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 7,472	$ ---	$ 7,472	$ 1,882	$ 5,589	$ 1
Derivative financial instruments	534	---	534	356	115	63
Amounts payable to clients, brokers and financial institutions and other	1,672	1,523	149	---	137	12
Total financial liabilities	**$ 9,678**	**$ 1,523**	**$ 8,155**	**$ 2,238**	**$ 5,841**	**$ 76**

(1) 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.
(2) 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 8 – SECURITIES

MATURITIES OF SECURITIES

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

As at December 31, 2013	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 at fair value through profit or loss							
Debt securities issued or guaranteed by							
Canadian governmental entities	$ 2,383	$ 825	$ 1,333	$ 453	$ 1,339	$ ---	$ 6,333
Provincial governmental entities and municipal corporations in Canada	1,000	1,577	1,066	1,378	5,201	---	10,222
School or public corporations in Canada	13	3	---	---	139	---	155
Foreign public administrations	5	---	329	166	25	---	525
Other securities							
Financial institutions	167	447	230	185	171	---	1,200
Other issuers[1]	147	336	304	660	2,713	19	4,179
Equity securities	---	---	---	---	---	922	922
Total financial assets at fair value through profit or loss	3,715	3,188	3,262	2,842	9,588	941	23,536
Available-for-sale financial assets							
Available-for-sale securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	270	3,773	2,087	261	1	---	6,392
Provincial governmental entities and municipal corporations in Canada	1,721	2,619	1,846	1,239	740	---	8,165
School or public corporations in Canada	---	---	5	---	---	---	5
Foreign public administrations	1	---	---	6	28	---	35
Other securities							
Financial institutions	443	1,402	404	41	15	1	2,306
Other issuers	10	65	83	176	16	1	351
Equity securities	---	---	---	7	---	1,780	1,787
Total available-for-sale financial assets	2,445	7,859	4,425	1,730	800	1,782	19,041
Total securities	$ 6,160	$ 11,047	$ 7,687	$ 4,572	$ 10,388	$ 2,723	$ 42,577

(1) Includes ABTNs with a fair value of $1,630 million as at December 31, 2013.

NOTE 8 – SECURITIES *(continued)*

MATURITIES OF SECURITIES *(continued)*

As at December 31, 2012	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 at fair value through profit or loss							
Debt securities issued or guaranteed by							
Canadian governmental entities	$ 699	$ 1,125	$ 747	$ 1,379	$ 1,193	$ ---	$ 5,143
Provincial governmental entities and municipal corporations in Canada	774	1,280	763	1,245	5,722	---	9,784
School or public corporations in Canada	10	4	1	---	153	---	168
Foreign public administrations	5	44	160	20	74	---	303
Other securities							
Financial institutions	610	392	328	160	224	---	1,714
Other issuers[1]	186	321	251	578	2,791	18	4,145
Equity securities	---	---	---	---	---	729	729
Total financial assets at fair value through profit or loss	2,284	3,166	2,250	3,382	10,157	747	21,986
Available-for-sale financial assets							
Available-for-sale securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	249	2,874	2,121	208	7	9	5,468
Provincial governmental entities and municipal corporations in Canada	530	3,343	1,650	1,322	613	2	7,460
School or public corporations in Canada	18	---	---	---	---	---	18
Foreign public administrations	---	---	---	5	29	---	34
Other securities							
Financial institutions	1,512	1,470	661	35	18	---	3,696
Other issuers	7	40	50	76	65	2	240
Equity securities	---	---	---	---	3	1,407	1,410
Total available-for-sale financial assets	2,316	7,727	4,482	1,646	735	1,420	18,326
Total securities	**$ 4,600**	**$ 10,893**	**$ 6,732**	**$ 5,028**	**$ 10,892**	**$ 2,167**	**$ 40,312**

(1) Includes ABTNs with a fair value of $1,705 million as at December 31, 2012.

NOTE 8 – SECURITIES *(continued)*

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

The following tables present unrealized gains and losses on available-for-sale securities.

As at December 31, 2013	**Amortized cost**	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying amount**
Debt securities issued or guaranteed by				
Canadian governmental entities	**$ 6,378**	**$ 33**	**$ 19**	**$ 6,392**
Provincial governmental entities and municipal corporations in Canada	**8,059**	**124**	**18**	**8,165**
School or public corporations in Canada	**5**	**---**	**---**	**5**
Foreign public administrations	**35**	**---**	**---**	**35**
Other securities				
Financial institutions	**2,280**	**27**	**1**	**2,306**
Other issuers	**348**	**6**	**3**	**351**
Equity securities	**1,507**	**291**	**11**	**1,787**
	$ 18,612	**$ 481**	**$ 52**	**$ 19,041**

As at December 31, 2012	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 5,420	$ 50	$ 2	$ 5,468
Provincial governmental entities and municipal corporations in Canada	7,214	246	---	7,460
School or public corporations in Canada	18	---	---	18
Foreign public administrations	33	1	---	34
Other securities				
Financial institutions	3,648	48	---	3,696
Other issuers	231	10	1	240
Equity securities	1,248	173	11	1,410
	$ 17,812	**$ 528**	**$ 14**	**$ 18,326**

Impairment losses recognized

During the year ended December 31, 2013, Desjardins Group concluded that there was objective evidence of impairment. An impairment loss of $24 million ($31 million for the year ended December 31, 2012) on available-for-sale securities was recognized under “Net income on available-for-sale securities” in the Combined Statements of Income.

NOTE 8 – SECURITIES *(continued)*

SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

Desjardins Group holds ABTNs, the face value of which is allocated among the various following trusts:

	As at December 31, 2013		As at December 31, 2012	
	Fair value	**Nominal value**	Fair value	Nominal value
MAV 1				
Classes A-1, A-2, B and C	**$ 1,616**	**$ 1,734**	$ 1,661	$ 1,913
MAV 1 and MAV 3				
Ineligible and traditional assets	**14**	**48**	44	85
Total MAV 1 and MAV 3	**$ 1,630**	**$ 1,782**	**$ 1,705**	**$ 1,998**

The ABTNs are classified in the “Designated as at fair value through profit or loss” category. The derivative financial instruments serving as an economic hedge for ABTNs, which include a total return swap and credit default swaps had a negative fair value of $4 million as at December 31, 2013 (positive fair value of $32 million as at December 31, 2012)

Desjardins Group participates, for an amount of $1,193 million, in the margin funding facility (MFF) intended to cover any potential collateral calls from the counterparties to the credit default swaps of Master Asset Vehicle (MAV 1). Desjardins Group’s share of this credit commitment ranks equal to that of all other participants in the MFF and matures in July 2017 or earlier if all such swap transactions have been settled. As at December 31, 2013, no amount had been drawn on the MFF. In addition, Desjardins Group purchased a $400 million protection for its commitments under the MFF from one of the participants in the MAV 1 trust in exchange for an annual commitment fee of 1.2%, which is the rate applicable to the third-party institutions that have contributed to the equivalent MFF of the MAV 2 trust. This protection will automatically end upon maturity of MAV 1’s MFF.

Desjardins Group entered into several different types of transactions to reduce the risk associated with the ABTN portfolio, the MFF related to the ABTN portfolio and other restructured securities. These hedges have maturities that are similar to those of the ABTN portfolio, and management intends to keep them in place until they mature.

The MAV trusts are structured entities. They have been created for the specific purpose of aggregating the restructured notes arising from asset-backed commercial paper held by Canadian institutional investors. These trusts had assets of approximately $13,818 million as at December 31, 2013, have no equity, and are composed mainly of synthetic asset transactions under which investors are committed to contributing to the MFF. Desjardins Group does not consolidate these trusts as it does not control them. As at December 31, 2013, Desjardins Group had a credit commitment (MFF) of $1,193 million ($1,193 million as at December 31, 2012), and the fair value of MAV notes totalled $1,630 million ($1,705 million as at December 31, 2012). These aggregate amounts represent the maximum loss for Desjardins Group with respect to MAV, excluding the effect of the economic hedging strategy.

NOTE 8 – SECURITIES *(continued)*

SECURITIES – ASSET-BACKED TERM NOTES (ABTN) ***(continued)***

ABTN valuation methodology

Since there is no active market for these securities, Desjardins Group's management estimated the fair value of its holdings and the resulting changes in value by using a valuation technique. In addition, the ability to trade MAV 1 notes is subject to significant restrictions, since MAV 1 A-1, A-2, B and C ABTN holders may only transfer the notes to a third party if such transfer is made on a pro rata basis for each of the classes held by the seller and if the buyer assumes an equivalent share of the commitments related to the MFF.

The fair value of ABTNs taking the form of MAV 1 A-1, A-2, B and C notes, i.e. synthetic assets and hybrid assets, is based on a financial model that reflects uncertainties regarding return, credit spreads, the nature and credit risk of underlying assets, the amount and timing of cash inflows, as well as the maturity dates and the liquidity restrictions of the new notes.

The model adjusts the aggregate par value of the notes downwards based on the mark-to-market value of the credit default swaps underlying the notes, the quality of assets pledged as collateral and the lack of liquidity of these notes as well as, but to a lesser extent, other risks inherent in the nature of these notes. Furthermore, the assumptions used for the various adjustments take into account credit spreads, maturities, expected recovery rates in the event of default and market and liquidity risk for all the notes. It should be noted that the assumptions used are based as much as possible on observable market data such as credit spreads and benchmark indexes for similar assets. They also reflect, if necessary, any specific features of MAV 1, and partially rely on other assumptions not supported by observable market prices or rates for similar assets.

The fair value of tracking notes backed by traditional and ineligible assets was determined using a valuation model that considers the value determined by the administrator of the MAV trusts, as well as certain inherent risks that are not reflected in the valuation performed by such administrator.

Total return swap valuation methodology

The fair value of the total return swap, which is categorized within Level 3, is determined using a model that takes into account the credit spreads of the credit default swaps as well as assumptions on recovery rates and probabilities of default for each of the transactions underlying this financial instrument.

Impact on profit or loss

A gain of $142 million related to the fair value of ABTNs was recognized in Desjardins Group's Combined Statement of Income for the year ended December 31, 2013 (gain of $374 million for the year ended December 31, 2012). In addition, a loss of $36 million related to the derivative financial instruments hedging ABTNs was recognized for the year ended December 31, 2013 (loss of $157 million for the year ended December 31, 2012). The phased recognition of income related to the MFF during fiscal 2013 amounted to $9 million ($9 million for the year ended December 31, 2012).

The above estimated fair values may not be indicative of the ultimate net realizable value or the future fair value. While management deems its valuation technique the most appropriate in the circumstances, the carrying amount remains sensitive to credit spreads. As previously mentioned, Desjardins Group entered into transactions with a view to reducing the risk of the ABTN portfolio, among other things. Accordingly, the sensitivity analysis presents the impact of a 10% change in credit spreads on the estimated fair value of MAV 1 A-1, A-2, B and C notes and the total return swap as well as on Tier 1 capital.

	As at December 31, 2013		As at December 31, 2012	
	Increase of 10% in credit spreads	**Decrease of 10 % in credit spreads**	Increase of 10 % in credit spreads	Decrease of 10 % in credit spreads
Fair value				
MAV 1 A-1, A-2, B and C notes	**$ (3)**	**$ 3**	$ (13)	$ 14
Total return swap	**1**	**(1)**	5	(5)
Total	**$ (2)**	**$ 2**	**$ (8)**	**$ 9**
Tier 1 capital				
MAV 1 A-1, A-2, B and C notes	**$ (2)**	**$ 2**	$ (8)	$ 9
Total return swap	**1**	**(1)**	4	(4)
Total	**$ (1)**	**$ 1**	**$ (4)**	**$ 5**

Some remaining uncertainties regarding the value of underlying assets, and the amount and timing of cash flows as well as the development of a secondary market for traditional and ineligible asset-backed tracking notes and the liquidity of such market could further change the value of Desjardins Group's investment in these notes.

Desjardins Group holds or has access to the necessary funds to meet all its financial, operating or regulatory obligations, and it does not expect that any liquidity risks related to the ABTNs will have a material adverse impact on its financial soundness, its credit ratings and its capital ratios.

NOTE 9 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS, IMPAIRED LOANS AND ALLOWANCES

The following tables present the credit quality of loans.

As at December 31, 2013	**Gross loans neither past due nor impaired**	**Gross loans past due but not impaired**	**Gross impaired loans**	**Individual allowances**	**Collective allowance**	**Net loans**
Residential mortgages	**$ 90,983**	**$ 270**	**$ 136**	**$ 14**	**$ 42**	**$ 91,333**
Consumer, credit card and other personal loans	**17,230**	**2,244**	**75**	**25**	**100**	**19,424**
Business and government	**29,239**	**526**	**248**	**94**	**143**	**29,776**
	$ 137,452	**$ 3,040**	**$ 459**	**$ 133**	**$ 285**	**$ 140,533**

As at December 31, 2012	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance	Net loans
Residential mortgages	$ 85,541	$ 261	$ 129	$ 13	$ 37	$ 85,881
Consumer, credit card and other personal loans	16,272	2,164	84	31	88	18,401
Business and government	27,785	506	253	94	156	28,294
	$ 129,598	**$ 2,931**	**$ 466**	**$ 138**	**$ 281**	**$ 132,576**

GROSS LOANS PAST DUE BUT NOT IMPAIRED

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

As at December 31, 2013	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 207**	**$ 33**	**$ 13**	**$ 17**	**$ 270**
Consumer, credit card and other personal loans	**1,723**	**270**	**105**	**146**	**2,244**
Business and government	**331**	**52**	**30**	**113**	**526**
	$ 2,261	**$ 355**	**$ 148**	**$ 276**	**$ 3,040**

As at December 31, 2012	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 213	$ 24	$ 10	$ 14	$ 261
Consumer, credit card and other personal loans	1,675	271	99	119	2,164
Business and government	259	69	39	139	506
	$ 2,147	**$ 364**	**$ 148**	**$ 272**	**$ 2,931**

ALLOWANCE FOR CREDIT LOSSES

The following table presents the reconciliation from the beginning balance to the ending balance for the allowance for credit losses for the years ended December 31.

	Residential mortgages		**Consumer, credit card and other personal loans**		**Business and government**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Balance as at January 1	**$ 51**	$ 67	**$ 165**	$ 187	**$ 304**	$ 303	**$ 520**	$ 557
Provision for credit losses	**19**	(6)	**229**	196	**29**	51	**277**	241
Write-offs and recoveries	**(12)**	(10)	**(227)**	(218)	**(39)**	(50)	**(278)**	(278)
Balance as at December 31	**$ 58**	**$ 51**	**$ 167**	**$ 165**	**$ 294**	**$ 304**	**$ 519**	**$ 520**
Composed of :								
Allowance for credit losses	**$ 56**	$ 50	**$ 125**	$ 119	**$ 237**	$ 250	**$ 418**	$ 419
Allowance for off-balance sheet credit commitments[1]	**2**	1	**42**	46	**57**	54	**101**	101

(1) The allowance for off-balance sheet credit commitments is presented under “Other liabilities – Other”.

NOTE 10 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Financial assets transferred through securitization transactions

As part of its liquidity and capital management strategy, Desjardins Group participates in the *National Housing Act* Mortgage-Backed Securities Program. Under this program, Desjardins Group bundles residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (NHA MBSs) and transfers them to the Canada Housing Trust (CHT). Afterwards, Desjardins Group may not transfer or sell these assets or pledge them as collateral, as they have been sold to the CHT, and it may not repurchase them before maturity. However, as part of these transactions, Desjardins Group retains substantially all the risks, including prepayment, interest rate and credit risks, and the rewards related to these securities, namely the cash flows associated with the assets. Consequently, these loans continue to be recognized in the Combined Balance Sheets. Furthermore, Desjardins Group treats these transfers as collateralized financing transactions and recognizes a liability in that respect. This liability, which is equal to the consideration received from CMHC 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 require that interest rate swaps be entered into by the CHT and Desjardins Group in order to receive all cash flows related to the mortgage loans underlying the NHA MBSs every month. Desjardins Group pays the CHT an amount corresponding to the interest payable to the holders of CMBs, the difference between these amounts being considered as excess interest margin. As part of these swaps, Desjardins Group must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

No loss is expected on the mortgage loans as they are guaranteed by CMHC. Income related to securitization transactions is recognized under “Other income – Other”, “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, 2013		As at December 31, 2012	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 5,441**	**$ 5,593**	$ 4,679	$ 4,813
Securities sold under repurchase agreements	**9,073**	**9,073**	7,263	7,263
Securities lent	**5**	**5**	---	---
	$ 14,519	**$ 14,671**	$ 11,942	$ 12,076
Related liabilities	**$ 14,504**	**$ 14,475**	**$ 11,929**	**$ 11,947**

FINANCIAL ASSETS TRANSFERRED AND DERECOGNIZED

Financial assets transferred as part of securitization transactions completed before January 1, 2010

Some securitization transactions completed before January 1, 2010 were subject to derecognition, as Desjardins Group elected to prospectively apply the derecognition requirements. At the time of transfer, these transactions were therefore recognized as sales, and Desjardins Group retains certain interests in excess interest margins, which are retained interests, and it assumes the responsibility of managing the transferred mortgage loans and the principal reinvestment account.

The total outstanding amount of these initial transferred assets amounted to $154 million as at December 31, 2013 ($562 million as at December 31, 2012). As a December 31, 2013 assets representing retained interests that Desjardins Group continues to recognize with respect to these transactions amounted to $1 million ($7 million as at December 31, 2012) and there were no assumed servicing liabilities ($1 million as at December 31, 2012) They are recognized upon the transfer of loans under “Other assets – Other” and “Other liabilities – Other” in the Combined Balance Sheets. These transactions will mature no later than December 31, 2014.

NOTE 11 – SEGREGATED FUNDS

Segregated fund net assets

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

	As at December 31, 2013	As at December 31, 2012 Restated (Note 3)
Investments		
Bonds	$ 335	$ 402
Mortgages	4	5
Shares and mutual fund units	6,864	5,590
Money market securities	81	94
Derivative financial instruments	1	---
Securities borrowed or purchased under reverse repurchase agreements	37	40
Other assets	30	32
Commitments related to securities lent or sold under repurchase agreements	(46)	(50)
Liabilities	(30)	(27)
Net assets held for segregated fund contract holders	**$ 7,276**	**$ 6,086**
Assets held for the insurer	(24)	(20)
Total segregated fund net assets(1)	**$ 7,252**	**$ 6,066**

(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 $8 million as at December 31, 2013 ($9 million as at December 31, 2012)..

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. Desjardins Group classifies financial instruments recognized at fair value using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 6 “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, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Bonds	$ 181	$ 154	$ ---	$ 335
Mortgages	---	4	---	4
Shares and mutual fund units	4,233	2,631	---	6,864
Money market securities	64	17	---	81
Derivative financial instruments	1	---	---	1
Total financial instruments recognized at fair value	**$ 4,479**	**$ 2,806**	**$ ---**	**$ 7,285**

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 227	$ 175	$ ---	$ 402
Mortgages	---	5	---	5
Shares and mutual fund units	3,679	1,911	---	5,590
Money market securities	56	38	---	94
Total financial instruments recognized at fair value	**$ 3,962**	**$ 2,129**	**$ ---**	**$ 6,091**

No transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value during the years ended December 31, 2013 and 2012.

NOTE 11 – 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, 2013, the carrying amount of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets was $46 million and $46 million, respectively ($50 million and $50 million as at December 31, 2012), and their fair value was $46 million and $46 million, respectively ($50 million and $50 million as at December 31, 2012).

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 $46 million as at December 31, 2013 ($50 million as at December 31, 2012). 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 $12 million ($8 million as at December 31, 2012). There were no financial assets accepted as collateral which have been sold or repledged as at December 31, 2013 and 2012. These financial assets were received as collateral as part of transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

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

Segregated fund net liabilities

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

	As at December 31, 2013	As at December 31, 2012 Restated (Note 3)
Balance at beginning of year – Net liabilities to segregated fund contract holders	**$ 6,095**	$ 5,380
Additions		
Amounts received from contract holders	**1,060**	1,112
Net investment income	**951**	491
	2,011	**1,603**
Deductions		
Withdrawals and redemptions	**709**	787
Management fees	**113**	101
	822	**888**
Balance at end of year – Net liabilities to segregated fund contract holders	**$ 7,284**	**$ 6,095**
Liabilities to the insurer	**(24)**	(20)
Total segregated fund net liabilities[(1)]	**$ 7,260**	**$ 6,075**

(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 $8 million as at December 31, 2013 ($9 million as at December 31, 2012).

NOTE 12 – 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, 2011	$ 118	$ 1,204	$ 388	$ 643	$ 366	$ 2,719	$ 84	$ 666	$ 750
Additions	3	146	64	64	36	313	---	9	9
Disposals	(3)	(61)	(16)	(46)	(6)	(132)	---	(22)	(22)
Other	(6)	(32)	6	(2)	(4)	(38)	---	(44)	(44)
As at December 31, 2012	$ 112	$ 1,257	$ 442	$ 659	$ 392	$ 2,862	$ 84	$ 609	$ 693
Additions	**---**	**77**	**47**	**49**	**42**	**215**	**---**	**13**	**13**
Disposals	**---**	**(38)**	**(33)**	**(53)**	**(8)**	**(132)**	**(5)**	**(31)**	**(36)**
Other	**(1)**	**(25)**	**(18)**	**(1)**	**(3)**	**(48)**	**(1)**	**(5)**	**(6)**
As at December 31, 2013	**$ 111**	**$ 1,271**	**$ 438**	**$ 654**	**$ 423**	**$ 2,897**	**$ 78**	**$ 586**	**$ 664**

	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, 2011	$ ---	$ 535	$ 319	$ 461	$ 186	$ 1,501	$ 5	$ 148	$ 153
Depreciation	---	37	39	43	31	150	---	27	27
Disposals	---	(33)	(15)	(24)	(4)	(76)	---	(5)	(5)
Other	---	(17)	4	(7)	(5)	(25)	---	6	6
As at December 31, 2012	$ ---	$ 522	$ 347	$ 473	$ 208	$ 1,550	$ 5	$ 176	$ 181
Depreciation	**---**	**40**	**42**	**42**	**32**	**156**	**---**	**22**	**22**
Disposals	**---**	**(27)**	**(32)**	**(38)**	**(8)**	**(105)**	**---**	**(4)**	**(4)**
Other	**---**	**1**	**(12)**	**(11)**	**(4)**	**(26)**	**---**	**(10)**	**(10)**
As at December 31, 2013	**$ ---**	**$ 536**	**$ 345**	**$ 466**	**$ 228**	**$ 1,575**	**$ 5**	**$ 184**	**$ 189**

	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, 2013	**$ 111**	**$ 735**	**$ 93**	**$ 188**	**$ 195**	**$ 1,322**	**$ 73**	**$ 402**	**$ 475**
As at December 31, 2012	$ 112	$ 735	$ 95	$ 186	$ 184	$ 1,312	$ 79	$ 433	$ 512

As at December 31, 2013, an amount of $24 million ($106 million as at December 31, 2012) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $31 million ($36 million as at December 31, 2012) related to the acquisition of these buildings.

Information about assets pledged as collateral is disclosed in Note 29, "Commitments, guarantees and contingent liabilities".

As at December 31, 2013, the fair value of investment property was $1,004 million ($1,054 million as at December 31, 2012). Investment property is categorized within Level 3 of the fair value hierarchy as it is measured using techniques that are not primarily based on observable market inputs. The fair value of investment property is determined by independent real estate appraisers with recognized and relevant professional qualifications who use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on market 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 and future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2013, rental income from investment property amounted to $107 million ($134 million in 2012). Amounts recognized in profit or loss for operating expenses related to investment property that generated rental income during the year totalled $78 million ($94 million in 2012), while no amount has been recognized for those that did not generate rental income. These amounts are presented under "Net other investment income" in the Combined Statements of Income.

NOTE 13 – 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	Unallocated[1]	Total
Cost				
As at January 1, 2012	$ 101	$ 9	$ 238	$ 348
Acquisitions[2]	5	---	---	5
Goodwill allocation	223	15	(238)	---
As at December 31, 2012	$ 329	$ 24	$ ---	$ 353
Acquisitions[2]	**71**	**32**	**---**	**103**
As at December 31, 2013	**$ 400**	**$ 56**	**$ ---**	**$ 456**

(1) As at January 1, 2012, unallocated goodwill was mainly arising from the combination of Desjardins Group and Western that occurred on April 15, 2011. The allocation of such goodwill was completed during 2012.

(2) For more information, see Note 21, "Significant acquisitions".

Property and Casualty Insurance segment

Test results show that the recoverable amount of the group of CGUs represented by the Property and Casualty Insurance segment exceeds its carrying amount and, consequently, no goodwill impairment losses have been recognized for the year ended December 31, 2013 and prior years. The Property and Casualty Insurance segment includes Desjardins General Insurance Group Inc. and Western Financial Group Inc.

The recoverable amount of the group of CGUs made up of these two entities has been determined based on a calculation of value in use, using cash flow projections based on the budget and financial plan approved by the Board of Directors and covering a four-year period. The key assumptions used in the budget and financial plan are based on past performance and management's expectations of the evolution of the market. The growth rate used to extrapolate cash flow projections beyond the five-year period was 2.5% (2.5% in 2012). In addition, a rate of 10.7% (10.8% in 2012), representing the weighted average cost of capital of Desjardins Financial Corporation Inc. as at October 31, 2013, was used to discount the projected cash flows.

Desjardins Group believes that no reasonably possible change in any of the above-mentioned key assumptions would cause the carrying amount of the group of CGUs to exceed its recoverable amount. The carrying amount of the group of CGUs would be lower than its recoverable amount even with a decrease of 10% (10% as at December 31, 2012) in budgeted margins or a decrease of 3% (3% as at December 31, 2012) in the growth rate.

Wealth Management and Life and Health Insurance segment

Test results show that the recoverable amount of the group of CGUs represented by the Wealth Management and Life and Health Insurance segment exceeds its carrying amount and, consequently, no goodwill impairment losses have been recognized for the year ended December 31, 2013 and prior years. The Wealth Management and Life and Health Insurance segment includes notably Desjardins Financial Security Life Assurance Company, Desjardins Securities Inc., *Desjardins Société de placement inc.*, Desjardins Financial Corporation Inc. and Qtrade Canada Inc..

The recoverable amount of the group of CGUs has been determined based on a calculation of value in use, using cash flow projections based on the budget and financial plan approved by the Board of Directors and covering a four-year period. The key assumptions used in the budget and financial plan are based on past performance and management's expectations of the evolution of the market. The growth rate used to extrapolate cash flow projections beyond the five-year period was 2.0%. In addition, a rate of 7.9%, representing the weighted average cost of capital of Desjardins Financial Corporation Inc. as at September 30, 2013, was used to discount the projected cash flows.

Desjardins Group believes that no reasonably possible change in any of the above-mentioned key assumptions would cause the carrying amount of the group of CGUs to exceed its recoverable amount. The carrying amount of the group of CGUs would be lower than its recoverable amount even with a decrease of 10% in budgeted margins or a decrease of 3% in the growth rate.

NOTE 13 – GOODWILL AND INTANGIBLE ASSETS *(continued)*

Intangible assets

The following tables show changes in intangible assets.

	Acquired software	Internally generated software	Client relationships	Other [1]	Total
Cost					
As at January 1, 2012	$ 225	$ 201	$ 127	$ 93	$ 646
Acquisitions/additions	68	39	4	1	112
Disposals/retirements	(6)	(16)	---	---	(22)
As at December 31, 2012	$ 287	$ 224	$ 131	$ 94	$ 736
Acquisitions/additions	**103**	**16**	**3**	**10**	**132**
Business combinations	**---**	**14**	**79**	**27**	**120**
Disposals/retirements	**(18)**	**(2)**	**---**	**---**	**(20)**
As at December 31, 2013	**$ 372**	**$ 252**	**$ 213**	**$ 131**	**$ 968**

	Acquired software	Internally generated software	Client relationships	Other	Total
Accumulated amortization					
As at January 1, 2012	$ 129	$ 127	$ 5	$ 48	$ 309
Amortization	32	26	8	4	70
Disposals/retirements	(4)	(10)	---	---	(14)
Other	---	11	---	---	11
As at December 31, 2012	$ 157	$ 154	$ 13	$ 52	$ 376
Amortization	**43**	**21**	**14**	**4**	**82**
Disposals/retirements	**(11)**	**---**	**---**	**---**	**(11)**
Other	**3**	**11**	**---**	**---**	**14**
As at December 31, 2013	**$ 192**	**$ 186**	**$ 27**	**$ 56**	**$ 461**

	Acquired software	Internally generated software	Client relationships	Other [1]	Total
Net carrying amount					
As at December 31, 2013	**$ 180**	**$ 66**	**$ 186**	**$ 75**	**$ 507**
As at December 31, 2012	$ 130	$ 70	$ 118	$ 42	$ 360

(1) The "Other" category mainly includes trademarks and licenses. The carrying amount of intangible assets with indefinite useful lives included in this category was $52 million ($25 million as at December 31, 2012).

NOTE 14 – OTHER ASSETS – OTHER

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

	As at December 31, 2013	As at December 31, 2012
Accounts receivable	**$ 493**	$ 437
Interest receivable	**447**	471
Investments in companies recognized using the equity method (Note 15)	**385**	346
Prepaid expenses	**360**	503
Taxes receivable	**75**	194
Other	**314**	302
	$ 2,074	**$ 2,253**

NOTE 15 – 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 in each of them.

	Nature of operations	**As at December 31, 2013**(1)	As at December 31, 2012(1)
Caisse centrale Desjardins	Desjardins Group’s treasurer and financial agent on the Canadian and international markets	97.3%	96.8%
Capital Desjardins inc.	Issuance of securities on the markets and financing of the Desjardins caisses	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%
9192-2971 Québec inc.	Investment company	100%	100%
Desjardins Financial Corporation Inc.	Holding company	100%	100%
Bank West	Financial institution	100%	100%
Desjardins Asset Management Inc.	Asset management	100%	100%
Desjardins General Insurance Group Inc.	Property and casualty insurance	100%	100%
Property and casualty insurance subsidiaries(2)	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%
Qtrade Canada Inc.	Online brokerage and wealth management services	40%	-
Desjardins Securities Inc.	Securities brokerage	100%	100%
Western Financial Group Inc.	Insurance brokerage, life and health insurance and financial services	100%	100%
Coast Capital Insurance Services Ltd.	Insurance brokerage	100%	-
Western Financial Group (Network) Inc.	Insurance brokerage	100%	100%
Western Life Assurance Company	Life and health insurance	100%	100%

(1) Represents also the proportion of voting rights held by Desjardins Group in these subsidiaries, except for Qtrade Canada Inc. and *Caisse centrale Desjardins*, in which Desjardins Group holds 100% of the voting rights.
(2) Represents a group of six property and casualty insurance subsidiaries.

NOTE 15 – INTERESTS IN OTHER ENTITIES *(continued)*

SUBSIDIARIES *(continued)*

During fiscal 2013, Desjardins Group took control of the operations of Qtrade Canada Inc. (Qtrade). Although Desjardins Group holds only 40% of the outstanding shares of this entity, it has the ability to direct the relevant operations having a significant specific impact on Qtrade's returns and is exposed to the variable returns of this entity up to the amount of its economic interest. Accordingly, management has determined that Desjardins Group controls Qtrade. The financial statements of Qtrade have been prepared as at March 31, 2013, which was its year-end date at the time it was acquired by Desjardins Group.

Subsidiaries that have material non-controlling interests

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

	As at December 31, 2013			As at December 31, 2012 Restated (Note 3)	
	Caisse centrale Desjardins	**Qtrade Canada Inc.**	**Property and casualty insurance subsidiaries**	*Caisse centrale Desjardins*	Property and casualty insurance subsidiaries
Assets[1]	**$ 34,784**	**$ 518**	**$ 5,336**	$ 29,281	$ 4,817
Liabilities	**32,575**	**404**	**4,186**	27,364	3,734
Equity[1]	**$ 2,209**	**$ 114**	**$ 1,150**	$ 1,917	$ 1,083
Non-controlling interests	**$ 60**	**$ 49**	**$ 102**	**$ 61**	**$ 95**

(1) Include goodwill of $32 million and $100 million, respectively, related to Qtrade Canada Inc. and the property and casualty insurance subsidiaries ($100 million as at December 31, 2012 related to the property and casualty insurance subsidiaries).

	For the years ended December 31				
	2013			2012 Restated (Note 3)	
	Caisse centrale Desjardins	**Qtrade Canada Inc.**	**Property and casualty insurance subsidiaries**	*Caisse centrale Desjardins*	Property and casualty insurance subsidiaries
Total income	**$ 326**	**$ 42**	**$ 2,188**	$ 300	$ 2,089
Net surplus earnings for the year after member dividends	**169**	**2**	**189**	145	175
Comprehensive income for the year	**154**	**2**	**220**	125	161
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	**$ 5**	**$ (1)**	**$ 19**	**$ 5**	**$ 18**
Dividends/distributions paid to holders of non-controlling interests	**$ 5**	**$ ---**	**$ 15**	$ 5	$ 2

NOTE 15 – INTERESTS IN OTHER ENTITIES *(continued)*

	For the years ended December 31				
	2013			2012 Restated (Note 3)	
	Caisse centrale Desjardins	Qtrade Canada Inc.	Property and casualty insurance subsidiaries	*Caisse centrale Desjardins*	Property and casualty insurance subsidiaries
Cash flows from (used in) operating activities	**$ (190)**	**$ 3**	**$ 343**	$ 165	$ 258
Cash flows from (used in) financing activities	**155**	**1**	**(153)**	(154)	(13)
Cash flows from (used in) investing activities	**(279)**	**(1)**	**(242)**	236	(219)
Net increase (decrease) in cash and cash equivalents	**$ (314)**	**$ 3**	**$ (52)**	**$ 247**	**$ 26**

Non-controlling interests related to discretionary participation features

The equity of policyholders related to insurance contracts with discretionary participation features amounted to $226 million as at December 31, 2013 ($225 million as at December 31, 2012) and is recognized under “Non-controlling interests” in the Combined Balance Sheets. The share in “Net surplus earnings for the year after member dividends” attributable to these policyholders, which was a loss of $3 million for the year ended December 31, 2013 (net profit of $47 million in 2012), are recognized under “Non-controlling interests’ share” in the Combined Statements of Income.

Covered bonds

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond Guarantor Limited Partnership, a structured entity, has been set up to guarantee principal and interest payments owing to the holders of these securities. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as it is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted to this entity 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 bond issued. Under the terms and conditions of the issuance agreements, Desjardins Group has limited access to the loans that are legally owned by this structured entity. These loans, totalling $3,219 million as at December 31, 2013 ($3,001 million as at December 31, 2012), are presented under “Loans – Residential mortgages” in the Combined Balance Sheets, and the covered bonds, amounting to $2,653 million as at December 31, 2013 ($2,479 million as at December 31, 2012), are presented under “Deposits – Business and government”.

NOTE 15 – INTERESTS IN OTHER ENTITIES *(continued)*

JOINT VENTURE

Information about the material joint venture

RPADS, an entity that acquires and develops real estate portfolio, is the only material joint venture in which Desjardins Group holds an interest. RPADS has been incorporated in Canada and its principal place of business is in this country.

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

	As at December 31, 2013	As at December 31, 2012
Proportion of ownership interest held[(1)]	**80 %**	80 %
Assets[(2)]	**$ 289**	$ 297
Liabilities[(3)]	**76**	76
Equity	**$ 213**	$ 221
Interest in the joint venture [(4)]	**$ 170**	**$ 177**

(1) Represents also the proportion of voting rights held by Desjardins Group in this joint venture.
(2) Includes cash and cash equivalents of $9 million ($9 million as at December 31, 2012).
(3) Includes financial liabilities of $70 million, excluding accounts payable and provisions ($73 million as at December 31, 2012).
(4) Represents the carrying amount of the interest in the joint venture recognized in the Combined Balance Sheets.

	For the years ended December 31	
	2013	2012
Total income	**$ 55**	$ 20
Interest expense	**3**	3
Depreciation	**11**	4
Net income and comprehensive income for the year	**$ 10**	**$ 2**
Distributions received from the joint venture	**$ 15**	$ ---

NOTE 15 – INTERESTS IN OTHER ENTITIES *(continued)*

ASSOCIATES

Information about material associates

Desjardins Group holds interests in two material associates: Fiera Holdings Inc. and Northwest & Ethical Investments L.P. (Northwest & Ethical). These two entities operate in the investment management industry. They have been incorporated in Canada and their principal place of business is in this country. Although Desjardins Group holds a 50% ownership interest in Northwest & Ethical and 50% of the voting rights, it does not have the ability to direct the relevant operations having a significant specific impact on the returns of this entity and there are no agreements giving Desjardins Group joint control of this entity.

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

	As at December 31, 2013		As at December 31, 2012	
	Fiera Holdings Inc.	**Northwest & Ethical**	**Fiera Holdings Inc.**	**Northwest & Ethical**
Proportion of ownership interest held[1]	**35,04%**	**50%**	29.63%	50%
Assets[2] [3]	**$ 682**	**$ 191**	$ 520	$ 191
Liabilities[3]	**379**	**48**	405	48
Equity [2] [3]	**$ 303**	**$ 143**	$ 115	$ 143
Interests in associates[4]	**$ 78**	**$ 81**	**$ 36**	**$ 81**

(1) Represents also the proportion of voting rights held by Desjardins Group in the associates.
(2) Include goodwill of $3 million and $19 million, respectively, related to Fiera Holdings Inc. and Northwest & Ethical ($3 million and $19 million as at December 31, 2012)
(3) The assets, liabilities and equity of Fiera Holdings Inc. for 2013 are as at September 30, 2013..
(4) Represents the carrying amount of the interests in associates recognized in the Combined Balance Sheets.

	For the years ended December 31			
	2013		2012	
	Fiera Holdings Inc.	**Northwest & Ethical**	**Fiera Holdings Inc.**	**Northwest & Ethical**
Total income[1]	**$ 97**	**$ 26**	$ 126	$ 25
Net income and comprehensive income for the year[1]	**7**	**4**	**12**	**3**
Dividends/distributions received from associates	**$ 2**	**$ 1**	$ 2	$ ---

(1) Total income, net income and comprehensive income of Fiera Holdings are for the nine-month period ended September 30, 2013.

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 held in these funds, these units do not give Desjardins Group power over the relevant operations of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

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

MAV 1 trust

The MAV 1 trust is considered as an unconsolidated structured entity. For more information about this entity, see the "Securities – Asset-backed term notes" section of Note 8, "Securities".

NOTE 16 – 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, 2013	**Payable on demand**	**Payable upon notice**	**Payable on a fixed date**	**Total**
Individuals	**$ 30,839**	**$ 3,949**	**$ 51,942**	**$ 86,730**
Business and government	**16,168**	**337**	**31,207**	**47,712**
Deposit-taking institutions	**41**	**---**	**2,263**	**2,304**
	$ 47,048	**$ 4,286**	**$ 85,412**	**$ 136,746**

As at December 31, 2012	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	$ 26,674	$ 3,990	$ 53,751	$ 84,415
Business and government	14,999	311	27,723	43,033
Deposit-taking institutions	46	---	2,130	2,176
	$ 41,719	**$ 4,301**	**$ 83,604**	**$ 129,624**

NOTE 17 – INSURANCE AND INVESTMENT CONTRACT LIABILITIES

PREMIUMS

The following table presents the reinsurance amounts included in net premiums, in the Combined Statements of Income, for the years ended December 31.

	2013	2012
Gross premiums	**$ 5,789**	$ 5,358
Premiums ceded under reinsurance treaties	**(231)**	(232)
Net premiums	**$ 5,558**	**$ 5,126**

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES

	As at December 31, 2013	As at December 31, 2012
Insurance contract liabilities		
Actuarial liabilities	**$ 13,147**	$ 14,105
Provisions for claims and adjustment expenses	**1,987**	1,862
Unearned premiums	**1,044**	975
Policyholder deposits	**476**	464
Provisions for benefits, policyholder dividends and experience refunds	**370**	322
	17,024	17,728
Investment contract liabilities	**46**	49
Total insurance and investment contract liabilities	**$ 17,070**	**$ 17,777**

ACTUARIAL LIABILITIES

Composition

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

	As at December 31, 2013	As at December 31, 2012
Gross actuarial liabilities		
Non-participating policies	**$ 10,860**	$ 11,741
Participating policies	**2,287**	2,364
	13,147	14,105
Amounts ceded to reinsurers	**(613)**	(737)
Net actuarial liabilities	**$ 12,534**	**$ 13,368**

	As at December 31, 2013	As at December 31, 2012
Composition of assets backing net actuarial liabilities		
Bonds	**$ 7,819**	$ 8,377
Mortgage and business loans	**2,519**	2,590
Investment property	**1,006**	864
Equities	**792**	668
Other	**398**	869
	$ 12,534	**$ 13,368**

The fair value of assets backing net actuarial liabilities was $12,905 million as at December 31, 2013 ($13,882 million as at December 31, 2012).

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 the Standards of Practice of the Canadian Institute of Actuaries (CIA). The actuary establishes the appropriate margins based on the characteristics of the risks associated with the products. 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 policies. With time and as estimation risks decline, these margins are reversed and recognized in the Combined Statements of Income.

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

NOTE 17 – INSURANCE AND INVESTMENT CONTRACT LIABILITIES *(continued)*

Actuarial assumptions (continued)

Mortality

The life and health insurance subsidiaries determine their mortality assumptions for individual life insurance based on the results of the annual studies of their recent underwriting experience. When these results cannot serve as the only source of reference due to their insufficient credibility, the mortality assumption is also based on 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 CIA standards.

For annuities, the life and health insurance subsidiaries also carry out an annual study of their underwriting experience which is sufficiently credible to be the main basis for the determination of assumptions. A future mortality improvement assumption is taken into account in accordance with CIA standards.

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. These assumptions are mainly used for disability, critical illness and long-term care insurance products.

Contract cancellation rates

The life and health insurance subsidiaries carry out an annual study of their underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their policy before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on the life and health insurance subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the life and health insurance subsidiaries' assumptions are not sufficiently credible. For certain types of insurance products, such as term-to-100 life insurance and universal life insurance with level mortality costs, lower than projected cancellation rates may have a negative impact on the life and health insurance subsidiaries' underwriting experience. Cancellation rate assumptions may vary depending on the product type, the contract's term, the age at issuance and the premium payment method.

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. The Canadian Asset Liability Method (CALM) is the standard set by the CIA to ensure the compliance of assets that are backing the actuarial liabilities. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, the life and health insurance subsidiaries mitigate their sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

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

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the provisions for non-performing investments recognized through a write-down of the carrying amount of the assets, a provision amounting to $1,127 million as at December 31, 2013 ($867 million as at December 31, 2012) 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 non-deductible or non-taxable items in cash flows from the liabilities and the assets related to insurance contracts.

Participating policyholders' dividends

Actuarial liabilities include estimated amounts of future participating policyholders' dividends. These estimated amounts are determined based on the expected future results of this block of business and the reasonable expectations of participating policyholders. Changes in the best estimate assumptions for participating insurance would result in corresponding changes in policyholders' dividends and an immaterial net change in actuarial liabilities related to participating policies.

NOTE 17 – INSURANCE AND INVESTMENT CONTRACT LIABILITIES *(continued)*

Actuarial assumptions (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.

	2013	2012
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (30)**	$ (27)
Products for which a rate decrease increases actuarial liabilities	**(16)**	(19)
5% increase in future morbidity rates	**(56)**	(49)
10% negative change in future contract cancellation rates	**(121)**	(89)
5% increase in future operating expenses	**(31)**	(27)

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:

	2013			2012		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 14,105**	**$ 737**	**$ 13,368**	$ 13,610	$ 754	$ 12,856
Change due to:						
Passage of time	**(1,163)**	**(79)**	**(1,084)**	182	24	158
New business	**327**	**13**	**314**	323	30	293
Changes in actuarial assumptions	**(118)**	**(52)**	**(66)**	(12)	(67)	55
	(954)	**(118)**	**(836)**	493	(13)	506
Other changes	**(4)**	**(6)**	**2**	2	(4)	6
Balance at end of year	**$ 13,147**	**$ 613**	**$ 12,534**	**$ 14,105**	**$ 737**	**$ 13,368**

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.

	2013	2012
Changed assumptions		
Mortality	**$ 42**	$ 47
Morbidity	**36**	8
Contract cancellation rates	**(41)**	(80)
Investment return	**10**	30
Operating expenses	**(3)**	32
Methods and other	**(14)**	(86)
	$ 30	**$ (49)**

The decrease in actuarial liabilities related to mortality is mainly attributable to the update of the assumptions for individual insurance products.

The decrease in actuarial liabilities related to morbidity is mostly attributable to the update of the expected invalidity termination rates for invalidity benefit products.

The increase in actuarial liabilities related to contract cancellation rates is attributable to the update of the assumptions for individual insurance products.

Actuarial liabilities decreased with respect to investment returns as a result of the update of investment expenses.

NOTE 17 – INSURANCE AND INVESTMENT CONTRACT LIABILITIES *(continued)*

Risk management

In addition to the risks related to actuarial assumptions, the life and health subsidiaries are exposed to the following risks inherent to insurance activities and take into account the following considerations in the calculation of actuarial liabilities.

Insurance risk

In the course of their operations, the life and health insurance subsidiaries are exposed to insurance risk, which comprises two components: product development and pricing risk and underwriting and commitment risk.

Product development and pricing risk is the risk that the initial pricing is or will become insufficient. It is related to the possibility that the forecasts for certain factors, such as future investment return, mortality, morbidity and administrative expenses, taken into account in pricing prove to be inaccurate. The life and health insurance subsidiaries apply stringent standards and policies with respect to product development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed. Establishing these assumptions requires significant judgment, and actual results could differ from assumptions used. In addition, certain products allow for price adjustments depending on whether assumptions materialize or not.

Underwriting and commitment risk is the risk arising from the selection of risks, the provisioning and settlement of insurance claims, the reduction, retention or ceding of risks and contractual clause management. The life and health insurance subsidiaries manage this risk by setting appropriate risk selection criteria and policies, setting up actuarial liabilities in accordance with the actuarial standards prescribed by the CIA, constantly monitoring the development of loss experience and limiting their losses through reinsurance treaties.

Reinsurance risk

The life and health 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. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

In order to reduce reinsurance risk, the life and health insurance subsidiaries do business with many different reinsurers, the vast majority of which are duly registered, that meet credit standards and are governed by the same regulatory authorities as the subsidiaries. These reinsurance treaties do not release the life and health insurance subsidiaries from their obligations toward their policyholders.

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:

	2013	2012
Premiums	**$ 193**	$ 197
Claims, benefits, annuities and changes in insurance and investment contract liabilities	**21**	75

Segregated fund risk

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

Actuarial liabilities include amounts sufficient to pay the minimum segregated fund guarantees, which are calculated using stochastic models defined by the CIA. These models are based on the nature of the guarantees and on assumptions related to investment return, mortality and contract forfeiture rates. Deferred acquisition costs, being the expenses incurred on the sale of individual segregated fund contracts, are recognized in actuarial liabilities and amortized over the same period as the applicable surrender fees. Actuarial liabilities take into account the fact that future income will be available to recover unamortized acquisition costs.

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 contracts and funds offered to clients by this life and health insurance subsidiary.

Interest rate risk

To protect themselves against losses resulting from changes in interest rates, the life and health insurance subsidiaries developed an asset-liability matching policy, mentioned previously in this note, and ensure compliance therewith through periodic tests.

This policy clearly defines acceptable risks. The assets of each segment are managed based on the liabilities of that segment and are invested in securities that meet the requirements of the related products.

One of the tests included in the matching policy addresses the difference between the duration of liabilities and the duration of the related assets. Comparing durations makes it possible to measure the sensitivity of the market value of assets and liabilities to changes in interest rates. The life and health subsidiaries perform this test for all their business segments globally, because the matching policy sets limits in this respect.

NOTE 17 – INSURANCE AND INVESTMENT CONTRACT LIABILITIES *(continued)*

Risk management (continued)

Interest rate risk (continued)

As at December 31, 2013, the durations of assets and liabilities differed by 0.2 year (0.1 year in 2012).

The risks associated with the non-matching of the duration of the portfolio of investments, the non-matching of cash flows, the potential early redemption of assets and the asset acquisition pattern are periodically quantified and revised.

This non-matching of cash flows would have no impact on profit or loss 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 profit or loss.

The following table shows, for the years ended December 31, the estimated impact on « Net income for the year » of a change in interest rates outside the limits expected in the calculation of actuarial liabilities.

	2013	2012
1% increase in interest rates	**$ 90**	$ 189
1% decrease in interest rates	**(1)**	(222)

Liquidity risk

Short-term liquidity management aims at ensuring that the funds needed to meet financial obligations as they become due are sufficient. Strategic liquidity management aims to maintain a balance between sources and uses of funds in a permanent context, taking into account the economic, operational and business factors that may affect that balance.

Liquidity risk management is covered by the matching policy described earlier and the life and health insurance subsidiaries' own liquidity policy. The latter ensures that these subsidiaries proactively manage balance sheet items on an aggregate basis by establishing limits. In addition, the asset managers of these subsidiaries ensure that an adequate proportion of assets is held in readily marketable securities. The following table presents the contractual maturity terms for actuarial liabilities. The projections in these tables are greater than the actuarial liabilities balance presented in the Combined Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. These cash flows are presented net of expected periodic premium flows from contract holders and net of reinsurance. In addition, the amounts shown in these tables represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2013	As at December 31, 2012
Less than 1 year	**$ 1,157**	$ 1,141
1 to 5 years	**2,900**	2,971
Over 5 years	**24,365**	23,135
Total	**$ 28,422**	**$ 27,247**

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES

Methodology and assumptions

The provisions for claims and adjustment expenses are estimated using appropriate actuarial techniques for loss prospective valuation in accordance with actuarial standards effective in Canada. The property and casualty insurance subsidiaries use actuarial techniques such as the incurred loss development, frequency-severity, Bornhuetter-Ferguson and loss ratio methods to determine the best estimate of the provisions for claims and adjustment expenses. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year, based on the amount, number and average cost of past incurred claims for the incurred loss development and frequency-severity methods, and based on an expected claims amount for the Bornhuetter-Ferguson and loss ratio methods.

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that past claims development will be similar to future 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 a number of quantitative and qualitative factors, including the average settlement cost per claim and the average number of claims, claims severity and frequency trends, and other factors such as inflation and changes in market factors, for instance public behaviour toward claims and economic conditions. They also take into account internal factors, such as the mix of the insurance contract portfolio, the terms and conditions of such contracts and claims management procedures. Judgment is also used to assess the extent by which external factors, such as legal decisions and government laws, may affect this estimate.

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 interest rate for the assets backing the provisions for claims and adjustment expenses. This rate may vary based on changes in interest rates and credit spreads.

Since claims estimates are subject to measurement uncertainty and 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 accepted actuarial standards to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits. The selected margins for adverse deviation are within the range recommended by the CIA.

NOTE 17 – INSURANCE AND INVESTMENT CONTRACT LIABILITIES *(continued)*

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.

	2013			2012		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 1,862**	**$ 36**	**$ 1,826**	$ 1,623	$ 30	$ 1,593
Claims incurred during the year	**1,503**	**1**	**1,502**	1,404	8	1,396
Development of claims incurred in prior years	**(132)**	**4**	**(136)**	(76)	---	(76)
Changes in discount rates	**(24)**	**---**	**(24)**	5	---	5
Claims paid during the year	**(1,222)**	**(11)**	**(1,211)**	(1,094)	(2)	(1,092)
Balance at end of year	**$ 1,987**	**$ 30**	**$ 1,957**	**$ 1,862**	**$ 36**	**$ 1,826**

Changes in assumptions had no material impact on the Combined Financial Statements as at December 31, 2013 and 2012.

Assumption sensitivity analysis

The provisions for claims and adjustment expenses are sensitive to certain key assumptions. The sensitivity of certain qualitative assumptions, such as legislative changes or the uncertainty surrounding the estimation process, could not be independently quantified. The following analysis addresses reasonably plausible changes in certain key assumptions with all other assumptions remaining constant, and it presents the impact of such changes on "Net surplus earnings for the year after member dividends". The correlation of assumptions would have a material impact on the determination of ultimate claims, but to demonstrate the impact of changes in assumptions, changes must be applied to individual assumptions.

	Changes in actuarial assumptions	**Impact on "Net surplus earnings for the year after member dividends"**	
		2013	2012
Average claims settlement cost	**+ 5 %**	**$ (92)**	$ (88)
Number of claims incurred but not reported	**+ 5**	**(6)**	(6)
Discount rates	**+ 1**	**43**	40
Discount rates	**- 1**	**(46)**	(43)

NOTE 17 – INSURANCE AND INVESTMENT 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, for each accident year and at each reporting date, with cumulative payments made to date.

	2006 and before	2007	2008	2009	2010	2011	2012	**2013**	**Total**
Estimated ultimate claims amount									
At the end of the accident year		$ 1,023	$ 1,156	$ 1,092	$ 1,118	$ 1,291	$ 1,396	**$ 1,495**	
1 year later		994	1,110	1,079	1,120	1,291	1,343		
2 years later		962	1,111	1,093	1,108	1,257			
3 years later		959	1,111	1,088	1,088				
4 years later		954	1,097	1,078					
5 years later		943	1,088						
6 years later		934							
Cumulative payments to date		878	1,004	949	896	936	960	**835**	
Net provisions for claims and adjustment expenses	$ 132	$ 56	$ 84	$ 129	$ 192	$ 321	$ 383	**$ 660**	**$ 1,957**
Reinsurers' share in provisions for claims and adjustment expenses	25	---	2	1	---	---	2	**---**	**30**
Gross provisions for claims and adjustment expenses	**$ 157**	**$ 56**	**$ 86**	**$ 130**	**$ 192**	**$ 321**	**$ 385**	**$ 660**	**$ 1,987**

Risk management

In addition to the risks related to actuarial assumptions, the property and casualty insurance subsidiaries are exposed to the following risks inherent to insurance activities.

Insurance risk

The property and casualty insurance subsidiaries mainly underwrite automobile, home, commercial property and other insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: insurance product development and pricing risk, underwriting and claims settlement risk, provisioning risk, catastrophe risk and reinsurance risk.

Insurance product development and pricing risk is the risk of financial losses related to insurance operations, when commitments that may arise from a particular line of products exceed those anticipated or exceed the price that is expected to be set for such products.

Underwriting and claims settlement risk is the risk resulting from the selection of risks, claims settlement and contractual clause management.

To manage these two risks, the property and casualty insurance subsidiaries adopted rigorous practices and procedures with respect to product development and pricing as well as underwriting and commitment management, which take into account several factors that are regularly revised and adapted based on changes in industry market conditions. In addition, the property and casualty insurance subsidiaries reduce their exposure to claim settlement risk by performing regular detailed reviews of claims management procedures and frequent investigations of potentially fraudulent claims.

Provisioning risk is the risk that the provisions for claims and adjustment expenses recorded may not be sufficient to cover the risks inherent to issued insurance policies. Provisions are intended to cover the property and casualty insurance subsidiaries' estimated obligations for the payment of all claims and adjustment expenses with respect to premiums received or receivable on issued insurance policies. There is a risk that the amounts provisioned differ significantly from the actual amount for which ultimate claims are settled. The property and casualty insurance subsidiaries' practice is to establish their provisions for claims and adjustment expenses using accepted actuarial methods that take into account a multitude of factors and trend analyses that are updated periodically.

Catastrophe risk is the risk of loss arising from too many claims related to a single catastrophe. To limit the potential consequences of catastrophes, the property and casualty insurance subsidiaries use reinsurance, under which amounts are recovered when the claims amount exceeds $30 million for a single catastrophe.

Reinsurance risk is the risk of financial losses caused by insufficient reinsurance guarantees or the default of the reinsurer. Accordingly, to reduce the risk related to claims rate volatility, the property and casualty insurance subsidiaries enter into reinsurance treaties with several reinsurers to limit the exposure to a specific risk or a group of risks following a major event. These reinsurance treaties do not release the insurance subsidiaries from their obligations toward their policyholders. The property and casualty insurance subsidiaries manage this risk by underwriting adequate reinsurance coverage taking into account regulatory requirements, which is reassessed every year based on their changing needs, as well as by promoting practices and procedures that enable them to limit this risk to an acceptable level. In this regard, these subsidiaries obtain all the data required to monitor the soundness of the reinsurers' financial position from their reinsurance advisors. In addition, each reinsurer these subsidiaries deal with must have a minimum rating of "A-" and meet other predetermined criteria.

NOTE 17 – INSURANCE AND INVESTMENT CONTRACT LIABILITIES *(continued)*

Risk management (continued)

Insurance risk (continued)

The property and casualty insurance subsidiaries apply a policy of underwriting and reinsuring insurance contracts, that, for the most part, limits their exposure to $5 million per policy.

The impact of reinsurance reduced the Combined Statements of Income items presented in the table below by the following amounts:

	2013	2012
Premiums	**$ 38**	$ 35
Claims, benefits, annuities and changes in insurance and investment contract liabilities	**5**	8

Interest rate risk

Interest rate risk is managed using an interest rate risk management strategy for the provisions for claims and adjustment expenses. This strategy complies with the requirements of Guideline D-10 of the Office of the Superintendent of Financial Institutions Canada (OSFI), "Accounting for Financial Instruments Designated as Fair Value Option". It minimizes the impact of changes in interest rates on surplus earnings and the financial position. Consequently, the property and casualty insurance subsidiaries have designated, as at fair value through profit or loss, a portion of the bonds that back the provisions for claims and adjustment expenses. This designation is intended to reduce volatility resulting from changes in the fair value of the provisions for claims and adjustment expenses attributable to changes in discount rates. To do so, the property and casualty insurance subsidiaries mainly ensure that the weighted average duration of debt securities designated as at fair value through profit or loss approximates the weighted average duration of the provisions for claims and adjustment expenses. The rate used to discount the provisions for claims and adjustment expenses is calculated based on the return of the investments that back them. In addition, this risk is mitigated by rigorously managing cash and diversifying securities maturities.

Liquidity risk

To manage their cash flow requirements, the property and casualty insurance subsidiaries have set up limits and implemented effective monitoring, measurement and control techniques with respect to liquidity risk exposure. A portion of investments is maintained in highly liquid short-term securities, which are used to manage the operational requirements of these subsidiaries. Furthermore, to protect themselves against any significant and unexpected liquidity needs, the property and casualty insurance subsidiaries hold a significant portion of their investments in fixed-income securities issued or guaranteed by governments, investment-grade corporate bonds and common shares traded on Canadian and foreign markets.

The following table presents the contractual maturities for the provisions for claims and adjustment expenses as at December 31.

	2013	2012
Under 1 year	**$ 557**	$ 525
1 to 5 years	**861**	814
Over 5 years	**441**	375
Total	**$ 1,859**	**$ 1,714**

NOTE 18 – OTHER LIABILITIES – OTHER

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

	As at December 31, 2013	As at December 31, 2012
Accounts payable	**$ 1,309**	$ 1,388
Interest payable	**1,094**	1,083
Provisions for risks and expenses	**243**	235
Deferred income related to loyalty programs	**221**	197
Taxes payable	**138**	77
Borrowings from financial institutions	**23**	43
Cooperative shares and preferred shares	**21**	22
Other	**1,668**	1,382
	$ 4,717	**$ 4,427**

NOTE 19 – SUBORDINATED NOTES

The Subordinated notes presented in Desjardins Group's Combined Balance Sheets are senior notes issued by *Capital Desjardins 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 *Capital Desjardins inc.* and are secured by a hypothec on the Subordinated notes issued by the Desjardins caisses in Quebec.

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

	As at December 31, 2013	As at December 31, 2012
Senior Series E notes (par value of $500 million), issued on March 30, 2009, maturing in April 2019, bearing interest at an annual rate of 5.756% for the first 5 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 4.97%, redeemable at the option of the issuer. [(1)]	**$ 479**	$ 494
Senior Series F notes (par value of $500 million), issued on June 1, 2009, maturing in June 2021, bearing interest at an annual rate of 5.541 % for the first 7 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 3.88%, redeemable at the option of the issuer.	**497**	497
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 starting in 2015.	**896**	897
Senior Series H notes (par value of $700 million), issued on November 23, 2010, maturing in November 2020, bearing interest at an annual rate of 3.797% for the first 5 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 1.32%, redeemable at the option of the issuer starting in 2015.	**696**	697
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.	**495**	496
	$ 3,063	**$ 3,081**

(1) The right to call the Senior Series E notes will be exercised on April 1, 2014.

Issuance and redemption

In 2013, no senior notes have been issued or redeemed.

During fiscal 2012, all of the outstanding Senior Series C notes, amounting to $300 million, have been called.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Desjardins Group's derivative financial instruments include the following types of contracts:

Interest rate contracts

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

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

DERIVATIVE FINANCIAL INSTRUMENTS MATURITIES

The following table presents the maturities of the notional amounts of derivative financial instruments.

As at December 31, 2013	Terms to maturity				
	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	$ 21,191	$ 32,249	$ 24,682	$ 4,936	$ 83,058
Forward rate agreements	1,694	4,005	---	---	5,699
Exchange-traded contracts					
Futures	6,365	201	---	1	6,567
Options purchased	32	---	---	---	32
Options written	25	---	---	---	25
	29,307	36,455	24,682	4,937	95,381
Foreign exchange contracts					
Over-the-counter contracts					
Forward contracts	9,713	486	---	---	10,199
Currency swaps	2,349	2,127	1,595	---	6,071
Options purchased	178	14	---	---	192
Options written	192	16	---	---	208
Exchange-traded contracts					
Forward contracts	25	---	---	---	25
	12,457	2,643	1,595	---	16,695
Other contracts[(1)]					
Over-the-counter contracts					
Swaps	147	267	1,126	---	1,540
Options purchased	1,504	4,506	3,458	23	9,491
Options written	1,503	4,458	3,327	---	9,288
Contracts traded through a clearing house					
Swaps	---	---	545	---	545
Exchange-traded contracts					
Futures	597	---	---	---	597
Options purchased	1	---	---	---	1
	3,752	9,231	8,456	23	21,462
Total derivative financial instruments	$ 45,516	$ 48,329	$ 34,733	$ 4,960	$ 133,538

(1) Includes contracts related to indexed term savings products.

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

DERIVATIVE FINANCIAL INSTRUMENT MATURITIES *(continued)*

The following table presents the maturities of the notional amounts of derivative financial instruments.

As at December 31, 2012	Terms to maturity				
	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	$ 23,736	$ 28,080	$ 27,096	$ 5,143	$ 84,055
Forward rate agreements	4,282	2,211	---	---	6,493
Options purchased	150	---	---	---	150
Options written	150	---	---	---	150
Exchange-traded contracts					
Futures	712	31	---	---	743
Options purchased	26	---	---	---	26
Options written	36	---	---	---	36
	29,092	30,322	27,096	5,143	91,653
Foreign exchange contracts					
Over-the-counter contracts					
Forward contracts	7,132	122	11	---	7,265
Currency swaps	1,407	1,169	2,487	---	5,063
Options purchased	171	1	---	---	172
Options written	174	2	---	---	176
	8,884	1,294	2,498	---	12,676
Other contracts[(1)]					
Over-the-counter contracts					
Swaps	231	229	1,928	---	2,388
Options purchased	1,446	3,482	3,200	285	8,413
Options written	1,443	3,477	3,129	275	8,324
Exchange-traded contracts					
Futures	688	---	---	---	688
	3,808	7,188	8,257	560	19,813
Total derivative financial instruments	**$ 41,784**	**$ 38,804**	**$ 37,851**	**$ 5,703**	**$ 124,142**

(1) Includes contracts related to indexed term savings products.

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

The following table presents the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

	As at December 31, 2013			As at December 31, 2012		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges						
Interest rate contracts						
Swaps	$ 25,232	$ 307	$ 140	$ 21,159	$ 461	$ 72
	25,232	307	140	21,159	461	72
Foreign exchange contracts						
Forward contracts	93	---	---	205	---	2
Currency swaps	4,254	280	---	3,482	90	17
	4,347	280	---	3,687	90	19
Total – Fair value hedges	29,579	587	140	24,846	551	91
Cash flow hedges						
Interest rate contracts						
Swaps	21,718	180	78	25,603	409	24
	21,718	180	78	25,603	409	24
Foreign exchange contracts						
Currency swaps	733	---	54	656	---	121
	733	---	54	656	---	121
Total – Cash flow hedges	22,451	180	132	26,259	409	145
Total – Designated as hedging instruments	52,030	767	272	51,105	960	236
Trading purposes						
Interest rate contracts						
Swaps	36,108	286	283	37,293	537	236
Forward rate agreements	5,699	7	8	6,493	1	1
Futures	6,567	---	---	743	---	---
Options purchased	32	5	---	176	2	---
Options written	25	---	2	186	---	1
	48,431	298	293	44,891	540	238
Foreign exchange contracts						
Forward contracts	10,131	106	27	7,060	30	26
Currency swaps	1,084	16	---	925	5	7
Options purchased	192	3	---	172	1	---
Options written	208	---	3	176	---	1
	11,615	125	30	8,333	36	34
Other contracts						
Swaps	2,085	12	11	2,388	34	33
Futures	598	---	---	688	---	---
Options purchased	9,491	1,120	---	8,413	668	---
Options written	9,288	---	1,113	8,324	---	681
	21,462	1,132	1,124	19,813	702	714
Total – Trading purposes	81,508	1,555	1,447	73,037	1,278	986
Total derivative financial instruments before impact of master netting agreements	$ 133,538	$ 2,322	$ 1,719	$ 124,142	$ 2,238	$ 1,222
Less:						
Impact of master netting agreements[1]	$ ---	$ 442	$ 442	$ ---	$ 356	$ 356
Total derivative financial instruments after impact of master netting agreements	**$ 133,538**	**$ 1,880**	**$ 1,277**	**$ 124,142**	**$ 1,882**	**$ 866**

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

HEDGING ACTIVITIES

The following tables present the expected dates of occurrence of hedged cash flows and the expected maturity dates on which these cash flows should be recognized in the Combined Statements of Income.

Cash flows

2013	**Terms to maturity**						
	Under 1 year	**1 to 2 years**	**Over 2 to 3 years**	**Over 3 to 4 years**	**Over 4 to 5 years**	**Over 5 years**	**Total**
Cash inflows (assets)	**$ 445**	**$ 501**	**$ 476**	**$ 375**	**$ 196**	**$ 19**	**$ 2,012**
Cash outflows (liabilities)	**909**	**98**	**31**	**4**	**---**	**---**	**1,042**
Net cash flows	**$ (464)**	**$ 403**	**$ 445**	**$ 371**	**$ 196**	**$ 19**	**$ 970**

2012	Terms to maturity						
	Under 1 year	1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Total
Cash inflows (assets)	$ 560	$ 537	$ 498	$ 346	$ 125	$ 17	$ 2,083
Cash outflows (liabilities)	188	762	41	28	3	---	1,022
Net cash flows	**$ 372**	**$ (225)**	**$ 457**	**$ 318**	**$ 122**	**$ 17**	**$ 1,061**

Combined Statements of Income

2013	**Terms to maturity**						
	Under 1 year	**1 to 2 years**	**Over 2 to 3 years**	**Over 3 to 4 years**	**Over 4 to 5 years**	**Over 5 years**	**Total**
Interest income	**$ 449**	**$ 502**	**$ 470**	**$ 370**	**$ 181**	**$ 16**	**$ 1,988**
Interest expense	**137**	**91**	**29**	**3**	**---**	**---**	**260**
Net impact on surplus earnings	**$ 312**	**$ 411**	**$ 441**	**$ 367**	**$ 181**	**$ 16**	**$ 1,728**

2012	Terms to maturity						
	Under 1 year	1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Total
Interest income	$ 560	$ 537	$ 493	$ 333	$ 115	$ 15	$ 2,053
Interest expense	182	69	39	27	3	---	320
Net impact on surplus earnings	**$ 378**	**$ 468**	**$ 454**	**$ 306**	**$ 112**	**$ 15**	**$ 1,733**

The following table presents the reclassification of net gains related to derivative financial instruments designated as cash flow hedging instruments to the Combined Statements of Income for the years ended December 31.

	2013	2012
Interest income	**$ 109**	$ 158
Interest expense	**2**	1
	107	157
Income taxes on surplus earnings	**38**	32
Net surplus earnings for the year after member dividends	**$ 69**	**$ 125**

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

The following table presents the gross amounts related to the ineffectiveness of fair value hedges and cash flow hedges that are recognized under "Net income (loss) on securities at fair value through profit or loss" in the Combined Statements of Income for the years ended December 31.

	2013	2012
(Losses) gains on hedged items	**$ (95)**	$ 151
Gains (losses) on derivative instruments	**92**	(160)
Fair value hedge ineffectiveness	**(3)**	(9)
Cash flow hedge ineffectiveness	**$ (12)**	$ (2)

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

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, 2013				As at December 31, 2012			
	Notional amount	**Replacement cost**	**Credit risk equivalent**	**Risk-weighted balance**	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Swaps	**$ 83,058**	**$ 773**	**$ 1,133**	**$ 229**	$ 84,055	$ 1,407	$ 1,758	$ 354
Forward rate agreements	**5,699**	**7**	**29**	**11**	6,493	1	12	2
Futures	**6,567**	**---**	**---**	**---**	743	---	---	---
Options purchased	**32**	**5**	**6**	**---**	176	2	2	---
Options written	**25**	**---**	**---**	**---**	186	---	---	---
	95,381	**785**	**1,168**	**240**	91,653	1,410	1,772	356
Foreign exchange contracts								
Forward contracts	**10,224**	**106**	**228**	**57**	7,265	30	108	32
Currency swaps	**6,071**	**296**	**506**	**101**	5,063	95	292	58
Options purchased	**192**	**3**	**5**	**2**	172	1	3	1
Options written	**208**	**---**	**---**	**---**	176	---	---	---
	16,695	**405**	**739**	**160**	12,676	126	403	91
Other contracts								
Swaps	**2,085**	**12**	**171**	**31**	2,388	34	293	49
Futures	**598**	**---**	**---**	**---**	688	---	---	---
Options purchased	**9,491**	**1,120**	**1,866**	**373**	8,413	668	1,337	267
Options written	**9,288**	**---**	**---**	**---**	8,324	---	---	---
	21,462	**1,132**	**2,037**	**404**	19,813	702	1,630	316
Total derivative financial instruments before impact of master netting agreements	**$ 133,538**	**$ 2,322**	**$ 3,944**	**$ 804**	$ 124,142	$ 2,238	$ 3,805	$ 763
Less:								
Impact of master netting agreements(1)	**$ ---**	**$ 442**	**$ ---**	**$ 486**	$ ---	$ 356	$ ---	$ 419
Total derivative financial instruments after impact of master netting agreements	**$ 133,538**	**$ 1,880**	**$ 3,944**	**$ 318**	**$ 124,142**	**$ 1,882**	**$ 3,805**	**$ 344**

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

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

	As at December 31, 2013		As at December 31, 2012	
	Replacement cost	**Risk-weighted balance**	Replacement cost	Risk-weighted balance
Credit risk rating[1]				
AAA, AA+, AA, AA-	**$ 652**	**$ 201**	$ 834	$ 240
A+, A, A-	**1,554**	**542**	1,376	500
BBB, B, BB-, BBB-	**15**	**13**	2	2
Not rated	**101**	**48**	26	21
Total	**2,322**	**804**	2,238	763
Less:				
Impact of master netting agreements[2]	**442**	**486**	356	419
Total after impact of master netting agreements	**$ 1,880**	**$ 318**	**$ 1,882**	**$ 344**
Type of counterparty				
Financial institutions	**$ 2,260**	**$ 765**	$ 2,183	$ 739
Other	**62**	**39**	55	24
Total	**2,322**	**804**	2,238	763
Less:				
Impact of master netting agreements[2]	**442**	**486**	356	419
Total after impact of master netting agreements	**$ 1,880**	**$ 318**	**$ 1,882**	**$ 344**

(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 21 – SIGNIFICANT ACQUISITIONS

ACQUISITIONS

Year ended December 31, 2013

Coast Capital Insurance Services Ltd.

On July 2, 2013, Desjardins Group acquired, through Western Financial Group Inc., a wholly-owned subsidiary of Desjardins Financial Corporation Inc., 100% of the outstanding shares of Coast Capital Insurance Services Ltd. (CCIS) for an aggregate amount of $99 million in addition to the excess working capital of $17 million of this company. CCIS offers property and casualty and commercial insurance products on the Western Canada retail market. This acquisition enables Desjardins Group to pursue its Canada-wide development.

This transaction qualifies as a business combination and has been accounted for using the acquisition method.

As at the acquisition date, the fair value of the identifiable assets acquired and liabilities assumed was as follows:

Net identifiable assets acquired		
Cash and deposits with financial institutions	$	6
Intangible assets		43
Other assets		17
Other liabilities		(17)
	$	**49**
Goodwill resulting from the acquisition		67
Total consideration	**$**	**116**
Less:		
Acquired cash and deposits with financial institutions		6
Net cash used for the acquisition	**$**	**110**

Goodwill is attributable to the business opportunities and synergies expected to result from the acquisition of CCIS by Desjardins Group. No portion of the goodwill recognized is tax-deductible.

Since the acquisition, the contribution of CCIS to Desjardins Group's "Total income" and "Net surplus earnings for the year after member dividends" has amounted to $14 million and $3 million, respectively. If the acquisition had occurred at the beginning of the year, this contribution would have amounted to $28 million and $11 million, respectively.

NOTE 21 – SIGNIFICANT ACQUISITIONS *(continued)*

ACQUISITIONS *(continued)*

Qtrade Canada Inc.

On April 3, 2013, Desjardins Group acquired, through Desjardins Financial Corporation Inc., a wholly-owned subsidiary of the Federation, 40% of the outstanding shares of Qtrade Canada Inc. (Qtrade) on a fully diluted basis for an aggregate amount of $65 million. Qtrade is a company specializing in online brokerage and wealth management services, primarily for credit unions. This acquisition will enable Desjardins Group to accelerate its development across Canada and increase its operations with credit unions.

This transaction qualifies as a business combination since Desjardins Group has acquired 100% of the voting shares and has taken control of Qtrade's operations.

As at the acquisition date, the fair value of the identifiable assets acquired and liabilities assumed was as follows:

Net identifiable assets acquired		
Cash and deposits with financial institutions	$	6
Securities		49
Other assets		437
Other liabilities		(410)
	$	**82**
Goodwill resulting from the acquisition		32
Less:		
Non-controlling interests		49
Total consideration	**$**	**65**
Less:		
Acquired cash and deposits with financial institutions		6
Net cash used for the acquisition	**$**	**59**

Goodwill is attributable to the business opportunities and synergies expected to result from the acquisition of Qtrade by Desjardins Group. No portion of the goodwill recognized is tax-deductible.

Non-controlling interests, which comprise the holders of Qtrade's non-voting Class A and C shares, was measured on the basis of the proportionate share of identifiable net assets.

Since the acquisition, the contribution of Qtrade has increased Desjardins Group's "Total income" by $43 million and has decreased its "Net surplus for the year after member dividends" by $1 million. If this acquisition had occurred at the beginning of the year, the contribution of Qtrade would have increased Desjardins Group's "Total income" by $58 million and would have decreased its "Net surplus for the year after member dividends" by $2 million.

In connection with this transaction, Desjardins Group wrote in favour of the holders of non-controlling interests put options that give them the right to sell their interests at predetermined dates at a price representing fair value as at such dates. As at the acquisition date, Desjardins Group recognized a financial liability related to these put options of $96 million, representing the present value of the redemption amount, under "Other liabilities - Other". A corresponding amount was recorded against "Reserves". Subsequent changes in the fair value of the liability related to put options will be recognized in the Combined Statements of Income.

Year ended December 31, 2012

RPADS

On March 1, 2012, through Desjardins Financial Security Life Assurance Company, Desjardins Group invested $71 million in RPADS Limited Partnership (RPADS), holder of an investment portfolio. As a result of this investment, Desjardins Group acquired an 80% interest in RPADS, which is considered as an interest in a joint venture and presented under "Other assets – Other" in the Combined Balance Sheets.

In addition, in December 2012, Desjardins Group disposed of, in favour of RPADS, investment property having a fair value of $157 million in exchange for an additional interest in this limited partnership. An equivalent contribution by the other joint venturer maintained the percentages of ownership of each of the parties.

NOTE 22 – CAPITAL STOCK

AUTHORIZED

Capital stock comprises qualifying shares, permanent shares, surplus shares and capital shares.

The caisses may issue an unlimited number of qualifying shares with a par value of $5, redeemable in the cases set forth in the Act. Members have only one vote each, no matter how many qualifying shares they own.

The Act authorizes the issuance of an unlimited number of permanent and surplus shares with a par value of $10 and $1, respectively. These shares do not carry any voting rights and cannot be redeemed except under certain conditions stipulated by the Act. The interest is determined annually by the general meeting of each caisse. Under the interest reinvestment program, interest on surplus shares is paid in shares, while interest on permanent shares may be paid in cash or in shares. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after being approved by the general meeting of each caisse, which is held in the four months following year-end.

The Federation may issue an unlimited number of F capital shares with a par value of $10. These shares do not carry any voting rights. F capital shares may be issued only to members of Desjardins caisses in Quebec, including their auxiliary members. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, F capital shares at any time. The Federation may also purchase, in whole or in part, F capital shares by private agreement, at any time, with the authorization of the AMF. The interest rate on F capital shares is determined by the Federation's Board of Directors. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after being approved by the general meeting. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2013	As at December 31, 2012
Qualifying shares	**$ 36**	$ 37
Permanent shares	**2,184**	2,122
Surplus shares	**163**	138
F capital shares	**1,498**	1,025
	$ 3,881	**$ 3,322**

ISSUANCE OF SHARES

During the year ended December 31, 2013, the Federation issued 47,613,073 F capital shares for a cash consideration of $473 million, which represents the gross proceeds of this issuance of $476 million less issue costs and other items totalling $3 million.

In 2012, the Federation issued 102,589,044 F capital shares for a cash consideration of $1,025 million, which represents the gross proceeds of this issuance of $1,026 million less issue costs of $1 million.

NOTE 23 – SHARE CAPITAL

AUTHORIZED

There is an unlimited number of Class A preferred shares, offered only to member caisses of the *Fédération des caisses populaires de l'Ontario Inc.*, non-voting, 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, redeemable at the option of the issuer, i. e. the *Fédération des caisses populaires de l'Ontario Inc.* and 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, 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 AND C PREFERRED SHARES

Class B preferred shares – Series 2000, 2002 and 2003

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% (Series 2000), 1.00% or 5.25% (Series 2002) and 1.00% or 4.00% (Series 2003), i.e., the minimum rate. Should the issuer be unable 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. These shares have been redeemable at the option of the issuer since September 30, 2005, for Series 2000; since July 1, 2007, for Series 2002; and since March 1, 2008, for Series 2003. Shares can be redeemed only if the issuer would not violate section 84 of the Ontario *Credit Unions and Caisses Populaires Act, 1994*, regarding capital adequacy.

Class C preferred shares – Series 2010

The dividend rate will be equal to the highest of the following rates: the average interest rate for the year on non-redeemable term deposits of five years plus 0.50% or 4.25%, i.e. the minimum rate. Should the issuer be unable to pay the dividend in full, a partial dividend may be declared. The 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 are redeemable at the option of the issuer starting on January 1, 2015. 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

	Number of shares	**2013**	Number of shares	2012
Class A preferred shares	**689,400**	**$ 7**	682,000	$ 7
Class B preferred shares – Series 2000	**51,600**	**1**	50,000	1
Class B preferred shares – Series 2002	**1,071,400**	**10**	380,200	4
Class B preferred shares – Series 2003	**---**	**---**	655,200	6
Class C preferred shares – Series 2010	**6,430,000**	**64**	6,205,300	62
		$ 82		**$ 80**

During fiscal 2013, the issuer paid a dividend of $2 million in the form of Class C preferred shares – Series 2010 (224,700 shares). It also issued 7,400 Class A preferred shares, 1,600 Class B preferred shares – Series 2000 and 691,200 Class B preferred shares – Series 2002 for a total amount of $6 million and redeemed 655,200 Class B preferred shares – Series 2003 for an amount of $6 million.

During fiscal 2012, the issuer paid a dividend of $2 million in the form of Class C preferred shares – Series 2010 (205,300 shares).

NOTE 24 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2013		As at December 31, 2012	
	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	$ 291	$ 33	$ 324	$ 28
Net gains on derivative financial instruments designated as cash flow hedges	129	---	372	---
Other	---	---	(2)	---
Accumulated other comprehensive income	$ 420	$ 33	$ 694	$ 28

NOTE 25 – NET INCOME (LOSS) ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL INSTRUMENTS HELD FOR TRADING

The following table presents the impact of income from financial instruments held for trading on the Combined Statements of Income for the years ended December 31.

	2013	2012
Income		
Net interest income	$ 17	$ 29
Net income (loss) on securities at fair value through profit or loss	(385)	(173)
	$ (368)	$ (144)

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table presents the impact of income from financial instruments designated as at fair value through profit or loss on the Combined Statements of Income for the years ended December 31.

	2013	2012
Income		
Net interest income	$ 13	$ 28
Net income (loss) on securities at fair value through profit or loss	(282)	847
	$ (269)	$ 875

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:

	2013	2012
Professional fees	$ 545	$ 529
Commissions	423	387
Other employee expenses	210	211
Business and capital taxes	179	182
Amortization of intangible assets	94	81
Expenses related to deposits, services and other	92	85
Sponsorships and donations	81	85
Other	391	300
	$ 2,015	$ 1,860

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:

	2013	2012 Restated (Note 3)
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 465**	$ 382
Adjustments for current tax of prior years	**5**	(5)
Current tax recovery on remuneration on capital stock	**(30)**	(25)
Tax recovery on provision for member dividends	**(45)**	(73)
	395	279
Deferred income taxes		
Origination and reversal of temporary differences	**3**	66
Changes in tax rates	**(4)**	10
	(1)	76
	394	355
Combined Statements of Comprehensive Income		
Current income taxes	**(112)**	(65)
Deferred income taxes	**108**	(111)
	(4)	(176)
Total income tax expense	**$ 390**	**$ 179**

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

	2013	2012 Restated (Note 3)
Income taxes on surplus earnings	**$ 439**	$ 428
Tax recovery on provision for member dividends	**(45)**	(73)
Income taxes on surplus earnings	**$ 394**	**$ 355**

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:

	2013	2012 Restated (Note 3)
Income taxes at the combined statutory rate of 26.97% (27.57% in 2012)	**$ 485**	$ 455
Eligible small business deduction and additional credit for credit unions	**(18)**	(20)
Non-taxable investment income and other items	**(50)**	(55)
Changes in tax rates	**(4)**	10
Non-deductible expenses	**8**	12
Adjustment for current tax of prior years	**5**	(5)
Current tax recovery on remuneration on capital stock	**(30)**	(25)
Other	**(2)**	(17)
	$ 394	**$ 355**

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

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		Combined Statements of Income	
	As at December 31, 2013	As at December 31, 2012 Restated (Note 3)	**2013**	2012 Restated (Note 3)
Deferred tax assets				
Insurance and investment contract liabilities	**$ 30**	$ 61	**$ 31**	$ 37
Allowance for credit losses	**73**	71	**(4)**	4
Net defined benefit plan liabilities	**479**	621	**(39)**	16
Tax losses	**112**	62	**(39)**	61
Other	**8**	5	**(24)**	---
	702	**820**	**(75)**	**118**
Deferred tax liabilities				
Property, plant and equipment and investment property	**108**	105	**3**	5
Securities and other financial instruments	**87**	103	**71**	(59)
Other	**---**	---	**---**	12
	195	**208**	**74**	**(42)**
Net deferred income tax assets	**$ 507**	**$ 612**	**$ (1)**	**$ 76**

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, 2013	As at December 31, 2012 Restated (Note 3)
Deferred tax assets(1)	**$ 810**	$ 936
Deferred tax liabilities(1)	**303**	324
	$ 507	**$ 612**

(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 $23 million ($33 million as at December 31, 2012). These amounts do not expire.

NOTE 28 – 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 whose risks are shared by the participating employers of Desjardins Group. 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 after 2013.

The DGPP is governed by the *Supplemental Pension Plans Act* (SPPA). The SPPA requires that a retirement committee that assumes the role of administrator and trustee for the plan be formed. The Federation, through its Board of Directors, assumes the responsibilities of the DGPP's sponsor and ensures that the plan is well administered in accordance with the laws and regulations in effect. In addition, the Federation guarantees the obligations resulting from the participation in the plan of all the Desjardins Group employers. The Federation's Board of Directors, acting as the representative for all Desjardins Group employers, is the only governing body with the authority to amend or terminate the plan.

NOTE 28 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS *(continued)*

Other group plans

Desjardins Group also offers medical, dental and life insurance plans to retiring employees and their dependents through unfunded defined benefit group plans.

Other plans

The other defined benefit plans offered are pension plans as well as medical, dental and life insurance plans whose risks are not shared by entities under common control.

Pension and other 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 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 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 participants' 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 other group plans and other 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 the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

Asset-liability matching strategy

Several years ago, the Retirement Committee adopted a liability-driven investment policy to suitably manage risk. This approach provides more control over 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 policy takes into account increasing the coverage over the term of the solvency liability and generating sufficient returns to ensure the plan's long-term funding.

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. 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 required special contributions, if any.

Pursuant to the SPPA, deficits must be funded over a maximum period of 15 years for a funding deficit and 10 years for a solvency deficit.

NOTE 28 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

RECOGNIZED AMOUNTS

Change in defined benefit plan liabilities

Defined benefit plan liabilities are as follows:

	Group pension plans			Other group plan	Other plans			
	Defined benefit plan obligation	Fair value of assets	Total	Defined benefit plan obligation	Defined benefit plan obligation	Fair value of assets	Total	Defined benefit plan liabilities
As at January 1, 2012 – Restated (Note 3)	$ 7,725	$ 5,879	$ 1,846	$ 604	$ 161	$ 33	$ 128	$ 2,578
Amounts recognized in the Combined Statements of Income								
Current service cost	258	---	258	13	7	---	7	278
Net interest expense/income	400	306	94	31	8	2	6	131
Past service cost	24	---	24	---	1	---	1	25
	682	306	376	44	16	2	14	434
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	---	294	(294)	---	---	1	(1)	(295)
Actuarial losses arising from changes in demographic assumptions	---	---	---	1	---	---	---	1
Actuarial losses arising from changes in financial assumptions	573	---	573	24	14	---	14	611
Experience losses (gains)	(160)	---	(160)	3	3	---	3	(154)
	413	294	119	28	17	1	16	163
Other changes								
Participants' contributions	181	181	---	---	---	---	---	---
Employers' contributions(1)	---	604	(604)	---	---	6	(6)	(610)
Benefits paid	(300)	(299)	(1)	(22)	(7)	(1)	(6)	(29)
Other changes	(6)	5	(11)	1	(2)	---	(2)	(12)
	(125)	491	(616)	(21)	(9)	5	(14)	(651)
As at December 31, 2012 – Restated (Note 3)	$ 8,695	$ 6,970	$ 1,725	$ 655	$ 185	$ 41	$ 144	$ 2,524
Amounts recognized in the Combined Statements of Income								
Current service cost	**214**	**---**	**214**	**15**	**8**	**---**	**8**	**237**
Net interest expense/income	**396**	**315**	**81**	**30**	**9**	**2**	**7**	**118**
	610	**315**	**295**	**45**	**17**	**2**	**15**	**355**
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	**---**	**472**	**(472)**	**---**	**---**	**5**	**(5)**	**(477)**
Actuarial losses (gains) arising from changes in demographic assumptions	**688**	**---**	**688**	**(8)**	**13**	**---**	**13**	**693**
Actuarial gains arising from changes in financial assumptions	**(683)**	**---**	**(683)**	**(98)**	**(17)**	**---**	**(17)**	**(798)**
Experience losses	**187**	**---**	**187**	**6**	**5**	**---**	**5**	**198**
	192	**472**	**(280)**	**(100)**	**1**	**5**	**(4)**	**(384)**
Other changes								
Participants' contributions	**190**	**190**	**---**	**---**	**---**	**---**	**---**	**---**
Employers' contributions(1)	**---**	**641**	**(641)**	**---**	**---**	**8**	**(8)**	**(649)**
Benefits paid	**(335)**	**(333)**	**(2)**	**(14)**	**(7)**	**(1)**	**(6)**	**(22)**
Other changes	**1**	**3**	**(2)**	**2**	**1**	**---**	**1**	**1**
	(144)	**501**	**(645)**	**(12)**	**(6)**	**7**	**(13)**	**(670)**
As at December 31, 2013	**$ 9,353**	**$ 8,258**	**$ 1,095**	**$ 588**	**$ 197**	**$ 55**	**$ 142**	**$ 1,825**

(1) In 2013, the employer paid supplemental contributions of $318 million to the main group pension plan ($288 million in 2012).

NOTE 28 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Funding status

	As at December 31, 2013				As at December 31, 2012 Restated (Note 3)			
	Group pension plans	Other group plan	Other plans	Total	Group pension plans	Other group plan	Other plans	Total
Funded plans								
Defined benefit plan obligation	$ 9,276	$ ---	$ 71	$ 9,347	$ 8,623	$ ---	$ 64	$ 8,687
Fair value of plan assets	8,258	---	55	8,313	6,970	---	41	7,011
	$ (1 018)	$ ---	$ (16)	$ (1,034)	$ (1,653)	$ ---	$ (23)	$ (1,676)
Unfunded plans								
Defined benefit plan obligation	$ 77	$ 588	$ 126	$ 791	$ 72	$ 655	$ 121	$ 848
	$ (77)	$ (588)	$ (126)	$ (791)	$ (72)	$ (655)	$ (121)	$ (848)

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, 2013		As at December 31, 2012	
	Non-quoted on an active market	Quoted on an active market	Non-quoted on an active market	Quoted on an active market
Bonds				
Government of Canada	$ ---	$ 125	$ ---	$ 474
Provinces, municipal corporations and other public administrations	80	1,885	860	---
Other issuers	1,042	37	1,133	---
Shares	223	2,454	160	2,210
Real estate investments	925	101	773	98
Infrastructure investments	772	34	692	31
Cash and money market securities	272	178	165	136
Other	341	440	469	288
Total	**$ 3,655**	**$ 5,254**	**$ 4,252**	**$ 3,237**

As at December 31, 2013, the DGPP held eligible investments in money market securities and segregated funds issued by Desjardins Group entities having a total fair value of $122 million ($105 million as at December 31, 2012).

NOTE 28 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

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, 2013		As at December 31, 2012	
	Group pension plans	Other group plan	Group pension plans	Other group plan
Discount rate for the obligation	**5.00%**	**5.00%**	4.45%	4.45%
Expected rate of salary increases	**3.00**	**3.00**	3.00	3.00
Rate used in interest expense calculation	**4.45**	**4.45**	5.00	5.00
Estimated annual growth rate for covered healthcare cost	**---**	**4.28**	---	4.99

Sensitivity of key assumptions in 2013

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, 2013	Change in defined benefit plan obligation	Change in defined benefit plan cost recognized
Group pension plans		
Discount rate		
1% increase	**$ (1,454)**	**$ (76)**
1% decrease	**1,890**	**102**
Expected rate of salary increases		
1% increase	**403**	**36**
1% decrease	**(351)**	**(27)**
Other group plan		
Discount rate		
1% increase	**(88)**	**(3)**
1% decrease	**114**	**4**
Expected rate of salary increases		
1% increase	**6**	**1**
1% decrease	**(6)**	**(1)**
Healthcare costs		
1% increase	**67**	**7**
1% decrease	**(53)**	**(5)**

Expected contributions for 2014

Desjardins Group expects to contribute $439 million to its defined benefit pension plans in the next year. If needed, the employers will make supplemental contributions to the main group pension plan.

Pension plan obligation maturity profile

For 2013, the weighted average financial duration of the main group plans was approximately 17 years (17 years in 2012).

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, Desjardins Group uses credit instruments and off-balance sheet guarantees to meet the financing needs of 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 are 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 that 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, 2013	As at December 31, 2012
Commitments		
Credit commitments[1]	**$ 65,584**	$ 61,360
Indemnification commitments related to securities lending	**2,144**	2,377
Documentary letters of credit	**78**	57
Financial guarantees		
Guarantees and standby letters of credit	**869**	849
Credit default swaps	**545**	559

(1) Includes the funding facility related to the Restructuring Plan of the Montréal Accord. Additional information is provided in the “Asset-backed term notes” section of Note 8, “Securities”.

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 entered into securities lending agreements with members and clients. Under such agreements, Desjardins Group acts as an agent when the holder of securities agrees to lend them for a commission, the form and terms of which are determined under a pre-arranged contract. When it does not act as an agent, Desjardins Group makes indemnification commitments to members and 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. The term of these products does not exceed eight years.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

Credit default swaps

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

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection. These swaps mature on various dates through 2018.

Other indemnification agreements

In the normal course of its operations, Desjardins Group enters into agreements containing indemnification provisions. The indemnifications are normally related to the sale of assets, purchase agreements, service agreements, lease agreements, clearing agreements, and transfers of assets. 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 are 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, 2013	As at December 31, 2012
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	**$ 5**	$ 3
Securities	**9,844**	7,377
Loans	**17,441**	16,587
	27,290	23,967
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**8,903**	5,324
Less: Assets not sold or not repledged	**7,645**	4,500
	1,258	824
Total assets pledged as collateral	**$ 28,548**	$ 24,791
Uses of assets pledged as collateral		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 9,934**	$ 7,439
Transactions involving commitments related to securities sold short	**402**	113
Securitization transactions	**6,444**	6,280
Covered bonds	**2,826**	2,671
Transactions on derivative financial instruments	**141**	42
Clearing systems, payment systems and depositories[1]	**8,680**	8,123
Caisse network money supply from the Bank of Canada	**121**	121
Other	**---**	2
Total assets pledged as collateral by types of uses	**$ 28,548**	**$ 24,791**

(1) In the normal course of its operations, Desjardins Group must pledge collateral to the Bank of Canada for the use of the Large Value Transfer System.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

LITIGATION

In the normal course of its operations, Desjardins Group is involved in various litigation matters and lawsuits relating to its various products, services, investments and other activities. Motions for leave to commence class actions have been filed against certain Desjardins Group entities, including with respect to the management and distribution of guaranteed-capital products.

More specifically, a class action has been filed against Desjardins Group for the reimbursement of foreign currency exchange fees charged to Visa Desjardins cardholders. On June 11, 2009, the Superior Court of Quebec had required the reimbursement of such fees under terms that were to be set subsequently by the Court. On August 2, 2012, the Court of Appeal of Quebec reversed this decision and rejected the class action by ruling in favour of Desjardins Group's arguments. In October 2012, the plaintiff sought leave to appeal this decision with the Supreme Court of Canada. The Supreme Court of Canada heard this appeal on February 13, 2014, and Desjardins Group is waiting for the final judgment.

It is not currently possible to predict the outcome of these litigation matters and lawsuits, including the above-mentioned class action, 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 lawsuits, to the extent that it can be measured, could have an impact on Desjardins Group's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 30 – LEASES

LEASES – AS LESSEE

Operating leases

The minimum future commitments under leases for premises and equipment for the years ended December 31 are presented in the following table.

	2013	2012
Under 1 year	**$ 85**	$ 67
1 to 5 years	**242**	220
Over 5 years	**142**	151
Total minimum future commitments	**$ 469**	**$ 438**

Lease payments recognized as expenses for the year ended December 31, 2013 totalled $64 million ($60 million in 2012).

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:

	2013	2012
Under 1 year	**$ 54**	$ 65
1 to 5 years	**137**	163
Over 5 years	**80**	69
Total future minimum payments	**$ 271**	**$ 297**

No contingent rents were recognized as income for the year ended December 31, 2013 ($2 million in 2012).

NOTE 31 – FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which Desjardins Group assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.1, "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.

NOTE 32 – INTEREST RATE SENSITIVITY AND MATURITY MATCHING

The following tables present the exposure to interest rate risks. Financial instruments are presented based on their maturity date or repricing date, whichever is earlier.

As at December 31, 2013	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	Total
Assets								
Cash and deposits with financial institutions	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	$ 1,320	$ 1,320
Securities	1,291	4,556	1,517	1,486	15,689	13,526	4,512	42,577
Effective interest rate		*1.57 %*	*1.33 %*	*2.32 %*	*2.12 %*	*4.24 %*		
Securities borrowed or purchased under reverse repurchase agreements	---	7,710	---	---	---	---	---	7,710
Effective interest rate		*0.87 %*						
Loans	33,728	22,706	16,054	22,782	42,166	2,995	102	140,533
Effective interest rate		*4.45 %*	*3.40 %*	*3.40 %*	*4.10 %*	*5.71 %*		
Segregated fund assets and other assets[1]	---	(3,014)	---	---	3,273	---	19,606	19,865
	$ 35,019	$ 31,958	$ 17,571	$ 24,268	$ 61,128	$ 16,521	$ 25,540	$ 212,005
Liabilities and equity								
Deposits	$ 18,320	$ 18,403	$ 6,438	$ 13,141	$ 47,194	$ 978	$ 32,272	$ 136,746
Effective interest rate		*1.16 %*	*1.70 %*	*1.67 %*	*2.22 %*	*2.86 %*		
Commitments related to securities sold short	50	254	---	21	3,912	3,509	8	7,754
Effective interest rate		*1.97 %*		*1.02 %*	*1.66 %*	*3.14 %*		
Commitments related to securities lent or sold under repurchase agreements	---	9,326	---	---	---	---	253	9,579
Effective interest rate		*0.91 %*						
Insurance and investment contract liabilities	---	---	---	---	---	---	17,070	17,070
Other liabilities[1]	---	53	1	---	(14)	---	20,965	21,005
Subordinated notes	---	---	479	---	1,193	1,391	---	3,063
Effective interest rate			*5.76 %*		*4.52 %*	*5.10 %*		
Equity	---	---	---	---	---	---	16,788	16,788
	$ 18,370	$ 28,036	$ 6,918	$ 13,162	$ 52,285	$ 5,878	$ 87,356	$ 212,005
Sensitivity gap – Combined Balance Sheet items	$ 16,649	$ 3,922	$ 10,653	$ 11,106	$ 8,843	$ 10,643	$ (61,816)	$ ---
Sensitivity gap – Derivative financial instruments, based on notional amounts	---	(32,038)	381	(2,577)	30,615	3,619	---	---
Total interest rate sensitivity gap	$ 16,649	$ (28,116)	$ 11,034	$ 8,529	$ 39,458	$ 14,262	$ (61,816)	$ ---

(1) Segregated fund assets and liabilities are not exposed to interest rate risk. For more information, see Note 11, “Segregated funds”.

NOTE 32 – INTEREST RATE SENSITIVITY AND MATURITY MATCHING (*continued*)

As at December 31, 2012	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	Total
Assets								
Cash and deposits with financial institutions	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	$ 1,669	$ 1,669
Securities	646	4,466	1,289	1,377	15,571	14,018	2,945	40,312
Effective interest rate		*1.70 %*	*1.95 %*	*2.41 %*	*2.22 %*	*4.32 %*		
Securities borrowed or purchased under reverse repurchase agreements	---	4,078	299	---	---	---	---	4,377
Effective interest rate		*1.76 %*	*2.95 %*					
Loans	43,326	15,200	13,741	18,394	39,319	2,475	121	132,576
Effective interest rate		*3.63 %*	*3.88 %*	*3.79 %*	*4.36 %*	*5.23 %*		
Segregated fund assets and other assets[(1)] – Restated (Note 3)	---	(2,529)	---	---	2,624	---	17,789	17,884
	$ 43,972	**$ 21,215**	**$ 15,329**	**$ 19,771**	**$ 57,514**	**$ 16,493**	**$ 22,524**	**$ 196,818**
Liabilities and equity								
Deposits	$ 13,742	$ 15,905	$ 8,530	$ 15,575	$ 42,952	$ 1,301	$ 31,619	$ 129,624
Effective interest rate		*1.30 %*	*2.20 %*	*1.83 %*	*2.69 %*	*3.38 %*		
Commitments related to securities sold short	129	131	6	---	2,222	2,477	12	4,977
Effective interest rate		*2.71 %*	*5.25 %*		*2.11 %*	*3.89 %*		
Commitments related to securities lent or sold under repurchase agreements	---	7,472	---	---	---	---	511	7,983
Effective interest rate		*2.21 %*						
Insurance and investment contract liabilities	---	---	---	---	---	---	17,777	17,777
Other liabilities[(1)] – Restated (Note 3)	(139)	1,059	---	(505)	(386)	---	18,290	18,319
Subordinated notes	---	---	---	---	1,688	1,393	---	3,081
Effective interest rate					*4.88 %*	*5.10 %*		
Equity – Restated (Note 3)	---	---	---	---	---	---	15,057	15,057
	$ 13,732	**$ 24,567**	**$ 8,536**	**$ 15,070**	**$ 46,476**	**$ 5,171**	**$ 83,266**	**$ 196,818**
Sensitivity gap – Combined Balance Sheet items	$ 30,240	$ (3,352)	$ 6,793	$ 4,701	$ 11,038	$ 11,322	$ (60,742)	$ ---
Sensitivity gap – Derivative financial instruments, based on notional amounts	---	(34,354)	960	781	28,996	3,617	---	---
Total interest rate sensitivity gap	**$ 30,240**	**$ (37,706)**	**$ 7,753**	**$ 5,482**	**$ 40,034**	**$ 14,939**	**$ (60,742)**	**$ ---**

(1) Segregated fund assets and liabilities are not exposed to interest rate risk. For more information, see Note 11, “Segregated funds”.

NOTE 33 – 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.

The regulatory capital adequacy and composition of Desjardins Group as a whole are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF. The AMF requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components, mainly the caisses, the Federation (non-consolidated), *Caisse centrale Desjardins*, *Fonds de sécurité Desjardins*, *Capital Desjardins inc.*, Western Financial Group Inc., Desjardins Securities Inc. and Desjardins Trust Inc. This capital takes into consideration investments made in other Desjardins Group components.

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 Finance and Risk Management Committee to ensure that Desjardins Group has a sufficient and reliable capital base. Every year, the Finance Executive Division and Office of the CFO of Desjardins Group prepares, with the help of its components, a capitalization plan that is combined with the Integrated Capital Management Framework and allows the setting and updating of capital objectives and targets.

Desjardins Group's capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets. This guideline was amended as at January 1, 2013 to take into account the revised framework for international convergence of capital measurement and capital standards (Basel III) issued by the BIS. The minimum Tier 1 capital ratio that Desjardins Group must maintain is now 8.5%. In addition, its Tier 1a capital ratio must be above 7%, including a 2.5% capital conservation buffer. Lastly, its total capital ratio must be above 10.5%, including this buffer.

In June 2013, the AMF ruled that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI). As a D-SIFI, it will, effective January 1, 2016, be imposed an additional Tier 1a capital requirement corresponding to 1% of its risk-weighted assets. Consequently, its Tier 1a capital target will be 8% effective January 1, 2016.

It should be remembered that under the Basel II regulatory framework, the AMF approved Desjardins Group's use of the Internal Ratings-Based Approach, subject to certain conditions, for credit risk related to retail loan portfolios (individuals). Under one of the conditions set out by the AMF, the total capital ratio must be above 11.5% instead of 10.5% as stated in the guideline. Other credit exposures and market risk are measured according to the Standardized Approach, while operational risk is calculated based on the Basic Indicator Approach. The AMF's approval is still valid under the Basel III regulatory framework.

In addition to minimum Tier 1a, Tier 1 and total capital ratios, the AMF requires that Desjardins Group maintain an assets-to-regulatory capital ratio of under 20 to 1. This ratio determines the overall capital adequacy of Desjardins Group with respect to its total assets, including certain off-balance sheet items.

The regulatory capital of Desjardins Group differs from the equity disclosed in the Combined Balance Sheets. It comprises three classes: Tier 1a capital, Tier 1b capital and Tier 2 capital.

Tier 1a capital includes more permanent items than Tier 1b and Tier 2 capital. It consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings, accumulated other comprehensive income and non-controlling interests.

Tier 1b capital includes non-controlling interests, while Tier 2 comprises Subordinated notes, eligible qualifying shares, non-controlling interests and the eligible portion of the collective allowance.

The amount of non-controlling interests allocated to the various capital tiers is determined, in particular, based on the nature of the operations and the capitalization level of the investee.

NOTE 33 – CAPITAL MANAGEMENT *(continued)*

The following table presents the composition of Desjardins Group's regulatory capital.

	December 31, 2013(1)	December 31, 2012(2)
Tier 1a capital		
F capital shares	**$ 1,500**	$ 1,025
Permanent shares and surplus shares subject to phase-out	**1,889**	2,269
Reserves	**11,056**	10,216
Undistributed surplus earnings	**1,311**	1,282
Accumulated other comprehensive income(3)	**326**	---
Deferral attributable to the amendment of IAS 19	**286**	---
Non-controlling interests	**14**	60
Deductions(4)	**(2,360)**	(1,927)
Total net Tier 1a capital	**14,022**	**12,925**
Non-controlling interests	**21**	**---**
Total Tier 1b capital	**21**	**---**
Total Tier 1 capital	**14,043**	**12,925**
Tier 2 capital		
Subordinated notes subject to phase-out	**2,783**	3,092
Eligible collective allowance	**275**	261
Other eligible instruments	**25**	112
Non-controlling interests	**6**	15
Deductions(5)	**(700)**	(1,578)
Total net Tier 2 capital	**2,389**	**1,902**
Total regulatory capital (Tier 1 and 2)	**$ 16,432**	**$ 14,827**

(1) According to the AMF guideline under Basel III.
(2) According to the AMF guideline under Basel II.
(3) Excluding the portion related to the cash flow hedging reserve.
(4) Represents the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc.) that exceeds 10% of capital net of regulatory adjustments. The non-deducted balance will be subject to risk-weighting at a rate of 250%.
(5) Represents an investment in preferred shares of a component deconsolidated for regulatory capital purposes (Desjardins Financial Security Life Assurance Company).

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013. However, in accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began January 1, 2013. These instruments include permanent shares and surplus shares issued before September 12, 2010, which total $2.1 billion. These shares were eligible for inclusion in Tier 1 capital under Basel II as at December 31, 2012.

In addition, the Subordinated notes described in Note 19, "Subordinated notes", are also subject to the 10% amortization. In order to be fully eligible as Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group does not plan to issue any financial instruments of this type until these requirements are further clarified.

In terms of developing the Integrated Capital Management Framework, the financial goal for Desjardins Group's Tier 1 capital ratio was maintained at a minimum of 15% under Basel III, given the global economic context, the new AMF regulatory requirements with respect to Basel III and the application of the amendments to IAS 19. In that respect, as at the date of conversion to Basel III, Desjardins Group elected to use the transitional provisions set out in the guideline and described in the previous paragraphs.

In addition, since January 1, 2013, Desjardins Group has amortized on a straight-line basis the eligible portion of the $572 million impact of the amendments to IAS 19, for a quarterly amortization of $72 million, and will do so until December 31, 2014. This election is irrevocable and mitigates the impact of the amendments to this accounting standard on Desjardins Group's capital ratios.

On May 1, 2012, the Federation obtained the venture reporting issuer status from the AMF. As mentioned in Note 22, "Capital stock", in 2013, the Federation issued shares for net proceeds of $473 million ($1,025 million in 2012). The maximum amount provided for in the prospectus for this issuance was reached in June 2013. Furthermore, on December 20, 2013, the AMF authorized the Federation to continue its initial program and to file a new prospectus for the issuance of additional capital shares totalling $500 million. This new issuance has started on January 20, 2014. These shares meet the regulatory requirements for Tier 1a capital.

The capital adequacy of Quebec caisses and *Caisse centrale Desjardins* is governed by the Federation's standards, which draw on those of the AMF and address capital base adequacy, items comprising capital base and proportions between those items.

NOTE 33 – CAPITAL MANAGEMENT *(continued)*

Desjardins Financial Security Life Assurance Company is also governed by the AMF under its provincial charter. In addition, it must comply with the standards set by the regulatory authorities of the other provinces and territories in which it operates. In Quebec, insurance companies must comply with the capital adequacy requirements of the AMF in order to support their solvency.

Desjardins General Insurance Group Inc. is subject to various regulatory requirements. To support their solvency, property and casualty insurance subsidiaries in Quebec must comply with the AMF's capital adequacy requirements through the Minimum Capital Test (MCT), while subsidiaries in other Canadian provinces must comply with the MCT requirements issued by OSFI.

Desjardins Investments Inc. and Desjardins Investment Management Inc. are subject to the regulatory requirements set out in the AMF's Regulation 31-103.

The life and health insurance subsidiary of Western Financial Group Inc. is governed by OSFI under its federal charter and must comply with the Minimum Continuing Capital and Surplus Requirements, and the property and casualty subsidiary of this component is also governed by OSFI and must comply with MCT requirements.

Desjardins Securities Inc. is regulated by the Investment Industry Regulatory Organization of Canada and must have a risk-adjusted capital of more than 0 at all times, as calculated in accordance with the by-laws of this organization.

The capital adequacy of the *Fédération des caisses populaires de l'Ontario* and associated caisses is governed by a regulation and guidelines issued by the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario. Desjardins Trust Inc., which is under federal jurisdiction, is governed by OSFI under a regulatory system which is, for all practical purposes, identical to the guidelines issued by the AMF.

Lastly, Bank West is subject to OSFI's Guideline A-1 on capital adequacy 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, 2013, as they were in the previous year.

NOTE 34 – SEGMENTED INFORMATION

Desjardins Group is made up of the three following segments: Personal Services and Business and Institutional Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. These segments have been structured according to the needs of members and clients and the markets in which Desjardins Group operates, and they reflect Desjardins Group's internal management method. Financial information related to activities that are not specific to a business segment is presented under the Other category.

The Personal Services and Business and Institutional Services segment offers Desjardins Group's members and clients a comprehensive, integrated line of products and services designed to meet the needs of individuals businesses, institutions and cooperatives, through the Desjardins caisse network, their business centres as well as the major accounts and capital market teams. 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 offers Desjardins Group's members and clients a range of products and services tailored to the changing wealth management and financial security needs of individuals, groups, businesses and cooperatives. These products and services are distributed through the Desjardins caisse network and complementary distribution networks, online, via applications for mobile devices and through client care centres.

The Property and Casualty Insurance segment offers insurance products allowing Desjardins Group's members and clients to protect themselves against disasters. It includes the operations of Desjardins General Insurance Group Inc. and Western Financial Group Inc. It also includes the life insurance and animal insurance products offered by Western Financial Group Inc. In addition to being offered through the Desjardins caisse network, the products of this segment are distributed by many client care centres and business centres, through a network of brokers and a network of exclusive agents in the field, online and via applications for mobile devices.

The Other category includes financial information that is not specific to a business segment. It primarily includes treasury activities related to *Caisse centrale Desjardins*' operations and 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, the operations of *Capital Desjardins inc.* and *Fonds de sécurité Desjardins* and those related to ABTN securities held by Desjardins Group. 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.

RESULTS BY BUSINESS SEGMENT

The following tables provide a summary of Desjardins Group's financial results by business segment for the years ended December 31.

2013	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
Net interest income	$ 3,678	$ 3	$ 7	$ 130	$ 3,818
Net premiums	---	3,655	2,134	(231)	5,558
Other income	1,815	562	253	(272)	2,358
Total income	5,493	4,220	2,394	(373)	11,734
Provision for credit losses	277	---	---	---	277
Claims, benefits, annuities and changes in insurance and investment contract liabilities	---	1,921	1,350	(12)	3,259
Non-interest expense	4,189	1,777	766	(503)	6,229
Operating surplus earnings	1,027	522	278	142	1,969
Income taxes on surplus earnings	220	133	66	20	439
Surplus earnings before member dividends(1)	807	389	212	122	1,530
Provision for member dividends, net of income tax recovery	126	---	---	---	126
Net surplus earnings for the year after member dividends	$ 681	$ 389	$ 212	$ 122	$ 1,404
of which:					
Group's share	$ 679	$ 392	$ 193	$ 120	$ 1,384
Non-controlling interests' share	2	(3)	19	2	20

(1) For the year ended December 31, 2013, the Group's share of "Surplus earnings before member dividends" was $805 million for the Personal Services and Business and Institutional Services segment, $392 million for the Wealth Management and Life and Health Insurance segment, $193 million for the Property and Casualty Insurance segment and $120 million for the Other category.

NOTE 34 – SEGMENTED INFORMATION *(continued)*

2012 *Restated (Note 3)*	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
Net interest income	$ 3,690	$ 3	$ 11	$ 144	$ 3,848
Net premiums	---	3,366	1,982	(222)	5,126
Other income	1,724	1,614	275	(109)	3,504
Total income	**5,414**	**4,983**	**2,268**	**(187)**	**12,478**
Provision for credit losses	241	---	---	---	241
Claims, benefits, annuities and changes in insurance and investment contract liabilities	---	3,065	1,343	(11)	4,397
Non-interest expense	4,112	1,628	668	(500)	5,908
Operating surplus earnings	**1,061**	**290**	**257**	**324**	**1,932**
Income taxes on surplus earnings	250	59	57	62	428
Surplus earnings before member dividends(1)	**811**	**231**	**200**	**262**	**1,504**
Provision for member dividends, net of income tax recovery	206	---	---	---	206
Net surplus earnings for the year after member dividends	**$ 605**	**$ 231**	**$ 200**	**$ 262**	**$ 1,298**
of which:					
Group's share	$ 604	$ 183	$ 179	$ 258	$ 1,224
Non-controlling interests' share	1	48	21	4	74

(1) For the year ended December 31, 2012, the Group's share of "Surplus earnings before member dividends" was $810 million for the Personal Services and Business and Institutional Services segment, $183 million for the Wealth Management and Life and Health Insurance segment, $179 million for the Property and Casualty Insurance segment and $258 million for the Other category.

SEGMENT ASSETS

	Personal Services and Business and Institutional Services	**Wealth Management and Life and Health Insurance**	**Property and Casualty Insurance**	**Other**	**Combined**
As at December 31, 2013	**$ 171,129**	**$ 29,095**	**$ 5,703**	**$ 6,078**	**$ 212,005**
As at December 31, 2012 – Restated (Note 3)	$ 158,116	$ 27,371	$ 5,475	$ 5,856	$ 196,818

NOTE 35 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and benefit plans for the benefit of employees, as well as certain entities for which the substance of the relationship indicates that they are related to Desjardins Group. 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

The Combined Financial Statements reflect certain transactions carried out with Desjardins Group's related parties. All these transactions were entered into under normal market terms and conditions and were initially recognized at fair value. Since the transactions carried out and balances outstanding at the reporting date between the various companies included in the Group scope of Desjardins Group are entirely eliminated in the Combined Financial Statements, only the portion that is not eliminated in consolidation is presented in the following table.

The main related party transactions are associated with fund management and custody fees and rents paid with respect to real estate. They are also associated with management income from pension plans and interest expense paid on bonds to the DGPP.

These transactions and balances as at the reporting dates are as follows:

	2013			2012		
	Associates	**Other related parties**	**Total**	Associates	Other related parties	Total
Combined Statements of Income						
Brokerage and investment fund services	**$ ---**	**$ 270**	**$ 270**	$ ---	$ 236	$ 236
Foreign exchange income (loss)	**---**	**40**	**40**	---	(9)	(9)
Other	**12**	**23**	**35**	12	37	49
Combined Balance Sheets						
Securities	**$ 3**	**$ 180**	**$ 183**	$ 3	$ 103	$ 106
Securities borrowed or purchased under reverse repurchase agreements	**---**	**555**	**555**	---	378	378
Segregated fund net assets	**---**	**275**	**275**	---	129	129
Loans	**30**	**108**	**138**	30	45	75
Other assets	**2**	**14**	**16**	4	27	31
Deposits	**66**	**385**	**451**	---	441	441
Commitments related to securities lent or sold under repurchase agreements	**---**	**327**	**327**	---	289	289
Derivative financial instruments	**---**	**27**	**27**	---	31	31
Other liabilities	**4**	**19**	**23**	---	26	26
Other						
Credit commitments given	**$ ---**	**$ 138**	**$ 138**	$ 10	$ 68	$ 78
Guarantees given	**---**	**327**	**327**	---	289	289
Guarantees received	**---**	**555**	**555**	---	378	378

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:

	2013	2012 Restated (Note 3)
Short-term benefits	**$ 16**	$ 16
Post-employment benefits	**---**	3
Other long-term benefits	**6**	6
	$ 22	**$ 25**

NOTE 36 – SUBSEQUENT EVENT

On January 15, 2014, Desjardins Group entered into a final agreement to acquire all the Canadian property and casualty and life and health insurance businesses of State Farm®, as well as the shares of its Canadian mutual fund, loan and living benefits companies.

As part of the agreement, State Farm will invest $450 million in non-voting preferred shares of Desjardins Group's main property and casualty insurance subsidiary, while *Groupe des Assurances du Crédit Mutuel S.A.*, currently a minority partner in the property and casualty insurance subsidiary, will invest $200 million in common shares, non-voting preferred shares and Subordinated notes. Desjardins Group will also allocate approximately $700 million in additional capital to this property and casualty insurance subsidiary to promote post-acquisition growth. In addition, the property and casualty insurance subsidiary and other Desjardins Group entities will allocate approximately $250 million in capital for the life and health insurance, mutual fund, loan and living benefits components acquired from State Farm.

This acquisition will allow Desjardins Group to increase the annual gross premiums written of its main property and casualty insurance subsidiary to approximately $3.9 billion and to increase the annual gross premiums written of its life and health insurance subsidiary by approximately $140 million.

The transaction is expected to close on January 1, 2015, subject to approval from regulators and compliance with customary closing conditions.

EFFECTIVE GOVERNANCE: PUTTING OUR MEMBERS AND CLIENTS FIRST

As a cooperative financial group, Desjardins Group has an economic and social mission that is centred on meeting the needs of our members and clients and supporting the sustainable prosperity of communities—which is why we strive to maintain strong relationships with our members and clients.

Our governance program is an important part of how we carry out our mission and ensure we operate in compliance with regulatory requirements and our own social responsibility objectives. At Desjardins, we take a continuous improvement approach to our governance program and work to make sure it remains consistent with our cooperative values. In 2013, we further enhanced our cooperative difference by adopting a new value—intercooperation—in an effort to strengthen ties across the entire cooperative community. The six values that guide Desjardins Group's actions are now: money at the service of human development, personal commitment, democratic action, integrity and rigour in the cooperative enterprise, solidarity with the community, and intercooperation.

2013 was marked by two key events that had an impact on our governance. We held our 21st Congress of Officers in April, during which several topics affecting governance and democratic structure were addressed. The theme was "Cooperating to move our governance forward for the benefit of our members." The Congress gave delegates the opportunity to discuss issues and make decisions, some of which were incorporated in the Internal By-Laws of the *Fédération des caisses Desjardins du Québec* (Federation). Other decisions, which will require legislative amendments before they can be implemented, will serve as directions for our future governance activities. One of the votes that passed, and by a strong majority of delegates, was to adopt voluntary commitment policy that will ensure fair gender representation on our boards of directors. Delegates also voted to impose a 12-year term limit for the position of director on the boards of the Federation and *Caisse centrale Desjardins* (CCD), once all applicable laws have been amended.

In June, a special general meeting of 1,200 elected officers representing the caisses was held to give effect to the decisions made at the Congress. The officers approved a series a measures aimed at enhancing the roles and responsibilities of members and how they participate in the democratic process—proof that participative governance remains alive and well at Desjardins.

HIGHLIGHTS

In 2013, the decision-making bodies of Desjardins Group also examined the following governance-related issues:

- The Board held a conference on "Aiming higher to better serve our members and clients" to make decisions on implementing the strategic priorities set out in the 2013–2016 Strategic Plan, which it adopted in January.
- As part of a new, innovative approach to governance, directors were asked to do preparatory reading prior to board meetings. A new standing item was also added to meeting agendas, asking directors to assess whether their decisions are likely to enhance member satisfaction, based on four criteria measuring cooperative difference.
- A new, simplified and web-friendly code of professional conduct for all Desjardins Group components came into effect in 2013, and all supporting tools were reviewed.
- During the Federation's Annual General Meeting last spring, delegates held an unprecedented advisory vote on the direction to take with respect to employee and executive compensation for all of Desjardins Group.
- We updated the caisse governance framework further to consultations and discussions with caisse elected officers and general managers.
- A survey of compensation practices at comparable cooperative groups was conducted and discussions were held by Desjardins's decision-making bodies in order to establish a clear set of guidelines for calculating the compensation of subsidiary directors.
- Federation board members participated for the first time in a peer evaluation exercise, with guidance from an external party that will also be supporting the skills development program.
- In the fall, changes made to the Management Succession and Development Program were also applied to Desjardins Group senior management, such as the appointment of a new Senior Executive Vice-President of Desjardins Group and General Manager of the Federation.

Desjardins Group has a set of standards and policies in place to ensure sound and prudent management of the organization. In 2013, the Board updated existing policies or adopted new ones on governance, risk management and financial management.

Other governance development initiatives undertaken by Desjardins Group in 2013 are outlined in the following pages.

GOVERNANCE PROGRAM

The purpose of Desjardins Group's corporate governance practices is to enable us to carry out our mission, which is to contribute to improving the economic and social well-being of people and communities.

The Federation oversees the development and application of a Desjardins-wide governance program that takes into account our cooperative model, the complexity of our activities and the guidelines set by the *Autorité des marchés financiers* in Quebec. This program also covers the activities of the Federation, CCD, the *Fonds de sécurité Desjardins*, the *Fédération des caisses populaires de l'Ontario Inc.*, the Desjardins subsidiaries and the caisses. As certain subsidiaries are subject to specific regulations, the program draws predominantly on rules established by the Canadian Securities Administrators (CSA) and the Office of the Superintendent of Financial Institutions Canada, as well as on industry best practices. As part of its efforts to continually improve this program, the Board revised the Federation's governance policy in 2013 and recommended that the subsidiaries follow suit with their own respective policies.

MANDATE OF THE BOARD OF DIRECTORS

1. ADMINISTRATION OF THE FEDERATION

The Board of Directors assumes responsibility for the sound and prudent administration of the Federation. It ensures that the necessary mechanisms and structures are in place for it to play its full part within the organization. It regularly reviews its operations, under a continuous improvement approach, and safeguards the assets of Desjardins Group.

The Board fulfils a dual role, since its responsibilities apply both to the Federation as a business and to Desjardins Group as a cooperative financial group. The Federation is the organization that guides, plans, coordinates, monitors and controls all Desjardins Group operations. Its organizational structure, which is built around the business sectors and support functions, strengthens its ability to deliver on that role by bringing the Federation and the subsidiaries closer to the caisses and their members. The structure serves to optimize overall performance, streamline the organization and improve financial and risk management.

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. The Board's responsibilities include the following:

a. Culture of integrity

The Board of Directors is responsible for preserving the cooperative nature of Desjardins Group, which is defined by the cooperative values and principles established by the International Co-operative Alliance, and for promoting the values of Desjardins Group: money at the service of human development, democratic action, personal commitment, integrity and rigour in the cooperative enterprise, solidarity with the community, and intercooperation. The Board is also responsible for enforcing Desjardins Group's rules of professional conduct among management, employees and elected officers and for educating them about the organization's values.

The Federation has a Board of Ethics and Professional Conduct, the members of which are elected by the Assembly of Representatives. A similar relationship exists in the Desjardins caisses, where the body responsible for ethics and professional conduct is called the "board of supervision" in Quebec; in Ontario, this responsibility is assumed by the caisse's audit committee. The Board of Ethics and Professional Conduct is responsible for enforcing and helping update the *Desjardins Group Code of Professional Conduct* (the Code), and, as needed, for issuing advice regarding ethical or professional conduct and cooperation. There is a support structure in place to help the Board of Ethics and Professional Conduct organize education and training activities and provide advisory services. These are some of the practical measures taken by Desjardins Group to promote its values and to ensure compliance with the Code, which imposes penalties for violations. Desjardins also has a mechanism for staff to report violations of the Code and other regulatory instruments in confidence.

The Code, which is available to the public on Desjardins.com and to employees on the Federation's intranet portals, requires all employees and representatives of Desjardins Group to adopt ethical conduct inspired by the principles of honesty, transparency, social responsibility and altruism. A revised Code, applicable to all Desjardins Group components, was adopted in 2013. It includes a section on ethics and how they tie in with Desjardins Group's mission and values. Another section describes the common rules applicable to all components, as well as additional rules specific to certain components. In addition, all Desjardins employees and officers are given online training on professional conduct. Every year, all employees must sign an acknowledgement that they have read the Code and agree to uphold it.

b. Strategic and financial planning process

The Board of Directors has an ongoing strategic and financial planning process for Desjardins Group that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. The Board is supported by the Desjardins Group Management Committee, which helps ensure that the strategic directions and plans of the caisses and the business sectors are integrated and that business development strategies are consistent throughout the organization, all while taking into account potential risks and Desjardins's specific values.

A unique trait of Desjardins Group's strategic planning process is that it allows those responsible for the planning exercise to occasionally call on the Congress of Elected Officers to define the key directions for the plan. The Congress is a bi-annual assembly of more than 1,000 caisse delegates. One was held in 2013, under the theme of "Cooperating to move our governance forward for the benefit of our members."

In January 2013, the Board adopted the 2013–2016 Strategic Plan and made the decision to adopt the model of a rolling four-year plan that will be reviewed every year. For this process, the Board requested the participation of the caisses, Desjardins Group's democratic bodies, the business sectors and the subsidiaries. Desjardins Group's strategic planning exercise is the basis for all other plans (for the network, business sectors and support functions) and focuses on maintaining business continuity, putting priorities first and fostering commitment.

Once the strategic and financial plans are adopted, each region and caisse in the cooperative network is responsible for developing its own annual business plan. The Board plays a supervisory and monitoring role in this process, for which it receives support from the Desjardins Group Management Committee. The Management Committee also produces regular reports so the Board can monitor the progress of the business plans and make any changes, as needed.

The respective boards of directors of CCD, Desjardins Financial Security Life Assurance Company, Desjardins General Insurance Group Inc., Desjardins Securities Inc., and Desjardins Trust Inc. each adopt strategic and financial plans specific to their own sector, which tie in with the overall Desjardins Group plan.

c. Identification and management of main risks

The Board is responsible for identifying the main risks for the Federation and Desjardins Group, setting risk tolerance and appetite limits and ensuring that management sets up the required systems to manage these risks in an integrated manner. The Federation is supported in these tasks by Desjardins Group's Operations and Performance Executive Division and Office of the Chief Risk Officer. The Board, backed by the Risk Management Commission, works in concert with the Audit and Inspection Commission, which is responsible for risks related to the financial disclosure process. The same applies to CCD and Desjardins Trust Inc. The Management Committee also supports the Board in carrying out its financial disclosure responsibilities. The Risk Management Commission holds closed-door meetings which are not attended by management. The Board can also count on the contribution of the Finance and Risk Management Committee, which mainly comprises managers from finance, risk management and compliance, as well as the business sectors.

A detailed presentation of the risk management principles applied at Desjardins Group can be found in the Risk Management section of this annual report on page 53.

d. Succession planning

The Board oversees the Management Succession and Development Program and is supported in this task by the Human Resources Commission (HRC) and Desjardins Group's Human Resources Executive Division. The HRC runs the program and reports to the Board, making recommendations if need be. This program is an important tool for the Desjardins Group Management Committee, as it promotes personal development, supports succession planning, and helps protect the organization against staffing-related risks.

President and CEO

In keeping with Desjardins's cooperative nature, the President and CEO of Desjardins Group is chosen by a 255-person electoral college made up of representatives from Quebec and Ontario caisses (the members of the regional councils and the group caisse council), plus the sitting President and CEO of Desjardins Group. Although the Board of Directors does not appoint the incumbent, it oversees the succession process, by determining the main parameters for the mandate of the Desjardins Group President and CEO, who serves a four-year term.

The electoral process is governed by a Federation By-Law and the *Desjardins Group Code of Professional Conduct* and is overseen by an election committee made up of elected officers, independent from the Board of Directors, whose responsibility is to establish the rules of the electoral process and the rules of conduct to which the electoral college, candidates, employees and elected officers must adhere. There is a two-term limit for the position of President and CEO of Desjardins Group.

Senior Executive Vice-President of Desjardins Group and General Manager of the Federation

For the purposes of independence, stability and succession planning, and pursuant to applicable legislation, the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation is appointed by the Board. The Board also adopts organizational practices for Desjardins Group's strategic management and the associated macrostructure.

e. Integrity of internal control and management reporting systems

Seconded by its Audit and Inspection Commission, the Board ensures the implementation of effective accounting, administrative and management control systems to safeguard the integrity of its operations and obtain the required reporting information from management. The Board is supported in this responsibility by the Chief Monitoring Officer of Desjardins Group, whose annual work plan is approved by its Audit and Inspection Commission. A rigorous financial governance process is applied throughout Desjardins Group to properly support the Senior Vice-President of Finance and Chief Financial Officer of Desjardins Group who, together with Desjardins Group's President and Chief Executive Officer, is responsible for certifying Desjardins Group's Combined Financial Statements.

Desjardins Group discloses financial information in compliance with CSA National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*. Desjardins Group is not, on a combined basis, a reporting issuer according to the Regulation. However, it has elected to apply the practices provided in the Regulation to show its willingness to observe best practices in financial governance. Under Desjardins Group's financial governance system, its signing officers certify, at the end of the fiscal year, the design and operating effectiveness of disclosure controls and procedures, as well as the internal controls over financial reporting.

The caisse network has an effective and efficient internal control system in place that is tailored to its particular needs. This system is designed to provide decision-making bodies with reasonable assurance that the network is achieving its business objectives in compliance with regulatory requirements.

The Board ensures that the Desjardins Group Management Committee provides the Board and its commissions and committees with information that is accurate, timely and adapted to the specific needs of its directors so they can take advantage of business opportunities and measure the risks involved. Board members are invited to assess the quality of documents used in the decision-making process.

The Board benefits from the information used by each business sector to effectively monitor key performance indicators, as it allows its members to quickly obtain strategic information pertinent to the decision-making process.

Board members receive financial and operating reports at least quarterly so they can assess Desjardins Group's situation and the status of the Federation's projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of this information.

To effectively carry out its duties, the Board holds regular meetings on a predetermined schedule. Board members receive the meeting agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process. The Board constantly seeks to increase its efficiency and focus its efforts on strategic files, which involves delegating certain operational tasks to the Management Committee. In 2013, the Board formalized this in the description of its mandate.

Directors have access to an intranet portal purpose-built for them, where they can find all meeting-related documentation and management frameworks for Desjardins's operations.

f. Strategic communications

The Board adopts a communications policy and strategic communications directions for Desjardins Group, in line with the Communications Master Plan, that specify the actions to be taken and the performance metrics. The Federation also draws up internal and external communications plans in order to better manage its relations with the caisses and their members; the business sectors and their clients; its employees; socioeconomic, community and non-governmental organizations; opinion makers; the public; the media; rating agencies; and the government.

The Federation oversees the financial reporting process and the disclosure of any major changes that may affect the financial position of Desjardins Group. It also uses various channels to communicate effectively with its many stakeholders.

These mechanisms include: the Ombudsman, the Desjardins Group ethics and professional conduct support team, the caisse complaint-handling procedure (*Your Satisfaction is My Priority*); and, within Desjardins Group: the Annual General Meetings, the disclosure of quarterly financial results, Desjardins publications (including our annual reports, social and cooperative responsibility report and the *Desjardins* magazine), toll-free telephone numbers, intranet portals, including one designed especially for caisse officers, Desjardins.com (which includes information on the Co-opme Program on education, cooperation and dialogue with our members and clients, as well as a Member Relations section), the Federation's Member Services Committee, and the procedure for reporting violations of the *Desjardins Group Code of Professional Conduct* and other governing instruments, newsletters, and other social media tools (Facebook, YouTube, LinkedIn, Twitter, etc.).

In addition, the Federation maintains relations with international rating agencies and coordinates Desjardins Group's relationships with the different levels of government in compliance with applicable lobbying legislation.

2. COMPOSITION OF THE BOARD OF DIRECTORS

The Federation's Board of Directors consists of 22 directors, the majority of whom are independent directors.

The vice-presidents of two regional councils (Outaouais, Abitibi-Témiscamingue and Nord du Québec; and Bas-Saint-Laurent and Gaspésie–Îles-de-la-Madeleine) also serve on the Board as managing directors and, as such, have no voting rights.

Additionally, three management members support the Board by attending its meetings: the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation; the Senior Vice-President of Finance and Chief Financial Officer; and the Desjardins Group Secretary General.

3. INDEPENDENT DIRECTORS

A director is considered independent if he or she does not have any significant relationship with Desjardins Group that, in the opinion of the Board, may affect the independence of his or her judgment.

There are five non-independent members of the Board, within the meaning of the *Act respecting the Mouvement Desjardins*, the *Act respecting financial services cooperatives* and the Quebec *Securities Act* and its regulations: the President and CEO of Desjardins Group, plus four caisse general managers. The former is a non-independent party because he or she is a member of Federation management, and the other four are non-independent parties because they are employees of cooperatives belonging to Desjardins Group (the caisses). None of these directors has any business or personal relationships with members of the Desjardins Group Management Committee; nor do they have any interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of the Federation or Desjardins Group, or any interests of any other nature which, in the opinion of the Board, could reasonably be perceived as harmful.

For guidance in these matters, the Board refers to the provisions of the *Desjardins Group Code of Professional Conduct,* which governs the actions of its directors, and to the declarations of interests filed annually by the directors. None of the directors sits on another board of directors for any other public company, except for the Desjardins Group President and CEO who sits on the board of directors of French bank *Crédit Industriel et Commercial* whose shares are listed on the Paris Stock Exchange.

INDEPENDENT DIRECTORS

As defined in CSA National Instrument 52-110 – *Audit Committees*, the following directors are independent with respect to the information concerning governance:

- Michel Allard (managing director)
- Annie P. Bélanger
- Serges Chamberland
- Denis Duguay
- Andrée Lafortune
- Sylvie Larouche
- Pierre Levasseur
- Michel Roy
- Serge Tourangeau
- Yvon Vinet
- Jacques Baril
- Donat Boulerice
- Carole Chevalier
- André Gagné
- Jean-Robert Laporte
- Marcel Lauzon
- Denis Paré
- Sylvie St-Pierre Babin (managing director)
- Benoît Turcotte

NON-INDEPENDENT DIRECTORS

As defined in CSA National Instrument 52-110 – *Audit Committees*, the following directors are non-independent with respect to the information concerning governance:

- Sylvain Dessureault
- Yves Genest
- Monique F. Leroux
- Johanne Perron
- Alain Raîche

4. NOMINATION PROCESS

In accordance with the cooperative structure of Desjardins Group and the principle of delegation, 17 of the 22 members of the Board of Directors are directly elected by the delegates of the Federation member caisses at regional or group caisse meetings. Those elected also act as presidents of the regional councils and the group caisse council.[1]

Consequently, in selecting the most qualified individuals from among the interested candidates, the Caisse delegates must keep in mind that these individuals will play a dual role: serving as a director of the Federation and Desjardins Group as a whole, and representing their region or group caisse. Before nominations are accepted, candidates are reminded of the responsibilities and requirements related to the position of president of a regional or group caisse council. Because the presidents are, at the same time, caisse officers, members of their councils of representatives, and members of the Federation's Board of Directors, the Board benefits from having directors who have comprehensive knowledge of Desjardins Group's activities yet remain independent of management. Their in-depth knowledge of the organization's activities is one of the considerable advantages of Desjardins Group's democratic structure.

The presidents of the regional councils and the group caisse council are also responsible for ensuring, firstly, that their caisses have a full understanding of the strategic directions established by the Board, and secondly, that the Board takes into consideration the concerns of the caisses. The presidents play an important leadership role in helping to achieve regional objectives and in promoting intercooperation.

Four of the remaining positions on the Board are filled by caisse general managers who are elected during the Assembly of Representatives of the Federation. The final position is reserved for the President and CEO of Desjardins Group. Having four caisse general managers on the Board is a way to ensure that the directions adopted by the Board reflect the concerns and needs of the caisses.

The methods for selecting the members of the Board and its Chair are designed so that each position is subject to a separate electoral process and a separate electoral college. This approach reinforces the independence of Board members from management.

Furthermore, the rules governing Board membership are designed to ensure stability and continuity in Desjardins Group's corporate governance. Board members have three-year renewable terms, and each year one-third of the Board members are outgoing. These terms give directors enough time to further their understanding of Board issues and fully participate in activities. Membership turnover occurs naturally, at a pace that doesn't impact the Board's overall performance. Additionally, the members of both the Board of Directors and the Board of Ethics and Professional Conduct have made a voluntary commitment to limit their combined terms to a maximum of 12 years. This commitment was approved by a vote at Desjardins Group's 21st Congress of Officers in April 2013 and is expected to be formalized in the Federation's Internal By-Laws once all applicable laws have been amended.

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[1] The regional councils and the group caisse council have the power to influence decisions affecting major priorities of the Federation, specifically regarding Desjardins Group's strategic planning and key projects. They represent the caisses in their region, making sure they maintain relationships with the Federation and their communities. They also adhere to and promote the values of the caisses, the Federation and Desjardins, acting in their best interests at all times. They are mainly responsible for keeping the caisses active in their community, identifying business development opportunities, updating the distribution network and overseeing the relationships among the caisses, management and other Federation decision-making bodies.

The Board is composed in such a way that it ensures fair geographic representation, with members from across Quebec and from the group caisses and caisse populaires belonging to the *Fédération des caisses populaires de l'Ontario Inc.* Its membership also has a diverse range of skills and experience; current members include chartered accountants, legal professionals, managers, professional mediators, university management professors, caisse network managers, school teachers and entrepreneurs.

All caisse officers are provided with a guide that outlines the terms, conditions and processes pertaining to the responsibilities of a Federation director and regional or group caisse council president. The purpose of this guide is to assist those interested in applying for these positions, and to provide guidance for those voting to elect Federation officers.

5. PERFORMANCE REVIEWS

The Board of Directors and its commissions and committees conduct an annual review of their performance using quantifiable objectives set by the Board at the beginning of the year. Areas for improvement and areas to be monitored are identified during this review and written into an action plan that is submitted to the Board by the Corporate Governance Commission, which oversees the plan. The Commission follows up on this report, and gives the Board a mid-year progress report and a full report at year-end. The Federation's review program also calls for self-assessments by each director, followed by individual meetings with the Chair of the Board. In 2013, the Board introduced peer evaluations to the process. Engagement and skills development are also addressed in the process. The Chair of the Board is responsible for the review process, and the entire exercise is monitored by the Corporate Governance Commission.

As a way of making the concept of cooperative difference more concrete and measurable, at the end of every meeting, the Board reviews all of its decisions and evaluates whether cooperative difference was taken into consideration.

6. ORIENTATION AND TRAINING PROGRAM FOR NEW DIRECTORS

The Federation organizes orientation sessions for all of its directors, provides ongoing training opportunities, and plans activities tailored to their specific needs.

All new directors attend an orientation session where they meet with members of management and receive a reference manual containing all the information they need to carry out their duties. This manual is also available to all officers on their dedicated intranet site (the Elected Officer Portal). Every director also receives a document reminding them of the expectations and duties that come with the position. Orientation sessions are held to ensure effective and efficient integration of new members of Board commissions and committees.

Upon request, meetings with specialists from the Federation, CCD and Desjardins Trust Inc. are organized to help directors increase their general and specialized knowledge of the organization and of its main strategic projects.

The training program for Board members is part of the programming offered by the Desjardins Cooperative Institute (DCI). The DCI is the training institute for Desjardins Group's elected officers, managers and employees.

7. SIZE OF THE BOARD

The composition of the Board of Directors is designed to ensure the proper representation of the caisses in the 17 Quebec regions, plus those from parts of Ontario, as well as the group caisses. Given the size of the Board, the directors strive to take a disciplined and effective management approach to Board meetings.

Every year, the Board reviews the mandates of its commissions and committees and related processes to ensure they will support the Board effectively. The Board also regularly reviews the membership rules for its commissions and committees as well as the rules for appointing chairs for the subsidiaries, commissions and committees.

Furthermore, the Chair of the Board and CEO holds periodic, informal meetings with the directors, with the goal of making formal meetings more efficient. Year after year, the results of the Board's performance evaluation show the importance of these meetings. After each Board, committee or commission meeting, a closed-door session is held, which members of Federation management do not attend, except for the President and CEO (unless his or her recusal is necessary for independence reasons).

8. DIRECTOR COMPENSATION POLICY

The Board reviews, whenever it deems it necessary and at least every three years, its policy on the compensation of its directors, members of the Board of Ethics and Professional Conduct, and members of the regional councils and group caisse council. The Board receives recommendations from the Corporate Governance Commission, which keeps a close eye on industry developments, especially within large cooperatives and cooperative financial groups. The policy's compensation rates are consistent with those of comparable cooperative organizations in Quebec, Canada and Europe

The Desjardins Group officer compensation policy includes guidelines for calculating the compensation for elected officers of the caisses, the Federation as well as for directors of other subsidiaries. A governance mechanism was implemented in 2013 to allow delegates of the Federation's Annual General Meeting to hold an advisory vote on the compensation guidelines for Desjardins Group staff members, including senior management. The President and CEO's compensation is subject to the recommendations of a specific Board committee, all of whose members are independent directors. The President and CEO does not personally receive any compensation for duties performed as director of any of the aforementioned components

COMPENSATION RATES FOR THE MEMBERS OF THE BOARD OF DIRECTORS OF THE FEDERATION, CCD AND DESJARDINS TRUST INC., AND THE MEMBERS OF THE BOARD OF ETHICS AND PROFESSIONAL CONDUCT OF THE FEDERATION AND CCD

	Federation	CCD	Desjardins Trust Inc.	Subsidiaries
Chair of the Board of Directors(1)	$0 (as this position is held by the President and CEO of Desjardins Group)	$0 (as this position is held by the President and CEO of Desjardins Group)	$0 (as this position is held by the President and CEO of Desjardins Group(	$10,000
Annual stipend for a member of a commission or committee of the Board of Directors(2)	$6,500	$6,500	$6,500	$6,500
Annual stipend for the Vice-Chair of the Board of Directors	$6,667	$6,667	$6,667	--
Annual stipend for a member of the Board of Directors(3)	$10,667	$10,667	$10,667	$10,000
Annual stipend for a member of a commission or committee of the Board of Directors(4)	$2,000	$2,000	$2,000	$2,000
Attendance fee for a meeting of the Board of Directors(4)	$1,200 (daily maximum)	$1,200 (daily maximum)	$1,200 (daily maximum)	$1,200 (daily maximum)
Attendance fee for commission or committee meetings(5)	$600 (per half-day)	$600 (per half-day)	$600 (per half-day)	$600 (per half-day)
Conference call	$200	$200	$200	$200
Attendance fee for members of the Board of Ethics and Professional Conduct or the Ethics Committee	$2,400 (chair) $1,200 (members)	$2,400 (chair) $1,200 (members)	$2,400 (chair) $1,200 (members)	$600 (per half-day)
Annual stipend for the president of a regional council or the group caisse council(3)	$15,000	N/A	N/A	N/A
Attendance fee for a meeting of a regional council or the group caisse council	$300	N/A	N/A	N/A

N/A: Not applicable

(1) The position of Chair of the Board of the following subsidiaries is held by a member of the Federation's Board of Directors: *Développement international Desjardins*, Desjardins General Insurance Group Inc., Desjardins Financial Security Life Assurance Company and Desjardins Trust Inc.
(2) The attendance fee is doubled in lieu of the annual stipend for the chairs of commissions or committees that hold fewer than four meetings per year, except for the chair of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.
(3) Federation Board members receive an annual stipend of $32,000 for their service as directors of the Federation, of CCD and of Desjardins Trust Inc. This amount is equally allocated among these three components. The stipend paid to the two managing directors is $24,800, with an additional $7,500 for their roles as vice-presidents of their respective regional council.
(4) The annual member stipend is paid regardless of the number of commissions or committees the member sits on for the Federation, CCD or Desjardins Trust Inc. In other words, a single stipend is paid for all positions held for all three entities.
(5) The maximum daily attendance fee is $1,200, regardless of the number of Board, commission or committee meetings a member attends in a single day. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Federation's Board of Directors may invite any elected caisse officer to sit on any of its committees. The Board of Directors determines the compensation to be paid based on the nature of the responsibilities entrusted to the officer and the compensation schedule.

COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS

The compensation paid to each member of the Board for the duties they assume as directors of the Federation, CCD or Desjardins Trust Inc. or as chair of the board of a subsidiary is detailed below:

	Paid by the Federation, CCD and Desjardins Trust		Other fees(1)		
NAME	**Attendance fee**	**Annual stipend**	**Attendance fee**	**Annual stipend**	**Attendance fee**
Allard, Michel(2)	$16,770.00	$25,225.00	$1,530.00	$0.00	$43,525.00
Baril, Jacques	$37,773.30	$55,500.00	$3,226.66	$0.00	$96,499.96
Bélanger, Annie P.	$35,656.68	$45,325.00	$9,943.33	$6,401.10	$97,326.11
Boulerice, Donat	$30,256.68	$49,000.00	$6,743.33	$5,000.00	$91,000.01
Chamberland, Serges	$28,760.00	$49,000.00	$9,740.00	$17,000.00	$104,500.00
Chevalier, Carole	$32,193.32	$49,000.00	$8,206.66	$7,706.04	$97,106.02
Dessureault, Sylvain(2)	$18,370.00	$25,000.00	$1 230.00	$0.00	$44,600.00
Duguay, Denis	$33,990.00	$49,000.00	$3 210.00	$0.00	$86,200.00
Gagné, André, CPA, CGA	$37,956.66	$68,499.00	$11,943.33	$11,500.00	$129,898.99
Genest, Yves(2)	$16,920.00	$25,000.00	$2,080.00	$0.00	$44,000.00
Lafortune, Andrée, FCPA, FCA	$34,923.30	$68,499.00	$4,476.66	$0.00	$107,898.96
Laporte, Jean-Robert(2)	$16,870.00	$36,250.00	$4,630.00	$3,711.54	$61,461.54
Larouche, Sylvie	$27,323.32	$49,000.00	$8,276.66	$11,969.20	$96,569.18
Lauzon, Marcel (Chair of the Board, DGIG)(3)	$28,623.32	$48,000.00	$28,626.66	$32,793.48	$138,043.46
Leroux, Monique F., C.M, O.Q., FCPA, FCA(4)					
Levasseur, Pierre	$40,656.68	$49,000.00	$7 343,33	$5,000.00	$102,000.01
Paré, Denis(5)	$50,193.32	$75,800.00	$11,806.66	$0,00	$137,799.98
Perron, Johanne	$29,623.32	$34,000.00	$2,976.66	$0.00	$66,599.98
Raîche, Alain	$31,859.98	$34,000.00	$4,240.00	$0.00	$70,099.98
Roy, Michel (Chair of the Board, DID(3)	$29,123.30	$49,000.00	$11,076.66	$28,500.00	$117,699.96
St-Pierre Babin, Sylvie	$42,323.30	$34,300.00	$2,076.66	$0.00	$78,699.96
Tourangeau, Serge (Chair of the Board, Desjardins Securities)	$35,405.46	$49,000.00	$14,294.55	$28,500.00	$127,200.01
Turcotte, Benoît	$33,256.68	$49,000.00	$16,143.33	$17,000.00	$115,400.01
Vinet, Yvon (Chair of the Board, DFS)(3)	$38,093.32	$49,000.00	$20,406.66	$28,500.00	$135,999.98
Total	**$726,921.94**	**$1,065,398.00**	**$194,227.80**	**$203,581.36**	**$2,190,129.10**

(1) Amounts received for: Chairing the board of a subsidiary; sitting on the Desjardins Group Retirement Committee (DGRC), the DGRC Investment Committee, or the DGRC Audit, Professional Practices and Compliance Committee; sitting on the Board of Directors of Desjardins Financial Corporation Inc., *Capital Desjardins inc.*, or *Fonds de sécurité Desjardins*; sitting on the Desjardins Cooperative Institute Educational Advisory Committee; contributing to the Greater Montreal Committee, the Desjardins Group Advisory Committee or Desjardins Financial Corporation.

(2) Term began on April 5, 2013.

(3) DID = *Développement international Desjardins*; DGIG = Desjardins General Insurance Group Inc.; DFS = Desjardins Financial Security Life Assurance Company.

(4) The Desjardins Group President and CEO does not receive any compensation for the position of Chair of the Board of Directors of the Federation, CCD or Desjardins Trust.

(5) Denis Paré received an additional stipend of $10,000 for acting as vice-chair of the Board and lead director. He also received a retroactive payment of $5,500 for acting as chair of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.

Laurier Boudreault, Alain Dumas, FCPA, FCA, Norman Grant and Line Lemelin were members until April 5, 2013.

COMPENSATION OF MEMBERS OF THE FEDERATION'S BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Name	**Attendance fee**
Belisle, Michel C.	$5,800
Bourgeois, Isabelle	$5,800
Guénette, Michel	$6,000
Lee-Gosselin, Hélène	$12,000
Pichette, Ronald	$5,800
Plourde, Gabriel	$5,400
Sarrazin, Claire(i)	$1,200
Tremblay, Lucie(ii)	$4,800
Yelle, Michel	$6,000

(i) Ended her term on April 5, 2013.

(ii) Began her term on April 5, 2013.

In accordance with the *Act respecting financial services cooperatives,* the total budget for the payment of attendance fees to members of the Board, the regional councils, the group caisse council and the Board of Ethics and Professional Conduct is authorized by the Federation's general meeting. The total compensation budget (annual stipends plus attendance fees) is reported to the general meeting. The general meeting receives a report on changes to the compensation budget every year. The total budget for 2013 was $2,800,000, down from $2,867,127 in 2012.

9. COMPOSITION OF COMMISSIONS AND COMMITTEES

The Board creates a number of committees and commissions and defines their mandates in order to support and streamline its strategic direction, planning, supervisory and control activities. These commissions and committees are made up entirely or almost entirely of independent parties. At the end of each meeting, these commissions and committees hold closed-door sessions which management members do not attend, except for the Chair of the Board and CEO (unless his or her 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.

10. RESPONSIBILITY FOR CORPORATE GOVERNANCE

The Board gives the Corporate Governance Commission (CGC) the responsibility of applying and updating the governance program in line with industry trends. The CGC reports on its observations and makes recommendations to the Board. It has no say in selecting the members of the Federation's Board of Directors but oversees the selection process for the directors of Desjardins Group's subsidiaries. The CGC's meetings are closed-door and not attended by management members, except for the Chair of the Board and CEO (unless his or her recusal is necessary for independence reasons). In 2013, the CGC contributed to a review of the governing instruments of the Federation and the caisses and issued an opinion on the subsidiaries' governance. It also supported the Board in reviewing the policy on the membership of the subsidiaries' boards of directors.

11. RESPONSIBILITIES OF THE DESJARDINS GROUP MANAGEMENT COMMITTEE

The responsibilities of the President and CEO of Desjardins Group are set out in the Federation's Internal By-Laws. In 2013, these responsibilities were reviewed and ratified at a special general meeting of caisse delegates. The Board has also formally documented the division of responsibilities between itself and the Desjardins Group Management Committee.

a. Setting annual management objectives

President and CEO

The annual objectives of the Desjardins Group President and CEO are recommended to the Board of Directors by the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR). The CAR is chaired by the Vice-Chair of the Board of Directors, who acts as lead director, in accordance with the established independence standards. The President and CEO is not present for the committee's deliberations.

Senior Executive Vice-President of Desjardins Group and General Manager of the Federation

The annual objectives of the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation are set by the Board of Directors, on the recommendation of the Human Resources Commission (HRC).

Other members of the Desjardins Group Management Committee

The objectives of the other members of the Management Committee are set by the President and CEO during individual performance reviews held with each committee member. Their incentive plan is taken into account.

b. Performance reviews

The Board of Directors has guidelines for setting objectives to ensure the sound management and equitable application of the incentive plans for all Desjardins components. The degree to which these objectives are achieved is measured through an annual review process. The CAR supervises the performance review of the President and CEO of Desjardins Group, with each director participating anonymously using a set of criteria prepared in advance by the CAR and without the presence of management.

12. INDEPENDENCE OF THE BOARD OF DIRECTORS FROM DESJARDINS GROUP MANAGEMENT

There are a number of structures and procedures in place to ensure the Board's independence from Desjardins Group management:

- There is only one Board member who is also a member of Desjardins Group management: the Chair of the Board and CEO of Desjardins Group. To ensure legitimacy and independence, this individual is also an officer elected by the Assembly of Representatives.
- The position of Vice-Chair of the Board of Directors was supported by the general meeting. The Vice-Chair presides over the Board's meetings, playing the role of lead director, when the issues being discussed require the recusal of the Chair of the Board and CEO. The Federation's Internal By-laws specify that the Vice-Chair of the Board replaces the Chair of the Board when the latter is unable to act.

- The directors hold periodic informal meetings among themselves. The Chair of the Board and CEO of Desjardins Group provides updates to the members of the Desjardins Group Management Committee, who are not present at these meetings. Both independent and non-independent directors do, however, attend these meetings, given that the discussions pertain to matters that do not bear any risk of conflict of interest for the non-independent directors.
- Closed-door sessions not attended by management (except for the Chair of the Board and CEO) are held at the end of each meeting of the Board of Directors and of the Executive Committee. The same is true for Board commissions. The Vice-Chair presides over the Board's meetings when the issues being discussed require the recusal of the Chair.
- The chairs of the Audit and Inspection Commission and the Risk Management Commission are independent directors.
- The Corporate Governance Commission (of which only one member is a non-independent party) assumes responsibility for:
  - Managing relations between the Board of Directors and the Desjardins Group Management Committee
  - Ensuring that the Board fulfils its duties (however, the responsibility of drawing up and overseeing meeting agendas for the Board and its commissions and committees falls to the Chair of the Board)
- Only independent directors serve on the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.
- The Desjardins Group Management Committee is chaired by the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation. The President and CEO attends Management Committee meetings to ensure that the directions defined by the Board of Directors are taken into account.
- The members of the Human Resources Commission and the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group are seconded, when needed, by an external consultant when dealing with issues involving the aggregate remuneration of senior management.

The Federation also has a Board of Ethics and Professional Conduct, the members of which are elected by the Assembly of Representatives. Its members are all independent from management and the Board of Directors.

POSITION AGAINST SEPARATING THE FUNCTIONS OF CHAIR OF THE BOARD FROM THOSE OF CEO

The functions of Chair of the Board and CEO of Desjardins Group have not been separated. This decision was made by the Federation's General Meeting and has been integrated into its Internal By-laws. This position was reviewed and ratified at the April 2013 Congress of Elected Officers.

Desjardins Group's current position is that non-separation promotes the legitimacy and independence of the Chair and CEO of Desjardins Group. The main arguments in favour of this position are the following:

- Unlike at other companies, where the CEO is appointed by the Board of Directors, the Desjardins CEO is elected by an electoral college of 255 Federation member representatives and the current or outgoing Chair and CEO. This individual's primary responsibility is to protect the interests of Desjardins members; his or her interests are therefore aligned with those of the members.
- The Chair of the Board and CEO of Desjardins Group has no influence over the choice of directors because he or she cannot recommend candidates, and each director is elected at either a regional or group caisse general meeting or the assembly of representatives, where the Chair of the Board and CEO has no voting rights. The same applies to the selection of the members of the Board of Ethics and Professional Conduct.
- The Board of Directors created the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR). The CAR is chaired by the Vice-Chair of the Board of Directors, who plays the role of lead director, and made up entirely of independent directors, to eliminate any risk of conflict of interest. The CAR's meetings are closed-door, and it also holds working sessions with the Board of Directors, which the Chair does not attend.
- Owing to the complex nature of Desjardins Group's management structure and activities, and to the expectations of regulators and the general public, it is essential that the Chair of the Board be thoroughly familiar with the activities, business and projects of both the Federation and Desjardins Group in order to effectively act as a leader and uniting force for the elected officers, the management teams of the Desjardins components, caisse members, and clients.
- Desjardins Group's structure is designed to free its CEO from the everyday operational concerns of the Federation and Desjardins Group. This enables him or her to focus more on other areas, such as cooperative initiatives within Desjardins and in the community, the organization's growth and key strategic files, governance, and the engagement of Desjardins Group's elected officers and employees.
- For the same reasons, the Senior Executive Vice-President of Desjardins Group and General Manager of the Federation:
  - Plays a supervisory and coordination role with the business sectors, to promote better unity and synergy between Desjardins Group's various growth and development activities (with each business sector falling under the purview of a Senior Vice-President and General Manager)
  - Assumes line authority over the major Desjardins Group support functions

13. 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. The AIC is composed entirely of independent directors, and its chair has accounting expertise.

The roles and responsibilities of the AIC have been defined in such a way so as to give its members a clear understanding of their oversight duties. The Commission has all the power and information it needs to fulfil its mandate. It reviews all financial information, supervises the required reporting activities and plays a lead role in overseeing financial disclosure controls and assessing their accuracy. The AIC has a direct line of communication with the Monitoring Office, which oversees the internal audit of the Desjardins Group subsidiaries and components, the external audit of the financial statements of the Quebec caisses, and the inspection of the Quebec and Ontario caisses[(2)] It also has a line of communication with the external auditors, should the need to discuss and review certain issues arise. The Commission holds closed-door sessions that are not attended by management.

The AIC ensures the independence of the Desjardins Group internal audit sector and adopts its annual action plan.

14. EXTERNAL CONSULTANTS

A director may retain the services of an external consultant at the Federation's expense. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance Commission.

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2 The Desjardins Group Monitoring Office provides independent opinions on caisses' management and financial statements. Consequently, through inspections and audits, it monitors the risks associated with network activities and determines whether these risks are being managed according to sound and prudent management practices and in compliance with applicable legislation, regulations, standards and rules of conduct. Moreover, it audits the caisses' financial statements using recognized auditing standards and issues an opinion on these statements.

MANDATES AND MEMBERSHIP OF THE FEDERATION'S COMMISSIONS, COMMITTEES, AND BOARD OF ETHICS AND PROFESSIONAL CONDUCT

As at December 31, 2013

EXECUTIVE COMMITTEE

This committee has the same functions and powers as the Board of Directors, with the exception of those which the Board may reserve for itself or assign to another committee or commission. It held 10 meetings and 5 conference calls in 2013.

The Executive Committee is composed of seven directors:

- Monique F. Leroux, C.M., O.Q., FCPA, FCA, Chair of the Board
- Denis Paré,* Vice-Chair of the Board
- Yvon Vinet,* Secretary of the Board
- Carole Chevalier*[i]
- Serges Chamberland*
- Alain Raîche[i]
- Serge Tourangeau*

(i) Term began on May 9, 2013.

Laurier Boudreault and Line Lemelin* were members until May 9, 2013.

COOPERATION AND NETWORK LIAISON COMMISSION

This commission assists the Board of Directors with issues related to Desjardins Group's cooperative culture and the relationship between the Federation's democratic bodies and the caisse network. The commission ensures the effective and efficient implementation of mechanisms for collaboration, participation and connection with the network. It submits recommendations to the Board of Directors as needed. The CNLC held six meetings and two conference calls in 2013.

The CNLC is composed of seven directors:

- Denis Paré,* Chair
- Michel Allard*/** [i]
- Jacques Baril*
- Sylvain Dessureault[i]
- Denis Duguay*
- Andrée Lafortune,* FCPA, FCA
- Sylvie St-Pierre Babin*

(i) Term began on June 14, 2013.

Norman Grant* was a member until April 5, 2013.
Sylvie Larouche,* Johanne Perron and Alain Raîche were members until June 14, 2013.

AUDIT AND INSPECTION COMMISSION

This commission oversees the activities of the Desjardins Group Monitoring Office, supports the Board of Directors in its monitoring and control responsibilities for the Federation and Desjardins Group, and examines in detail all aspects related to the disclosure of financial information. It held 10 meetings and 1 conference call in 2013.

The AIC is composed of five directors:

- André Gagné,* CPA, CGA, Chair
- Annie P. Bélanger*
- Donat Boulerice*
- Pierre Levasseur*
- Benoît Turcotte*

Roger Desrosiers, FCPA, FCA, Yves Genest, Serge Hamelin and Robert St-Aubin, FCPA, FCA, sit on the AIC as observers.

Note: * Independent director
** Managing director

RISK MANAGEMENT COMMISSION

This commission assists the Board of Directors in identifying and monitoring major risks to the Federation and Desjardins Group. The RMC held eight meetings and two conference calls in 2013.

The RMC is composed of six directors:

- Andrée Lafortune,* FCPA, FCA, Chair
- Jacques Baril*
- Jean-Robert Laporte*(i)
- Michel Roy*
- Sylvie St-Pierre Babin*/**
- Serge Tourangeau*

André Gagné*, CPA, CGA, and Johanne Perron(i) sit on the RMC as observers.

(i) Term began on June 14, 2013.

Norman Grant* was a member until April 5, 2013.
Alain Raîche was a member until June 14, 2013

HUMAN RESOURCES COMMISSION

This commission reviews Desjardins Group's position on overall compensation on a regular basis, in an effort to maintain market competitiveness. It ensures that the compensation practices in effect at Desjardins comply with Desjardins Group’s policies and guiding principles. The mandate of the HRC does not include the terms of employment for the President and Chief Executive Officer. It held eight meetings and one conference call in 2013.

The HRC is composed of five directors:

- Monique F. Leroux, C.M., O.Q., FCPA, FCA, Chair of the Board
- Denis Paré,* Vice-Chair of the Board
- Annie P. Bélanger*/**(i)
- Carole Chevalier*
- Yvon Vinet*

(i) Term began on June 14, 2013.

Marcel Lauzon* was a member until June 14, 2013.

COMMITTEE ON THE AGGREGATE REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

This committee, whose members are all independent directors, is mandated to make recommendations to the Board regarding the remuneration and working conditions, as well as the annual objectives, of the President and Chief Executive Officer. The CAR held three meetings and one conference call in 2013.

The CAR is composed of four directors:

- Denis Paré,* Vice-Chair of the Board
- Annie P. Bélanger*/**(i)
- Carole Chevalier*
- Yvon Vinet*

(i) Term began on June 14, 2013.
Marcel Lauzon* was a member until June 14, 2013.

CORPORATE GOVERNANCE COMMISSION

This commission supports the Board of Directors in applying and updating the corporate governance program. The CGC also oversees the process for recommending candidates to sit on the boards of directors of Desjardins Group subsidiaries. It is also responsible for supervising the performance review program for members of the Board of Directors and its commissions and committees, and for administering the Sustainable Development Policy and the Voting Rights Policy. The CGC held right meetings and four conference calls in 2013.

The CGC is composed of five directors:

- Monique F. Leroux, C. M., O.Q., FCPA, FCA, Chair of the Board
- Denis Duguay*
- Pierre Levasseur*
- Denis Paré,* Vice-Chair of the Board
- Sylvie St-Pierre Babin*/**

Note: * Independent director
** Managing director

INVESTMENT COMMISSION

This commission's role is fourfold: monitor the markets and develop an integrated vision; support portfolio positioning and asset distribution; follow up on strategies and directions; and act as an advisory body. The commission's activities complement those of the Risk Management Commission and Desjardins Group's various other investment committees and do not overlap with them. It held four meetings in 2013.

The Investment Commission is composed of five directors:

- Jacques Baril,* Chair
- Sylvain Dessureault(i)
- Yves Genest(i)
- Pierre Levasseur*
- Johanne Perron

(i) Term began on June 14, 2013.

Jean-Louis Gauvin, Michel Rouleau and Sylvie Larouche* sit on the commission as observers.
Laurier Boudreautl and Alain Dumas, FCPA, FCA, were members until April 5, 2013.

DESJARDINS GROUP RETIREMENT COMMITTEE

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the *Desjardins Group Pension Plan (DGPP) Regulation*, the DGRC is in charge of administering the DGPP, managing the pension fund and paying members and their survivors the benefits they are entitled to. The members represent employees, employers and retirees and share the role of trustee for the pension fund. The DGRC held five meetings and one conference call in 2013.

The Federation represents all Desjardins employees with respect to the DGPP. The Federation's Board of Directors has decision-making power in certain areas, including the DGPP Regulation, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. Through its Board of Directors, the Federation stands surety for the obligations (payment of benefits) resulting from the participation of all Desjardins Group employers in the DGPP.

The DGRC is composed of six directors, one external member and employer/participant/retiree representatives.

Employer representatives are appointed by the Federation's Board of Directors. Members' and retirees' representatives are elected democratically by the group that they represent.

Members of the Board of Directors, representing the employer:

- Serges Chamberland,* Chair
- Sylvie Larouche,* Vice-Chair
- Annie P. Bélanger*(i) Secretary
- Jean-Robert Laporte
- Marcel Lauzon*(ii)
- Benoît Turcotte*

(i) Term began on June 14, 2013.
(ii) Term began on August 22, 2013.

Norman Grant* and Line Lemelin* were members until April 5, 2013.
Carole Chevalier* was a member until June 14, 2013.

Representing the members:

- Robert Bastien
- Julie Goulet
- Mario Lévesque
- Sylvain Rouleau

External representative:

- Reynald N. Harpin*

Representing retirees and members entitled to a deferred pension::

- Michel-Pierre Bergeron

Observer representing participants:

- Dominic Laurin

Observer representing retirees, beneficiaries and participants entitled to a deferred pension:

- Normand Deschênes

Note : * Administrateur indépendant

DGRC INVESTMENT COMMITEE

Under the responsibility of the DGRC, which establishes the investment policy, the Investment Committee's mandate is to ensure that the policy is applied as well as to coordinate the activities of the fund managers to whom management mandates are entrusted. It held four meetings and seven conference calls in 2013.

The DGRC Investment Committee is composed of five directors and one external member.

- Sylvie Larouche,* Chair
- Serges Chamberland*
- Reynald N. Harpin*
- Jean-Robert Laporte
- Marcel Lauzon*[(ii)]
- Benoît Turcotte*

(i) Term began on June 14, 2013.
(ii) Term began on August 22, 2013.

Réal Bellemare and Gregory Chrispin sit on the committee as observers.
Line Lemelin was a member until April 5, 2013.
Carole Chevalier was a member until June 14, 2013.

THE DGRC'S RISK MANAGEMENT ADVISORY COMMITTEE

The RMAC is responsible for assessing the main risks associated with managing DGPP activities. Each year, the committee recommends an integrated risk profile to the Retirement Committee and issues an opinion on the asset allocation strategy and on the plan's investment portfolio. It also assesses the plan's risk management approach. The RMAC held one meeting in 2013.

The RMAC is composed of the following people:

- Julie Bouchard and Stéphane Bergeron, representing the Desjardins Group Operations and Performance Executive Division
- Gregory Chrispin, Vice-President of Investments and Chief Operating Officer of Desjardins Global Asset Management
- François Hudon, Manager of Liability Management, Desjardins Group Pension Plan
- Reynald N. Harpin,* consultant for the Desjardins Group Retirement Committee

DESJARDINS COOPERATIVE INSTITUTE EDUCATIONAL ADVISORY COMMITTEE

This committee is responsible for continually improving the Desjardins Cooperative Institute's (DCI) educational program by drawing on practices from other corporate schools and universities. It validates the DCI's annual program, making sure it's consistent with user needs and expectations. It also ensures the high quality of the DCI's educational tools. In addition, the advisory committee validates training performance criteria and receives and comments, based on these criteria, on the annual educational report of DCI management. It held three meetings in 2013.

The DCI Educational Advisory Committee is composed of five directors:

- Michel Allard*/**[(i)]
- Denis Duguay*
- Andrée Lafortune**
- Marcel Lauzon*[(i)]
- Alain Raîche

(i) Term began on June 14, 2013.

Norman Grant was a member until April 5, 2014.
Annie P. Bélanger* and Johanne Perron were members until June 14, 2013.

THE PAN-CANADIAN ADVISORY COMMITTEE

This committee contributes to the overall strategic development of Desjardins Group and brings added value to our Canada-wide and international expansion strategies and activities. The PCAC monitors the market and contributes to Pan-Canadian initiatives, including opportunities for business partnerships. It is responsible for making sure that Desjardins Group integrates multicultural diversity in its growth strategies. This committee held one meeting in 2013.

The PCAC is composed of nine members:

- Monique F. Leroux, C.M., O.Q., FCPA, FCA, and Jim Dinning, Co-Chairs
- Scott Banda
- Dan Burns
- Richard Dicerni
- Aldéa Landry
- Marcel Lauzon
- Tracy Redies
- Camille Thériault

Note: * Independent director
** Managing director

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Pursuant to the *Act respecting financial services cooperatives*, the Federation has a Board of Ethics and Professional Conduct that is independent of the Board of Directors. The eight members of this board are Desjardins Group elected officers. The Board of Ethics and Professional Conduct is supported by a team that reports to the Governance and Social Responsibility Division and Secretariat General. It held six meetings and three conference calls in 2013. The members of the Board of Ethics and Professional Conduct were also invited to participate in the Quebec Organizational Ethics Network's conference in 2013.

One of the main responsibilities of this board is to ensure the independence and objectivity of the Federation’s inspection and audit services for the caisses (Desjardins Group Monitoring Office) and make recommendations to the President and Chief Executive Officer of Desjardins Group regarding the appointment of the person responsible for managing these services.

In addition to the above-mentioned responsibilities, the role of the Board of Ethics and Professional Conduct includes adopting the rules of conduct applicable to the officers of Desjardins Group and the subsidiaries and to the employees of the Federation and the caisses; presenting said rules for approval to the Board of Directors and ensuring the caisses and the Federation comply with them; supporting the caisses and the Federation in applying the rules of conduct; issuing advice, observations and recommendations on ethical and professional conduct issues (particularly in cases of misconduct); notifying the Board of Directors of violations to the rules of ethics and professional conduct or if the Federation violates the provisions of the *Act respecting financial services cooperatives* or the regulations governing restricted party transactions and conflicts of interest; ensuring that complaints about the Federation originating from the caisses or other Federation members (*Caisse centrale Desjardins*, holding companies or subsidiaries) are addressed. The Desjardins Group Board of Ethics and Professional Conduct holds closed-door meetings without the presence of management. In 2013, it ensured that all Desjardins Group components had adopted its rules. The Desjardins Group Code of Professional Conduct was reviewed and adopted during the first quarter of 2013.

The Board of Ethics and Professional Conduct is composed of eight elected officers:

- Hélène Lee-Gosselin,* Chair
- Isabelle Bourgeois,* Secretary
- Michel C. Bélisle*[(i)]
- Michel Guénette*[(ii)]
- Ronald Pichette*
- Gabriel Plourde*
- Lucie Tremblay*[(i)]
- Michel Yelle*

(i) Term began on April 5, 2013.

Claire Sarrazin* was a member until April 5, 2013.

RECORD OF ATTENDANCE FOR THE MEMBERS OF THE FEDERATION'S BOARD OF DIRECTORS

Name	BoD	BoD conf. calls	EC	CNLC	AIC	RMC	HRC	CAR	CGC	IC	DGC	DGRC IC	DCI EAC	RC
Allard, Michel*/**	13/13	3/3		3/3									1/1	8/9
Baril, Jacques*	18/18	4/5		8/8		10/10				4/4				10/10
Bélanger, Annie P. *	18/18	5/5			11/11		5/5	1/1			4/4		2/2	9/9
Boulerice, Donat*	17/18	5/5			11/11									8/8
Chamberland, Serges*	18/18	5/5	15/15								5/6	10/11		9/9
Chevalier, Carole*	16/18	5/5	8/8				9/9	4/4		1/2	2/2	5/5		9/10
Dessureault, Sylvain	13/18	3/3		3/3						2/2				10/10
Duguay, Denis*	18/18	4/5		8/8					12/12				3/3	9/11
Gagné, André*	18/18	5/5			11/11	9/10								9/9
Genest, Yves	13/18	3/3			3/4					2/2				9/9
Lafortune, Andrée*	18/18	5/5		8/8		10/10							3/3	8/8
Laporte, Jean-Robert*	13/13	2/3				5/5					3/3	6/6		10/10
Larouche, Sylvie*	18/18	5/5		4/5						2/2	5/5	11/11		10/10
Lauzon, Marcel*	18/18	5/5					6/6	3/3			3/3	4/4	1/1	9/9
Leroux, Monique F.	18/18	4/5	15/15				9/9		12/12					
Levasseur, Pierre*	18/18	5/5			11/11				11/12	4/4				11/11
Paré, Denis*	18/18	5/5	14/15	8/8			9/9	4/4	11/12					9/9
Perron, Johanne	18/18	5/5		5/5		5/5				3/4			2/2	7/8
Raîche, Alain	18/18	4/5	8/8	4/5		5/5							3/3	10/10
Roy, Michel*	18/18	5/5				10/10								9/9
St-Pierre Babin, Sylvie*/**	18/18	5/5		8/8		10/10			12/12					12/12
Tourangeau, Serge*	18/18	5/5	14/15			10/10								10/10
Turcotte, Benoît*	18/18	4/5			10/11						5/5	10/11		12/12
Vinet, Yvon*	18/18	5/5	15/15				9/9	4/4						10/10

(1) BoD = Board of Directors; EC = Executive Committee; CNLC = Cooperation and Network Liaison Commission; AIC = Audit and Inspection Commission; RMC = Risk Management Commission; HRC = Human Resources Commission; CAR = Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group; CGC = Corporate Governance Commission; IC = Investment Commission; DGRC = Desjardins Group Retirement Committee; DGRC IC = Desjardins Group Retirement Committee Investment Committee; DCI EAC = Desjardins Cooperative Institute Educational Advisory Committee; RC = regional councils and group caisse council.

The Board of Directors held 18 days of meetings and 5 conference calls in 2013. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Board of Directors may invite any elected caisse officer to sit on any of its committees. The Board of Directors determines the compensation to be paid based on the nature of the responsibilities entrusted to the officer and the compensation schedule.

If a director is absent for professional or personal reasons, justification must be provided. If a president of a regional council or the group caisse council is absent, he or she may be replaced by the vice-president, who acts as managing director, top ensure the region and group caisses remain represented.

ATTENDANCE RECORD FOR THE MEMBERS OF THE FEDERATION'S BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Name	Number of meetings
Bélisle, Michel C.*	7/8
Bourgeois, Isabelle*	7/8
Guénette, Michel*	8/8
Lee-Gosselin, Hélène*	8/8
Pichette, Ronald*	7/8
Plourde, Gabriel*	8/8
Sarrazin, Claire*(i)	1/1
Tremblay, Lucie*(ii)	7/7
Yelle, Michel*	8/8

(i) Claire Sarrazin was a member until April 5, 2013.
(ii) Lucie Tremblay began her term on April 5, 2013.

Note: * Independent director

MEMBERS OF THE REGIONAL COUNCILS AND GROUP CAISSE COUNCIL

Rather than publish attendance figures for all 255 members, the Board of Directors has decided to publish meeting attendance rates for the 16 regional councils and the group caisse council.

2013	Number of meetings	Attendance rate (%)
Bas-Saint-Laurent and Gaspésie—Îles-de-la-Madeleine	9	92.54
Kamouraska and Chaudière-Appalaches	9	91.67
Québec-Est	9	89.63
Québec-Ouest and Rive-Sud	10	90,00
Saguenay—Lac-Saint-Jean, Charlevoix and Côte-Nord	9	93.33
Centre-du-Québec	11	92.77
Mauricie	10	91.22
Eastern Townships	9	91.85
Richelieu-Yamaska	11	88.96
Lanaudière	10	90,00
Rive-Sud de Montréal	10	90.57
Laval–Laurentides	9	88.15
Ouest de Montréal	8	94.17
Est de Montréal	10	85.81
Outaouais	12	91.67
Abitibi-Témiscamingue and Nord du Québec(1)	12	90.48
Group caisse	10	84.56
Ontario	8	95,00

(1) The regional council for the Outaouais, Abitibi-Témiscamingue and Nord du Québec region divides its meetings into two sectors.

ASSEMBLY OF REPRESENTATIVES

	Number of representatives present	Attendance rate (%)
April 4, 2013	256/256	100,00
September 14, 2013	231/256	90,00

DESJARDINS GROUP MANAGEMENT COMMITTEE

This committee supports the President and CEO of Desjardins Group and the Board of Directors in their responsibility to provide a management structure for Desjardins Group. The committee helps the Board incorporate the strategic directions of the cooperative network and the subsidiaries and implement business development strategies. It held 22 meetings and 4 videoconferences in 2013.

The Management Committee is composed of 12 management members:

- **Monique F. Leroux**, C.M., O.Q., FCPA, FCA
  Chair of the Board, President and CEO of Desjardins Group
- **Stéphane Achard**
  Senior Vice-President and General Manager of Business and Institutional Services and Card and Payment Services
- **Réal Bellemare**
  Senior Vice-President of Operations and Performance, Desjardins Group
- **Denis Berthiaume**
  Senior Vice-President and General Manager of Wealth Management and Life and Health Insurance
- **Guy Cormier**
  Senior Vice-President of Cooperative Network and Personal Services
- **Marie-Huguette Cormier**
  Senior Vice-President of Desjardins Group Marketing, Member/Client Experience and Communications
- **Normand Desautels**, CPA, CGA
  Senior Executive Vice-President of Desjardins Group and General Manager of the Federation, and Chair of the Committee
- **Daniel Dupuis**, CPA, CA
  Senior Vice-President of Finance and Chief Financial Officer, Desjardins Group
- **Louis-Daniel Gauvin**
  Senior Vice-President and General Manager of *Caisse centrale Desjardins* and *Capital Desjardins inc.*
- **Josianne Moisan**
  Senior Vice-President of Human Resources, Desjardins Group
- **Robert Ouellette**
  Senior Vice-President of Technology and Shared Services Centre, Desjardins Group
- **Sylvie Paquette**
  Senior Vice-President of Property and Casualty Insurance, Desjardins Group

The Management Committee has Desjardins-wide coordination committees in the following areas: operations; strategic development; operational governance and follow-up with governing bodies; finance and risk management; marketing, member/client experience and communications; network performance and integration; development planning and follow-up.

EXECUTIVE COMPENSATION

Certain Desjardins Group components, namely the Federation, CCD and *Capital Desjardins inc.*, are subject to a number of obligations regarding the disclosure of executive compensation. As required by CSA National Instrument 51-102 – *Continuous Disclosure Obligations*, the compensation of executives from the Federation, CCD and *Capital Desjardins inc.* is presented in each entity's respective Annual Information Forms and is incorporated by reference in this annual report. The Annual Information Forms are available on the SEDAR website (www.sedar.com) under each entity's respective company profile.

GLOSSARY

ACCEPTANCE

Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

ALLOWANCE FOR CREDIT LOSSES

Amount deemed sufficient by management to cover the anticipated losses on a loan portfolio. The allowance for credit losses is increased by individual and collective provisions and decreased by write-offs, net of recoveries.

ALT-A MORTGAGE LOAN

Loan to a borrower with non-standard income documentation.

ANNUITY PREMIUM

Amount invested by a policyholder in order to receive annuity payments, immediately or after an accumulation period.

APPOINTED ACTUARY

Actuary appointed by an insurance company's board of directors, in accordance with the federal and provincial laws governing insurance.

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

Assets managed or administered by a financial institution that are beneficially owned by clients or members and are therefore not recognized on the financial institution's combined balance sheet. Services provided in respect of assets under administration are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions, while 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 administration or under management.

AUTORITÉ DES MARCHÉS FINANCIERS

Organization whose mission is to administer all laws governing the supervision of the financial industry in Quebec, particularly as concerns insurance, deposit-taking institutions, financial product and service distribution, and securities.

BASIS POINT

Unit of measure equal to one one-hundredth of a percent (0.01%).

BENEFIT

Amount paid by an insurer under a life, disability or health insurance policy. The benefit is paid to the policyholder, the insured or the designated beneficiary. In a pension plan, this term refers to the vested rights of a participant.

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 RATIO

Tier 1a capital, Tier 1 capital and total regulatory capital divided by risk-weighted assets. This measure is governed by the guidelines issued by the *Autorité des marchés financiers*, which are based on the standards developed by the Basel Committee on Banking Supervision.

COLLECTIVE ALLOWANCE

Allowance established for loan portfolios that are not subject to an individual allowance and are included in groups of financial assets having similar credit characteristics.

COMBINED RATIO

In property and casualty insurance, incurred claims plus operating expenses expressed as a percentage of net premiums earned.

COMMERCIAL MORTGAGE-BACKED SECURITY

Security created through the securitization of a pool of commercial mortgage loans.

CREDIT COMMITMENT

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.

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 guarantees, letters of credit, securities loans and credit commitments.

DEFINED BENEFIT PENSION PLAN

Pension plan that guarantees 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.

EFFECTIVE INTEREST RATE

Rate determined by discounting total future cash flows, including those related to fees paid or received, premiums or discounts and transaction costs.

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.

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. Forward 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. Futures 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.

GUARANTEES AND STANDBY LETTERS OF CREDIT

Irrevocable commitments by Desjardins Group to make payments in the event that a member or client cannot meet their financial obligations to a third party. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans. The term of these products does not exceed five years.

HEDGING

Transaction designed to reduce or offset Desjardins Group's exposure to one or more financial risks that involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

IMPAIRED LOAN

Loan, except credit card balances, whose collection is doubtful as a result of a deterioration in credit quality. Loans are classified as impaired when one of the following conditions is met: in management's opinion, there is reasonable doubt that the principal or the interest will be collected on scheduled dates; the interest or principal payment is 90 days or more past due, unless the loan is fully secured and in the process of collection; or the interest or principal is more than 180 days past due.

INDEMNIFICATION COMMITMENT RELATED TO SECURITIES LENDING

Desjardins Group acts as an agent when the holder of securities agrees to lend them for a commission, the form and terms of which are determined under a pre-arranged contract. When it does not act as an agent, Desjardins Group makes indemnification commitments to members and 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.

INDIVIDUAL ALLOWANCE

Specific allowance established for an individual loan portfolio for which, in Desjardins Group's opinion, there is objective evidence of impairment and a loss should be recognized in the combined statements of income. Loan portfolios for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and are subject to a collective allowance.

INSURANCE AND INVESTMENT CONTRACT LIABILITY

Provision representing the amount of an insurance company's commitments toward all insureds and beneficiaries, established to guarantee the payment of benefits.

INSURANCE PREMIUM

Payment that the policyholder is required to make to maintain the insurance contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

INSURED

Person whose life or health is insured under an insurance policy.

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-weighing factors determined using internal parameters: the borrower's probability of default (PD), loss given default (LGD), effective maturity (EM) and exposure at default (EAD).

LEVERAGED FINANCE LOAN

Loan to a large corporation or finance company whose credit rating is between BB+ and D and whose level of debt is very high compared to other companies in the same industry.

LOSS RATIO

In property and casualty insurance, incurred claims expressed as a percentage of net premiums earned. Net premiums earned represent premiums earned for a given period, net of reinsurance premiums.

MASTER NETTING AGREEMENT

Standard agreement developed to reduce the credit risk of multiple derivative transactions by creating a legal right to set off the obligations of a counterparty in the event of default.

MATCHING

Process of adjusting asset, liability and off-balance sheet item maturities in order to minimize risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

MEMBER DIVIDEND

Allocation of surplus earnings to a member on the basis of their business volume with the caisse.

MORBIDITY RATE

Probability that a person of a given age will suffer an illness or disability. The 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.*

MUTUAL FUND

Fund made up of amounts pooled together by investors for the purpose of making a collective investment. A third party manages the fund and must, on request, redeem the units at their net asset value (or redemption value).

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.

NOTIONAL AMOUNT

Reference amount used to calculate payments for instruments such as forward rate agreements and interest rate swaps. This amount is called "notional" because it does not change hands.

OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS

Organization whose mission is to administer all laws governing the supervision of the financial industry in Canada, particularly as concerns banks, insurance companies, trust companies, loan companies and pension plans.

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.

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.

PERMANENT SHARE OR CAPITAL SHARE

Equity security offered to caisse members.

POLICY

Written document that evidences the existence of an insurance or annuity contract and that sets out the terms and conditions thereof.

PROVISION FOR CREDIT LOSSES

Amount intended to cover losses on other off-balance sheet financial assets and financial assets recognized in the combined balance sheets, in addition to the allowance for credit losses. Individual allowances are established to reduce the carrying amount of some assets (especially impaired loans) to an estimated realizable value. A collective allowance is established for expected losses on total unimpaired loans when credit losses cannot yet be estimated on an individual basis. For this purpose, these loans are aggregated in financial asset groups having similar credit characteristics.

REGULATORY CAPITAL

In accordance with the definition set out in the guideline on capital standards issued by the *Autorité des marchés financiers*, 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.

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.

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 *Autorité des marchés financiers* guidelines. For more details, see the “Capital management” section of the Management’s Discussion and Analysis.

SECURITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Security held on a short-term basis for arbitrage purposes.

SECURITY BORROWED OR PURCHASED

Security typically borrowed or purchased to cover short positions. 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 the short positions 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 securities it does not own. Typically, the seller initially borrows the securities to deliver them to the purchaser. At a later date, the seller buys identical securities to replace the borrowed securities.

SECURITIZATION

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities and transferred to a trust.

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.

STANDARDIZED APPROACH

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 *Autorité des marchés financiers* to determine the risk-weighing factors related to the various exposure categories.

STRUCTURED ENTITY

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 voting rights relate to administrative tasks only and the relevant activities are managed through 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 allow it to finance its activities without subordinated financial support, or financing in the form of multiple contractually linked instruments to investors.

SUBORDINATED BOND

Unsecured bond whose repayment in the event of liquidation is subordinated to the prior repayment of certain other creditors.

SUBPRIME RESIDENTIAL MORTGAGE LOAN

Loan to a borrower with a high credit risk profile.

SUBSIDIARY

Company controlled by the *Fédération des caisses Desjardins du Québec*.

SWAP

Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

UNDERWRITING EXPERIENCE

In life and health insurance, the difference between actual results and actuarial assumptions, used to determine premiums or actuarial liabilities, as applicable.

VALUE-AT-RISK (VAR)

Estimated value of the potential loss for a certain period of time at a given confidence level.

Cooperating in building the future