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		Undistributed surplus earnings	Accumulated other comprehensive income (Note 24)	Reserves				Equity - Group's share	Non-controlling interests (Note 15)	Total equity
		Capital stock (Note 22)	Share capital (Note 23)			Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves			
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:

Categories		Classes	Recognition	
			Initial	Subsequent
Financial assets	At fair value through profit or loss (i)	Held for trading (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Loans and receivables (iv)		Fair value	Amortized cost
	Available for sale (v)		Fair value	Fair value
	Held to maturity (vi)		Fair value	Amortized cost

(i) Financial assets 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:

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

(i) Financial liabilities 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	At fair value through profit or loss: 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%
Equity securities	9 29	Option valuation model Brokers' quotes	Proportion of credit spread (B, C) Increase in exercise price (B, C) Brokers' quotes	- -	75% 5%	- (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		Net amounts
				Financial instruments[2]	Financial collateral held/pledged	
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.