Desjardins

PRESS RELEASE

Under embargo – February 26, 2020
PRDG2011

Results for fiscal 2019

AN ACTIVE AND INVOLVED GROUP. Highlights of Desjardins's fourth quarter of 2019 include pledging $50 million a year to support youth initiatives and being ranked one of Canada's Top Employers for Young People by Mediacorp.

Desjardins Group posts excellent performance in 2019
and records $2,598 million in surplus earnings, up 11.7%

$445 million returned to members and the community,
including $317 million in member dividends, an increase of $64 million or 25.3%

Lévis, February 26, 2020 – For the fiscal year ended December 31, 2019, Desjardins Group, Canada's leading financial cooperative group, recorded surplus earnings before member dividends of $2,598 million, up $272 million or 11.7% from fiscal 2018. This result includes a gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand. Recall that results for fiscal 2018 benefited from the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. Adjusted surplus earnings[1] were therefore up $92 million or 4.2%. This increase stemmed from continued growth in the caisse network and in payment and financing activities, offset by investment gains in the Wealth Management and Life and Health Insurance segment that were smaller than in 2018. In property and casualty insurance, lower investment income was partly offset by a slightly favourable change in claims experience, which nevertheless remained high. Additional factors compared to 2018 include a reduction in provisions related to the investment portfolio and the impact of changes to the post-retirement benefit plan, which had a favourable impact on non-interest expenses. Concerning the privacy breach, expenses related to costs incurred and the establishment of a provision for the implementation of Desjardins Identity Protection totalled $108 million in 2019.

[1] See "Non-GAAP measures."

The amount returned to members and the community totalled $445 million, including a $317 million provision for member dividends, $87 million in sponsorships, donations and scholarships, and $41 million in Desjardins Member Advantages. There was also $40 million in commitments related to the $100 million regional development fund.

At the end of the fourth quarter ended December 31, 2019, surplus earnings before member dividends stood at $935 million, up $357 million or 61.8%. This result includes a gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand. Adjusted surplus earnings[(1)] were therefore up $48 million or 8.3%. This increase stemmed mainly from growth in activities.

"Desjardins's higher surplus earnings, increasing membership, growing member dividends and strong capital base are all evidence of its strength, resilience and growth potential," said President and CEO Guy Cormier. "I am very proud of the remarkable results of the past year and, above all, of the efforts and perseverance of all Desjardins Group employees, who were able to offer relevant solutions to our members and clients. Once again, I want to thank our members and clients for their solidarity and trust in Desjardins."

Giving back to the community

In addition to the sustained commitment of the caisses in the communities they serve, here are some of the other ways that Desjardins made a positive difference in people's lives since the third quarter.

- Over $50 million a year to support young people through youth initiatives in Quebec and Ontario communities. These initiatives contribute to the well-being of young people, promote their inclusion and nurture their talent.
- Partner of Operation Red Nose for the 36th year. Together, we encourage responsible consumption and road safety. The money raised goes to youth projects, a cause that's important to Desjardins.
- Desjardins was ranked by Mediacorp as one of Canada's Top Employers for Young People, due in part to its Young Intern Officer program and Young Executives Network.

Last November, the cooperative world lost Claude Béland, one of its most ardent supporters. For 13 years (from 1987 to 2000) he steered Desjardins toward its destiny. Claude advocated for a fairer and more cohesive society during and even after his career at Desjardins Group.

Innovating

Desjardins is constantly innovating to meet the needs of its members and clients. Here are just a few examples of the financial group's initiatives and the recognition it has received for its expertise.

- As announced on November 1, 2019, Desjardins Capital plans to double its assets under management between now and 2024, from $2.5 billion to $5 billion, in order to support businesses in their succession and expansion projects.
- The Desjardins Québec Balanced Fund (Class A units) won a Lipper Fund Award in the 10-year "Neutral Balanced Fund" category. These awards highlight funds that have excelled relative to their peers in delivering consistently strong risk-adjusted performance. Since 2007, Desjardins has won 16 Lipper Fund Awards in 5 different categories.
- Wealth management advisory services was reorganized to form one big team, with collaboration among the Signature Service, securities brokerage, Private Wealth Management and online brokerage teams.

[1] See "Non-GAAP measures."

Financial highlights

Comparison of fiscal 2019 with fiscal 2018:

- Surplus earnings before member dividends of $2,598 million, up $272 million or 11.7%, including a gain recognized in 2019 related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand. Recall that results for fiscal 2018 benefited from the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
- Adjusted surplus earnings(1) before member dividends totalled $2,289 million, an increase of $92 million or 4.2%.
- Operating income of $17,909 million, an increase of $1,333 million or 8.0%.
- Adjusted operating income(1) of $17,560 million, an increase of $1,116 million or 6.8%.
- Total capital ratio of 21.6%, compared to 17.6%.
- $445 million returned to members and the community, an increase of $56 million or 14.4%.
- Assets surpassed $300 billion in fiscal 2019, rising to $313 billion as at December 31, 2019.

Comparison of the fourth quarters of 2019 and 2018:

- Surplus earnings before member dividends totalled $935 million, an increase of $357 million or 61.8%.
- Adjusted surplus earnings(1) before member dividends totalled $626 million, an increase of $48 million or 8.3%.

[1] See "Non-GAAP measures."

FINANCIAL HIGHLIGHTS

(in millions of dollars and as a percentage)	As at and for the three-month periods ended			For the years ended December 31	
	December 31, 2019[1]	September 30, 2019[1]	December 31, 2018	**2019[1]**	2018
Results					
Net interest income	**$ 1,424**	$ 1,372	$ 1,284	**$ 5,359**	$ 4,894
Net premiums	**2,527**	2,326	2,221	**9,412**	8,823
Other operating income[2]	**1,025**	696	640	**3,138**	2,859
Operating income[2]	**4,976**	4,394	4,145	**17,909**	16,576
Investment income[2]	**(116)**	592	303	**2,883**	734
Total income	**4,860**	4,986	4,448	**20,792**	17,310
Provision for credit losses	**113**	154	89	**365**	384
Claims, benefits, annuities and changes in insurance contract liabilities	**1,426**	2,258	1,821	**9,163**	6,579
Non-interest expense	**2,194**	1,849	1,846	**8,015**	7,485
Income taxes on surplus earnings	**192**	155	114	**651**	536
Surplus earnings before member dividends	**$ 935**	$ 570	$ 578	**$ 2,598**	$ 2,326
Adjusted surplus earnings before member dividends[2]	**$ 626**	$ 570	$ 578	**$ 2,289**	$ 2,197
Contribution to combined surplus earnings by business segment[3]					
Personal and Business Services	**$ 672**	$ 413	$ 329	**$ 1,881**	$ 1,272
Wealth Management and Life and Health Insurance	**299**	108	183	**729**	894
Property and Casualty Insurance	**111**	34	25	**187**	173
Other	**(147)**	15	41	**(199)**	(13)
	$ 935	$ 570	$ 578	**$ 2,598**	$ 2,326
Amount returned to members and the community					
Member dividends	**$ 80**	$ 80	$ 60	**$ 317**	$ 253
Sponsorships, donations and scholarships	**32**	17	16	**87**	94
Desjardins Member Advantages	**10**	9	9	**41**	42
	$ 122	$ 106	$ 85	**$ 445**	$ 389
Indicators					
Net interest margin[2]	**2.59%**	2.52%	2.49%	**2.45%**	2.39%
Return on equity[2]	**13.7**	8.5	9.0	**9.9**	9.3
Adjusted return on equity[2]	**9.3**	8.6	9.2	**8.9**	8.9
Productivity index[2]	**63.9**	67.8	70.3	**68.9**	69.8
Adjusted productivity index[2]	**71.1**	67.8	70.3	**71.1**	70.6
Credit loss provisioning rate[2]	**0.22**	0.31	0.19	**0.18**	0.21
Gross credit-impaired loans[4]/ gross loans and acceptances ratio[2]	**0.56**	0.60	0.54	**0.56**	0.54
Liquidity coverage ratio[5]	**130.2**	125.6	122.1	**130.2**	122.1
On-balance sheet and off-balance sheet					
Assets	**$ 312,996**	$ 312,731	$ 295,465	**$ 312,996**	$ 295,465
Net loans and acceptances	**203,462**	199,975	190,670	**203,462**	190,670
Deposits	**193,918**	192,820	183,158	**193,918**	183,158
Equity	**27,429**	26,988	25,649	**27,429**	25,649
Assets under administration	**426,870**	428,622	373,558	**426,870**	373,558
Assets under management[6]	**67,553**	66,327	57,448	**67,553**	57,448
Capital ratio and leverage ratio					
Tier 1A capital ratio	**21.6%**	17.9%	17.3%	**21.6%**	17.3%
Tier 1 capital ratio	**21.6**	17.9	17.3	**21.6**	17.3
Total capital ratio	**21.6**	18.1	17.6	**21.6**	17.6
Leverage ratio	**8.8**	8.6	8.3	**8.8**	8.3
Other information					
Number of employees	**47,849**	48,033	46,216	**47,849**	46,216

(1) The information presented as at December 31, 2019 and as at September 30, 2019 takes into account IFRS 16, "Leases," adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies," to the Combined Financial Statements.
(2) See the "Non-GAAP Measures" section.
(3) The breakdown by line item is presented in Note 31, "Segmented information," to the Combined Financial Statements.
(4) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.
(5) Average for the quarters ended September 30 and December 31 of each year indicated.
(6) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.

Assets surpassed 300 billion in fiscal 2019, rising to $313.0 billion

As at December 31, 2019, Desjardins Group had total assets of $313.0 billion, up $17.5 billion or 5.9% since December 31, 2018. This growth was largely due to the increase in net loans and acceptances as well as segregated fund net assets, which grew $12.8 billion and $3.8 billion, respectively.

Strong capital base

Desjardins Group maintains very good capitalization levels in compliance with Basel III rules. Its Tier 1A and total capital ratios were both 21.6% as at December 31, 2019, compared to ratios of 17.3% and 17.6% as at December 31, 2018.

As at December 31, 2019, the Tier 1A capital ratio was 425 basis points higher as compared to December 31, 2018. This increase was mainly due to a decrease in risk weighted assets following authorization from the *Autorité des marchés financiers* to begin using internal models on December 31, 2019 when calculating credit risk in the following asset classes: sovereign borrowers, financial institutions, businesses and SMEs similar to other retail exposures.

Privacy breach

In 2019, Desjardins Group announced that personal information on its members had been communicated to persons outside the organization, and that the ill-intentioned employee had quickly been identified and dismissed. In light of this situation, Desjardins Group developed Desjardins Identity Protection, which has four components (protection, support, reimbursement and monitoring) and is provided at Desjardins's expense to all members and clients who do business with Desjardins. The credit ratings assigned by the ratings agencies DBRS, Fitch, Moody's and Standard & Poor's to Desjardins Group's senior securities remained unchanged following these announcements. In addition, expenses related to costs incurred and the establishment of a provision for the implementation of Desjardins Identity Protection totalled $108 million for the fiscal year ended December 31, 2019, compared to $70 million as at September 30, 2019.

Analysis of business segment results

PERSONAL AND BUSINESS SERVICES SEGMENT

(in millions of dollars and as a percentage)	For the three-month periods ended			For the years ended December 31	
	December 31, 2019[1]	September 30, 2019[1]	December 31, 2018	2019[1]	2018
Net interest income	$ 1,243	$ 1,301	$ 1,156	$ 4,862	$ 4,374
Other operating income[2]	903	520	498	2,495	2,007
Operating income[2]	2,146	1,821	1,654	7,357	6,381
Investment income[2]	10	(6)	(22)	63	100
Total income	2,156	1,815	1,632	7,420	6,481
Provision for credit losses	117	154	85	368	385
Non-interest expense	1,205	1,097	1,119	4,586	4,406
Income taxes on surplus earnings	162	151	99	585	418
Surplus earnings before member dividends	672	413	329	1,881	1,272
Member dividends net of income tax recovery	57	60	43	232	185
Net surplus earnings for the year after member dividends	$ 615	$ 353	$ 286	$ 1,649	$ 1,087
Surplus earnings before member dividends	672	413	329	1,881	1,272
Specific item, net of income taxes					
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	(309)	-	-	(309)	-
Adjusted surplus earnings before member dividends[2]	$ 363	$ 413	$ 329	$ 1,572	$ 1,272

(1) The information presented as at December 31, 2019 and as at September 30, 2019 takes into account IFRS 16, "Leases," adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies," to the Combined Financial Statements.

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

Results for the year

For fiscal 2019, the Personal and Business Services segment reported surplus earnings before member dividends of $1,881 million, up $609 million or 47.9% from fiscal 2018. Adjusted net surplus earnings[1] were up $300 million or 23.6%. This increase was largely due to the solid performance in the caisse network, mainly related to growth in net interest income, a decline in the credit loss provision, a decrease in expenses related to the winding down of Zag Bank's operations, and growth in payment and financing activities, offset by the profit related to the restructuring of Interac Corp. recognized in the first quarter of 2018.

Operating income was $7,357 million, up $976 million or 15.3% from fiscal 2018. The increase was mainly due to higher net interest income stemming from growth in the entire average portfolio of loans and acceptances outstanding, the gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand, growth in business volumes from payment and financing activities and higher income from new capital market issues.

Investment income for the year was $63 million, down $37 million from fiscal 2018, essentially due to the profit related to the restructuring of Interac Corp. recognized in the first quarter of 2018.

[1] See "Non-GAAP measures."

The credit loss provision was $368 million, down $17 million from fiscal 2018, mainly due to the refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards and lines of credit, offset by the migration of exposures to higher risk ratings in the consumer loan portfolio for credit cards.

Non-interest expenses were $4,586 million, up $180 million or 4.1% compared to fiscal 2018, mainly due to the increase from the favourable impact of the change in the post-retirement benefit plan made in fiscal 2018, growth in payment and financing activities as well as business growth, particularly in activities aimed at enhancing the service offer to caisse members and clients. This increase was offset by lower expenses resulting from the winding down of Zag Bank's operations.

Results for the fourth quarter

For the fourth quarter of 2019, surplus earnings before member dividends were $672 million, up $343 million from the same period of 2018. This result includes a gain, net of income taxes, of $309 million related to the to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand. Adjusted surplus earnings[1] were therefore up $34 million or 10.3%. The increase was due to good performance by the caisse network, related in particular to the growth in net interest income, trading income and income from capital market issues. This increase was offset by the increase in the provision for credit losses.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE SEGMENT

	For the three-month periods ended			For the years ended December 31	
(in millions of dollars)	**December 31, 2019(1)**	September 30, 2019(1)	December 31, 2018	**2019(1)**	2018
Net interest income	**$ 1**	$ 1	$ 1	**$ 5**	$ 4
Net premiums	**1,291**	1,113	1,134	**4,685**	4,676
Other operating income(2)	**410**	399	385	**1,596**	1,716
Operating income(2)	**1,702**	1,513	1,520	**6,286**	6,396
Investment income(2)	**(154)**	531	222	**2,442**	387
Total income	**1,548**	2,044	1,742	**8,728**	6,783
Provision for (recovery of) credit losses	**-**	1	4	**1**	(1)
Claims, benefits, annuities and changes in insurance contract liabilities	**588**	1,331	962	**5,497**	3,369
Non-interest expense	**610**	581	524	**2,348**	2,296
Income taxes on surplus earnings	**51**	23	69	**153**	225
Net surplus earnings for the year	**$ 299**	$ 108	$ 183	**$ 729**	$ 894
Specific item, net of income taxes					
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**-**	-	-	**-**	(129)
Adjusted net surplus earnings for the year(2)	**$ 299**	$ 108	$ 183	**$ 729**	$ 765

(1) The information presented as at December 31, 2019 and as at September 30, 2019 takes into account IFRS 16, "Leases," adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies," to the Combined Financial Statements.

(2) See the "Non-GAAP Measures" section.

[1] See "Non-GAAP measures."

Results for the year

Net surplus earnings generated by the Wealth Management and Life and Health Insurance segment were $729 million at the end of fiscal 2019, down $165 million or 18.5% compared to fiscal 2018. Adjusted net surplus earnings(1) were therefore down $36 million or 4.7%. This decrease was due to lower gains on the sale of securities and real estate investments than in fiscal 2018 and higher expenses in fiscal 2019, offset by favourable adjustments to actuarial assumptions in the normal course of business.

Operating income was $6,286 million, down $110 million or 1.7% compared to fiscal 2018. The decline was mainly due to the gain recognized in 2018 related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., as well as the decrease in income following the transaction involving Qtrade Canada Inc. This decrease was offset by higher income from growth in assets under management and income from the interest in Aviso Wealth.

Investment income was $2,442 million, up $2,055 million compared to fiscal 2018, primarily due to an increase resulting from changes in the fair value of assets backing liabilities related to life and health insurance operations, offset by lower gains on the sale of securities and real estate investments than were realized in fiscal 2018.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities were $5,497 million, up $2,128 million compared to fiscal 2018, mainly due to the increase in actuarial liabilities under "Insurance contract liabilities," which included the effect of the increase in the fair value of matched investments and favourable adjustments to actuarial assumptions in the normal course of business.

Non-interest expenses totalled $2,348 million, up $52 million or 2.3% compared to fiscal 2018 mainly due to higher administrative expenses and a higher expense related to assets under management, offset by the transaction involving Qtrade Canada Inc. in fiscal 2018 which resulted in lower expenses in fiscal 2019.

Results for the fourth quarter

For the fourth quarter of 2019, net surplus earnings were $299 million, up $116 million from the same period of 2018. This increase was mainly due to favourable adjustments made to actuarial assumptions in the normal course of business.

PROPERTY AND CASUALTY INSURANCE SEGMENT

	For the three-month periods ended			For the years ended December 31	
(in millions of dollars and as a percentage)	**December 31, 2019**	September 30, 2019	December 31, 2018	**2019**	2018
Net premiums	**$ 1,303**	$ 1,279	$ 1,150	**$ 4,988**	$ 4,402
Other operating income (loss)(1)	**(63)**	(59)	(72)	**(188)**	(188)
Operating income(1)	**1,240**	1,220	1,078	**4,800**	4,214
Investment income(1)	**68**	47	109	**341**	336
Total income	**1,308**	1,267	1,187	**5,141**	4,550
Claims, benefits, annuities and changes in insurance contract liabilities	**834**	925	857	**3,665**	3,209
Non-interest expense	**320**	299	299	**1,229**	1,127
Income taxes on surplus earnings	**43**	9	6	**60**	41
Net surplus earnings for the year	**$ 111**	$ 34	$ 25	**$ 187**	$ 173

(1) See the "Non-GAAP Measures" section.

1 See "Non-GAAP measures."

Results for the year

The Property and Casualty Insurance segment recorded $187 million in net surplus earnings for fiscal 2019, up $14 million or 8.1% compared to fiscal 2018. This increase stems in part from lower claims experience when compared to the previous year, offset by lower dividend income than in 2018.

Operating income was $4,800 million, up $586 million or 13.9% compared to the same period of 2018. This increase was due to premium income, in particular growth in the average premium arising from rate increases and a larger number of policies issued.

Investment income was $341 million, up $5 million or 1.5% compared to fiscal 2018.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $3,665 million, up $456 million or 14.2% compared to fiscal 2018, mainly due to business growth and the unfavourable impact of the decrease in the discount rates, offset by lower claims experience.

Non-interest expense was $1,229 million, up $102 million or 9.1% compared to fiscal 2018 due mainly to an increase in the expense related to business growth and to the revaluation of the deferred compensation plan provision.

Results for the fourth quarter

For the fourth quarter of 2019, net surplus earnings were $111 million, up $86 million from the same period of 2018. Lower claims experience compared to same period of 2018 largely explains the higher surplus earnings in the comparative quarter, offset by a decrease in investment income.

OTHER CATEGORY

Results for the year

The Other category posted a net deficit of $199 million for fiscal 2019 compared to a net deficit of $13 million for fiscal 2018.

This change in the net deficit was mainly due to expenses and provisions related to the implementation of protections for members and clients, i.e., the credit monitoring service and Desjardins Identity Protection, totalling $108 million, and lower investment portfolio provisions, which partly offset the deficit reported for fiscal 2018. The Other category also includes expenses related to the continued implementation of Desjardins-wide strategic projects, in particular to improve systems and processes and to create innovative technology platforms mainly related to the digital transformation and information security.

Results for the fourth quarter

The net deficit for the fourth quarter was $147 million compared to net surplus earnings of $41 million for the same period of 2018.

More detailed financial information can be found in Desjardins Group's 2019 Management's Discussion and Analysis (MD&A), which will be available on the SEDAR website on March 2, 2020 under the Desjardins Capital Inc. profile.

About Desjardins Group

Desjardins Group is the leading cooperative financial group in Canada and the fifth largest cooperative financial group in the world, with assets of $313.0 billion. It has been rated one of Canada's Top 100 Employers by Mediacorp. To meet the diverse needs of its members and clients, Desjardins offers a full range of products and services to individuals and businesses through its extensive distribution network, online platforms and subsidiaries across Canada. Ranked among the world's strongest banks according to *The Banker* magazine, Desjardins has one of the highest capital ratios and credit ratings in the industry.

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Caution concerning forward-looking statements

Certain statements made in this press release may be forward-looking. By their very nature, forward-looking statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, these assumptions, predictions, forecasts or other forward-looking statements, as well as Desjardins Group's objectives and priorities, may not materialize or may prove to be inaccurate and that actual results may differ materially. Various factors that are beyond Desjardins Group's control and whose impacts on Desjardins are therefore difficult to predict could influence, individually or collectively, the accuracy of the forward-looking statements in this press release. Additional information on these and other factors are available under the risk management section of Desjardins Group's 2019 MD&A. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable and have a valid basis, it cannot guarantee that these expectations will materialize or prove to be correct. Desjardins Group cautions readers against placing undue reliance on these forward-looking statements when making decisions since actual results, conditions, actions and future events could differ significantly from targets, expectations, estimates or intents expressed in the forward-looking statements, either explicitly or implicitly. Desjardins Group does not undertake to update any verbal or written forward-looking statements that may be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

Basis of presentation of financial information

The financial information in this document comes primarily from the 2019 combined annual financial statements. Those 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, and the accounting requirements of the *Autorité des marchés financiers* in Quebec, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). Desjardins Group modified certain accounting policies following the adoption of IFRS 16, "Leases" on January 1, 2019. Unless otherwise indicated, all amounts are in Canadian dollars ($) and come mainly from the Combined Financial Statements of Desjardins Group.

Non-GAAP Measures

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

Adjusted surplus earnings of Desjardins Group before member dividends

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

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

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

	For the three-month periods ended			For the years ended December 31	
(in millions of dollars)	**December 31, 2019[1]**	September 30, 2019[1]	December 31, 2018	**2019[1]**	2018
Presentation of surplus earnings before member dividends in the Combined Financial Statements	**$ 935**	$ 570	$ 578	**$ 2,598**	$ 2,326
Specific items, net of income taxes					
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**-**	-	-	**-**	(129)
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	**(309)**	-	-	**(309)**	-
Presentation of adjusted surplus earnings before member dividends	**$ 626**	$ 570	$ 578	**$ 2,289**	$ 2,197

[1] The information presented as at December 31, 2019 and as at September 30, 2019 takes into account IFRS 16, "Leases," adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies," to the Combined Financial Statements.

Adjusted surplus earnings of the Personal and Business Services segment before member dividends

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

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

(in millions of dollars)	For the three-month periods ended			For the years ended December 31	
	December 31, 2019[(1)]	September 30, 2019[(1)]	December 31, 2018	**2019[(1)]**	2018
Presentation of surplus earnings of the Personal and Business Services segment before member dividends in the Combined Financial Statements	**$ 672**	$ 413	$ 329	**$ 1,881**	$ 1,272
Specific item, net of income taxes					
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	**(309)**	-	-	**(309)**	-
Presentation of the adjusted surplus earnings of the Personal and Business Services segment before member dividends	**$ 363**	$ 413	$ 329	**$ 1,572**	$ 1,272

(1) The information presented as at December 31, 2019 and as at September 30, 2019 takes into account IFRS 16, "Leases," adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies," to the Combined Financial Statements.

Adjusted net surplus earnings of the Wealth Management and Life and Health Insurance segment

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

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

(in millions of dollars)	For the three-month periods ended			For the years ended December 31	
	December 31, 2019[(1)]	September 30, 2019[(1)]	December 31, 2018	**2019[(1)]**	2018
Presentation of net surplus earnings of the Wealth Management and Life Insurance segment in the Combined Financial Statements	**$ 299**	$ 108	$ 183	**$ 729**	$ 894
Specific item, net of income taxes					
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**-**	-	-	**-**	(129)
Presentation of the adjusted net surplus earnings of the Wealth Management and Life and Health Insurance segment	**$ 299**	$ 108	$ 183	**$ 729**	$ 765

(1) The information presented as at December 31, 2019 and as at September 30, 2019 takes into account IFRS 16, "Leases," adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies," to the Combined Financial Statements.

Gross credit-impaired loans/gross loans and acceptances

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

Return on equity and adjusted return on equity

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

Income

Operating income

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

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

Investment income

Investment income includes net investment income on securities classified and designated as being at fair value through profit or loss, net investment income on securities classified as being at fair value through other comprehensive income, and net investment income on securities measured at amortized cost and other investment income included in the Combined Statement of Income under "Net investment income." It also includes the overlay approach adjustment for insurance operations financial assets. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income, given that these assets back insurance liabilities, which are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Combined Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss.

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

(in millions of dollars)	For the three-month periods ended			For the years ended December 31	
	December 31, 2019[1]	September 30, 2019[1]	December 31, 2018	**2019[1]**	2018
Presentation of income in the Combined Financial Statements					
Net interest income	**$ 1,424**	$ 1,372	$ 1,284	**$ 5,359**	$ 4,894
Net premiums	**2,527**	2,326	2,221	**9,412**	8,823
Other income					
Deposit and payment service charges	**109**	116	114	**431**	433
Lending fees and credit card service revenues	**185**	193	177	**774**	697
Brokerage and investment fund services	**226**	223	211	**886**	905
Management and custodial service fees	**155**	146	130	**582**	551
Net investment income[2]	**(94)**	605	45	**3,075**	211
Overlay approach adjustment for insurance operations financial assets	**(22)**	(13)	258	**(192)**	523
Foreign exchange income	**12**	11	29	**64**	91
Other	**338**	7	(21)	**401**	182
Total income	**$ 4,860**	$ 4,986	$ 4,448	**$ 20,792**	$ 17,310
Presentation of income in the MD&A					
Net interest income	**$ 1,424**	$ 1,372	$ 1,284	**$ 5,359**	$ 4,894
Net premiums	**2,527**	2,326	2,221	**9,412**	8,823
Other operating income					
Deposit and payment service charges	**109**	116	114	**431**	433
Lending fees and credit card service revenues	**185**	193	177	**774**	697
Brokerage and investment fund services	**226**	223	211	**886**	905
Management and custodial service fees	**155**	146	130	**582**	551
Foreign exchange income	**12**	11	29	**64**	91
Other	**338**	7	(21)	**401**	182
Operating income	**4,976**	4,394	4,145	**17,909**	16,576
Investment income					
Net investment income[2]	**(94)**	605	45	**3,075**	211
Overlay approach adjustment for insurance operations financial assets	**(22)**	(13)	258	**(192)**	523
	(116)	592	303	**2,883**	734
Total income	**$ 4,860**	$ 4,986	$ 4,448	**$ 20,792**	$ 17,310

[1] The information presented as at December 31, 2019 and as at September 30, 2019 takes into account IFRS 16, "Leases," adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies,” to the Combined Financial Statements.

[2] The breakdown of this line item is presented in Note 26, "Net interest income and net investment income," to the Combined Financial Statements.

Credit loss provisioning rate

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

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

	For the three-month periods ended			For the years ended December 31	
(in millions of dollars and as a percentage)	**December 31, 2019**	September 30, 2019	December 31, 2018	**2019**	2018
Provision for credit losses	**$ 113**	$ 154	$ 89	**$ 365**	$ 384
Average gross loans	**202,126**	198,913	189,557	**197,109**	184,382
Average gross acceptances	**282**	188	206	**212**	105
Average gross loans and acceptances	**$ 202,408**	$ 199,101	$ 189,763	**$ 197,321**	$ 184,487
Credit loss provisioning rate	**0.22%**	0.31%	0.19%	**0.18%**	0.21%

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