



Desjardins

Cooperating in building the future

INNOVATIVE TOOLS, SOURCES AND APPROACHES TO STRENGTHEN COOPERATIVE CAPITALIZATION

Agenda

- 1. GENERAL FACTS AND FILENE SURVEY OF COOPERATIVE CAPITAL**
- 2. ABOUT DESJARDINS**
- 3. CAPITAL**
- 4. SELF-GENERATION OF CAPITAL, PROFITABILITY AND PRODUCTIVITY**
- 5. CONCLUSION**



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GENERAL FACTS AND FILENE SURVEY OF COOPERATIVE CAPITAL

General facts and findings of Filene survey

- ACCESS TO CAPITAL IS VITAL FOR ANY BUSINESS, INCLUDING COOPERATIVES
- ENSURE CAPITAL SOURCES WHILE PRESERVING MEMBER CONTROL CAN BE A CHALLENGE FOR COOPERATIVES
- HISTORICALLY, COOPERATIVE CAPITAL ORIGINATES FROM RETAINED EARNINGS AND WITHDRAWABLE CAPITAL (MEMBERS SHARE)
- SUCCESS CAN PUT SOME PRESSURE ON CAPITAL - IS MEMBER SHARE AND RETAINED EARNINGS SUFFICIENT TO GENERATE THE NECESSARY CAPITAL FOR GROWTH?
- COOPERATIVES ARE NOT ALL THE SAME. THE INDUSTRIES IN WHICH COOPERATIVES OPERATE AND THE TYPE OF COOP WILL IMPACT ITS CAPITAL STRUCTURE
- **SO WHAT CAN WE DO?**

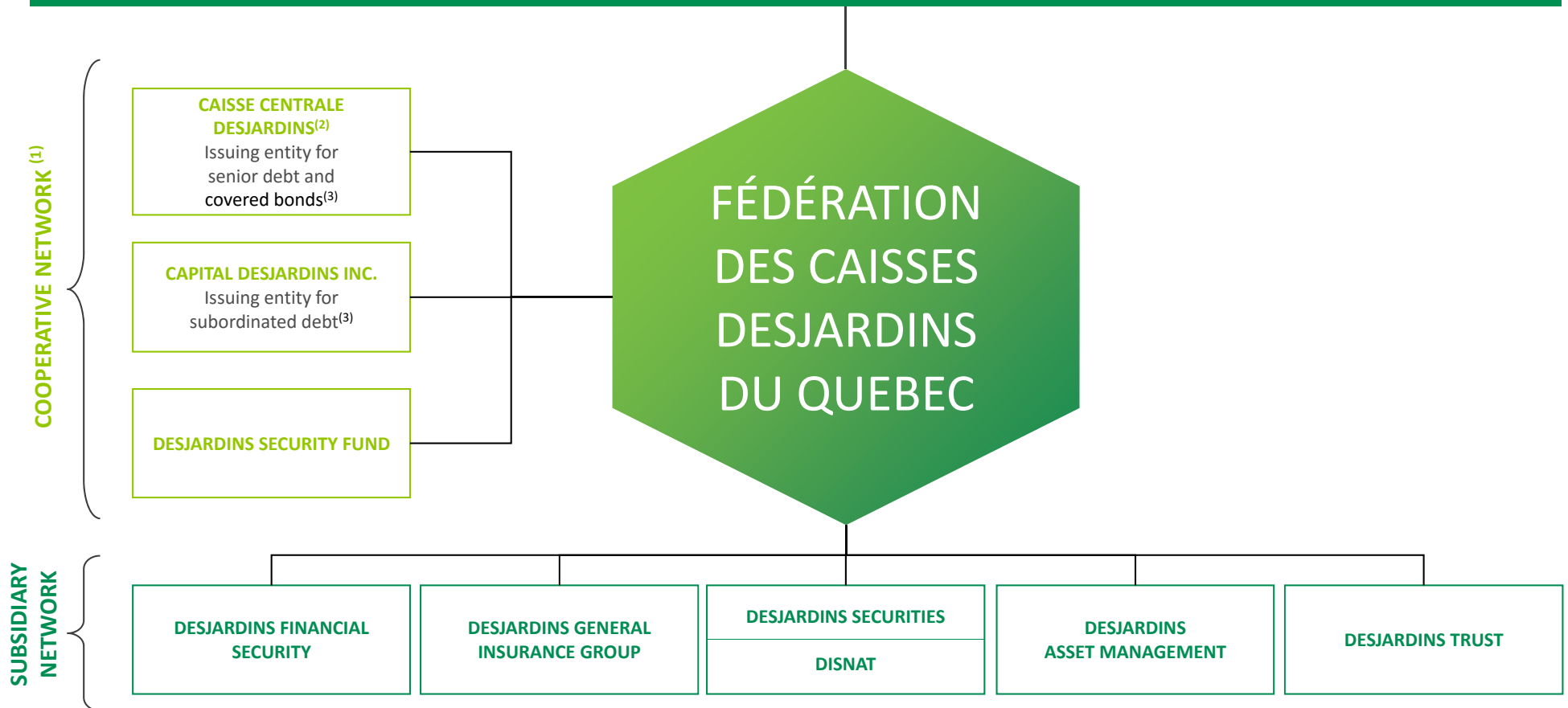


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ABOUT DESJARDINS

THE COOPERATIVE MODEL: **CREATING SUSTAINABLE PROSPERITY**

335 CAISSES IN QUEBEC AND ONTARIO





THE LARGEST FINANCIAL COOPERATIVE GROUP IN **CANADA**

Who we **are**

- ... Founded in Quebec in 1900
- ... Network of 335 credit unions or “caisses”
- ... More than 7 million members and clients
- ... More than 45,000 employees and 4,800 elected officers
- ... A strong advisory team of representatives and experts
- ... \$CAD 251BN in assets
- ... \$CAD 1,593 million in surplus earnings for 2014
- ... \$CAD 1,093 million in surplus earnings for the first half of 2015

Select **recognition**

Quebec’s largest private employer and among the 20 largest in Canada

In the world:

- ... The 5th strongest financial institution by Bloomberg (1st in North America)
- ... The 5th largest financial cooperative group
- ... The 26th safest financial institution by Global Finance (4th in North America)
- ... The 98th most important deposit-taking financial institution

Business **segments**

**Personal Services, Business
and Institutional Services**

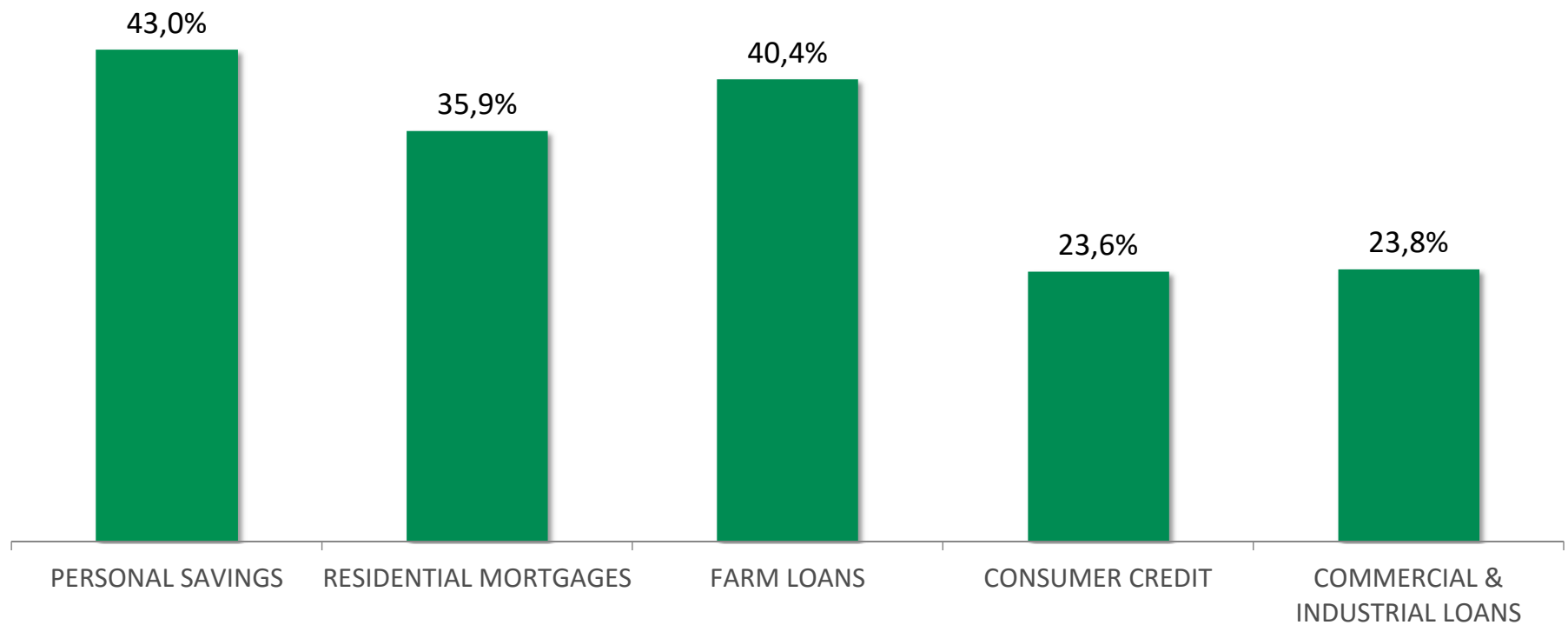
**Property and Casualty
Insurance**

**Wealth Management, Life
and Health Insurance**

Other

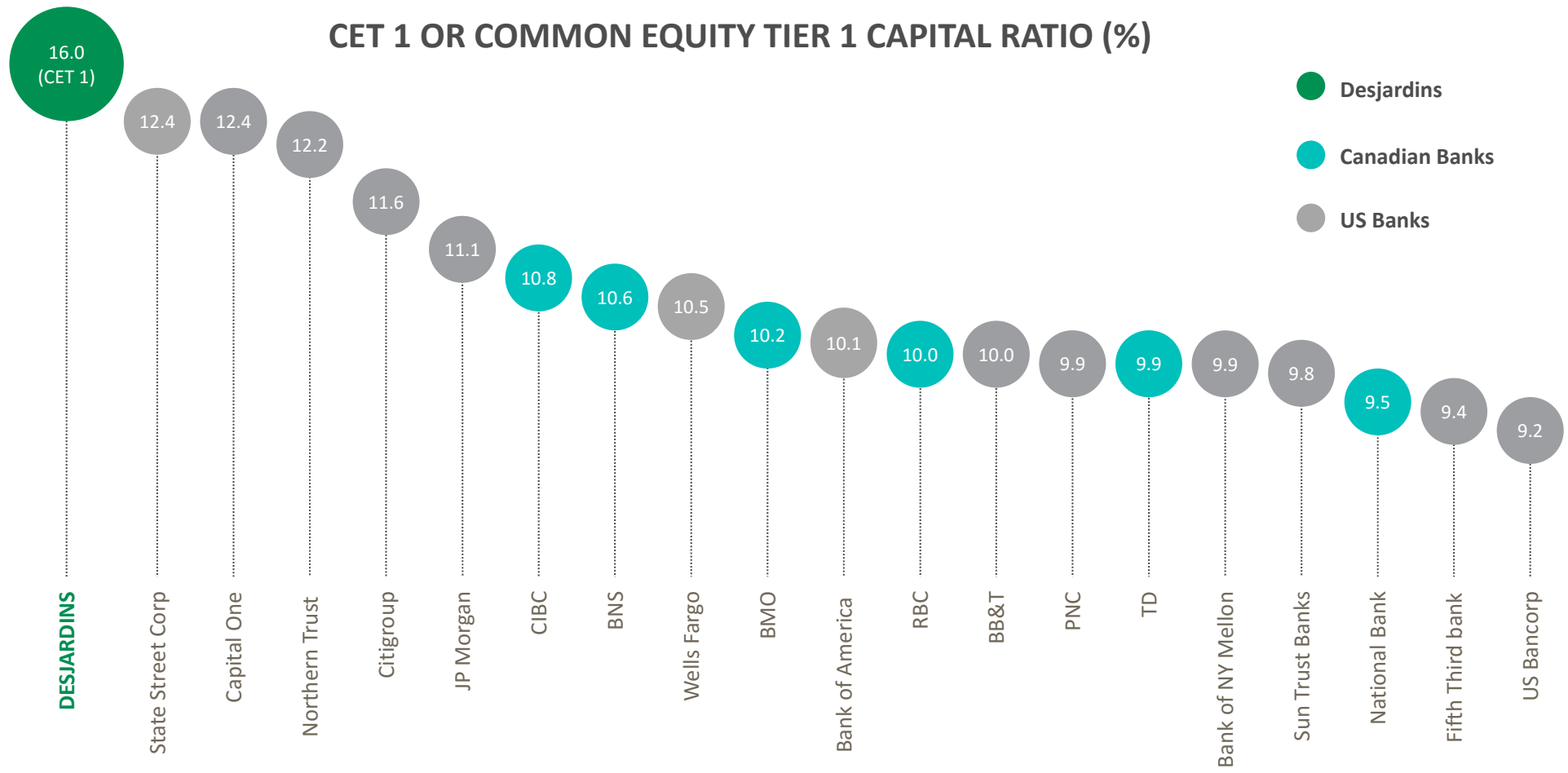
MARKET LEADERSHIP

LEADING MARKET SHARES IN QUEBEC



LEADING NORTH AMERICAN FINANCIAL INSTITUTION

Desjardins Group is one of the best-capitalized financial institutions in North America

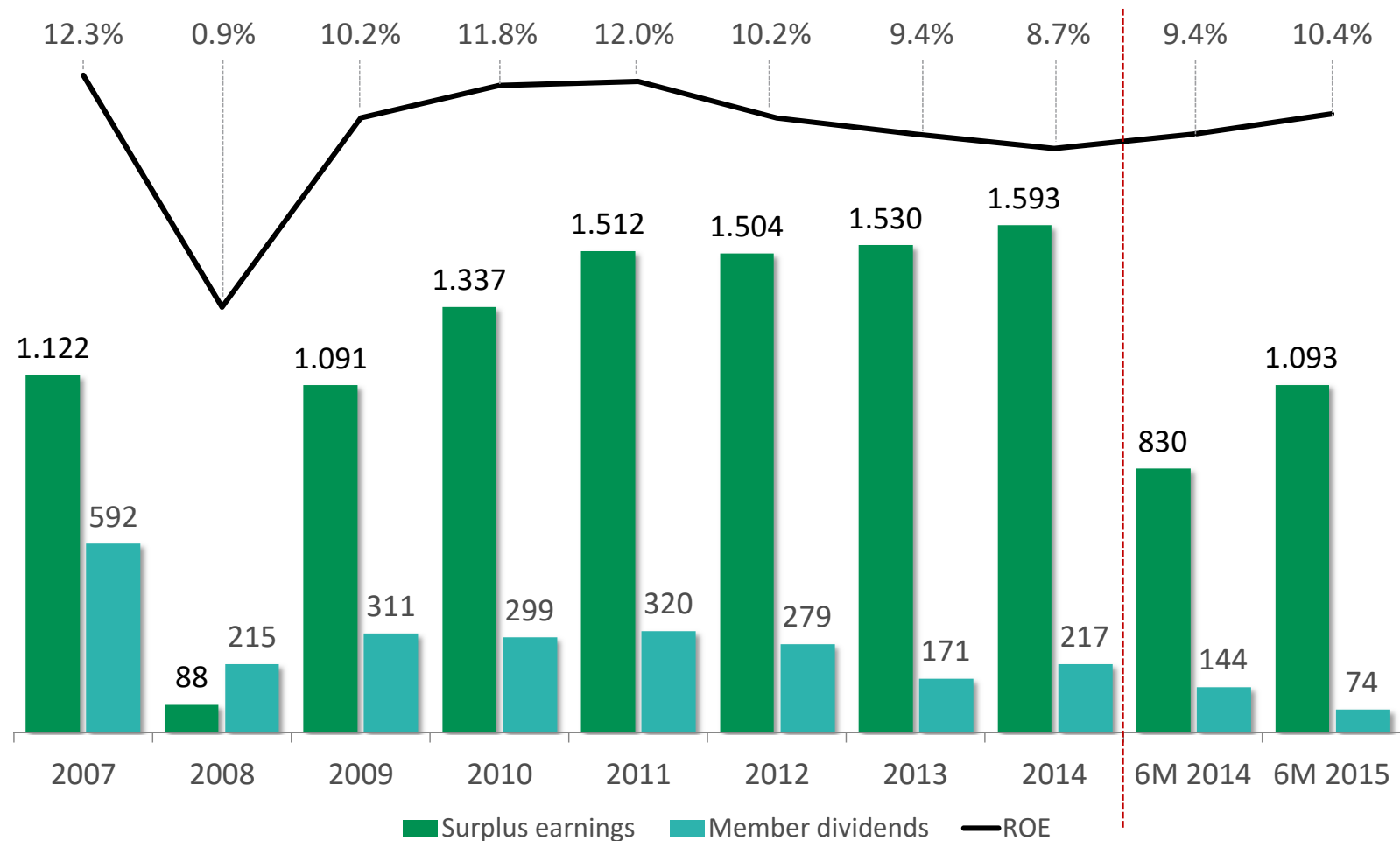


ENVIABLE FINANCIAL PERFORMANCE

	Q2 2015	Q2 2014	2014
Total assets (\$BN)	250.9	221.5	229.4
Loans (\$BN)			
Residential mortgages	100.2	94.8	97.5
Consumer, credit card and other personal loans	20.9	20.1	20.5
Business and government	34.6	31.7	32.9
Gross loans	155.7	146.6	150.9
Deposits (\$BN)	152.8	142.8	146.3
Equity (\$BN)	21.2	18.2	18.9
Surplus earnings before member dividends (\$MN)	629 (Q2 2015) 1,093 (6M 2015)	446 (Q2 2014) 830 (6M 2014)	1,593
CET 1 capital ratio	16.0%	15.5%	15.7%
Tier 1 capital ratio	16.0%	15.5%	15.8%
Total capital ratio	17.7%	17.8%	17.9%

SOLID AND STEADY PROFITABILITY

SURPLUS EARNINGS, MEMBER DIVIDENDS AND ROE (CAD \$ MN)





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CAPITAL

CAPITALIZATION **TOOLS**

- BEFORE BASEL I (1900-1988) AND FOR 88 YEARS: DESJARDINS GROUP USES RETAINED EARNINGS AND MEMBER SHARES TO BE WELL CAPITALIZED.
- BASEL I (1988) : CREATING PERMANENT SHARES : 330 ISSUERS (EACH “CAISSE”), 160 000 OWNERS, OUTSTANDING CAD \$ 2 BILLION
 - MID 1990 – CREATION OF CAPITAL DESJARDINS INC (SUB DEBT), OUTSTANDING CAD \$ 3 BILLION – ELIGIBLE FOR TIER 2 CAPITAL
- BASEL III (2010-...):
 - MAJOR CHALLENGE FOR DESJARDINS AND FINANCIAL COOPERATIVES: INTERNATIONAL STANDARDS AND NATIONAL REGULATORS TAKE INTO ACCOUNT ONLY THE CORPORATE OWNERSHIP MODEL
 - DESJARDINS RULES ARE EQUIVALENT TO THE CANADIAN BANKING SYSTEM
 - JANUARY 1ST, 2013 : PERMANENT SHARES + CAPITAL DESJARDINS INC NOT ELIGIBLE
 - CAD \$ 5 BILLION CAPITAL AMORTIZED FOR 10 YEARS
 - NEED TO FIND A NEW CAPITALIZATION TOOL

New Capital instrument – **“FEDERATION CAPITAL SHARE ”**

FOLLOWING THE INTRODUCTION OF BASEL III, DESJARDINS GROUP HAD TO DEVELOP A NEW INSTRUMENT OF CAPITALIZATION THAT WAS ELIGIBLE FOR CET 1 (THE BEST CAPITAL TO ABSORB LOSSES UNDER THE NEW REGULATORY FRAMEWORK).

- **CREATION OF A QUALIFYING CAPITAL – COMMON EQUITY TIER 1 (CET 1) – CALLED “FEDERATION CAPITAL SHARE ”**
- **REDUCED FROM 350 ISSUERS TO A SINGLE ISSUER SINCE THE REGULATORY CAPITALIZATION REQUIREMENT APPLIES AT THE CONSOLIDATED LEVEL**
- **INTERNAL DISTRIBUTION NETWORK AND SECONDARY MARKET**
- **MECHANISM IN PLACE TO EFFECTIVELY ALLOCATE CAPITAL AMONG THE VARIOUS SUBSIDIARIES**

CAPITAL STRUCTURE DESJARDINS

REGULATORY CAPITAL (\$MN)	Q2 2015	2014
CET 1 CAPITAL		
Eligible capital instruments	3,248	2,486
Capital instruments subject to phase out	1,471	1,681
Reserves	12,951	11,476
Undistributed surplus earnings	1,045	1,436
Other (including regulatory adjustments and deductions)	(2,508)	(1,816)
ADDITIONAL TIER 1 CAPITAL	19	24
TOTAL TIER 1 CAPITAL	16,226	15,287
TIER 2 CAPITAL		
Senior notes subject to phase out	2,164	2,474
Eligible collective allowance	284	291
Other (including regulatory adjustments and deductions)	(793)	(673)
TOTAL REGULATORY CAPITAL (Tier 1 and Tier 2)	17,881	17,379
CET 1 CAPITAL RATIO	16.0%	15.7%
TIER 1 CAPITAL RATIO	16.0%	15.8%
TOTAL CAPITAL RATIO	17.7%	17.9%
LEVERAGE RATIO	7.2%	-
RISK-WEIGHTED ASSETS (\$MN)	101,240	96,923

Pros and cons of “**FEDERATION CAPITAL SHARE**”

PROS:

- NO VOTE TO FEDERATION CAPITAL SHARE OWNER
- 1 MEMBER = 1 VOTE

CONS:

- CAN PUT PRESSURE ON THE COOPERATIVE IF MANY REDEMPTION REQUESTS AND NOT ENOUGH REQUISITION OF OTHER MEMBERS
- CAN REDUCE THE VOLUME OF BUSINESS IF THE MEMBER IS NO LONGER ABLE TO SELL ITS SHARE

WHICH COOPERATIVE SHOULD USE THIS TYPE OF INSTRUMENT?

- LARGE ENOUGH FINANCIAL COOPERATIVES TO ENSURE A MINIMUM VOLUME OF ISSUANCE AND AN EFFECTIVE SECONDARY MARKET
- ABLE TO AVOID CONCENTRATION OF SHARES BY A LIMITED NUMBER OF MEMBERS

ISSUES AND **CHALLENGES**

DESPITE OUR SUCCESS WITH “FEDERATION CAPITAL SHARES”, THIS FORM OF CAPITAL REMAINS THE ONLY ONE WE CAN ISSUE UNDER BASEL III.

- **NON-VIABILITY CONTINGENT CAPITAL (NVCC) CONDITIONS ARE NOT YET DEFINED (TIER 1 AND 2) FOR COOPERATIVES IN CANADA**
- **ABILITY TO ISSUE SHARES IS LIMITED BECAUSE OUR MEMBERS ARE LIMITED TO THE PROVINCE OF QUEBEC**
- **ISSUANCE TO OUR MEMBERS MAY BE INSUFFICIENT IN THE FUTURE COMPARED TO OUR DESIRED GROWTH**
- **ISSUANCE TO NON-MEMBERS REPRESENTS A SIGNIFICANT CHANGE (LEGISLATIVE, MARKET CREATION, DISTRIBUTION, CONTROL, ETC.) BUT MUST BE ASSESSED AND WE WILL TAKE INTO ACCOUNT THE EXPERIENCE OF OTHER COOPERATIVES IN THIS MATTER**



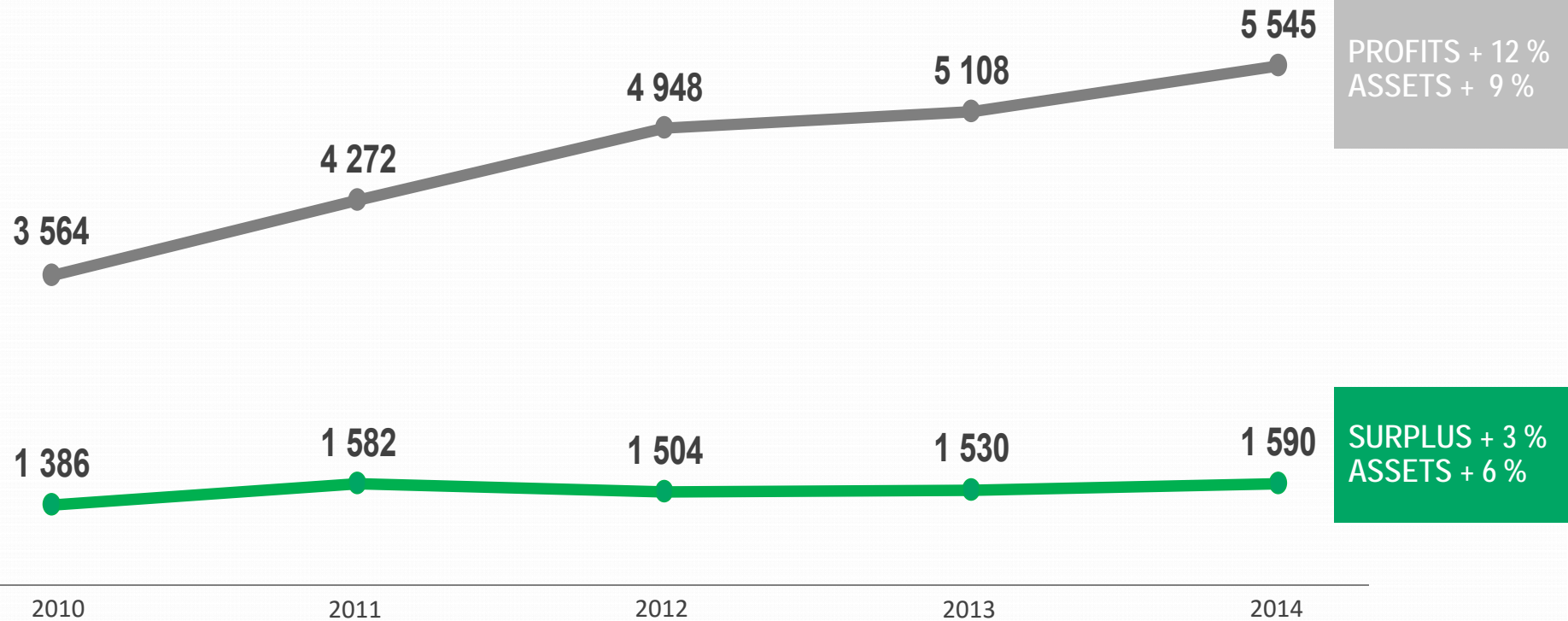
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**Self-generation of
capital,
profitability and
productivity**

Profitability : Our competitors are growing faster than we are

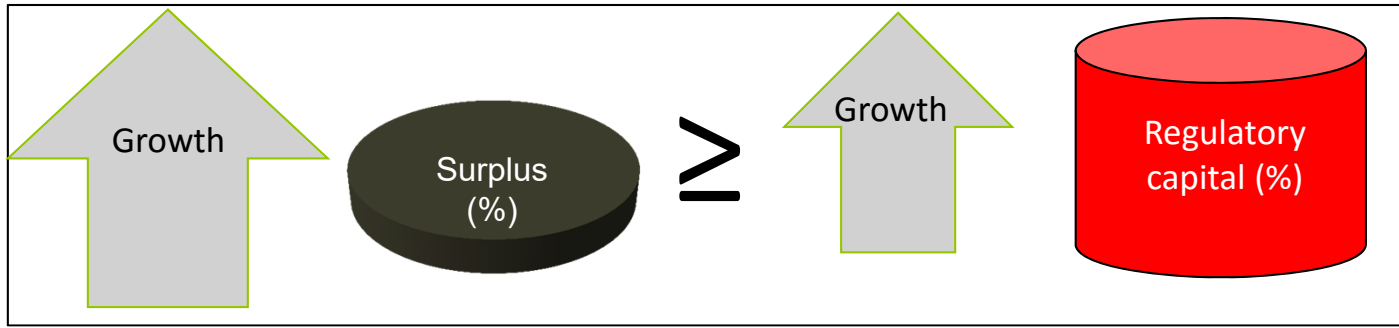
The growth of Desjardins surplus earnings is lower than that of its total assets

■ Canadian Banks average
■ Desjardins Group

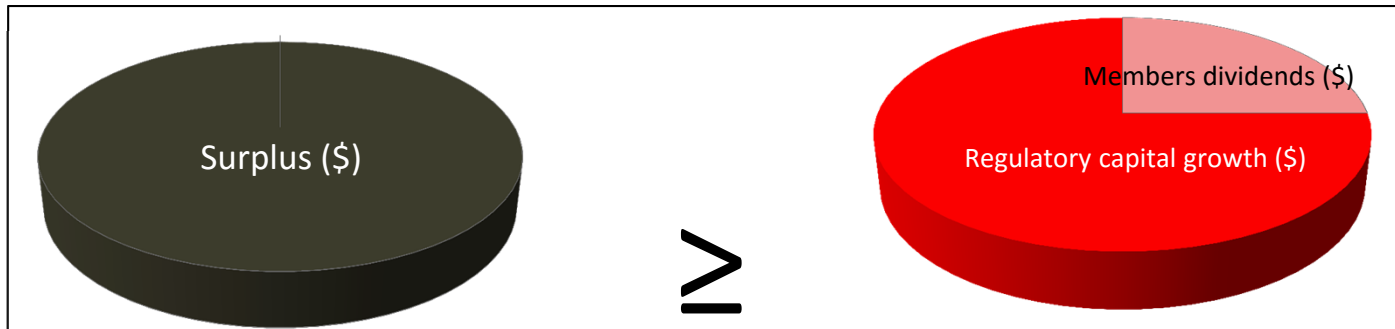


Coop or not, **we must follow the same rules :**

Sustainable growth rule



Self-generation of capital rule



At what level of **productivity and profitability** should **cooperatives** be?

- **RETAINED EARNINGS REMAIN OUR MAIN SOURCE OF CAPITALIZATION.**
 - **SO WE HAVE TO BE PROFITABLE AND PRODUCTIVE TO SUPPORT OUR GROWTH.**
- **THE PERCEPTION OF THE MEMBERS MAY BE DIFFERENT. MEMBERS DO NOT ALWAYS SEE THE NECESSITY OF HAVING A SURPLUS.**
- **THE REALITY IS THAT WE MUST OFFER THE SAME PRODUCTS AS OUR COMPETITORS WITH APPROPRIATE PRICING.**
- **WE ALSO NEED GROWTH OF OUR CAPITAL IN THE FUTURE TO OFFER THE PRODUCTS THAT MEMBERS NEED, SUCH AS MORTGAGES.**
- **THE HISTORICAL GROWTH OF DESJARDINS WAS A RESULT OF INTERNAL CAPITAL GROWTH. THE SUSTAINABILITY OF DESJARDINS IS ASSURED BY AN ADEQUATE PRODUCTIVITY AND PROFITABILITY.**

Conclusion

- **COOP ARE NOT ALL THE SAME : THE CAPITAL STRUCTURE WILL DIFFER DEPENDING ON THE INDUSTRY AND REGULATION CAN HAVE AN IMPORTANT ROLE FOR REGULATED COOPERATIVES.**
- **DESJARDINS, DURING ITS 115 YEARS OF EXISTENCE, HAS FAVORED TWO TYPES OF CAPITALIZATION INSTRUMENTS : SURPLUS EARNINGS PAID TO THE RESERVE AND SHARE ISSUE TO MEMBERS.**
- **REGULATORY ENVIRONMENT HAS CHANGED CAPITALIZATION INSTRUMENTS OF FINANCIAL COOPERATIVES AND WILL CONTINUE TO DO SO IN THE COMING YEARS.**
- **DESJARDINS HAD TO DEVELOP A NEW INSTRUMENT FOR CAPITALIZATION ISSUANCE TO MEMBERS AND STILL FACES CHALLENGES AND ISSUES.**
- **COOPERATIVES REMAIN IN COMPETITION WITH THE CORPORATE OWNERSHIP MODEL. THEY MUST EVOLVE. THEY MUST REMAIN PROFITABLE AND PRODUCTIVE TO BE COMPETITIVE.**



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