Ad hoc announcement dated 24 February 2023 pursuant to art. 53 of the Swiss listing rules

Fédération des caisses Desjardins du Québec

CHF 325,000,000 1.735% Covered Bonds 2023 – 2028

(the "Covered Bonds")

Programme for the issuance of Covered Bonds:	The Covered Bonds are issued under the C$26,000,000,000 Global Covered Bond Programme (the "**Programme**") of Fédération des caisses Desjardins du Québec.
Issuer's Name and registered office:	Fédération des caisses Desjardins du Québec, 100, avenue des Commandeurs, Lévis, Québec, Canada G6V 7N5 (the "**Issuer**" or the "**Federation**", the Issuer and its subsidiaries, the member caisses in Québec, the Fonds de sécurité Desjardins and the Caisse Desjardins Ontario Credit Union Inc. the "**Desjardins Group**").
Covered Bond Guarantor's Name and registered office:	CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, 66 Wellington Street West, Suite 5300, TD Bank Tower, Toronto, Ontario, Canada M5K 1E6 (the "**Covered Bond Guarantor**").
Security Number/ ISIN/Common Code:	124.230.130 / CH1242301302 / 257777936

COMBINED FINANCIAL STATEMENTS

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Management's Responsibility for Financial Reporting

The Combined Financial Statements of Desjardins Group and all information included in its annual Management's Discussion and Analysis are the responsibility of the management of the *Fédération des caisses Desjardins du Québec* (the Federation), which is responsible for ensuring reporting integrity and accuracy.

These Combined Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. The IFRS represents Canada's generally accepted accounting principles. These Combined Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include valuations of insurance contract liabilities performed by the actuaries of the relevant segments. All financial information in the annual Management's Discussion and Analysis is consistent with these audited Combined Financial Statements.

Federation management is responsible for the accuracy of Desjardins Group's Combined Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. These controls are designed to provide reasonable assurance that the financial accounts are complete and accurate, assets are protected and records are kept appropriately. They include an organizational structure that ensures effective segregation of duties, a code of professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices. In our capacities as Chief Executive Officer and Chief Financial Officer of Desjardins Group, we have overseen the process to assess financial information communication procedures and controls as well as internal control over financial reporting. As at December 31, 2022, we concluded that information communication procedures and controls and internal control over financial reporting were effective.

The AMF examines the affairs of Desjardins Group using a risk-based oversight approach.

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. The Audit and Inspection Commission has five independent directors who are members of the Board of Directors of the Federation. In addition, it has two representatives of the insurance subsidiaries and one observer, who help ensure the necessary alignment with the insurance subsidiaries and the caisse network. The Audit and Inspection Commission exercises an oversight role for management to develop and implement adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The Combined Financial Statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the Federation's General Meeting, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any related issues, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Alain Leprohon, CPA
Executive Vice-President Finance and
Chief Financial Officer
Desjardins Group

Lévis, Québec
February 22, 2023

Independent auditor's report

To the members of the Fédération des caisses Desjardins du Québec

Our opinion

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Desjardins Group as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Desjardins Group's combined financial statements comprise:

- the combined balance sheets as at December 31, 2022 and 2021;
- the combined statements of income for the years then ended;
- the combined statements of comprehensive income for the years then ended;
- the combined statements of changes in equity for the years then ended;
- the combined statements of cash flows for the years then ended; and
- the notes to the combined financial statements, which include significant accounting policies and other explanatory information.

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

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the combined financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the combined financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Measurement of the allowance for expected credit losses on loans

Refer to note 2 – Significant accounting policies, and note 8 – Loans and allowance for credit losses, to the combined financial statements

The allowance for expected credit losses on loans amounted to $1,035 million as at December 31, 2022 and represented management's estimate of the allowance for expected credit losses (ECL) at the reporting date.

The measurement of the allowance for ECL is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely probability of default (PD), loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument. Desjardins Group uses three scenarios to determine the allowance for ECL, namely a base scenario, an upside scenario and a downside scenario. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the allowance for ECL. Desjardins Group may also make adjustments to take into account the relevant information that affects the measurement of the allowance for credit losses and that has not been incorporated into the credit risk parameters.

To take into account relevant risk factors related to the macroeconomic environment, management applied expert credit judgment in measuring the allowance for ECL.

For credit-impaired loans that are individually material, the measurement of the allowance for ECL is based on an extensive review of the borrower's situation and the realization of collateral held.

We considered this a key audit matter due to:

- the inherent complexity of the calculations of the allowance for ECL as well as the significant judgments made by management in:
  - establishing the three scenarios, including projecting macroeconomic variables;
  - determining the probabilities of occurrence of the three scenarios;
  - determining significant increases in credit risk; and
  - applying expert credit judgment to reflect, among other things, the relevant risk factors related to the macroeconomic environment.

Our approach to addressing the matter included the following procedures, among others:

- Testing the operating effectiveness of certain internal controls relating to the measurement of the allowance for ECL, including controls relating to:
  - the periodic monitoring and valuation of certain models;
  - the review of the macroeconomic variable projections and the probability of occurrence of the scenarios;
  - the assignment of borrower credit risk ratings; and
  - management's review and approval of the application of expert credit judgment and the allowance for ECL.
- Testing management's process for measuring the allowance for ECL on loans by performing the following, among other things:
  - Evaluating, with the assistance of professionals having an expertise in credit risk and economics:
    - the appropriateness of the methodologies used in calculating the allowance for ECL, including the independent recalculation of ECL on loans;
    - the appropriateness of the three scenarios and the reasonableness of macroeconomic variables as well as the probability of occurrence assigned to the scenarios by considering publicly available economic data, forecasts from independent sources and sensitivity analyses to changes in some of these assumptions;
    - the reasonableness of the establishment of credit risk parameters (PD, LGD, EAD);
    - the reasonableness of the significant increases in credit risk determined by management; and
    - the reasonableness of the application by management of expert credit judgment.
  - For a sample of credit-impaired loans that are individually material, evaluating the appropriateness of the methodology used in calculating the allowance for ECL and the reasonableness of assumptions.
  - Testing the data used in measuring the allowance for ECL.

- the evaluation of audit evidence, which required increase audit effort and significant judgments by the auditor, as the measurement of the allowance for ECL is a complex calculation that involves a large volume of interrelated inputs and assumptions, some of which are model-based; and
- the audit effort involved the use of professionals with specialized skills and knowledge in credit risk and economics.

Measurement of insurance contract liabilities

Refer to note 2 – Significant accounting policies, and note 17 – Insurance contract liabilities, to the combined financial statements

Insurance contract liabilities for Desjardins Group as a whole comprised a) actuarial liabilities – Life and health insurance of $20,236 million and b) provisions for claims and adjustment expenses – Property and casualty insurance of $6,907 million as at December 31, 2022. These amounts are estimated by management in accordance with Canadian accepted actuarial practices.

Management determined that a) actuarial liabilities for life and health insurance are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency, with a margin considering the risk of adverse deviation; and b) provisions for claims and adjustment expenses related to property and casualty insurance policies are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated, adjusted by a margin considering the risk of adverse deviation.

Measuring insurance contract liabilities requires management to develop significant assumptions, including: a) with respect to actuarial liabilities for life and health insurance, assumptions for mortality, morbidity, contract cancellation rates, investment return and operating expenses and taxes; and b) with respect to provisions for claims and adjustment expenses related to property and casualty insurance policies, past claims development, average settlement cost per claim, the average number of claims and claims severity and frequency trends.

We considered this a key audit matter due to:

- the significant judgments made by management in determining insurance contract liabilities;
- the high degree of auditor judgment, subjectivity and effort in evaluating audit evidence related to the appropriateness of actuarial projection methods and models as well as the reasonableness of significant assumptions used by management; and
- the audit effort involved the use of professionals with specialized skill and knowledge in actuarial sciences.

Our approach to addressing the matter included the following procedures, among others:

Testing management's process for measuring the actuarial liabilities – Life and health insurance by performing the following, among other things:

- Testing the operating effectiveness of certain internal controls over the completeness and accuracy of data used in measuring the actuarial liabilities – Life and health insurance;
- Evaluating the appropriateness of calculations performed;
- Testing data used in the projection of cash flows; and
- Evaluating, with the assistance of professionals having specialized skills and knowledge in actuarial science, the appropriateness of the actuarial projection methods and models and the reasonableness of the assumptions for mortality, morbidity, contract cancellation rates, investment return and operating expenses and taxes used in measuring actuarial liabilities for life and health insurance.

For measuring the provisions for claims and adjustment expenses – Property and casualty insurance:

- Testing the operating effectiveness of certain internal controls over the completeness and accuracy of data used in measuring the provisions for claims and adjustment expenses – Property and casualty insurance;
- Developing, with the assistance of professionals having specialized skills and knowledge in actuarial science, an independent point estimate of the provisions for claims and adjustment expenses – Property and casualty insurance;
- Testing the underlying data used in developing the independent point estimate; and
- Comparing the independent point estimate with management's estimate to evaluate the reasonableness of management's estimate.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the combined financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the combined financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Desjardins Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Desjardins Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Desjardins Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Desjardins Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the combined financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michel Larouche.

PricewaterhouseCoopers LLP[1]
[1] CPA auditor, public accountancy permit No. A111799

Montréal, Québec
February 22, 2023

Combined Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2022	As at December 31, 2021
ASSETS			
Cash and deposits with financial institutions		**$ 8,913**	$ 16,328
Securities	7		
Securities at fair value through profit or loss		**34,025**	39,772
Securities at fair value through other comprehensive income		**51,258**	53,286
Securities at amortized cost		**50**	41
		85,333	93,099
Securities borrowed or purchased under reverse repurchase agreements		**17,024**	12,019
Loans	8 and 9		
Residential mortgages		**159,682**	149,695
Consumer, credit card and other personal loans		**24,381**	24,386
Business and government		**66,812**	57,400
		250,875	231,481
Allowance for credit losses	8	**(1,035)**	(970)
		249,840	230,511
Segregated fund net assets	10	**21,318**	22,804
Other assets			
Clients' liability under acceptances		**25**	268
Premiums receivable		**2,925**	2,839
Derivative financial instruments	21	**5,723**	5,828
Amounts receivable from clients, brokers and financial institutions		**3,486**	2,557
Reinsurance assets		**1,175**	1,582
Right-of-use assets	11	**543**	530
Investment property	12	**929**	926
Property, plant and equipment	12	**1,587**	1,531
Goodwill		**157**	157
Intangible assets	13	**692**	497
Investments in companies accounted for using the equity method	14	**1,465**	1,380
Net defined benefit plan assets	18	**679**	62
Deferred tax assets	28	**1,440**	789
Other	15	**3,855**	3,378
		24,681	22,324
TOTAL ASSETS		**$ 407,109**	$ 397,085
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	16		
Individuals		**$ 145,377**	$ 136,332
Business and government		**114,172**	101,644
Deposit-taking institutions		**287**	379
		259,836	238,355
Other liabilities			
Acceptances		**25**	268
Commitments related to securities sold short		**9,859**	11,342
Commitments related to securities lent or sold under repurchase agreements		**24,565**	31,177
Derivative financial instruments	21	**6,554**	5,500
Amounts payable to clients, brokers and financial institutions		**8,978**	7,938
Lease liabilities	11	**622**	596
Insurance contract liabilities	17	**31,354**	34,762
Segregated fund net liabilities	10	**21,284**	22,796
Net defined benefit plan liabilities	18	**654**	1,048
Deferred tax liabilities	28	**433**	301
Other	19	**7,569**	7,516
		111,897	123,244
Subordinated notes	20	**2,928**	1,960
TOTAL LIABILITIES		**374,661**	363,559
EQUITY			
Capital stock	23	**4,786**	4,982
Undistributed surplus earnings		**8,429**	1,546
Accumulated other comprehensive income	25	**(2,166)**	765
Reserves		**20,552**	25,321
Equity – Group's share		**31,601**	32,614
Non-controlling interests	14	**847**	912
TOTAL EQUITY		**32,448**	33,526
TOTAL LIABILITIES AND EQUITY		**$ 407,109**	$ 397,085

The accompanying notes are an integral part of the Combined Financial Statements.

On behalf of the Board of Directors of the *Fédération des caisses Desjardins du Québec*,

Guy Cormier
Chair of the Board

Johanne Charbonneau, FCPA
Vice-Chair of the Board

Combined Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	2022	2021
INTEREST INCOME			
Loans		**$ 8,278**	$ 6,928
Securities		**1,107**	473
		9,385	7,401
INTEREST EXPENSE			
Deposits		**2,829**	1,508
Subordinated notes		**78**	65
Other		**148**	42
		3,055	1,615
NET INTEREST INCOME	27	**6,330**	5,786
NET PREMIUMS	17	**11,842**	11,278
OTHER INCOME			
Deposit and payment service charges		**448**	424
Lending fees and card service revenues		**991**	735
Brokerage and investment fund services		**989**	1,108
Management and custodial service fees		**786**	732
Net investment income (loss)	27	**(4,505)**	319
Overlay approach adjustment for insurance operations financial assets		**747**	(404)
Foreign exchange income		**119**	121
Other		**293**	221
		(132)	3,256
TOTAL INCOME		**18,040**	20,320
PROVISION FOR CREDIT LOSSES	8	**277**	69
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	17	**4,500**	6,883
NON-INTEREST EXPENSE			
Salaries and employee benefits		**5,066**	4,437
Professional fees		**1,159**	1,013
Technology		**978**	893
Commissions		**929**	881
Occupancy costs		**403**	406
Communications		**417**	329
Business and capital taxes		**482**	459
Other		**1,204**	1,148
		10,638	9,566
OPERATING SURPLUS EARNINGS		**2,625**	3,802
Income taxes on surplus earnings	28	**575**	860
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS		**2,050**	2,942
Member dividends		**403**	387
Tax recovery on member dividends	28	**(106)**	(103)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		**$ 1,753**	$ 2,658
of which:			
Group's share		**$ 1,686**	$ 2,515
Non-controlling interests' share	14	**67**	143

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)	2022	2021
Net surplus earnings for the year after member dividends	**$ 1,753**	$ 2,658
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan assets and liabilities	**691**	1,381
Share of associates and joint ventures accounted for using the equity method	**—**	6
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(1)**	(1)
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**7**	2
	697	1,388
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized losses	**(1,672)**	(454)
Reclassification of net losses to the Combined Statements of Income	**189**	10
	(1,483)	(444)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	**(331)**	422
Reclassification of net gains to the Combined Statements of Income	**(264)**	(114)
	(595)	308
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	**(897)**	(321)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(2)**	(61)
	(899)	(382)
Share of associates and joint ventures accounted for using the equity method	**(5)**	(1)
	(2,982)	(519)
Total other comprehensive income, net of income taxes	**(2,285)**	869
COMPREHENSIVE INCOME FOR THE YEAR	**$ (532)**	$ 3,527
of which:		
Group's share	**$ (556)**	$ 3,348
Non-controlling interests' share	**24**	179

The accompanying notes are an integral part of the Combined Financial Statements.

Income taxes on other comprehensive income

The tax expense (recovery) related to each component of other comprehensive income for the year is presented in the following table.

For the years ended December 31

(in millions of Canadian dollars)	2022	2021
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan assets and liabilities	**$ 249**	$ 493
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**3**	1
	252	494
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized losses	**(596)**	(160)
Reclassification of net losses to the Combined Statements of Income	**67**	5
	(529)	(155)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	**(83)**	123
Reclassification of net gains to the Combined Statements of Income	**(69)**	(27)
	(152)	96
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	**(324)**	(114)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(1)**	(20)
	(325)	(134)
	(1,006)	(193)
Total income tax expense (recovery)	**$ (754)**	$ 301

Combined Statements of Changes in Equity

For the years ended December 31

(in millions of Canadian dollars)	Capital stock (Note 23)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 25)	Reserves				Equity - Group's share	Non-controlling interests (Note 14)	Total equity
				Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves			
BALANCE AS AT DECEMBER 31, 2020	$ 5,021	$ 1,874	$ 1,302	$ 795	$ 1,159	$ 19,362	$ 21,316	$ 29,513	$ 750	$ 30,263
Net surplus earnings for the year after member dividends	—	2,515	—	—	—	—	—	2,515	143	2,658
Other comprehensive income for the year	—	1,370	(537)	—	—	—	—	833	36	869
Comprehensive income for the year	—	3,885	(537)	—	—	—	—	3,348	179	3,527
Redemption of shares of capital stock	(39)	—	—	—	—	—	—	(39)	—	(39)
Transactions related to non-controlling interests	—	—	—	—	—	—	—	—	8	8
Remuneration on capital stock	—	(208)	—	—	—	—	—	(208)	—	(208)
Dividends	—	—	—	—	—	—	—	—	(25)	(25)
Transfer between surplus earnings to be distributed and reserves	—	(4,005)	—	—	53	3,952	4,005	—	—	—
BALANCE AS AT DECEMBER 31, 2021	$ 4,982	$ 1,546	$ 765	$ 795	$ 1,212	$ 23,314	$ 25,321	$ 32,614	$ 912	$ 33,526
Net surplus earnings for the year after member dividends	**—**	**1,686**	**—**	**—**	**—**	**—**	**—**	**1,686**	**67**	**1,753**
Other comprehensive income for the year	**—**	**689**	**(2,931)**	**—**	**—**	**—**	**—**	**(2,242)**	**(43)**	**(2,285)**
Comprehensive income for the year	**—**	**2,375**	**(2,931)**	**—**	**—**	**—**	**—**	**(556)**	**24**	**(532)**
Redemption of shares of capital stock	**(196)**	**—**	**—**	**—**	**—**	**—**	**—**	**(196)**	**—**	**(196)**
Transactions related to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(9)**	**(9)**
Remuneration on capital stock	**—**	**(262)**	**—**	**—**	**—**	**—**	**—**	**(262)**	**—**	**(262)**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(80)**	**(80)**
Transfer between surplus earnings to be distributed and reserves	**—**	**(2,578)**	**—**	**(452)**	**492**	**2,538**	**2,578**	**—**	**—**	**—**
Equity transactions[1]	**—**	**7,347**	**—**	**—**	**—**	**(7,347)**	**(7,347)**	**—**	**—**	**—**
Other	**—**	**1**	**—**	**—**	**—**	**—**	**—**	**1**	**—**	**1**
BALANCE AS AT DECEMBER 31, 2022	**$ 4,786**	**$ 8,429**	**$ (2,166)**	**$ 343**	**$ 1,704**	**$ 18,505**	**$ 20,552**	**$ 31,601**	**$ 847**	**$ 32,448**

(1) The increase in undistributed surplus earnings for the year results from equity transactions between Desjardins Group entities. Undistributed surplus earnings arising from such transactions will be included in the surplus earnings distribution plans for the next fiscal year. These transactions had no impact on Desjardins Group's equity as at December 31, 2022.

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)	2022	2021
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 2,625**	$ 3,802
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment and investment property, and amortization of intangible assets	**408**	385
Amortization of premiums and discounts	**334**	447
Net change in insurance contract liabilities	**(3,408)**	(65)
Provision for credit losses	**277**	69
Net realized losses on securities classified as at fair value through other comprehensive income	**157**	24
Net (gains) losses on disposal of property, plant and equipment, intangible assets and investment property	**(2)**	10
Overlay approach adjustment for insurance operations financial assets	**(747)**	404
Other	**(132)**	(59)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**5,747**	(4,812)
Securities borrowed or purchased under reverse repurchase agreements	**(5,005)**	(2,361)
Loans	**(19,606)**	(19,159)
Derivative financial instruments, net amount	**1,591**	953
Net amounts receivable from and payable to clients, brokers and financial institutions	**111**	1,070
Deposits	**21,481**	13,119
Commitments related to securities sold short	**(1,483)**	1,989
Commitments related to securities lent or sold under repurchase agreements	**(6,612)**	12,025
Other	**634**	925
Payment of the contingent consideration	**(87)**	(105)
Income taxes paid on surplus earnings	**(859)**	(1,107)
Payment of member dividends	**(386)**	(333)
	(4,962)	7,221
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	**997**	998
Repayment of subordinated notes	**—**	(500)
Sale (purchase) of debt securities and subordinated notes from third parties on the market	**17**	(13)
Repayment of lease liabilities	**(61)**	(92)
Redemption of shares of capital stock	**(196)**	(39)
Remuneration on capital stock	**(208)**	(208)
Transactions related to non-controlling interests	**(9)**	8
Dividends paid	**(80)**	(25)
	460	129
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(36,789)**	(31,901)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**22,300**	23,553
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**12,294**	5,799
Acquisitions of property, plant and equipment, intangible assets and investment property	**(613)**	(436)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	**21**	30
Acquisitions of joint ventures and associates accounted for using the equity method	**(126)**	(193)
	(2,913)	(3,148)
Net increase (decrease) in cash and cash equivalents	**(7,415)**	4,202
Cash and cash equivalents at beginning of year	**16,328**	12,126
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 8,913**	$ 16,328
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 2,658**	$ 1,643
Interest received	**9,949**	8,320
Dividends received	**253**	234

The accompanying notes are an integral part of the Combined Financial Statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Nature of operations

Desjardins Group is made up of the Desjardins caisses in Québec, Caisse Desjardins Ontario Credit Union Inc. (CDO), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries 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 31, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

Combined Financial Statements

As an integrated financial services group, Desjardins Group is a complete economic entity. These Combined Financial Statements have been prepared to present the financial position, the financial performance and the cash flows of this economic entity. The Desjardins caisses exercise a collective power over the Federation, which is the cooperative entity responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. The role of the Federation is also to protect the interests of Desjardins Group members.

As Desjardins caisses and the Federation are financial services cooperatives, these Combined Financial Statements differ from the consolidated financial statements of a group with a traditional organizational structure. Consequently, the Combined Financial Statements of Desjardins Group are a combination of the accounts of the Desjardins caisses of Québec, the Federation, CDO 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 Desjardins caisses of Québec, the Federation and CDO.

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 Québec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Combined Financial Statements for the current year. These reclassifications had no impact on Desjardins Group's profit or loss or total assets and liabilities.

The Combined Financial Statements for the year ended December 31, 2022 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 22, 2023.

The significant measurement and presentation rules applied to prepare these Combined Financial Statements are described below.

Significant judgments, estimates and assumptions

The preparation of combined financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, determination of the fair value of financial instruments, derecognition of financial assets, impairment of financial instruments, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, member dividends, employee benefits as well as intangible assets. Consequently, actual results could differ from those estimates and assumptions.

The economic environment continues to give rise to sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Combined Financial Statements. This specifically affects the allowance for expected credit losses. For more information on significant judgments made to estimate the allowance for expected credit losses, see Note 8, "Loans and allowance for credit losses".

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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 Québec, CDO, the Federation and its subsidiaries and the *Fonds de sécurité Desjardins*. The financial statements of all Group entities have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give Desjardins Group control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities.

Subsidiaries

An entity is considered as a subsidiary when it is controlled by a Group entity. A Group entity controls an investee if and only if it has all the following:
- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of its returns.

Structured entities

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

Non-controlling interests

Non-controlling interests represent the share in profit or loss as well as net assets not held by Desjardins Group. They are presented separately in the Combined Statements of Income, the Combined Statements of Comprehensive Income and in equity, in the Combined Balance Sheets.

Associates

An associate is an entity over which Desjardins Group exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. Desjardins Group's investments in associates are presented under "Investments in companies accounted for using the equity method" in the Combined Balance Sheets and are accounted for using the equity method. Under this method, investments are initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in Desjardins Group's share in the relevant entities' equity.

Joint arrangements

A joint arrangement is an arrangement of which Desjardins Group has joint control, which is the contractually agreed sharing of control of such arrangement with one or more other parties. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:
- A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party must recognize its assets, liabilities, revenue and expenses, including its share of the assets held jointly and of the liabilities incurred jointly as well as its share of the revenue generated and expenses incurred in connection with the joint operation.
- A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This type of joint arrangement is accounted for using the equity method. Desjardins Group's investments in joint ventures are presented under "Investments in companies accounted for using the equity method" 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)*

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date Desjardins Group becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

Classification and measurement

Financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

Contractual cash flow characteristics

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

Business models

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

Desjardins Group's business models are defined as follows:
- Held to collect contractual cash flows: The objective of holding financial assets is achieved by collecting contractual cash flows.
- Held to collect contractual cash flows and sell: The objective is achieved by both collecting contractual cash flows and selling financial assets.
- Other business models: The objective is not consistent with any of the above-mentioned business models.

The classification and measurement of financial assets can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial assets	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	At fair value through other comprehensive income (iv)	Classified as at fair value through other comprehensive income (v)	Fair value	Fair value
		Designated as at fair value through other comprehensive income (vi)	Fair value	Fair value
	Amortized cost (vii)		Fair value	Amortized cost

(i) Financial assets included in the "At fair value through profit or loss" class comprise financial assets "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:
- Changes in fair value of financial assets included in this class are recorded under "Net investment income (loss)" in the Combined Statements of Income.
- Interest income calculated using the effective interest method and dividend income from securities included in the "At fair value through profit or loss" class of the Personal and Business Services segment and the Other category are recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net investment income (loss)".

(ii) Financial assets "Classified as at fair value through profit or loss" include the following:
- Debt instruments that are managed for trading purposes or on a fair value basis or do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- Equity instruments.
- Derivative financial instruments.

Section n), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

Certain financial assets "Classified as at fair value through profit or loss" are designated for the overlay approach. For more information, see the "Application of the overlay approach to insurance operations financial assets" section of this note.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iii) Financial assets "Designated as at fair value through profit or loss" are debt securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset.

Desjardins Group's financial assets included in this measurement category comprise mainly securities (debt instruments) that back the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims.

(iv) Financial assets included in the "At fair value through other comprehensive income" class comprise financial assets "Classified as at fair value through other comprehensive income" and "Designated as at fair value through other comprehensive income". Therefore:

- Changes in fair value of financial assets included in this class, except for changes related to the allowance for expected credit losses and exchange gains and losses on financial assets "Classified as at fair value through other comprehensive income", are recorded in the Combined Statements of Comprehensive Income as net unrealized gains and losses. For financial assets "Classified as at fair value through other comprehensive income", gains and losses are reclassified to the Combined Statements of Income when the asset is derecognized, while for financial assets "Designated as at fair value through other comprehensive income", gains and losses are never reclassified subsequently to the Combined Statements of Income and are reclassified immediately to undistributed surplus earnings.
- Premiums and discounts on the purchase of financial assets "At fair value through other comprehensive income" are amortized over the life of the securities using the effective interest method and recognized under "Interest income – Securities" for the Personal and Business Services segment and the Other category. For the other segments, they are mainly recognized under "Net investment income (loss)".

(v) Financial assets "Classified as at fair value through other comprehensive income" include debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

(vi) Financial assets "Designated as at fair value through other comprehensive income" include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that are held on a long-term basis.

(vii) Securities included in the "Amortized cost" class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

Securities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the "Amortized cost" class is presented under "Interest income – Loans" in the Combined Statements of Income when it is recognized by the Personal and Business Services segment and the Other category. For the other segments, it is recognized mainly under "Net investment income (loss)".

Financial assets are not reclassified following their initial recognition, except when the business model for managing those financial assets is changed.

Application of the overlay approach to insurance operations financial assets

Desjardins Group elected to designate certain eligible financial assets for the overlay approach to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, "Financial Instruments", and IFRS 17, "Insurance Contracts". To be eligible, a financial asset must meet the following criteria:

- It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39, "Financial Instruments: Recognition and Measurement".
- It is held in respect of an activity connected with contracts within the scope of IFRS 4, "Insurance Contracts".

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported if Desjardins Group had continued to apply IAS 39. As a result, net surplus earnings related to designated financial instruments reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39.

Reclassifications under the overlay approach are presented under "Overlay approach adjustment for insurance operations financial assets" in the Combined Statements of Income and under "Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets" in the Combined Statements of Comprehensive Income. The overlay approach may be used for the years beginning before January 1, 2023.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers the following accounting policies as well as foreign currency fair value hedge accounting for equity instruments under IAS 39:

"Available-for-sale" securities under IAS 39

Under IAS 39, "Available-for-sale" securities are initially recognized at fair value. They are subsequently measured at fair value, and 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 until the financial asset is derecognized. Premiums and discounts on the purchase of "Available-for-sale" securities as well as transaction costs are amortized using the effective interest method and recognized in the Combined Statements of Income. Foreign exchange gains and losses on securities included in this class are recognized in the Combined Statements of Income, except for unrealized foreign exchange gains and losses on non-monetary financial instruments, which are recognized in the Combined Statements of Comprehensive Income.

Impairment of "Available-for-sale" securities under IAS 39

Under IAS 39, "Available-for-sale" securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring an impairment loss, 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 would enter bankruptcy or a restructuring, and the disappearance of an active market for the asset.

Debt securities are assessed individually to determine whether there is any objective evidence of impairment. 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 has been recognized in the Combined Statements of Income, the impairment loss is reversed through the Combined Statements of Income.

For equity securities, when evidence of impairment exists, the cumulative loss is transferred out of other comprehensive income and recognized in the Combined Statements of Income. Impairment losses on equity securities are not reversed to the Combined Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded in other comprehensive income. Any impairment loss on securities previously impaired is directly recognized in the Combined Statements of Income.

Financial liabilities are classified based on their characteristics and the intention of management upon their issuance.

The classification and measurement of financial liabilities can be summarized as follows:

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

(i) Financial liabilities included in the "At fair value through profit or loss" class comprise financial liabilities "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:
- Changes in fair value of financial liabilities included in this class are mainly recorded under "Net investment income (loss)" in the Combined Statements of Income. However, for financial liabilities designated as at fair value, the change in fair value that is attributable to Desjardins Group's own credit risk is recognized in other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and is reclassified immediately to undistributed surplus earnings.
- Interest expense related to financial liabilities included in the "At fair value through profit or loss" class is recognized under "Interest expense" in the Combined Statements of Income for the Personal and Business Services segment and the Other category. For the other segments, interest expense is recognized under "Net investment income (loss)" in the Combined Statements of Income.

(ii) Financial liabilities "Classified as at fair value through profit or loss" are securities held for trading and include debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as "Commitments related to securities sold short". Derivative financial instruments are also classified as held for trading.

Section n), "Derivative financial instruments and hedging activities", of this note specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iii) Financial liabilities "Designated as at fair value through profit or loss" are designated as such by management upon initial recognition, on an instrument-by-instrument basis, and are essentially debt securities. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial liability, if a group of financial liabilities is managed and its performance is evaluated on a fair value basis, or if the liabilities are hybrid financial liabilities containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Financial liabilities included in this measurement category comprise deposits containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

(iv) Financial liabilities that are not in the "At fair value through profit or loss" class are included in the "Amortized cost" class.

Financial liabilities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the "Amortized cost" class is recognized under "Interest expense" in the Combined Statements of Income for the Personal and Business Services segment and the Other category. Interest expense for the other segments is recognized mainly under "Net investment income (loss)" in the Combined Statements of Income.

Determination of the fair value of financial instruments

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

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

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

Loans

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

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and reflects estimated prepayments. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount. The fair value of certain liabilities presented under "Deposits – Business and government" is based on market prices for similar instruments or expected cash flow discounting. For financial liabilities "Designated as at fair value through profit or loss", the fair value takes into account option pricing models and the valuation techniques are similar to those used for derivative financial instruments.

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. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 21, "Derivative financial instruments and hedging activities", specifies the nature of derivative financial instruments held by Desjardins Group.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments is a reasonable approximation of their fair value given their short-term maturity or their features. 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”; “Amounts receivable from clients, brokers and financial institutions”; some items included in “Other assets – Other”; “Acceptances”; “Commitments related to securities lent or sold under repurchase agreements”; “Amounts payable to clients, brokers and financial institutions”; and some items included in “Other liabilities – Other”.

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method. However, for financial instruments classified or designated as “At fair value through profit or loss”, these costs are expensed as incurred.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and Desjardins Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

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

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

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

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

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

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Combined Statements of Income.

b) Cash and deposits with financial institutions

“Cash and deposits with financial institutions” includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions–including net amounts receivable related to cheques and other items in the clearing process–as well as certain fixed-income securities. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

c) Securities

The classification and measurement of securities are determined using the criteria stated in section a), “Financial assets and liabilities”, above.

Securities purchased under reverse repurchase agreements and securities borrowed

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under “Securities borrowed or purchased under reverse repurchase agreements” in the Combined Balance Sheets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

As part of securities borrowings, Desjardins Group pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Combined Balance Sheets. When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of ownership of these securities are retained.

Securities sold under repurchase agreements and securities lent

Securities sold under repurchase agreements and securities lent are not derecognized from the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets.

As part of securities loans, Desjardins Group receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets. When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Securities sold short

Securities sold short as part of trading activities, which represent Desjardins Group's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized under "Net investment income (loss)" in the Combined Statements of Income.

d) Loans

Loans are recorded at "Amortized cost", net of the allowance for credit losses, using the effective interest method.

Fees collected and direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loans. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities, equity securities, etc.) or cash.

Restructured loans are loans for which Desjardins Group renegotiated the initial terms by granting concessions to the borrower in the context of financial difficulties or to prevent a failure by the borrower to meet its initial obligations. Once the terms of the loan have been renegotiated and accepted by the borrower, the loan is considered as restructured.

When the modification of the terms of a loan has no significant impact on contractual cash flows, the renegotiated loan is not derecognized. At the date of restructuring, the loan is reduced to the amount of the estimated net cash flows receivable under the modified terms, discounted at the effective interest rate (prior to the restructuring), which may result in a gain or loss on modification.

When the modification of the terms of a loan has a significant impact on contractual cash flows, the initial loan should be derecognized, which may result in a gain or loss on derecognition. In addition, a new loan should be recognized based on the new contractual terms.

When the modification of the terms of a loan does not result in the derecognition of such loan, the date of initial recognition of the loan remains unchanged for purposes of applying the impairment model. The default risk based on the modified contractual terms is then compared to the default risk based on the initial terms to determine whether there has been a significant increase in credit risk since initial recognition.

When the modification of the terms of a loan results in the derecognition of such loan and the recognition of a new loan, the date of the modification should become the date of initial recognition of the new loan for purposes of applying the impairment model. A new loan is usually considered as being in Stage 1 of the impairment model, but it may have to be considered as credit-impaired upon origination.

e) Impairment of financial instruments

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Determination of significant increases in credit risk

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

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

For securities at "Amortized cost" or "Classified as at fair value through other comprehensive income", Desjardins Group elected to use the low credit risk exemption. Consequently, when credit risk is equivalent to the credit risk of the "investment grade" category at the reporting date, the credit risk on the securities is deemed to not have significantly increased since initial recognition.

Definition of default and credit-impaired financial asset

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

Measurement of the allowance for expected credit losses

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

The measurement of the allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. The LGD of certain loans and off-balance sheet items is estimated at 0% due to the nature of the credit enhancement obtained. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics. The following table presents the main aggregation variables for the applicable parameters.

PD	LGD	EAD[1]
Loans, loan commitments and financial guarantees: • Type of clients • Risk level • Type of instrument • Industry	*Loans, loan commitments and financial guarantees:* • Type of clients • Type of collateral • Type of guarantor • Risk level • Type of instrument • Industry	*Loans:* • Type of clients • Type of product *Loan commitments and financial guarantees:* • Type of clients • Risk level • Utilization rate • Authorized amount • Type of product

[1] To determine EAD, a credit conversion factor is applied.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios (base, upside and downside) to determine the allowance for expected credit losses and assigns to each scenario a probability of occurrence. Desjardins Group may also make adjustments to take into account the relevant information that affects the measurement of the allowance for credit losses and that has not been incorporated into the credit risk parameters. Incorporating forward-looking information is based on a set of assumptions and methodologies specific to credit risk and economic projections and therefore requires a high degree of judgment.

For credit-impaired financial assets that are individually material, measuring the allowance for expected credit losses is based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions. In some cases, Desjardins Group may not recognize any allowance for credit losses when the probability of the collateral realization scenario is 100% and the estimated realizable value of the collateral exceeds the gross carrying amount of the loan.

Expected life

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

Recognition of the allowance for expected credit losses

The allowance for expected credit losses on loans is recorded under "Allowance for credit losses" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The allowance for expected credit losses on loan commitments and financial guarantees is recorded under "Other liabilities – Other" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The allowance for expected credit losses on securities at "Amortized cost" is recorded against "Securities – Securities at amortized cost" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income. The allowance for expected credit losses on securities "Classified as at fair value through other comprehensive income" is recognized under "Net unrealized losses on debt securities classified as at fair value through other comprehensive income" in the Combined Statements of Comprehensive Income and under "Provision for credit losses" in the Combined Statements of Income.

Foreclosed assets

Assets foreclosed to settle credit-impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount of the loan and the fair value recorded for the foreclosed assets is recognized under "Provision for credit losses".

Loan write-off

A loan is written off, in whole or in part, when recovery is no longer reasonably expected, which is when all attempts at restructuring or collection have been made and, based on an assessment of the file in its entirety, there are no other means to recover the loan. For secured loans, balances are generally written off once the collateral has been realized. Loans for which a consumer proposal or bankruptcy proceedings are ongoing but for which Desjardins Group has no reasonable expectation of recovery are written off, but they may continue to be subject to recovery measures by an insolvency trustee. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days. These balances could however still be subject to enforcement activity during a certain period after they have been written off. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Combined Statements of Income.

f) Leases

Desjardins Group analyzes contracts newly entered into or modified to assess whether they are, or contain, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The manner in which a lease is accounted for differs depending on whether Desjardins Group is the lessee or the lessor.

Lessee

Desjardins Group mainly leases premises that are used in the normal course of its operations. A right-of-use asset and a lease liability are recognized in the Combined Balance Sheets at the commencement date of the lease, except for short-term and low-value leases. Accordingly, lease payments associated with those leases are recognized as a lease expense in the Combined Statements of Income based on the terms of the lease. In addition, Desjardins Group applies the practical expedient which allows not to separate non-lease components from lease components for a contract.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liability, plus prepaid lease payments less lease incentives received. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shortest of the lease term and the useful life of the underlying asset. The lease term is the non-cancellable period and includes any renewal options if Desjardins Group is reasonably certain to exercise those options and any termination options if Desjardins Group is reasonably certain not to exercise those options. The right-of-use asset is periodically adjusted to reflect certain reassessments of the lease liability.

"Right-of-use assets" are presented in the Combined Balance Sheets and the depreciation of right-of-use assets is recognized under "Non-interest expense – Occupancy costs" in the Combined Statements of Income.

The lease liability is initially measured at the present value of the lease payments for the lease term that have not yet been paid, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Desjardins Group uses its incremental borrowing rate as discount rate. Payments included in the measurement of the lease liability comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, based on the index or the rate as at the commencement date of the lease, an estimated amount for any guaranteed residual value as well as amounts Desjardins Group is reasonably certain to pay for the exercise price of a purchase option or a termination penalty.

The lease liability is subsequently adjusted to reflect interest on the lease liability and lease payments made. It is remeasured when there is a change in future lease payments mainly as a result of a change in an index or a rate, or a change in the amounts expected to be payable by Desjardins Group under a residual value guarantee, when there are lease modifications, or when Desjardins Group revises its assessment of the potential exercise of a purchase, renewal or termination option.

"Lease liabilities" are presented in the Combined Balance Sheets and interest expense on lease liabilities is recognized under "Interest expense" in the Combined Statements of Income.

Lessor

Leases in which Desjardins Group is the lessor are leases for premises. Desjardins Group classifies the leases in which it is the lessor as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not. Desjardins Group mainly enters into operating leases.

When Desjardins Group is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under "Net investment income (loss)" 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.

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. They are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under "Non-interest expense – Occupancy costs" in the Combined Statements of Income.

Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the "Investment property" category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the "Investment property" category to the "Buildings" category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by Desjardins Group becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

The depreciation expense for investment properties is recognized under "Net investment income (loss)" in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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	3 to 10 years
Furniture, fixtures and other	1 to 20 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 “Non-interest expense – Occupancy costs” for property, plant and equipment and under “Net investment income (loss)” for investment property.

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.

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 that could be obtained from the sale of the asset in an arm’s-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Combined Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Combined Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill is tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill is performed based on the recoverable amount of each CGU (or each group of CGUs) to which goodwill 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 CGU.

When the recoverable amount of 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 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

Acceptances represent a form of negotiable short-term debt that is issued by our clients and that we guarantee for a fee. The potential liability of Desjardins Group under acceptances is recognized under "Acceptances", in "Other liabilities". Desjardins Group has equivalent offsetting claims against its clients in the event of a call on these commitments, which are recognized under "Clients' liability under acceptances", in "Other assets". Fees are recognized under "Other income – Other".

k) Insurance contract liabilities

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by these subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries. They are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM) in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

Under CALM, actuarial liabilities of the life and health insurance subsidiaries are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

Property and casualty insurance contract liabilities

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiary contain a discretionary participation feature that allows the contract holder to participate in the profitability related to their contract. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health insurance subsidiary elected not to recognize the participating portion of these contracts separately.

Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Combined Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under “Reinsurance assets” in the Combined Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These assets comprise the reinsurers’ share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers’ share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

l) Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by the life and health insurance subsidiary for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Combined Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section a), “Financial assets and liabilities”. In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to contract holders’ rights to the segregated fund net assets is also recognized separately.

m) Provisions and contingent liabilities

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

Provisions are based on management’s best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant uncertainties and risks. Management must make significant judgments in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflow of resources. Desjardins Group regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in profit or loss under the items corresponding to the nature of the expenditures covered.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Desjardins Group or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably.

n) Derivative financial instruments and hedging activities

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of Desjardins Group’s derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 21, “Derivative financial instruments and hedging activities”.

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recognized at fair value on the Combined Balance Sheets. Changes in fair value of embedded derivatives required to be accounted for separately are recognized under “Net investment income (loss)” in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Hybrid financial instruments

When a hybrid contract contains a host that is an asset within the scope of IFRS 9, the entire hybrid contract is classified and recognized based on the characteristics of the hybrid contract.

An embedded derivative is separated from the host and accounted for separately as a derivative when the host is not an asset within the scope of IFRS 9 and the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid contract is not measured at fair value with changes in fair value recognized in the Combined Statements of Income.

Objectives of holding derivatives

Desjardins Group uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of members and clients, and to allow Desjardins Group to generate income on its own trading activities. These instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under “Net investment income (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. They enable Desjardins Group to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Combined Balance Sheets, as well as firm commitments and forecasted transactions.

Hedging activities

Desjardins Group elected to continue applying the requirements of IAS 39 for hedge accounting (including the requirements related to the interest rate benchmark reform) instead of adopting the provisions of IFRS 9.

Desjardins Group mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, Desjardins Group must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows of the hedged item attributable to the risk being hedged.

Desjardins Group may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting.

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or Desjardins Group terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

Fair value hedges

In a fair value hedge transaction, changes in fair value of the hedging derivative financial instrument are recognized under “Net investment income (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 investment income (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. Previously recorded adjustments to the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Combined Statements of Income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under “Net investment income (loss)” in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash flow hedges

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized under "Net losses on derivative financial instruments designated as cash flow hedges", in other comprehensive income, until the hedged item is recognized in the Combined Statements of Income, at which time such changes are recognized in net interest income in the Combined Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized under "Net investment income (loss)" in the Combined Statements of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues hedge accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Combined Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under "Net investment income (loss)".

Interest rate benchmark reform ("IRBR")

Desjardins Group applies the relief measures, which allow maintaining hedge accounting during the period of uncertainty preceding the replacement of current interest rate benchmarks by an alternative rate. The application of these relief measures is based on the presumption that current interest rate benchmarks designated in hedging relationships remain unchanged and the use of the exception to the requirement to cease hedge accounting when a hedging relationship does not meet the ranges established to determine the effectiveness of hedging relationships. The application of these relief measures will end at the earlier of: when the uncertainty arising from interest rate benchmark reform is no longer present; and when the hedging relationship is discontinued.

o) Financial guarantees

A financial guarantee is a contract that could contingently require Desjardins Group to make specified payments to the guaranteed party to repay a loss that such party incurred as a result of a default by a specified third party to make a payment upon maturity in accordance with the original or modified terms and conditions of a debt security.

Financial guarantees are initially recognized as liabilities in the Combined Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, except in cases where it must be measured at fair value through profit or loss, the guarantee is measured at the higher of the following amounts:
(i) The amount initially recorded less, when appropriate, accumulated amortization recognized in the Combined Statements of Income;
(ii) The amount of the allowance for credit losses.

If a financial guarantee meets the definition of a derivative, it is measured at fair value through profit or loss at each reporting date and presented as a derivative financial instrument. Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument.

The carrying amount of guarantees does not reflect the maximum potential amount of future payments under guarantees. Desjardins Group considers the difference between these two amounts as off-balance sheet credit instruments.

p) 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 to pay interest on permanent shares issued by that caisse. Amounts appropriated to the Federation's stabilization reserve are essentially used to pay interest on F capital shares it issued.

The reserve for future member dividends is made up of amounts appropriated by the caisses. Amounts appropriated to this reserve are used to pay member dividends and to appropriate amounts to the Community Development Fund.

The general reserve is essentially made up of amounts appropriated by the caisses, the Federation and the *Fonds de sécurité Desjardins*. This reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on permanent shares, surplus shares and capital shares.

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)*

q) Revenue recognition

In addition to the items mentioned in section a), “Financial assets and liabilities”, the specific recognition criteria that follow must also be met before revenue can be recognized.

Recognition criteria

Revenue is recognized when Desjardins Group has transferred control of a good or service (the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

Net interest income

Interest income and expense are mainly earned or incurred by the Personal and Business Services segment and the Other category. They are recognized using the effective interest method for all financial instruments measured at “Amortized cost”, for interest-bearing financial assets “Classified as at fair value through other comprehensive income” and for financial instruments included in the “At fair value through profit or loss” class.

The effective interest method is used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

When calculating the effective interest rate, Desjardins Group estimates cash flows considering all contractual terms of the financial instruments, but it does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders’ fees, are assimilated to supplemental interest.

For financial assets that are not considered credit-impaired (Stages 1 and 2), interest income is calculated on the gross carrying amount of the financial instrument. For credit-impaired financial assets (Stage 3), interest income is calculated by applying the effective interest rate to the amortized cost of the asset, which corresponds to the gross carrying amount less the allowance for expected credit losses.

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as they are recognized, an actuarial provision is established and recognized under “Insurance contract liabilities”. Premiums are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the Combined Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. They are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the Combined Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under “Insurance contract liabilities” in the Combined Balance Sheets.

Service charges, commissions, brokerage fees and other

Desjardins Group earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its members and clients.

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under “Deposit and payment service charges” and “Brokerage and investment fund services” in the Combined Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by Desjardins Group is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under “Lending fees and credit card service revenues” in the Combined Statements of Income.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party—such as the arrangement of share or other securities acquisitions or business purchases or sales—are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under “Brokerage and investment fund services” in the Combined Statements of Income. Income from lending fees and credit card service revenue is recorded under “Lending fees and credit card service revenues” in the Combined Statements of Income.

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under “Management and custodial service fees” in the Combined Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under “Management and custodial service fees” in the Combined Statements of Income.

Dividend income is recognized when Desjardins Group’s right to receive payment of the dividend is established.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Combined Balance Sheets of Desjardins Group. Income from these management services is recognized under “Management and custodial service fees” in the Combined Statements of Income when the service is provided.

s) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized under “Foreign exchange income” in the Combined Statements of Income. However, the following items are presented in other comprehensive income in the Combined Statements of Comprehensive Income:

- Translation gains and losses on financial assets “Designated as at fair value through other comprehensive income”.
- Gains and losses on derivatives designated as cash flow hedging instruments.

t) Income taxes on surplus earnings

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

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

Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that Desjardins Group expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting dates.

Deferred income taxes

Deferred taxes are recognized, using the balance sheet liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Combined Balance Sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

(i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).

(ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the difference reverses can be controlled and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these differences, tax loss carryforwards and tax credits can be utilized, except in the following cases:

(i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).

(ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the difference will reverse in the foreseeable future and that a taxable profit will be available against which such difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of a deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

u) Member dividends

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

Member dividends are calculated based on average balances maintained in the following product families: Accounts, Loans and Lines of Credit, Savings and Investments and Funds. For credit card volumes, member dividends are calculated based on net purchases for the relevant year. For the Insurance product family, member dividends are calculated based on the premium paid for the relevant year. Lastly, for certain activities relating to Desjardins Securities Inc., (Desjardins Signature Service, Securities Brokerage, Desjardins Online Brokerage), the calculation is based on commissions and fees for the relevant year. Member dividends are recognized under "Member dividends" in the Combined Statements of Income.

v) Employee benefits

Short-term benefits

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

Post-employment benefits

Pension and post-retirement benefit plans

Desjardins Group offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Combined Statements of Income and includes current service cost, past service cost and net interest on net defined benefit plan assets and 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 assets and liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and are immediately reclassified to undistributed surplus earnings. These remeasurements include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Combined Statements of Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets and 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 net 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.

The net assets of certain pension plans are recognized under "Net defined benefit plan assets" in the Combined Balance Sheets. The net liabilities of certain pension plans and the net liabilities of other post-retirement benefit plans are recognized under "Net defined benefit plan liabilities" in the Combined Balance Sheets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FUTURE ACCOUNTING CHANGES

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2022 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, "Insurance Contracts"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", which will replace the current standard, IFRS 4, "Insurance Contracts", for annual reporting periods beginning on or after January 1, 2023. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts. IFRS 17 provides a general model for measuring insurance contracts, but also includes the premium allocation approach for contracts with a period of one year or less as well as the variable fee approach for insurance contracts with direct participation features.

The general measurement model and the variable fee approach are based on the discounted value of estimated expected future cash flows for the duration of the contract. Insurance profits resulting from issuing insurance contracts measured using these two methods are recorded separately in the insurance liability for contractual service margin. These deferred profits will be recognized in profit and loss as services are rendered. For contracts measured using the premium allocation approach, insurance revenue is recognized as services are rendered, while insurance expenses are recognized when they are incurred. In all cases, when insurance contracts are onerous upon issuance, a loss is immediately recognized in profit or loss.

The life and health insurance subsidiary will apply the premium allocation approach to measure the liability for remaining coverage for its group insurance contracts and certain other short-term insurance contracts. The liability for remaining coverage for individual segregated fund contracts and individual life insurance contracts with participation features will be measured using the variable fee approach. The general measurement model will be applied to all other long-term insurance contracts. At the date of transition, the requirements in IFRS 17 will be applied on a retrospective basis to short-term insurance contracts and the fair value approach will be applied to long-term insurance contracts.

The property and casualty insurance subsidiaries will apply the premium allocation approach to measure the liability for remaining coverage. At the date of transition, the requirements in IFRS 17 will be applied on a retrospective basis to all insurance contracts, except for claims assumed in a past acquisition, for which the modified retrospective approach will be used.

As part of its application, IFRS 17 allows for certain choices to be made. Desjardins Group made the following choices:

- Amortize insurance acquisition cash flows for insurance contracts measured using the premium allocation approach over the duration of the related contracts.
- Apply the accounting offset measure allowed in the statement of income as part of using the strategy for mitigating the financial risks associated with segregated fund contracts.
- Recognize insurance finance income and insurance finance expenses solely in the Combined Statements of Income.
- Not discount the liability for remaining coverage for insurance contracts measured using the premium allocation approach that do not exceed one year.

Desjardins Group has evaluated that adopting IFRS 17 will have an impact on its restated Combined Balance Sheet as at January 1, 2022, including the establishment of a contractual service margin of $2,850 million to $2,950 million arising from the insurance contracts of the life and health insurance subsidiary in force as at that date. Undistributed surplus earnings and reserves will increase by an aggregate amount of $550 million to $575 million, which is mainly explained by an amount of $448 million from accumulated other comprehensive income following the discontinuation of the overlay approach. Overall, adopting IFRS 17 will have a favorable net impact of up to $200 million on equity.

Desjardins Group continues to assess the impact of adopting IFRS 17 on its Combined Financial Statements as at December 31, 2022.

Lastly, the requirements in IFRS 17 allow revising the designation or classification of insurance operations financial assets recognized under IFRS 9 at the date of the initial application of IFRS 17. Desjardins Group chose to not restate comparative figures in its Combined Financial Statements to reflect changes in designation or classification for these financial assets that were made as at January 1, 2023. The impact of such changes is still being assessed.

NOTE 3 – INTEREST RATE BENCHMARK REFORM

Progress and risks arising from the interest rate benchmark reform

The IRBR is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. The objective is to improve benchmark indexes by making sure they comply with robust international standards. Interest rate benchmarks are used in transactions on over-the-counter derivative financial instruments, securities, loans and other variable-rate instruments, among others.

To ensure a smooth transition from interest rate benchmarks to risk-free rates, Desjardins Group has set up an IRBR working group comprising members having diverse fields of expertise and coming from various sectors affected by the reform (the "Desjardins IRBR Working Group"). The mandate of the Desjardins IRBR Working Group is to analyze all aspects of this reform, identify and mitigate the risks it poses, as well as coordinate and execute a transition plan.

Desjardins Group is exposed to several risks in relation to IRBR, including interest, market, reputation and operational risks, which mainly arise from updating systems and processes, modifying contractual clauses and managing the transition with respect to members' and clients' needs.

The plan of the Desjardins IRBR Working Group is intended to ensure that the recommendations from the various relevant authorities with respect to the deployment schedule for the key transitional measures are implemented, including the integration of contractual clauses required in connection with the reform. In addition, a significant measure to mitigate risks related to derivative exposures is the adherence, by the parties to such transactions, to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol. This protocol amends transactions entered into by its adherents before January 25, 2021 so that they would be subject to safe and efficient transition mechanisms. The Federation and the other relevant components of Desjardins Group have adhered to the ISDA Protocol, which became effective on January 25, 2021, at the same time as a supplement to the 2006 ISDA Definitions.

The Desjardins IRBR Working Group also monitors closely the evolution of the expected timeframe for the cessation of certain interest rate benchmarks, in particular the USD LIBOR, which will ceased to be published after June 30, 2023. On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), the administrator of the Canadian Dollar Offered Rate (CDOR), announced that it would cease publishing all tenors of CDOR after June 28, 2024. This announcement triggered the two-stage transition period recommended by the Canadian Alternative Reference Rate (CARR) Working Group in its December 2021 White Paper. By June 30, 2023, the end of the first stage of the transition plan, CDOR will have to be replaced by the Canadian Overnight Repo Rate Average (CORRA) for new derivative products (except in certain specific circumstances) and for securities. By June 28, 2024, the end of the second stage of the transition plan, CDOR-based loan contracts will have to have transitioned to the CORRA rate or any alternative reference rate available at the cessation date. On January 11, 2023, the CARR's working group confirmed the development of the Term CORRA rate following the strong interest demonstrated by Canadian businesses regarding the need for a forward-looking term. The use of the Term CORRA for certain maturities, which is expected to be available for use by the end of the third quarter of 2023, will be restricted to loans and derivative financial instruments associated to hedging strategies. The discontinuation of CDOR, including the impact on hedging relationships, is also managed by the Desjardins IRBR Working Group.

The work of the Desjardins IRBR Working Group continues to progress in accordance with the timeline set out in the Desjardins Group's transition plan.

The following table presents quantitative information about exposures for financial instruments and commitments subject to the reform that have yet to transition to risk-free benchmark rates and mature after June 30, 2023 or June 28, 2024[1].

	USD LIBOR	CDOR
As at December 31, 2022	**Maturing after June 30, 2023**	**Maturing after June 28, 2024**
Non-derivative financial assets[2]	**$ 980**	**$ 5,316**
Non-derivative financial liabilities[3]	**—**	**3,585**
Derivative financial instruments[4][5]	**10,444**	**290,055**
Loan commitments[6]	**1,061**	**7,713**

(1) This table excludes exposures to interest rate benchmarks for which no cessation plans have been announced, including EURIBOR (Euro Interbank Offered Rate) and BBSW (Australian Bank Bill Swap Rate).
(2) Non-derivative assets include the gross carrying amount of loans and the carrying amount of securities.
(3) Non-derivative financial liabilities include the carrying amount of deposits, commitments related to securities sold short and subordinated notes.
(4) Derivative financial instruments include the notional amount of interest rate contracts, foreign exchange contracts and other derivative contracts.
(5) Includes $36,920 million of derivative financial instruments designated as part of fair value hedging relationships and $57,239 million of derivative financial instruments designated as part of cash flow hedging relationships.
(6) Includes loan commitments for which it is possible to draw amounts in several currencies.

NOTE 4 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

The following tables present the carrying amount of financial assets and liabilities according to their classification in the classes defined in the financial instrument standards.

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2022	**Classified as at fair value through profit or loss[1]**	**Designated as at fair value through profit or loss**	**Classified as at fair value through other comprehensive income[2]**	**Designated as at fair value through other comprehensive income**	**Amortized cost[2]**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ —	$ 949	$ 258	$ —	$ 7,706	$ 8,913
Securities	16,063	17,962	51,193	65	50	85,333
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	17,024	17,024
Loans	—	—	—	—	249,840	249,840
Other financial assets						
Clients' liability under acceptances	—	—	—	—	25	25
Derivative financial instruments[3]	5,723	—	—	—	—	5,723
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	3,486	3,486
Other	—	—	—	—	2,008	2,008
Total financial assets	$ 21,786	$ 18,911	$ 51,451	$ 65	$ 280,139	$ 372,352
Financial liabilities						
Deposits[4][5][6]	$ —	$ 745	$ —	$ —	$ 259,091	$ 259,836
Other financial liabilities						
Acceptances	—	—	—	—	25	25
Commitments related to securities sold short	9,859	—	—	—	—	9,859
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	24,565	24,565
Derivative financial instruments[3]	6,554	—	—	—	—	6,554
Amounts payable to clients, brokers and financial institutions	—	—	—	—	8,978	8,978
Other	95	—	—	—	3,969	4,064
Subordinated notes	—	—	—	—	2,928	2,928
Total financial liabilities	$ 16,508	$ 745	$ —	$ —	$ 299,556	$ 316,809

(1) An amount of $3,905 million corresponds to financial assets designated for the overlay approach.

(2) As at December 31, 2022, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $10 million. Detailed information on the allowance for credit losses on loans is presented in Note 8, "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $198 million in assets and $967 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 21, "Derivative financial instruments and hedging activities".

(4) The maturity amount that Desjardins Group will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

(5) As at December 31, 2022, the cumulative amount of change in fair value attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss was $(7) million.

(6) The amount recognized in other comprehensive income attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss that was realized at derecognition during the year was $1 million.

NOTE 4 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2021	Classified as at fair value through profit or loss[1]	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income[2]	Designated as at fair value through other comprehensive income	Amortized cost[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ 1	$ 353	$ 735	$ —	$ 15,239	$ 16,328
Securities	18,890	20,882	53,214	72	41	93,099
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	12,019	12,019
Loans	—	—	—	—	230,511	230,511
Other financial assets						
Clients' liability under acceptances	—	—	—	—	268	268
Derivative financial instruments[3]	5,828	—	—	—	—	5,828
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	2,557	2,557
Other	—	—	—	—	1,895	1,895
Total financial assets	$ 24,719	$ 21,235	$ 53,949	$ 72	$ 262,530	$ 362,505
Financial liabilities						
Deposits[4][5][6]	$ —	$ 351	$ —	$ —	$ 238,004	$ 238,355
Other financial liabilities						
Acceptances	—	—	—	—	268	268
Commitments related to securities sold short	11,342	—	—	—	—	11,342
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	31,177	31,177
Derivative financial instruments[3]	5,500	—	—	—	—	5,500
Amounts payable to clients, brokers and financial institutions	—	—	—	—	7,938	7,938
Other	147	—	—	—	3,660	3,807
Subordinated notes	—	—	—	—	1,960	1,960
Total financial liabilities	$ 16,989	$ 351	$ —	$ —	$ 283,007	$ 300,347

(1) An amount of $3,767 million corresponds to financial assets designated for the overlay approach.

(2) As at December 31, 2021, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $4 million. Detailed information on the allowance for credit losses on loans is presented in Note 8, "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $126 million in assets and $105 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 21, "Derivative financial instruments and hedging activities".

(4) The maturity amount that Desjardins Group will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

(5) As at December 31, 2021, the cumulative amount of change in fair value attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss was $3 million.

(6) The amount recognized in other comprehensive income attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss that was realized at derecognition during the year was $1 million.

During the years ended December 31, 2022 and 2021, there were no material reclassifications of financial instruments.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

Fair value measurement is determined using the following three-level fair value hierarchy:
- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based primarily on observable market data;
- Level 3 – Valuation techniques not based primarily on observable market data.

Transfers between levels

Transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following tables present the hierarchy for financial instruments measured at fair value in the Combined Balance Sheets.

As at December 31, 2022	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 71	$ 878	$ —	$ 949
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,426	—	—	7,426
Provincial governmental entities and municipal corporations in Canada	12,389	595	—	12,984
School or public corporations in Canada	11	69	—	80
Foreign public administrations	629	—	—	629
Other debt securities	1	6,810	504	7,315
Equity securities	3,589	99	1,903	5,591
	24,045	7,573	2,407	34,025
Derivative financial instruments				
Interest rate contracts	—	662	—	662
Foreign exchange contracts	—	924	—	924
Other contracts	—	4,137	—	4,137
	—	5,723	—	5,723
Total financial assets at fair value through profit or loss	24,116	14,174	2,407	40,697
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	9	249	—	258
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,074	6,076	—	13,150
Provincial governmental entities and municipal corporations in Canada	26,753	3,550	—	30,303
Foreign public administrations	25	—	—	25
Other debt securities	—	7,664	51	7,715
Equity securities	—	—	65	65
	33,852	17,290	116	51,258
Total financial assets at fair value through other comprehensive income	33,861	17,539	116	51,516
Financial instruments of segregated funds	6,814	13,907	598	21,319
Total financial assets	$ 64,791	$ 45,620	$ 3,121	$ 113,532
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 745	$ —	$ 745
Other liabilities				
Commitments related to securities sold short	8,836	1,023	—	9,859
Other	—	—	95	95
	8,836	1,768	95	10,699
Derivative financial instruments				
Interest rate contracts	—	1,460	—	1,460
Foreign exchange contracts	—	1,192	—	1,192
Other contracts	—	3,902	—	3,902
	—	6,554	—	6,554
Total financial liabilities	$ 8,836	$ 8,322	$ 95	$ 17,253

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE *(continued)*

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ —	$ 354	$ —	$ 354
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	8,321	—	—	8,321
Provincial governmental entities and municipal corporations in Canada	16,944	684	—	17,628
School or public corporations in Canada	15	84	—	99
Foreign public administrations	567	—	—	567
Other debt securities	1	6,335	600	6,936
Equity securities	4,764	29	1,428	6,221
	30,612	7,132	2,028	39,772
Derivative financial instruments				
Interest rate contracts	—	950	—	950
Foreign exchange contracts	—	350	—	350
Other contracts	—	4,528	—	4,528
	—	5,828	—	5,828
Total financial assets at fair value through profit or loss	30,612	13,314	2,028	45,954
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	—	735	—	735
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,761	7,370	—	15,131
Provincial governmental entities and municipal corporations in Canada	28,131	3,642	—	31,773
School or public corporations in Canada	—	28	—	28
Foreign public administrations	16	—	—	16
Other debt securities	19	6,183	64	6,266
Equity securities	—	3	69	72
	35,927	17,226	133	53,286
Total financial assets at fair value through other comprehensive income	35,927	17,961	133	54,021
Financial instruments of segregated funds	7,685	14,760	360	22,805
Total financial assets	$ 74,224	$ 46,035	$ 2,521	$ 122,780
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 351	$ —	$ 351
Other liabilities				
Commitments related to securities sold short	10,617	725	—	11,342
Other	—	—	147	147
	10,617	1,076	147	11,840
Derivative financial instruments				
Interest rate contracts	—	594	—	594
Foreign exchange contracts	—	643	—	643
Other contracts	—	4,263	—	4,263
	—	5,500	—	5,500
Total financial liabilities	$ 10,617	$ 6,576	$ 147	$ 17,340

During the years ended December 31, 2022 and 2021, no material transfers attributable to changes in the observability of market data were made between Level 1 and Level 2 of the hierarchy for instruments measured at fair value. Transfers of financial instruments into or out of Level 3 reflect changes in the availability of observable inputs due to changes in market conditions.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE

The carrying amount of certain financial instruments measured at amortized cost does not equal fair value. The following tables present those instruments by hierarchy level.

As at December 31, 2022	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Securities	**$ 50**	**$ 44**	**$ —**	**$ 44**	**$ —**
Loans	**249,840**	**241,328**	**—**	**—**	**241,328**
Financial liabilities					
Deposits	**259,091**	**255,831**	**—**	**255,831**	**—**
Subordinated notes	**2,928**	**2,859**	**—**	**2,859**	**—**

As at December 31, 2021	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	$ 41	$ 41	$ —	$ 41	$ —
Loans	230,511	229,566	—	—	229,566
Financial liabilities					
Deposits	238,004	238,465	—	238,465	—
Subordinated notes	1,960	2,009	—	2,009	—

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

The most significant financial instruments categorized within Level 3 that are held by Desjardins Group are mortgage bonds, equity securities and the financial liability related to contingent considerations resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

For mortgage bonds, Desjardins Group developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

Desjardins Group measures the majority of equity securities and other debt securities based on net values or published by the fund administrator. If needed, these values are adjusted based on more recent information, when such information is available and appropriate. Certain equity securities are measured using a model based on expected future cash flow discounting. These models are examined and approved by Desjardins Group.

In connection with the acquisition of the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), Desjardins Group recognized a contingent consideration resulting from the price adjustment clause of the agreement. Under such clause, State Farm will compensate Desjardins Group for 95% of the unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contracts transferred as part of the acquisition, while Desjardins Group will give State Farm 90% of the favourable development of such provision.

Sensitivity of financial instruments categorized within Level 3

Desjardins Group performs sensitivity analyses to measure the fair value of financial instruments categorized within Level 3. Changing unobservable inputs to one or more reasonably possible alternative assumptions does not significantly change the fair value of financial instruments categorized within Level 3.

The majority of mortgage bonds and equity securities measured using a model based on expected future cash flow discounting are backing actuarial liabilities. The impact of the sensitivity of the fair value measurement of these financial instruments is offset by the corresponding changes in actuarial liabilities. In addition, no sensitivity analysis is presented when the input value range is not presented due to the nature of the valuation technique used.

For an equity security having a fair value of $156 million ($78 million as at December 31, 2021), the change in discount rate could give rise to an increase or a decrease in the fair value of that security of $8 million as at December 31, 2022. As at December 31, 2021, the sensitivity analysis for this security is considered immaterial.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 *(continued)*

Changes in fair value of financial instruments categorized within Level 3

The following tables present the changes in fair value of financial instruments categorized within Level 3 of the hierarchy, namely financial instruments whose fair value is determined using valuation techniques not based mainly on observable market data.

For the year ended December 31, 2022	Balance at beginning of year	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other debt securities							
Mortgage bonds	$ 508	$ —	$ (33)	$ —	$ —	$ (78)	$ 397
Other	92	—	6	—	24	(15)	107
Equity securities	1,428	9	124	—	460	(118)	1,903
Total financial assets at fair value through profit or loss	2,028	9	97	—	484	(211)	2,407
Financial assets at fair value through other comprehensive income							
Securities							
Other debt securities							
Mortgage bonds	64	—	—	(2)	—	(11)	51
Equity securities	69	—	—	(4)	—	—	65
Total financial assets at fair value through other comprehensive income	133	—	—	(6)	—	(11)	116
Financial instruments of segregated funds	360	1	8	—	263	(34)	598
Total financial assets	$ 2,521	$ 10	$ 105	$ (6)	$ 747	$ (256)	$ 3,121
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	$ 147	$ —	$ 35	$ —	$ —	$ (87)	$ 95
Total financial liabilities	$ 147	$ —	$ 35	$ —	$ —	$ (87)	$ 95

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under “Net investment income (loss)”.

(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under “Net investment income (loss)”, while unrealized gains or losses on financial liabilities “Classified as at fair value through profit or loss” are recognized under “Other income – Other”.

(3) Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized losses” on debt securities at fair value through other comprehensive income, while unrealized gains or losses on financial assets “Designated as at fair value through other comprehensive income” are recognized under “Net change in gains and losses on equity securities designated as at fair value through other comprehensive income” in the Combined Statements of Comprehensive Income.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 *(continued)*

Changes in fair value of financial instruments categorized within Level 3 *(continued)*

For the year ended December 31, 2021	Balance at beginning of year	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other debt securities								
Mortgage bonds	$ 678	$ —	$ (27)	$ —	$ —	$ —	$ (143)	$ 508
Other	67	—	3	—	—	29	(7)	92
Equity securities	964	—	136	—	—	361	(33)	1,428
Total financial assets at fair value through profit or loss	1,709	—	112	—	—	390	(183)	2,028
Financial assets at fair value through other comprehensive income								
Securities								
Other debt securities								
Mortgage bonds	69	—	—	(2)	—	—	(3)	64
Equity securities	64	—	—	(1)	—	6	—	69
Total financial assets at fair value through other comprehensive income	133	—	—	(3)	—	6	(3)	133
Financial instruments of segregated funds	127	1	7	—	142	115	(32)	360
Total financial assets	$ 1,969	$ 1	$ 119	$ (3)	$ 142	$ 511	$ (218)	$ 2,521
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	$ 155	$ (10)	$ 96	$ —	$ —	$ 11	$ (105)	$ 147
Total financial liabilities	$ 155	$ (10)	$ 96	$ —	$ —	$ 11	$ (105)	$ 147

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under “Net investment income (loss)”, while realized gains or losses on financial liabilities “Classified as at fair value through profit or loss” are recognized under “Other income – Other”.

(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under “Net investment income (loss)”, while unrealized gains or losses on financial liabilities “Classified as at fair value through profit or loss” are recognized under “Other income – Other”.

(3) Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized losses” on debt securities at fair value through other comprehensive income, while unrealized gains or losses on financial assets “Designated as at fair value through other comprehensive income” are recognized under “Net change in gains and losses on equity securities designated as at fair value through other comprehensive income” in the Combined Statements of Comprehensive Income.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Valuation techniques and inputs used to measure the fair value of financial instruments categorized within Level 3

The following tables present the main techniques and inputs used to measure the fair value of the significant financial instruments categorized within Level 3.

As at December 31, 2022	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
			Credit spread[A,B]	**0 bp**	**to**	**15 bp**	
Mortgage bonds	**$ 448**	Discounted cash flows	Comparable inputs[A,B]	**10 bp**	**to**	**141 bp**	
Equity securities and other debt securities	**91**	Discounted cash flows	Discount rate[A,B]	**6.4%**	**to**	**8.8%**	
	1,760	Adjusted net value	Adjusted net value	**-**		**-**	(1)
	65	Market price of comparable instruments	Enterprise value/revenues ratios	**-**		**-**	(1)
			Discount rate[A,B]	**9.5%**	**to**	**12.5%**	
	156	Discounted cash flows	Liquidity premium[A,B]	**10.0%**	**to**	**40.0%**	
Financials instruments of segregated funds	**598**	Adjusted net value	Adjusted net value	**-**		**-**	(1)
Other financial assets	**3**						
Total financial assets	**$ 3,121**						
Financial liabilities							
Other liabilities – Other							
Financial liability related to the contingent consideration	**95**	Actuarial techniques[2]	Provision for claims and adjustment expenses	**-**		**-**	(1)
Total financial liabilities	**$ 95**						

As at December 31, 2021	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
			Credit spread[A,B]	0 bp	to	15 bp	
Mortgage bonds	$ 572	Discounted cash flows	Comparable inputs[A,B]	10 bp	to	155 bp	
Equity securities and other debt securities	93	Discounted cash flows	Discount rate[A,B]	3.4%	to	8.8%	
	1,344	Adjusted net value	Adjusted net value	-		-	(1)
	69	Recent transactions	Paid bid price	-		-	(1)
			Discount rate[A,B]	9.0%	to	9.8%	
	78	Discounted cash flows	Liquidity premium[A,B]	10.0%	to	40.0%	
Financial instruments of segregated funds	360	Adjusted net value	Adjusted net value	-		-	(1)
Other financial assets	5						
Total financial assets	$ 2,521						
Financial liabilities							
Other liabilities – Other							
Financial liability related to the contingent consideration	147	Actuarial techniques[2]	Provision for claims and adjustment expenses	-		-	(1)
Total financial liabilities	$ 147						

(1) Due to the nature of these financial instruments, no input value range is presented.
(2) The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the "Actuarial assumptions" section of Note 17, "Insurance contract liabilities".

Fair value sensitivity to changes in unobservable inputs

(A) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
(B) There is no predictable relationship between this input and other material unobservable inputs.

NOTE 6 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Combined Balance Sheets when, and only when, Desjardins Group has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Desjardins Group has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements that do not meet the criteria for offsetting in the Combined Balance Sheets as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Combined Balance Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Combined Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, Desjardins Group pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Combined Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the normal course of business.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Combined Balance Sheets.

The following tables present information about financial assets and liabilities that are set off and not set off in the Combined Balance Sheets and are subject to a master netting agreement or a similar agreement.

As at December 31, 2022	Gross recognized amounts	Set off amounts	Net amounts presented in the Combined Balance Sheets[2]	Associated amounts not set off in the Combined Balance Sheets[1]		Residual amounts not set off
				Financial instruments[3]	Financial collateral held / pledged	
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 24,233	$ 7,209	$ 17,024	$ 5,767	$ 11,218	$ 39
Derivative financial instruments	5,663	—	5,663	1,452	3,960	251
Amounts receivable from clients, brokers and financial institutions and other	66	28	38	5	—	33
Total financial assets	$ 29,962	$ 7,237	$ 22,725	$ 7,224	$ 15,178	$ 323
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 31,774	$ 7,209	$ 24,565	$ 5,767	$ 18,788	$ 10
Derivative financial instruments	2,725	—	2,725	1,452	783	490
Amounts payable to clients, brokers and financial institutions and other	66	28	38	5	—	33
Total financial liabilities	$ 34,565	$ 7,237	$ 27,328	$ 7,224	$ 19,571	$ 533

(1) Any over-collateralization is excluded from the table.

(2) The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 6 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

As at December 31, 2021	Gross recognized amounts	Set off amounts	Net amounts presented in the Combined Balance Sheets[2]	Associated amounts not set off in the Combined Balance Sheets[1]		Residual amounts not set off
				Financial instruments[3]	Financial collateral held / pledged	
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 17,716	$ 5,697	$ 12,019	$ 7,816	$ 4,203	$ —
Derivative financial instruments	5,819	—	5,819	1,061	4,570	188
Amounts receivable from clients, brokers and financial institutions and other	41	34	7	4	—	3
Total financial assets	$ 23,576	$ 5,731	$ 17,845	$ 8,881	$ 8,773	$ 191
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 36,874	$ 5,697	$ 31,177	$ 7,816	$ 23,342	$ 19
Derivative financial instruments	1,380	—	1,380	1,061	1	318
Amounts payable to clients, brokers and financial institutions and other	149	34	115	4	—	111
Total financial liabilities	$ 38,403	$ 5,731	$ 32,672	$ 8,881	$ 23,343	$ 448

(1) Any over-collateralization is excluded from the table.

(2) The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 7 – SECURITIES

MATURITIES OF SECURITIES

The following tables present an analysis of the maturities of Desjardins Group's securities.

As at December 31, 2022	Terms to maturity						
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	$ 2,053	$ 1,505	$ 1,133	$ 2,000	$ 735	$ —	$ 7,426
Provincial governmental entities and municipal corporations in Canada	904	2,102	1,527	2,312	6,139	—	12,984
School or public corporations in Canada	—	2	6	—	72	—	80
Foreign public administrations	234	3	17	338	37	—	629
Other debt securities	537	948	940	1,361	3,527	2	7,315
Equity securities	—	—	—	42	—	5,549	5,591
Total financial assets at fair value through profit or loss	3,728	4,560	3,623	6,053	10,510	5,551	34,025
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	1,793	6,418	4,589	350	—	—	13,150
Provincial governmental entities and municipal corporations in Canada	1,510	7,384	7,683	13,182	544	—	30,303
Foreign public administrations	20	5	—	—	—	—	25
Other debt securities	2,999	1,101	2,705	867	43	—	7,715
Equity securities	—	—	—	—	—	65	65
Total financial assets at fair value through other comprehensive income	6,322	14,908	14,977	14,399	587	65	51,258
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by:							
Provincial governmental entities and municipal corporations in Canada	1	2	2	4	1	—	10
Foreign public administrations	—	—	1	1	34	—	36
Other debt securities	—	1	1	2	—	—	4
Total financial assets at amortized cost	1	3	4	7	35	—	50
Total securities	$ 10,051	$ 19,471	$ 18,604	$ 20,459	$ 11,132	$ 5,616	$ 85,333

NOTE 7 – SECURITIES *(continued)*

MATURITIES OF SECURITIES *(continued)*

As at December 31, 2021	Terms to maturity						
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	$ 1,916	$ 1,196	$ 1,169	$ 2,442	$ 1,598	$ —	$ 8,321
Provincial governmental entities and municipal corporations in Canada	752	1,887	1,649	2,851	10,489	—	17,628
School or public corporations in Canada	1	—	5	5	88	—	99
Foreign public administrations	289	5	17	1	255	—	567
Other debt securities	313	867	864	1,296	3,592	4	6,936
Equity securities	—	—	—	32	—	6,189	6,221
Total financial assets at fair value through profit or loss	3,271	3,955	3,704	6,627	16,022	6,193	39,772
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	607	6,586	7,425	513	—	—	15,131
Provincial governmental entities and municipal corporations in Canada	813	4,756	9,291	16,085	828	—	31,773
School or public corporations in Canada	28	—	—	—	—	—	28
Foreign public administrations	16	—	—	—	—	—	16
Other debt securities	1,699	2,820	838	852	57	—	6,266
Equity securities	—	—	—	—	—	72	72
Total financial assets at fair value through other comprehensive income	3,163	14,162	17,554	17,450	885	72	53,286
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by:							
Provincial governmental entities and municipal corporations in Canada	2	2	2	5	1	—	12
Foreign public administrations	—	—	1	2	26	—	29
Total financial assets at amortized cost	2	2	3	7	27	—	41
Total securities	$ 6,436	$ 18,119	$ 21,261	$ 24,084	$ 16,934	$ 6,265	$ 93,099

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which Desjardins Group estimates an allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. For more information on credit quality according to risk levels, see table 33, “Probabilities of default of retail clients by risk level”, and Table 34, “Probabilities of default businesses, financial institutions and sovereign borrowers by risk level”, in section 4.0, “Risk Management”, of the 2022 Annual Management’s Discussion and Analysis.

Loans

	Non-credit impaired		Credit-impaired[1]	
As at December 31, 2022	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 53,229	$ 11	$ —	$ 53,240
Very low	67,594	783	—	68,377
Low	29,688	2,997	—	32,685
Moderate	1,741	2,460	—	4,201
High	1	809	—	810
Default	—	124	245	369
Total gross residential mortgages	$ 152,253	$ 7,184	$ 245	$ 159,682
Allowance for credit losses	(58)	(43)	(16)	(117)
Total net residential mortgages	$ 152,195	$ 7,141	$ 229	$ 159,565
Consumer, credit card and other personal loans				
Excellent	$ 5,717	$ 1	$ —	$ 5,718
Very low	6,576	9	—	6,585
Low	7,544	1,243	—	8,787
Moderate	975	852	—	1,827
High	8	1,218	—	1,226
Default	—	68	170	238
Total gross consumer, credit card and other personal loans	$ 20,820	$ 3,391	$ 170	$ 24,381
Allowance for credit losses	(140)	(302)	(91)	(533)
Total net consumer, credit card and other personal loans	$ 20,680	$ 3,089	$ 79	$ 23,848
Business and government loans[2]				
Acceptable risk				
Investment grade	$ 22,624	$ 189	$ —	$ 22,813
Other than investment grade	35,686	4,286	—	39,972
Under watch	1,475	1,700	—	3,175
Default	—	101	776	877
Total gross business and government loans	$ 59,785	$ 6,276	$ 776	$ 66,837
Allowance for credit losses	(114)	(67)	(204)	(385)
Total net business and government loans	$ 59,671	$ 6,209	$ 572	$ 66,452
Total gross loans and acceptations	$ 232,858	$ 16,851	$ 1,191	$ 250,900
Allowance for credit losses	(312)	(412)	(311)	(1,035)
Total net loans and acceptances	$ 232,546	$ 16,439	$ 880	$ 249,865

(1) As at December 31, 2022, 94.5% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the “Credit Risk Mitigation” section of the Management's Discussion and Analysis.

(2) Includes clients' liability under acceptances.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS *(continued)*

Loans (*continued*)

As at December 31, 2021	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired[1] Stage 3	Total
Residential mortgages				
Excellent	$ 50,281	$ 27	$ —	$ 50,308
Very low	65,459	2,391	—	67,850
Low	18,139	8,916	—	27,055
Moderate	1,200	2,285	—	3,485
High	5	652	—	657
Default	—	131	209	340
Total gross residential mortgages	$ 135,084	$ 14,402	$ 209	$ 149,695
Allowance for credit losses	(72)	(70)	(20)	(162)
Total net residential mortgages	$ 135,012	$ 14,332	$ 189	$ 149,533
Consumer, credit card and other personal loans				
Excellent	$ 5,731	$ —	$ —	$ 5,731
Very low	6,429	14	—	6,443
Low	7,724	1,268	—	8,992
Moderate	1,011	756	—	1,767
High	7	1,229	—	1,236
Default	—	69	148	217
Total gross consumer, credit card and other personal loans	$ 20,902	$ 3,336	$ 148	$ 24,386
Allowance for credit losses	(113)	(251)	(80)	(444)
Total net consumer, credit card and other personal loans	$ 20,789	$ 3,085	$ 68	$ 23,942
Business and government loans[2]				
Acceptable risk				
Investment grade	$ 20,307	$ 616	$ —	$ 20,923
Other than investment grade	27,475	4,747	—	32,222
Under watch	1,453	2,258	—	3,711
Default	—	81	731	812
Total gross business and government loans	$ 49,235	$ 7,702	$ 731	$ 57,668
Allowance for credit losses	(105)	(80)	(179)	(364)
Total net business and government loans	$ 49,130	$ 7,622	$ 552	$ 57,304
Total gross loans and acceptances	$ 205,221	$ 25,440	$ 1,088	$ 231,749
Allowance for credit losses	(290)	(401)	(279)	(970)
Total net loans and acceptances	$ 204,931	$ 25,039	$ 809	$ 230,779

(1) As at December 31, 2021, 94.9% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the “Credit Risk Mitigation” section of the Management's Discussion and Analysis.

(2) Includes clients' liability under acceptances.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS *(continued)*

Off-balance sheet items[1]

As at December 31, 2022	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	**$ 49,665**	**$ 5**	**$ —**	**$ 49,670**
Very low	**21,946**	**40**	**—**	**21,986**
Low	**6,511**	**931**	**—**	**7,442**
Moderate	**315**	**576**	**—**	**891**
High	**5**	**262**	**—**	**267**
Default	**—**	**—**	**44**	**44**
Total	**$ 78,442**	**$ 1,814**	**$ 44**	**$ 80,300**
Allowance for credit losses	**(31)**	**(9)**	**—**	**(40)**
Total, net of allowance for credit losses	**$ 78,411**	**$ 1,805**	**$ 44**	**$ 80,260**
Business and government				
Acceptable risk				
Investment grade	**$ 30,908**	**$ 150**	**$ —**	**$ 31,058**
Other than investment grade	**12,894**	**1,134**	**—**	**14,028**
Under watch	**300**	**248**	**—**	**548**
Default	**—**	**9**	**118**	**127**
Total	**$ 44,102**	**$ 1,541**	**$ 118**	**$ 45,761**
Allowance for credit losses	**(11)**	**(2)**	**—**	**(13)**
Total, net of allowance for credit losses	**$ 44,091**	**$ 1,539**	**$ 118**	**$ 45,748**
Total off-balance sheet items	**$ 122,544**	**$ 3,355**	**$ 162**	**$ 126,061**
Allowance for credit losses	**(42)**	**(11)**	**—**	**(53)**
Total off-balance sheet items, net of allowance for credit losses	**$ 122,502**	**$ 3,344**	**$ 162**	**$ 126,008**

(1) Loan commitments for which Desjardins Group estimates an allowance for expected credit losses comprise credit commitments, documentary letters of credit and standby letters of credit for which payment depends on meeting a performance obligation, while financial guarantees for which it estimates an allowance for expected credit losses comprise other guarantees and standby letters of credit.

As at December 31, 2021	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 51,740	$ 1	$ —	$ 51,741
Very low	22,326	75	—	22,401
Low	6,334	2,336	—	8,670
Moderate	417	642	—	1,059
High	5	460	—	465
Default	—	2	47	49
Total	$ 80,822	$ 3,516	$ 47	$ 84,385
Allowance for credit losses	(46)	(17)	—	(63)
Total, net of allowance for credit losses	$ 80,776	$ 3,499	$ 47	$ 84,322
Business and government				
Acceptable risk				
Investment grade	$ 31,397	$ 120	$ —	$ 31,517
Other than investment grade	9,611	1,899	—	11,510
Under watch	198	448	—	646
Default	—	4	119	123
Total	$ 41,206	$ 2,471	$ 119	$ 43,796
Allowance for credit losses	(7)	(2)	—	(9)
Total, net of allowance for credit losses	$ 41,199	$ 2,469	$ 119	$ 43,787
Total off-balance sheet items	$ 122,028	$ 5,987	$ 166	$ 128,181
Allowance for credit losses	(53)	(19)	—	(72)
Total off-balance sheet items, net of allowance for credit losses	$ 121,975	$ 5,968	$ 166	$ 128,109

(1) Loan commitments for which Desjardins Group estimates an allowance for expected credit losses comprise credit commitments, documentary letters of credit and standby letters of credit for which payment depends on meeting a performance obligation, while financial guarantees for which it estimates an allowance for expected credit losses comprise other guarantees and standby letters of credit.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES

The following tables present the changes in the balance of the allowance for expected credit losses on loans and off-balance sheet items.

For the year ended December 31, 2022	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Allowance for credit losses
Residential mortgages				
Balance at beginning of year	**$ 73**	**$ 73**	**$ 20**	**$ 166**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**74**	**(71)**	**(3)**	**—**
Stage 2	**(15)**	**20**	**(5)**	**—**
Stage 3	**—**	**(3)**	**3**	**—**
Net remeasurement due to transfers[2]	**(34)**	**23**	**13**	**2**
Changes in risks, parameters and models[3]	**(69)**	**17**	**(2)**	**(54)**
New originations or acquisitions[4]	**40**	**—**	**—**	**40**
Derecognition and maturities[5]	**(12)**	**(14)**	**(7)**	**(33)**
Net drawdowns (repayments)[6]	**2**	**(1)**	**—**	**1**
Other	**—**	**—**	**(2)**	**(2)**
	(14)	**(29)**	**(3)**	**(46)**
Write-offs and recoveries	**—**	**—**	**(1)**	**(1)**
Balance at end of year	**$ 59**	**$ 44**	**$ 16**	**$ 119**
Consumer, credit card and other personal loans				
Balance at beginning of year	**$ 158**	**$ 265**	**$ 80**	**$ 503**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**304**	**(295)**	**(9)**	**—**
Stage 2	**(131)**	**169**	**(38)**	**—**
Stage 3	**(1)**	**(46)**	**47**	**—**
Net remeasurement due to transfers[2]	**(35)**	**62**	**156**	**183**
Changes in risks, parameters and models[3]	**(192)**	**217**	**143**	**168**
New originations or acquisitions[4]	**119**	**—**	**—**	**119**
Derecognition and maturities[5]	**(43)**	**(56)**	**(69)**	**(168)**
Net drawdowns (repayments)[6]	**(9)**	**(6)**	**(2)**	**(17)**
	12	**45**	**228**	**285**
Write-offs and recoveries	**—**	**—**	**(217)**	**(217)**
Balance at end of year	**$ 170**	**$ 310**	**$ 91**	**$ 571**
Business and government				
Balance at beginning of year	**$ 112**	**$ 82**	**$ 179**	**$ 373**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**73**	**(66)**	**(7)**	**—**
Stage 2	**(42)**	**56**	**(14)**	**—**
Stage 3	**(1)**	**(7)**	**8**	**—**
Net remeasurement due to transfers[2]	**(13)**	**31**	**69**	**87**
Changes in risks, parameters and models[3]	**(113)**	**(13)**	**27**	**(99)**
New originations or acquisitions[4]	**127**	**—**	**—**	**127**
Derecognition and maturities[5]	**(39)**	**(21)**	**(43)**	**(103)**
Net drawdowns (repayments)[6]	**21**	**7**	**(7)**	**21**
	13	**(13)**	**33**	**33**
Write-offs and recoveries	**—**	**—**	**(8)**	**(8)**
Balance at end of year	**$ 125**	**$ 69**	**$ 204**	**$ 398**
Total balances at end of year	**$ 354**	**$ 423**	**$ 311**	**$ 1,088**
Composed of:				
Loans	**$ 312**	**$ 412**	**$ 311**	**$ 1,035**
Off-balance sheet items[7]	**42**	**11**	**—**	**53**

(1) Represent transfers between stages before the remeasurement of expected credit losses.

(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.

(3) Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risks levels, parameters and models, after transfers between stages.

(4) Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.

(7) The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Combined Balance Sheets.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES *(continued)*

For the year ended December 31, 2021	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Allowance for credit losses
Residential mortgages				
Balance at beginning of year	$ 65	$ 102	$ 29	$ 196
Provision for credit losses				
Transfers to[1]:				
Stage 1	71	(66)	(5)	—
Stage 2	(28)	40	(12)	—
Stage 3	—	(4)	4	—
Net remeasurement due to transfers[2]	(19)	32	13	26
Changes in risks, parameters and models[3]	(75)	(1)	(5)	(81)
New originations or acquisitions[4]	71	—	—	71
Derecognition and maturities[5]	(14)	(26)	(11)	(51)
Net drawdowns (repayments)[6]	2	(4)	1	(1)
Other	—	—	3	3
	8	(29)	(12)	(33)
Write-offs and recoveries	—	—	3	3
Balance at end of year	$ 73	$ 73	$ 20	$ 166
Consumer, credit card and other personal loans				
Balance at beginning of year	$ 177	$ 306	$ 126	$ 609
Provision for credit losses				
Transfers to[1]:				
Stage 1	268	(252)	(16)	—
Stage 2	(108)	173	(65)	—
Stage 3	(1)	(32)	33	—
Net remeasurement due to transfers[2]	(37)	61	144	168
Changes in risks, parameters and models[3]	(212)	80	105	(27)
New originations or acquisitions[4]	112	—	—	112
Derecognition and maturities[5]	(33)	(57)	(52)	(142)
Net drawdowns (repayments)[6]	(8)	(14)	(8)	(30)
	(19)	(41)	141	81
Write-offs and recoveries	—	—	(187)	(187)
Balance at end of year	$ 158	$ 265	$ 80	$ 503
Business and government				
Balance at beginning of year	$ 76	$ 128	$ 181	$ 385
Provision for credit losses				
Transfers to[1]:				
Stage 1	54	(52)	(2)	—
Stage 2	(45)	58	(13)	—
Stage 3	—	(9)	9	—
Net remeasurement due to transfers[2]	(7)	10	35	38
Changes in risks, parameters and models[3]	(85)	(30)	42	(73)
New originations or acquisitions[4]	131	—	—	131
Derecognition and maturities[5]	(27)	(29)	(48)	(104)
Net drawdowns (repayments)[6]	16	6	7	29
Other	(1)	—	—	(1)
	36	(46)	30	20
Write-offs and recoveries	—	—	(32)	(32)
Balance at end of year	$ 112	$ 82	$ 179	$ 373
Total balances at end of year	$ 343	$ 420	$ 279	$ 1,042
Composed of:				
Loans	$ 290	$ 401	$ 279	$ 970
Off-balance sheet items[7]	53	19	—	72

(1) Represent transfers between stages before the remeasurement of expected credit losses.

(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.

(3) Represent the change in the allowance due to changes in risk resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.

(4) Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.

(7) The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Combined Balance Sheets.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS

Estimating the allowance for expected credit losses is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

- Changes in the borrowers' credit risk rating (or PD);
- Determination of significant increases in credit risk;
- Incorporation of forward-looking information;
- Estimated life of revolving credit facilities.

The current macroeconomic environment, characterized by increased inflationary pressures, rapid interest rate hikes, labour shortages, some supply chain disruptions and growing geopolitical tensions, among others, continues to give rise to uncertainty. Therefore, management has to continue making particularly complex judgments to estimate the allowance for credit losses in the current situation.

To take into account relevant risk factors related to the macroeconomic environment that are not reflected in models, management continues to apply expert credit judgment in measuring the allowance for expected credit losses. Expert adjustments are thus applied to some credit risk measures and some forward-looking information that should not be as representative of an improvement in portfolio credit quality as what historical data used in the models would otherwise suggest.

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. For more information about these models, see section 4.0, "Risk Management", of the Management's Discussion and Analysis. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the allowance for expected credit losses.

Changes in the borrowers' credit risk rating may increase or decrease the allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the allowance, while an improvement results in a decrease in the allowance.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Group bases its assessment on the change in default risk over the expected life of the financial instrument. As this assessment takes into account forward-looking information at time of granting and at the reporting date, a significant increase in credit risk may be caused by a deterioration in economic forecasts integrated into the prospective evaluation, a deterioration in the borrower's situation or a combination of both of these factors.

The determination of significant increases in credit risk since initial recognition may have a significant upward or downward impact on the allowance for expected credit losses as the amount of the allowance for expected credit losses for loans in Stage 1 is equal to 12-month expected credit losses, while the amount of the allowance for expected credit losses for loans in Stage 2 is equal to the lifetime expected credit losses.

Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine the allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the main variables presented in the table below. The macroeconomic variable projection and the determination of the probabilities of occurrence are reviewed quarterly.

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

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

Incorporation of forward-looking information *(continued)*

The macroeconomic scenarios developed for calculating the allowance for expected credit losses include the following value ranges over the projection horizon for the most significant variables for credit risk parameters:

	Base scenario		Upside scenario		Downside scenario	
As at December 31, 2022	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**
Macroeconomic variables[1]						
Gross domestic product (annualized change)	**(0.5)%**	**1.8 %**	**1.6 %**	**2.1 %**	**(3.0)%**	**1.4 %**
Unemployment rate (average)	**5.1 %**	**4.5 %**	**4.0 %**	**3.2 %**	**7.3 %**	**7.3 %**
Consumer Price Index (annualized change)	**2.4 %**	**2.0 %**	**4.0 %**	**2.1 %**	**2.0 %**	**1.9 %**
Housing prices (annualized change)	**(8.6)%**	**2.1 %**	**(2.3)%**	**2.9 %**	**(27.6)%**	**4.1 %**
Corporate credit spread[2] (average)	**171 bp**	**123 bp**	**121 bp**	**95 bp**	**260 bp**	**161 bp**
S&P/TSX stock index[2] (annualized change)	**2.4 %**	**5.1 %**	**29.0 %**	**7.0 %**	**(16.2)%**	**6.7 %**

(1) All macroeconomic variables relate to the Québec economy, unless otherwise noted.
(2) Macroeconomic variables related to the Canadian economy.

	Base scenario		Upside scenario		Downside scenario	
As at December 31, 2021	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic variables[1]						
Gross domestic product (annualized change)	2.4 %	1.6 %	5.6 %	2.0 %	0.7 %	0.7 %
Unemployment rate (average)	4.9 %	4.4 %	4.2 %	3.2 %	5.8 %	5.9 %
Consumer Price Index (annualized change)	1.8 %	2.2 %	4.0 %	2.3 %	1.7 %	1.5 %
Housing prices (annualized change)	(5.0)%	0.1 %	8.2 %	1.6 %	(17.7)%	(1.7)%
Corporate credit spread[2] (average)	114 bp	115 bp	95 bp	90 bp	143 bp	149 bp
S&P/TSX stock index[2] (annualized change)	7.0 %	4.8 %	14.0 %	5.6 %	(11.6)%	1.6 %

(1) All macroeconomic variables relate to the Québec economy, unless otherwise noted.
(2) Macroeconomic variables related to the Canadian economy.

The base scenario forecasts a mild recession in 2023. Due to inflation, central banks have picked up the pace of monetary tightening, which should soon lead to quarterly declines in real GDP in several economies, including Canada and Québec. Under this scenario, economic difficulties will push up the unemployment rate, and the housing sector will be particularly affected. In Québec, slight decreases in real GDP are expected for the first three quarters of 2023. The Québec unemployment rate should increase back to just over 5.5% and house prices should fall by approximately 17% compared to the spring 2022 peak. This scenario forecasts that if inflation goes back to 2% as expected in 2023, the Bank of Canada will then begin to reduce its policy interest rates in the fourth quarter of 2023 and will continue to do so in 2024. This would help accelerating economic growth after a more difficult year 2023. The unemployment rate should gradually converge to 4%, in the medium term, in Québec.

In the downside scenario, economic growth would be more severely affected by the increase in interest rates. Central banks would announce additional interest rate hikes in the coming months to ensure that inflation returns to its target in a short-term horizon. Under that scenario, the discount rate would be raised to 5.0% in the first quarter of 2023, which would contribute to deepening the recession. The unemployment rate would increase more significantly, possibly to 8.5% in Québec. The downside scenario also assumes a more significant correction in average house prices of approximately 35% compared to the previous peak. Interest rate decreases would be announced in the second quarter of 2023 as a result of greater economic difficulties than in the base scenario that would push down inflation more quickly.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

Incorporation of forward-looking information *(continued)*

The upside scenario essentially assumes that a stronger economic than in the base scenario, helped among others by a faster and more sustainable reduction in supply constraints. This would imply that the war in Ukraine would come to an end more quickly. More significant productivity gains could also occur, and this would help economic growth while limiting inflationary pressures. In this scenario, the unemployment rate could decrease to 3% in the next few years. Inflation would still be more persistent than in the base scenario. The return to the 2% inflation target would take longer and prompt the Bank of Canada to reduce interest rates more gradually in 2024. The Bank rate would then remain at 3.25%, which is the upper end of the neutral rate range estimated by the Bank of Canada. Slightly higher interest rates under this scenario would contribute to limiting the growth in house prices, which would still be mildly stronger than under the base scenario.

The development of the economic outlook after December 31, 2022 will be considered in estimating the allowance for expected credit losses in future periods.

Estimated life of revolving credit facilities

To determine the life of revolving credit facilities, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management action. In making this estimate, Desjardins Group considers the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

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

SENSITIVITY ANALYSIS OF THE ALLOWANCE FOR CREDIT LOSSES ON NON-CREDIT IMPAIRED LOANS

Scenarios

The amount of the allowance for expected credit losses depends on the probability of occurrence associated with each scenario. The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items at the reporting dates, which takes into account the probability weighting for the three scenarios, with the allowance for credit losses that would have been obtained if a weighting of 100% had been assigned to each scenario individually.

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2022	As at December 31, 2021
Under IFRS 9	**$ 777**	$ 763
Weighting of 100% assigned to the scenario:		
Base	**$ 653**	$ 650
Upside	**523**	610
Downside	**1,122**	1,156

Transfers between stages

The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items at the reporting dates with the allowance for credit losses that would have been obtained if all non-credit impaired loans had been included in Stage 1 of the impairment model.

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2022	As at December 31, 2021
Under IFRS 9	**$ 777**	$ 763
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 714**	$ 675

NOTE 9 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of its liquidity and capital management strategy, Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program. Under this program, Desjardins Group creates pools of residential mortgage loans insured by Canada Mortgage and Housing Corporation (CMHC) that back mortgage-backed securities. These mortgage-backed securities are issued under the *National Housing Act* (NHA MBSs). Desjardins Group originates from time to time such securities and retains them as holder or transfers them from time to time to the Canada Housing Trust (CHT). NHA MBSs gives their holders a property right on the pools of loans backing them.

The terms and conditions of the program giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and Desjardins Group to allow the monthly receipt of all cash flows related to the mortgage loans underlying the NHA MBSs. Desjardins Group pays the CHT an amount corresponding to the interest payable to the holders of Canada Mortgage Bonds (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.

However, in these transactions, Desjardins Group retains substantially all the risks, including prepayment and interest rate risks. These loans therefore continue to be recognized in the Combined Balance Sheets. Furthermore, Desjardins Group treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under “Deposits – Business and government” in the Combined Balance Sheets. The CHT funds these purchases by issuing CMBs to investors.

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, 2022		As at December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 13,767**	**$ 13,293**	$ 12,945	$ 13,062
Securities sold under repurchase agreements	**3,294**	**3,294**	4,694	4,694
Securities lent	**1**	**1**	8	8
	$ 17,062	**$ 16,588**	$ 17,647	$ 17,764
Related liabilities	**$ 16,443**	**$ 15,330**	$ 17,124	$ 17,007

NOTE 10 – SEGREGATED FUNDS

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	As at December 31, 2022	As at December 31, 2021
Investments		
Bonds	**$ 602**	$ 628
Equity securities	**20,654**	22,139
Money market securities	**63**	38
Securities borrowed or purchased under reverse repurchase agreements	**3**	14
Other assets	**190**	129
Commitments related to securities lent or sold under repurchase agreements	**(10)**	(6)
Other liabilities	**(146)**	(96)
Net assets held for segregated fund contract holders	**$ 21,356**	$ 22,846
Assets held for the insurer	**(38)**	(42)
Total segregated fund net assets[1]	**$ 21,318**	$ 22,804

(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 $34 million as at December 31, 2022 ($8 million as at December 31, 2021).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. Desjardins Group classifies these instruments using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 5, “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 “Other liabilities”.

The following tables present the financial instruments included in segregated fund net assets and recognized at fair value.

As at December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Bonds	**$ 310**	**$ 292**	**$ —**	**$ 602**
Equity securities	**6,446**	**13,610**	**598**	**20,654**
Money market securities	**58**	**5**	**—**	**63**
Total financial instruments recognized at fair value	**$ 6,814**	**$ 13,907**	**$ 598**	**$ 21,319**

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 345	$ 283	$ —	$ 628
Equity securities	7,307	14,472	360	22,139
Money market securities	33	5	—	38
Total financial instruments recognized at fair value	$ 7,685	$ 14,760	$ 360	$ 22,805

NOTE 10 – 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, 2022, the carrying amount of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets was $10 million ($6 million as at December 31, 2021) and their fair value was the same.

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 $10 million as at December 31, 2022 ($6 million as at December 31, 2021). 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 $7 million ($2 million as at December 31, 2021). No significant financial assets held as collateral had been sold or repledged in 2022 and 2021. These financial assets were received as collateral in transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

Desjardins Group is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	As at December 31, 2022	As at December 31, 2021
Balance at beginning – Net liabilities to segregated fund contract holders	**$ 22,838**	$ 19,127
Additions		
Amounts received from contract holders	**3,665**	4,338
Net investment income	**—**	2,407
	3,665	6,745
Deductions		
Withdrawals and redemptions	**2,750**	2,869
Net investment loss	**2,279**	—
Management fees	**152**	165
	5,181	3,034
Balance at end – Net liabilities to segregated fund contract holders	**$ 21,322**	$ 22,838
Liabilities to the insurer	**(38)**	(42)
Total segregated fund net liabilities	**$ 21,284**	$ 22,796

NOTE 11 – LEASES

LEASES – AS LESSEE

The following table presents the carrying amount of right-of-use assets by class of underlying asset.

	As at December 31, 2022	As at December 31, 2021
Buildings	$ 536	$ 521
Other[1]	7	9
	$ 543	$ 530

(1) The "Other" category mainly comprises vehicles.

During fiscal 2022, Desjardins Group entered into leases that increased right-of-use assets by $128 million ($116 million in 2021).

The following table presents the depreciation of right-of-use assets by class of underlying asset.

	2022	2021
Buildings	$ 71	$ 62
Other[1]	3	3
	$ 74	$ 65

(1) The "Other" category mainly comprises vehicles.

The following table presents amounts recognized in the Combined Statements of Income for the years ended December 31.

	2022	2021
Interest expense on lease liabilities	$ 19	$ 19
Short-term leases	17	18
Variable lease payments not included in the measurement of the lease liability	26	29

LEASES – AS LESSOR

Operating leases

Lease income is presented in Note 12, "Property, plant and equipment and investment property", and includes mainly fixed lease payments.

For the years ended December 31, lease payments to be received under non-cancellable operating leases for premises and equipment are as follows:

	2022	2021
Under 1 year	$ 88	$ 79
1 to 2 years	75	70
Over 2 to 3 years	69	64
Over 3 to 4 years	51	56
Over 4 to 5 years	33	39
Over 5 years	244	260
Total future lease payments	$ 560	$ 568

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, 2020	$ 100	$ 1,442	$ 503	$ 493	$ 677	$ 3,215	$ 237	$ 1,013	$ 1,250
Additions	—	42	86	26	65	219	5	41	46
Disposals	—	(11)	(57)	(56)	(44)	(168)	(4)	(9)	(13)
Other	(1)	(5)	(8)	(1)	(9)	(24)	—	(3)	(3)
As at December 31, 2021	$ 99	$ 1,468	$ 524	$ 462	$ 689	$ 3,242	$ 238	$ 1,042	$ 1,280
Additions	**—**	**44**	**143**	**26**	**51**	**264**	**—**	**48**	**48**
Disposals	**—**	**(14)**	**(44)**	**(24)**	**(26)**	**(108)**	**(2)**	**(25)**	**(27)**
Other	**(2)**	**(20)**	**5**	**5**	**—**	**(12)**	**—**	**—**	**—**
As at December 31, 2022	**$ 97**	**$ 1,478**	**$ 628**	**$ 469**	**$ 714**	**$ 3,386**	**$ 236**	**$ 1,065**	**$ 1,301**

	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, 2020	$ —	$ 673	$ 287	$ 384	$ 330	$ 1,674	$ —	$ 326	$ 326
Depreciation	—	45	83	22	43	193	—	34	34
Disposals	—	(9)	(56)	(51)	(35)	(151)	—	(3)	(3)
Other	—	(5)	—	—	—	(5)	—	(3)	(3)
As at December 31, 2021	$ —	$ 704	$ 314	$ 355	$ 338	$ 1,711	$ —	$ 354	$ 354
Depreciation	**—**	**47**	**88**	**19**	**46**	**200**	**—**	**34**	**34**
Disposals	**—**	**(11)**	**(42)**	**(23)**	**(25)**	**(101)**	**—**	**(16)**	**(16)**
Other	**—**	**(12)**	**—**	**1**	**—**	**(11)**	**—**	**—**	**—**
As at December 31, 2022	**$ —**	**$ 728**	**$ 360**	**$ 352**	**$ 359**	**$ 1,799**	**$ —**	**$ 372**	**$ 372**

	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, 2022	**$ 97**	**$ 750**	**$ 268**	**$ 117**	**$ 355**	**$ 1,587**	**$ 236**	**$ 693**	**$ 929**
As at December 31, 2021	$ 99	$ 764	$ 210	$ 107	$ 351	$ 1,531	$ 238	$ 688	$ 926

As at December 31, 2022, an amount of $14 million ($10 million as at December 31, 2021) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $95 million ($110 million as at December 31, 2021) related to buildings.

As at December 31, 2022, the fair value of investment property was $1,925 million ($1,907 million as at December 31, 2021). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 5, “Fair value of financial instruments”, as it is measured using techniques that are not primarily based on observable market inputs. The fair value of investment property is determined annually by management, mainly by using the work of independent real estate appraisers with recognized and relevant professional qualifications and any other significant information that may be deemed relevant. These appraisers use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on observable and unobservable inputs, involve estimating capitalization rates and adjusted net operating income, in the case of the normalized net income direct discounting method, and estimating discount and capitalization rates and applicable future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2022, lease income from investment property amounted to $143 million ($139 million in 2021). Amounts recognized in profit or loss for operating expenses related to investment property that generated lease income during the year totalled $99 million ($97 million in 2021), while no amount has been recognized for those that did not generate lease income. These amounts are presented under “Net investment income (loss)” in the Combined Statements of Income.

NOTE 13 – INTANGIBLE ASSETS

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software[1]	Client relationships	Other[2]	Total
Cost				
As at December 31, 2020	$ 862	$ 17	$ 122	$ 1,001
Acquisitions / Additions	162	8	2	172
Disposals / Retirements	(105)	(9)	—	(114)
Other	9	—	—	9
As at December 31, 2021	$ 928	$ 16	$ 124	$ 1,068
Acquisitions / Additions	**279**	**1**	**21**	**301**
Disposals / Retirements	**(7)**	**—**	**(1)**	**(8)**
Other	**(7)**	**—**	**—**	**(7)**
As at December 31, 2022	**$ 1,193**	**$ 17**	**$ 144**	**$ 1,354**

	Software[1]	Client relationships	Other[2]	Total
Accumulated amortization				
As at December 31, 2020	$ 532	$ 10	$ 35	$ 577
Amortization	86	2	5	93
Disposals / Retirements	(100)	(1)	—	(101)
Other	2	—	—	2
As at December 31, 2021	$ 520	$ 11	$ 40	$ 571
Amortization	**98**	**1**	**1**	**100**
Disposals / Retirements	**(7)**	**—**	**—**	**(7)**
Other	**(2)**	**—**	**—**	**(2)**
As at December 31, 2022	**$ 609**	**$ 12**	**$ 41**	**$ 662**

	Software[1]	Client relationships	Other[2]	Total
Net carrying amount				
As at December 31, 2022	**$ 584**	**$ 5**	**$ 103**	**$ 692**
As at December 31, 2021	$ 408	$ 5	$ 84	$ 497

(1) Software includes purchased software amounting to $378 million ($206 million in 2021) and internally developed software amounting to $206 million ($202 million in 2021).
(2) The “Other” category mainly includes the amount related to the acquisition of insurance contract portfolios and a distribution network.

NOTE 14 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries included in the Group scope of Desjardins Group have been incorporated in Canada and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held by Desjardins Group in each of them.

	Nature of operations	As at December 31, 2022[1]	As at December 31, 2021[1]
Desjardins Financial Holding Inc.	Holding company	**100 %**	100 %
Desjardins Financial Corporation Inc.	Holding company	**100**	100
Desjardins Global Asset Management Inc.	Asset management	**100**	100
Desjardins General Insurance Group Inc.	Property and casualty insurance	**90**	90
Property and casualty insurance subsidiaries[2]	Property and casualty insurance	**100**	100
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	**100**	100
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	**100**	100
Desjardins Trust Inc.	Asset custody and trust services	**100**	100
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group's technology	**100**	100
Desjardins Securities Inc.	Securities brokerage	**100**	100
9420-7404 Québec inc.	Real estate services	**100**	100

(1) Represents also the proportion of voting rights held by Desjardins Group in these subsidiaries.

(2) Represents a group of six property and casualty insurance subsidiaries.

Subsidiary that has material non-controlling interest

As at December 31, 2022 and 2021, Desjardins General Insurance Group Inc. is a subsidiary that has material non-controlling interest.

The following tables present summarized financial information about the subsidiary that has material non-controlling interest. This information is presented before eliminating intragroup accounts and transactions and has been adjusted to reflect the fair value adjustments made at the time of acquisition.

	As at December 31, 2022	As at December 31, 2021
Assets	**$ 15,434**	$ 16,528
Liabilities	**10,993**	11,533
Equity	**$ 4,441**	$ 4,995
Non-controlling interests	**$ 847**	$ 903

For the years ended December 31	**2022**	2021
Total income	**$ 6,091**	$ 5,836
Net surplus earnings for the year after member dividends	**451**	1,199
Comprehensive income for the year	**25**	1,556
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	**$ 67**	$ 142
Dividends / distributions paid to holders of non-controlling interests	**$ 80**	$ 25

For the years ended December 31	**2022**	2021
Cash flows from (used in) operating activities	**$ (409)**	$ 1,519
Cash flows from (used in) financing activities	**(719)**	(33)
Cash flows from (used in) investing activities	**983**	(1,634)
Net decrease in cash and cash equivalents	**$ (145)**	$ (148)

NOTE 14 – INTERESTS IN OTHER ENTITIES *(continued)*

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, a structured entity, is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as this entity is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted it financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bonds issued. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by this structured entity. The assets, totalling $13,216 million as at December 31, 2022 ($12,687 million as at December 31, 2021), are presented under “Loans – Residential mortgages” in the Combined Balance Sheets, and the covered bonds, amounting to $10,985 million as at December 31, 2022 ($7,481 million as at December 31, 2021), are presented under “Deposits – Business and government”.

IMMATERIAL JOINT VENTURES AND ASSOCIATES

The following table presents the carrying amount as well as the share of net income and other comprehensive income of joint ventures and associates that are considered individually immaterial.

As at and for the years ended December 31	**2022**		2021	
	Joint ventures	**Associates**	Joint ventures	Associates
Carrying amount	**$ 1,254**	**$ 203**	$ 1,185	$ 164
Share of net income	**57**	**5**	47	6
Share of other comprehensive income	**(5)**	**—**	(2)	—

UNCONSOLIDATED STRUCTURED ENTITIES

Mutual funds

Desjardins Group holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns as a result of the units it holds in these funds, these units do not give Desjardins Group power over the relevant activities of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

The investments of these funds are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. Desjardins Group’s maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

NOTE 15 – OTHER ASSETS – OTHER

The following table presents the breakdown of “Other assets – Other”.

	As at December 31, 2022	As at December 31, 2021
Accounts receivable	**$ 1,024**	$ 1,199
Interest receivable	**914**	641
Prepaid expenses	**388**	290
Taxes receivable	**799**	474
Other	**730**	774
	$ 3,855	$ 3,378

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 table presents the breakdown of deposits.

	As at December 31, 2022				As at December 31, 2021			
	Payables on demand	Payables upon notice	Payables on a fixed date	Total	Payables on demand	Payables upon notice	Payables on a fixed date	Total
Individuals	**$ 72,071**	**$ 5,495**	**$ 67,811**	**$ 145,377**	$ 70,756	$ 5,536	$ 60,040	$ 136,332
Business and government	**51,422**	**327**	**62,423**	**114,172**	52,563	524	48,557	101,644
Deposit-taking institutions	**193**	**—**	**94**	**287**	344	—	35	379
	$ 123,686	**$ 5,822**	**$ 130,328**	**$ 259,836**	$ 123,663	$ 6,060	$ 108,632	$ 238,355

NOTE 17 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2022			2021		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Gross premiums	$ 6,135	$ 6,061	$ 12,196	$ 5,643	$ 5,938	$ 11,581
Premiums ceded under reinsurance treaties	(253)	(101)	(354)	(231)	(72)	(303)
Net premiums	**$ 5,882**	**$ 5,960**	**$ 11,842**	$ 5,412	$ 5,866	$ 11,278

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2022	As at December 31, 2021
Insurance contract liabilities		
Actuarial liabilities – Life and health insurance	**$ 20,236**	$ 23,693
Provisions for claims and adjustment expenses – Property and casualty insurance	**6,907**	6,973
Unearned premiums	**3,102**	3,062
Policyholder deposits	**641**	621
Provisions for benefits, policyholder dividends and experience refunds	**439**	384
Other	**29**	29
	$ 31,354	$ 34,762

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts.

	As at December 31, 2022	As at December 31, 2021
Gross actuarial liabilities		
Non-participating policies	**$ 16,427**	$ 18,859
Participating policies	**3,809**	4,834
	20,236	23,693
Amounts ceded to reinsurers	**(842)**	(1,132)
Net actuarial liabilities	**$ 19,394**	$ 22,561

	As at December 31, 2022	As at December 31, 2021
Composition of assets backing net actuarial liabilities		
Bonds	**$ 11,802**	$ 15,017
Mortgage and business loans	**2,328**	2,275
Investment property	**1,062**	1,068
Equity securities	**1,109**	2,032
Other	**3,093**	2,169
	$ 19,394	$ 22,561

The fair value of assets backing net actuarial liabilities was $20,096 million as at December 31, 2022 ($23,579 million as at December 31, 2021).

Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by Canadian accepted actuarial practices. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Combined Statements of Income.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE *(continued)*

Actuarial assumptions *(continued)*

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in the Combined Statements of Income.

Mortality

The life and health insurance subsidiary determines its mortality assumptions based on the annual studies of its recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, it also takes into account industry studies. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance with Canadian accepted actuarial practices.

Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the life and health insurance subsidiary uses industry-developed morbidity tables modified based on current data provided by its studies of its underwriting experience and those of the industry.

Contract cancellation rates

The life and health insurance subsidiary carries out an annual study of its 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 this subsidiary's recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiary are not sufficiently credible.

Investment return

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The life and health insurance subsidiary manages the investments backing its actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in its matching policy. CALM is the standard established by the CIA to ensure the compliance of assets backing actuarial provisions. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, it mitigates its 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 allowance for expected credit losses recognized through a write-down of the carrying amount of the assets, a provision amounting to $305 million as at December 31, 2022 ($318 million as at December 31, 2021) 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 subsidiary carries out an annual study of operating expenses by major product line, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE *(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.

	2022	2021
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (51)**	$ (56)
Products for which a rate decrease increases actuarial liabilities	**(27)**	(28)
5% increase in future morbidity rates	**(84)**	(94)
10% negative change in future contract cancellation rates	**(165)**	(178)
5% increase in future operating expenses	**(53)**	(55)

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:

	2022			2021		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 23,693**	**$ (1,132)**	**$ 22,561**	$ 23,356	$ (1,227)	$ 22,129
Change due to:						
Passage of time	**(4,762)**	**(72)**	**(4,834)**	(867)	(47)	(914)
New business	**1,861**	**(54)**	**1,807**	1,481	(34)	1,447
Changes in actuarial assumptions	**(303)**	**154**	**(149)**	(60)	87	27
	(3,204)	**28**	**(3,176)**	554	6	560
Other changes	**(253)**	**262**	**9**	(217)	89	(128)
Balance at end of year	**$ 20,236**	**$ (842)**	**$ 19,394**	$ 23,693	$ (1,132)	$ 22,561

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.

	2022	2021
Changed assumptions		
Mortality	**$ 65**	$ 153
Morbidity	**28**	(11)
Contract cancellation rates	**5**	(205)
Investment return	**39**	109
Operating expenses	**(16)**	(59)
Methods and other	**(13)**	(7)
	$ 108	$ (20)

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE

Methodology and assumptions

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Methodology and assumptions *(continued)*

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the rate of return for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

Change in provisions for claims and adjustment expenses

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2022			2021		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 6,973**	**$ (444)**	**$ 6,529**	$ 7,379	$ (729)	$ 6,650
Claims incurred during the year	**4,877**	**(58)**	**4,819**	3,696	(1)	3,695
Development of claims incurred in prior years	**(552)**	**58**	**(494)**	(903)	143	(760)
Changes in discount rates	**(432)**	**18**	**(414)**	(153)	9	(144)
Claims paid during the year	**(3,959)**	**101**	**(3,858)**	(3,046)	134	(2,912)
Balance at end of year	**$ 6,907**	**$ (325)**	**$ 6,582**	$ 6,973	$ (444)	$ 6,529

In the normal course of its activities, the property and casualty insurance subsidiaries revise certain actuarial assumptions. As at December 31, 2022 and 2021, changes were made as part of the annual revision process for actuarial assumptions, more specifically on the estimate of claims incurred but not reported for contracts covering civil liability and accidents in Ontario, the change in discount rate and the change in margins for adverse deviations. For the year ended December 31, 2022, actuarial liabilities for future costs related to inflation were added. Besides these changes, there were no unusual changes having a material impact on the Combined Financial Statements as at December 31, 2022 and 2021.

Assumption sensitivity analysis

The following table shows the impact on the Combined Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the “Interest rate risk management” section of this note.

	Changes in actuarial assumptions	**Impact on “Net surplus earnings for the year after member dividends”**	
		2022	2021
Average claims settlement cost	+ 5 %	**$ (332)**	$ (308)

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2012 and before	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**	Total
Estimated ultimate claims amount												
At the end of the accident year		$1,471	$1,536	$ 2,186	$ 2,417	$ 3,158	$3,691	$ 4,107	$ 3,758	$3,684	**$4,681**	
1 year later		1,447	2,453	2,168	2,387	3,121	3,656	4,122	3,443	3,466		
2 years later		2,186	2,349	2,165	2,365	3,086	3,705	4,009	3,313			
3 years later		2,086	2,272	2,117	2,349	3,090	3,590	3,916				
4 years later		1,977	2,184	2,089	2,361	2,993	3,483					
5 years later		1,910	2,105	2,050	2,303	2,924						
6 years later		1,872	2,099	2,040	2,277							
7 years later		1,843	2,042	2,022								
8 years later		1,808	2,022									
9 years later		1,793										
Cumulative payments to date		1,718	1,925	1,911	2,112	2,632	2,999	3,133	2,406	2,285	**2,448**	
Net provisions for claims and adjustment expenses	$ 254	$ 75	$ 97	$ 111	$ 165	$ 292	$ 484	$ 783	$ 907	$1,181	**$2,233**	$6,582
Reinsurers' share in provisions for claims and adjustment expenses	2	—	—	60	88	47	31	48	1	—	**48**	325
Gross provisions for claims and adjustment expenses	$ 256	$ 75	$ 97	$ 171	$ 253	$ 339	$ 515	$ 831	$ 908	$1,181	**$2,281**	$6,907

Insurance risk management

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

The life and health insurance subsidiary is exposed to insurance risk through the products it sells. Depending on the insurance product, this subsidiary may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose this subsidiary to expenditure risk.

The property and casualty insurance subsidiaries underwrite automobile, home and commercial property insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: underwriting risk, catastrophe risk and reserve risk.

To manage insurance risk, the insurance subsidiaries apply stringent policies and criteria with respect to product and service development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed.

In addition, for the life and health insurance subsidiary, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims. With respect to catastrophes, the property and casualty insurance subsidiaries have established a governance structure to monitor the various risks caused by such events and use sophisticated tools to simulate the related financial losses and operational impact. Given the unpredictable nature of large-scale catastrophic events, the property and casualty insurance subsidiaries have a catastrophe reinsurance treaty, which is reviewed at least annually.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

Insurance risk management *(continued)*

Use of reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. This reinsurance structure takes into account their respective risk profile and appetite. In addition, these subsidiaries purchase additional reinsurance protection with respect to large-scale catastrophic events. The retention and limit amounts selected for the property and casualty insurance subsidiaries' catastrophe treaty are subject to a detailed annual review based on these subsidiaries' various catastrophe models and the positioning of their competitors in the industry.

In connection with the acquisition of the Canadian businesses of State Farm, the property and casualty insurance subsidiaries signed a share reinsurance treaty under which, over a five-year period, all premiums and claims from new business and renewals to the acquired businesses occurring after the acquisitions are ceded using percentages decreasing from 90% for the 2015 accident year to 10% for the 2019 accident year. The development of these claims continues to be ceded based on the ceded percentage at the time the claim occurred until the final settlement of the claim. Pursuant to the terms and conditions of the reinsurance treaty, amounts payable and receivable under the treaty will be settled on a net basis.

In order to reduce reinsurance risk, the insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release these subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investments in trust so that it can fulfill its reinsurance obligations.

For the years ended December 31, the impact of reinsurance reduced the Combined Statements of Income items presented in the table below by the following amounts:

	2022			2021		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 253**	**$ 101**	**$ 354**	$ 231	$ 72	$ 303
Claims, benefits, annuities and changes in insurance contract liabilities	**129**	**(18)**	**111**	141	(152)	(11)

Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimum guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimum guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of stock market, exchange rate and interest rate fluctuations on the future cost of guarantees. This program covers all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

Interest rate risk management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Combined Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiary describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limits of the gap between the duration of liabilities and the duration of the related assets. Desjardins Group's management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Combined Statements of Income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Combined Statements of Income of the life and health insurance subsidiary. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Combined Statements of Income. However, the subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Combined Statements of Income.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

Insurance risk management *(continued)*

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after member dividends" of a change in interest rates on the life and health insurance subsidiary's actuarial liabilities and the assets backing these actuarial liabilities.

	2022	2021
1% increase in interest rates	**$ 132**	$ 88
1% decrease in interest rates	**(143)**	(116)

The interest rate risk management policy of the property and casualty insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the gap compared to the target duration of the consolidated fixed-income portfolio and as well as the limit of the gap between the duration of assets and liabilities to be backed. Desjardins Group's management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after member dividends" of a change in interest rates on the property and casualty insurance subsidiaries' provisions for claims and adjustment expenses and the assets backing these provisions.

	2022	2021
1% increase in interest rates	**$ 3**	$ 4
1% decrease in interest rates	**(2)**	(8)

Liquidity risk management

The life and health insurance subsidiary manages liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations.

For this subsidiary, managing this risk involves maintaining a sufficient level of liquid securities, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

For the property and casualty insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities and spreading the collection of insurance premiums throughout the year, which generally supports a large portion of the cash outflows associated with claims and other expenses.

The liquidity risk management policy describes the principles and mechanisms that apply to liquidity risk management. The insurance subsidiaries are responsible, among other things, for measuring, monitoring and controlling the main liquidity indicators that apply to them. This responsibility involves quarterly liquidity monitoring to identify a potential or actual lack of liquidity within the insurance subsidiaries.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Combined Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2022	As at December 31, 2021
Less than 1 year	**$ 3,558**	$ 3,089
1 to 5 years	**7,126**	6,648
Over 5 years	**45,630**	42,622
Total	**$ 56,314**	$ 52,359

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS

Group pension plans

Group pension plans are plans whose risks are shared by entities under common control. Desjardins Group offers a majority of its employees group pension plans and group supplemental pension plans, which provide pension benefits in excess of statutory limits. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a prorata basis of 35% and 65%, respectively.

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

The DGPP is governed by the *Supplemental Pension Plans Act* (SPPA). The SPPA requires that a retirement committee that assumes the role of administrator and trustee for the plan be formed. The Federation, through its Board of Directors, assumes the responsibilities of the DGPP's sponsor and ensures that the plan is well administered in accordance with the laws and regulations in effect. In addition, the Federation guarantees the obligations resulting from the participation in the plan of all the Desjardins Group employers. The Federation's Board of Directors, acting as the representative for all Desjardins Group employers, is the only governing body with the authority to amend or terminate the plan.

Group post-retirement benefit plan

For employees meeting certain criteria based on age and the number of years of participation in the plan, Desjardins Group also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents through an unfunded defined benefit group plan.

Other plans

The other defined benefit plans offered are pension plans as well as another post-retirement benefit plan that provides medical, dental and life insurance plans whose risks are not shared by entities under common control.

Pension and post-retirement benefit plan risks

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

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

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

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS *(continued)*

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS *(continued)*

Risk management

To properly manage the DGPP's risks, the retirement Committee adopted a risk management policy to formalize the framework within which the DGPP's risks are managed and clarify the roles and responsibilities of the parties involved. In addition, delegated to its Investment Management Committee (“IMC”) certain powers and responsibilities. The content and accuracy of the risk register is reviewed at least once a year and presented to the IMC and the Retirement Committee, which make comments on them where applicable. The indicators included in the DGPP's risk register are subject to an ongoing oversight and quarterly disclosure through the risk management dashboard, which enables the IMC and the Retirement Committee to ensure that risks are effectively managed and controlled.

The IMC is also responsible for reviewing the investment policy and recommending any changes to it to the Retirement Committee, as well as for adopting any specific investment frameworks. It ensures that such frameworks, including the investment policy, are complied with. Each year, the IMC recommends the asset allocation strategy, adopts the corresponding investment plan and monitors it. It also analyzes investment opportunities presented to it and the related risks. The asset allocation strategy is developed based on strategic indicators representing risk factors, including interest rate risk. A risk factor-based allocation enables complying with risk tolerance in the short term, ensuring adequate risk taking considering the target return and satisfying systematically the plan's obligations.

The investment policy may be amended based on the long-term risk/return relationship on the markets, the DGPP's commitments and financial position, risk tolerance or the legislative environment. This policy provides for market risk mitigation mechanisms. Among other things, the policy establishes limits for each type of investments and limits for the allocation of assets between the various classes, as well as risk parameters for asset allocation. The actual mix of asset portfolios is regularly reviewed, and the rebalancing rules of the investment policy are applied when the actual allocation is outside the allowed limits. Foreign exchange risk is also controlled by the investment policy, which specifies hedging rules.

Funding requirements

The DGPP is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employers’ contributions must be equal to the amount that, added to the employees’ contributions, is sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan as well as special contributions required to amortize any deficit and cover the stabilization provision. Employers’ contributions are determined using a percentage of the assessable payroll for their employees participating in the plan. The plan’s annual cost comprises contributions for current service, administrative management fees and special contributions required to fund the plans’ stabilization provision and deficit, if any.

Pursuant to the SPPA requirements, the DGPP’s minimum funding is determined on a going-concern basis. A stabilization provision must be funded through special current service contributions and special amortization payments. Funding and stabilization deficits must be funded over a maximum period of 10 years.

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS *(continued)*

RECOGNIZED AMOUNTS

Change in net defined benefit plan assets and liabilities

Net defined benefit plan assets and liabilities are as follows:

	Group pension plans			Group post-retirement benefit plan	Other plans			
	Obligation	Fair value of assets	Total	Obligation	Obligation	Fair value of assets	Total	Total
As at December 31, 2020	$ 19,079	$ 17,154	$ 1,925	$ 839	$ 1,123	$ 780	$ 343	$ 3,107
Amounts recognized in the Combined Statements of Income								
Current service cost	433	—	433	6	39	—	39	478
Net interest expense/income	432	380	52	17	25	18	7	76
Past service cost	(1)	—	(1)	—	1	—	1	—
	864	380	484	23	65	18	47	554
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	—	490	(490)	—	—	3	(3)	(493)
Actuarial losses (gains) arising from changes in demographic assumptions	5	—	5	(8)	(3)	—	(3)	(6)
Actuarial gains arising from changes in financial assumptions	(1,572)	—	(1,572)	(83)	(114)	—	(114)	(1,769)
Experience losses	382	—	382	6	6	—	6	394
	(1,185)	490	(1,675)	(85)	(111)	3	(114)	(1,874)
Other changes								
Participants' contributions	236	236	—	—	—	—	—	—
Employers' contributions	—	581	(581)	—	—	186	(186)	(767)
Benefits paid	(624)	(624)	—	(23)	(33)	(20)	(13)	(36)
Other changes	(16)	(18)	2	—	—	—	—	2
	(404)	175	(579)	(23)	(33)	166	(199)	(801)
As at December 31, 2021	$ 18,354	$ 18,199	$ 155	$ 754	$ 1,044	$ 967	$ 77	$ 986
Amounts recognized in the Combined Statements of Income								
Current service cost	**430**	**—**	**430**	**4**	**35**	**—**	**35**	**469**
Net interest expense/income	**537**	**523**	**14**	**20**	**30**	**28**	**2**	**36**
Past service cost	**1**	**—**	**1**	**—**	**4**	**—**	**4**	**5**
	968	**523**	**445**	**24**	**69**	**28**	**41**	**510**
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	**—**	**(3,552)**	**3,552**	**—**	**—**	**(208)**	**208**	**3,760**
Actuarial losses (gains) arising from changes in demographic assumptions	**19**	**—**	**19**	**(34)**	**(3)**	**—**	**(3)**	**(18)**
Actuarial gains arising from changes in financial assumptions	**(4,959)**	**—**	**(4,959)**	**(174)**	**(289)**	**—**	**(289)**	**(5,422)**
Experience losses	**723**	**—**	**723**	**4**	**13**	**—**	**13**	**740**
	(4,217)	**(3,552)**	**(665)**	**(204)**	**(279)**	**(208)**	**(71)**	**(940)**
Other changes								
Participants' contributions	**280**	**280**	**—**	**—**	**—**	**—**	**—**	**—**
Employers' contributions	**—**	**522**	**(522)**	**—**	**—**	**21**	**(21)**	**(543)**
Benefits paid	**(652)**	**(645)**	**(7)**	**(24)**	**(33)**	**(20)**	**(13)**	**(44)**
Other changes	**(19)**	**(21)**	**2**	**2**	**3**	**1**	**2**	**6**
	(391)	**136**	**(527)**	**(22)**	**(30)**	**2**	**(32)**	**(581)**
As at December 31, 2022	**$ 14,714**	**$ 15,306**	**$ (592)**	**$ 552**	**$ 804**	**$ 789**	**$ 15**	**$ (25)**

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS *(continued)*

RECOGNIZED AMOUNTS *(continued)*

For purposes of reporting on the balance sheet, net defined benefit plan assets and liabilities are presented separately.

	As at December 31, 2022	As at December 31, 2021
Net defined benefit plan assets	**$ 679**	$ 62
Net defined benefit plan liabilities	**654**	1,048
	$ (25)	$ 986

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, 2022[1]		As at December 31, 2021[1]	
	Non-quoted in an active market	Quoted in an active market	Non-quoted in an active market	Quoted in an active market
Bonds				
Government of Canada	**$ —**	**$ 136**	$ —	$ 172
Provinces, municipal corporations and other public administrations	**94**	**4,777**	48	7,866
Other issuers	**2,991**	**—**	4,448	—
Shares	**261**	**3,486**	348	4,002
Real estate investments	**2,239**	**—**	1,778	—
Infrastructure investments	**2,206**	**—**	1,882	—
Cash and money market securities	**143**	**200**	233	220
Other	**2,106**	**26**	2,143	316
Total	**$ 10,040**	**$ 8,625**	$ 10,880	$ 12,576

(1) Commitments related to securities lent or sold under repurchase agreements deducted from the main group pension plan assets are excluded from the table.

As at December 31, 2022, the DGPP held eligible investments in money market securities issued by Desjardins Group entities and foreign exchange contracts having a total fair value of $9 million ($55 million as at December 31, 2021).

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS *(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, 2022		As at December 31, 2021	
	Group pension plans	**Group post-retirement benefit plan**	Group pension plans	Group post-retirement benefit plan
Discount rate for the obligation[1]	**5.30 %**	**5.25 %**	3.30 %	3.20 %
Discount rate for service cost[1]	**5.25**	**5.25**	3.40	3.30
Expected rate of salary increases	**3.00**	**3.00**	3.00	3.00
Rate used to calculate interest expense on the obligation and assets[1]	**2.86**	**2.71**	2.21	2.02
Rate used to calculate interest expense on service cost[1]	**3.12**	**2.98**	2.53	2.33
Estimated annual growth rate for covered healthcare cost	**—**	**3.50**	—	3.50

[1] Weighted average rate for all plans.

Sensitivity of key assumptions

Because of the long-term nature of employee benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used. The following table shows the impact of a one percentage point change in key assumptions on the defined benefit plan obligation and cost, with all other assumptions remaining constant. In reality, there may be correlations between these assumptions. However, to show the impact of changes in assumptions, they have been modified on an individual basis.

	As at December 31, 2022		As at December 31, 2021	
	Change in obligation	**Change in cost recognized**	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	**$ (1,655)**	**$ (209)**	$ (2,763)	$ (174)
1% decrease	**2,423**	**222**	3,787	247
Expected rate of salary increases				
1% increase	**432**	**55**	696	89
1% decrease	**(348)**	**(67)**	(590)	(55)
Group post-retirement benefit plan				
Discount rate				
1% increase	**(58)**	**3**	(95)	4
1% decrease	**71**	**(5)**	119	(6)
Expected rate of salary increases				
1% increase	**1**	**—**	3	—
1% decrease	**(1)**	**—**	(3)	—
Healthcare costs				
1% increase	**30**	**2**	51	2
1% decrease	**(26)**	**(2)**	(43)	(2)

Expected contributions for 2023

Desjardins Group expects to contribute $541 million to its defined benefit pension plans in the next year.

Pension plan obligation maturity profile

For fiscal 2022, the weighted average financial duration was approximately 14 years (18 years in 2021) for the main group pension plan and approximately 12 years (14 years in 2021) for the group post-retirement benefit plan.

NOTE 19 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of “Other liabilities – Other”.

	As at December 31, 2022	As at December 31, 2021
Accounts payable and other accrued liabilities	**$ 3,589**	$ 3,350
Interest payable	**1,237**	855
Client contract liabilities	**523**	560
Member dividends payable	**404**	387
Provisions for risks and expenses	**288**	374
Taxes payable	**153**	462
Borrowings from financial institutions	**14**	17
Other	**1,361**	1,511
	$ 7,569	$ 7,516

NOTE 20 – SUBORDINATED NOTES

The subordinated notes presented in Desjardins Group’s Combined Balance Sheets comprise subordinated notes issued by the Federation. The subordinated notes of the Federation are direct unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors of the Federation. These claims extend to other entities included in the Desjardins Cooperative Group (as defined in the Act) in the event of the dissolution, insolvency, bankruptcy or liquidation of the Federation in accordance with applicable law.

Redemptions and cancellations of the notes are subject to the consent and approval of the applicable regulatory authorities. These notes comprise the following items:

	As at December 31, 2022[2]	As at December 31, 2021[2][3]
Subordinated notes of the Federation (par value of $1 billion) issued on May 26, 2020, maturing in May 2030, bearing interest at an annual rate of 2.856% for the first 5 years, and for the following 5 years, at an annual rate equal to the 3-month bankers’ acceptance plus 2.11%, redeemable at the option of the issuer starting in 2025[1]	**$ 964**	$ 963
Subordinated notes of the Federation (par value of $1 billion) issued on May 28, 2021, maturing in May 2031, bearing interest at an annual rate of 1.992% for the first 5 years, and for the following 5 years, at an annual rate equal to the 3-month bankers’ acceptance plus 0.60%, redeemable at the option of the issuer starting in 2026[1]	**998**	997
Subordinated notes of the Federation (par value of $1 billion) issued on August 23, 2022, maturing in August 2032, bearing interest at an annual rate of 5.035% for the first 5 years, and for the following 5 years, at an annual rate equal to the Canadian Overnight Repo Rate Average (CORRA), compounded daily, plus 2.29%, redeemable at the option of the issuer starting in 2027[1]	**966**	—
	$ 2,928	$ 1,960

(1) These subordinated notes qualify as Non-Viability Contingent Capital (NVCC). Upon the occurrence of a trigger event, as defined in the regulations governing capital, these notes are automatically and immediately convertible into Class Z-Contingent capital shares of the Federation, the number of which will be equal to (i) the note value multiplied by 1.50 divided by (ii) the conversion price.

(2) The carrying amount of subordinated notes includes fair value adjustments when hedge accounting is applied.

(3) On December 15, 2021, Desjardins Capital Inc. redeemed all Series J senior notes for $500 million.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

DERIVATIVE FINANCIAL INSTRUMENTS

Desjardins Group's derivative financial instruments include the following types of contracts:

Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. Desjardins Group uses interest rate contracts primarily for asset and liability management purposes.

Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. Desjardins Group uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

Other financial derivative contracts

Other derivative financial contracts used by Desjardins Group include total return swaps and stock index options, which are related to financial index transactions, as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2022	**Under 1 year**	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	**Assets**	**Liabilities**
Designated as hedging instruments[1]							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	$ 286	$ 1,164	$ 304	$ 433	$ 2,187	$ 26	$ 91
Interest rate swaps traded through a clearing house	1,878	13,712	16,454	16,710	48,754	—	—
Average rate	*3.3 %*	*3.6 %*	*2.9 %*	*1.7 %*			
	2,164	14,876	16,758	17,143	50,941	26	91
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	1,015	—	—	—	1,015	—	30
CAD-US average rate	*1.3539*	—	—	—			
	1,015	—	—	—	1,015	—	30
Total – Fair value hedges	3,179	14,876	16,758	17,143	51,956	26	121
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	577	2,172	8	294	3,051	24	98
Interest rate swaps traded through a clearing house	5,538	15,653	22,976	5,111	49,278	—	—
Average rate	*2.3 %*	*2.8 %*	*2.9 %*	*2.8 %*			
	6,115	17,825	22,984	5,405	52,329	24	98
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	2,217	13,329	10,420	—	25,966	148	748
CAD-US average rate	*1.4494*	*1.4494*	*1.4494*	—			
CAD-EUR average rate	—	*1.3539*	*1.3539*	—			
	2,217	13,329	10,420	—	25,966	148	748
Total – Cash flow hedges	8,332	31,154	33,404	5,405	78,295	172	846
Total – Designated as hedging instruments	$ 11,511	$ 46,030	$ 50,162	$ 22,548	$ 130,251	$ 198	$ 967

(1) Hedging instruments are presented under “Derivative financial instruments” in the Combined Balance Sheets.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2022	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	Assets	Liabilities
Trading purposes[1]							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	$ 24,571	$ 17,330	$ 3,283	$ 4,095	$ 49,279	$ 567	$ 1,217
Forward rate agreements	2,064	—	—	—	2,064	13	20
Options purchased	3,231	338	140	15	3,724	29	—
Options written	3,196	364	137	15	3,712	—	32
Contracts traded through a clearing house							
Interest rate swaps	117,404	116,420	67,172	29,504	330,500	—	—
Exchange-traded contracts							
Futures	12,521	2,763	—	—	15,284	—	—
Options purchased	4,695	—	—	—	4,695	2	—
Options written	5,616	—	—	—	5,616	—	1
	173,298	137,215	70,732	33,629	414,874	611	1,270
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	47,004	1,747	99	—	48,850	514	320
Currency swaps	8,196	432	52	500	9,180	229	63
Options purchased	1,030	332	—	—	1,362	34	—
Options written	1,502	345	53	—	1,900	—	32
Exchange-traded contracts							
Futures	—	—	—	—	—	—	—
	57,732	2,856	204	500	61,292	777	415
Other contracts[2]							
Over-the-counter contracts							
Swaps	—	—	60	75	135	—	—
Options purchased	8,325	20,116	11,643	1,191	41,275	4,137	—
Options written	8,049	19,365	10,910	944	39,268	—	3,902
Contracts traded through a clearing house							
Swaps	—	1	34	—	35	—	—
Exchange-traded-contracts							
Futures	975	—	—	—	975	—	—
Options purchased	1	1	—	—	2	—	—
	17,350	39,483	22,647	2,210	81,690	4,137	3,902
Total – Trading purposes	$ 248,380	$ 179,554	$ 93,583	$ 36,339	$ 557,856	$ 5,525	$ 5,587
Total derivative financial instruments before impact of master netting agreements	$ 259,891	$ 225,584	$ 143,745	$ 58,887	$ 688,107	$ 5,723	$ 6,554
Less:							
Impact of master netting agreements[3]	—	—	—	—	—	1,452	1,452
Total derivative financial instruments after impact of master netting agreements	$ 259,891	$ 225,584	$ 143,745	$ 58,887	$ 688,107	$ 4,271	$ 5,102

(1) As at December 31, 2022, include derivatives with notional amounts totalling $857 million that would have been designated as hedging instruments if Desjardins Group had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, “Significant accounting policies”.

(2) Include contracts related to indexed term savings products.

(3) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2021	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	Assets	Liabilities
Designated as hedging instruments[1]							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the counter interest rate swaps	$ 193	$ 1,541	$ 412	$ 515	$ 2,661	$ 29	$ 27
Interest rate swaps traded through a clearing house	152	3,666	5,841	15,372	25,031	—	—
Average rate	*0.8 %*	*1.5 %*	*1.2 %*	*1.2 %*			
	345	5,207	6,253	15,887	27,692	29	27
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	—	948	—	—	948	—	61
CAD-US average rate	—	*1.2645*	—	—			
	—	948	—	—	948	—	61
Total – Fair value hedges	345	6,155	6,253	15,887	28,640	29	88
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	556	6,056	14	303	6,929	97	17
Interest rate swaps traded through a clearing house	4,780	19,034	10,929	4,000	38,743	—	—
Average rate	*1.0 %*	*1.5 %*	*1.6 %*	*1.6 %*			
	5,336	25,090	10,943	4,303	45,672	97	17
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	2,262	4,430	7,181	2,045	15,918	—	325
CAD-US average rate	*1.2645*	—	*1.2645*	—			
CAD-EUR average rate	—	*1.4386*	*1.4386*	*1.4386*			
	2,262	4,430	7,181	2,045	15,918	—	325
Total – Cash flow hedges	7,598	29,520	18,124	6,348	61,590	97	342
Total – Designated as hedging instruments	$ 7,943	$ 35,675	$ 24,377	$ 22,235	$ 90,230	$ 126	$ 430

(1) Hedging instruments are presented under “Derivative financial instruments” in the Combined Balance Sheets.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2021	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	Assets	Liabilities
Trading purposes[1]							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	$ 28,653	$ 35,502	$ 4,266	$ 3,711	$ 72,132	$ 741	$ 477
Forward rate agreements	3,009	—	—	—	3,009	32	27
Options purchased	2,690	311	195	—	3,196	16	—
Options written	3,350	283	215	—	3,848	—	17
Contracts traded through a clearing house							
Interest rate swaps	69,771	73,133	63,075	22,314	228,293	—	—
Exchange-traded contracts							
Futures	16,104	3,140	253	—	19,497	—	—
Options purchased	45,197	316	—	—	45,513	34	—
Options written	44,319	316	—	—	44,635	—	30
	213,093	113,001	68,004	26,025	420,123	823	551
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	35,737	1,424	12	—	37,173	259	191
Currency swaps	3,924	523	1	1,178	5,626	71	31
Options purchased	1,364	166	5	—	1,535	21	—
Options written	1,696	155	3	—	1,854	—	35
Exchange-traded contracts							
Futures	5	—	—	—	5	—	—
	42,726	2,268	21	1,178	46,193	351	257
Other contracts[2]							
Over-the-counter contracts							
Swaps	39	156	313	—	508	3	3
Options purchased	7,142	18,375	10,903	2,302	38,722	4,525	—
Options written	6,928	17,813	10,146	1,696	36,583	—	4,259
Contracts traded through a clearing house							
Swaps	—	—	1,024	171	1,195	—	—
Exchange-traded-contracts							
Futures	818	—	—	—	818	—	—
Options purchased	1	2	—	—	3	—	—
	14,928	36,346	22,386	4,169	77,829	4,528	4,262
Total – Trading purposes	$ 270,747	$ 151,615	$ 90,411	$ 31,372	$ 544,145	$ 5,702	$ 5,070
Total derivative financial instruments before impact of master netting agreements	$ 278,690	$ 187,290	$ 114,788	$ 53,607	$ 634,375	$ 5,828	$ 5,500
Less:							
Impact of master netting agreements[3]	—	—	—	—	—	1,061	1,061
Total derivative financial instruments after impact of master netting agreements	$ 278,690	$ 187,290	$ 114,788	$ 53,607	$ 634,375	$ 4,767	$ 4,439

(1) As at December 31, 2021, include derivatives with notional amounts totalling $636 million that would have been designated as hedging instruments if Desjardins Group had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, “Significant accounting policies”.

(2) Include contracts related to indexed term savings products.

(3) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The manner in which Desjardins Group assesses market risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, “Risk Management”, of the Management’s Discussion and Analysis.

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. In addition, when a financial instrument is denominated in a foreign currency, Desjardins Group may enter into fair value hedges by using currency swaps or cross-currency interest rate swaps. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. Desjardins Group uses fair value hedge strategies for its loan, deposit and securities portfolios.

Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. Desjardins Group uses cash flow hedge strategies for its loan, deposit and securities portfolios.

Effectiveness assessment and sources of hedging relationship ineffectiveness

Desjardins Group assesses the effectiveness of a hedging relationship by comparing the change in fair value or cash flows of the hedging instrument with that of the hedged item attributable to the hedged risk to demonstrate the existence of a highly effective correlation between the two instruments. When derivative financial instruments are designated as hedging instruments for a currency risk, only the change in currency risk is taken into account to assess hedge effectiveness.

There is ineffectiveness when the change in fair value of the hedged item attributable to the hedged risk differs from the change in fair value of the hedging instrument. The main sources of ineffectiveness are a difference between the actual and expected repricing dates, a difference between the discounting factors used and a difference between the payment dates for the hedging instrument and the hedged item.

The following table presents information on the ineffectiveness of fair value hedges.

	As at December 31, 2022		As at December 31, 2021	
	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	**Hedge ineffectiveness recognized in profit or loss[1]**	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss[1]
Fair value hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	**$ (72)**	**$ —**	$ (55)	$ —
Interest rate swaps traded through a clearing house	**1,253**	**(11)**	686	(13)
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	**40**	**—**	(368)	14
Total – Fair value hedges	**$ 1,221**	**$ (11)**	$ 263	$ 1

(1) The hedge ineffectiveness is recognized under “Net investment income (loss)”.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES *(continued)*

Effectiveness assessment and sources of hedging relationship ineffectiveness *(continued)*

The following tables present information on the ineffectiveness of cash flow hedges for the years ended December 31.

2022	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss[1]	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss – Active hedges[2]
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	**$ (394)**	**$ (12)**	**$ (629)**	**$ (77)**
Interest rate swaps traded through a clearing house	**(854)**	**(19)**	**(339)**	**75**
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	**126**	**3**	**(253)**	**—**
Total – Cash flow hedges	**$ (1,122)**	**$ (28)**	**$ (1,221)**	**$ (2)**

(1) The hedge ineffectiveness and reclassification adjustment are recognized under “Net investment income (loss)”.
(2) The reclassification adjustment is included under “Interest income – Loans” and “Interest expense – Deposits”.

2021	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss[1]	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss – Active hedges[2]
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	$ (174)	$ (4)	$ (178)	$ (45)
Interest rate swaps traded through a clearing house	(268)	4	(275)	(36)
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	(3)	2	18	—
Total – Cash flow hedges	$ (445)	$ 2	$ (435)	$ (81)

(1) The hedge ineffectiveness and reclassification adjustment are recognized under “Net investment income (loss)”.
(2) The reclassification adjustment is included under “Interest income – Loans” and “Interest expense – Deposits”.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES *(continued)*

Effectiveness assessment and sources of hedging relationship ineffectiveness *(continued)*

The following tables present the impact of hedge accounting on balances recognized in the Combined Balance Sheets and in accumulated other comprehensive income.

	Cash flow hedges			Fair value hedges			
As at December 31, 2022	**Balance of the cash flow hedge reserve**	**Balance of the reserve for discontinued hedges**	**Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year**	**Carrying amount of the hedged item**	**Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item**	**Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted**	**Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year**
Interest rate risk							
Assets							
Securities	**$ (5)**	**$ —**	**$ 8**	**$ 22,425**	**$ —**	**$ —**	**$ (1,747)**
Loans	**(1,260)**	**(278)**	**1,597**	**1,044**	**(57)**	**—**	**(56)**
Liabilities							
Deposits	**$ 396**	**$ 276**	**$ (634)**	**$ 26,097**	**$ 586**	**$ (58)**	**$ 562**
Subordinated notes	**—**	**—**	**—**	**1,371**	**61**	**4**	**49**
Currency risk							
Liabilities							
Deposits	**$ (234)**	**$ —**	**$ (120)**	**$ 971**	**$ 37**	**$ (23)**	**$ (40)**

	Cash flow hedges			Fair value hedges			
As at December 31, 2021	Balance of the cash flow hedge reserve	Balance of the reserve for discontinued hedges	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year
Interest rate risk							
Assets							
Securities	$ 2	$ 4	$ 12	$ 20,645	$ —	$ —	$ (838)
Loans	(118)	144	699	1,283	(3)	—	(33)
Liabilities							
Deposits	$ 103	$ (36)	$ (247)	$ 6,571	$ 63	$ (122)	$ 210
Subordinated notes	—	—	—	362	12	6	18
Currency risk							
Liabilities							
Deposits	$ 18	$ —	$ 8	$ 938	$ 11	$ (57)	$ 382

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins Group. The manner in which Desjardins Group assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Combined Financial Statements.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
Credit risk equivalent	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by Basel III.
Risk-weighted balance	The balance weighted by the risks related to the creditworthiness of counterparties, determined using methods prescribed by Basel III.

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, 2022				As at December 31, 2021			
	Notional amount	**Replacement cost**	**Credit risk equivalent**	**Risk-weighted balance**	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Interest rate swaps	**$ 483,049**	**$ 617**	**$ 340**	**$ 737**	$ 373,789	$ 867	$ 406	$ 510
Forward rate agreements	**2,064**	**—**	**32**	**18**	3,009	—	64	64
Futures	**15,284**	**13**	**1**	**—**	19,497	32	1	—
Options purchased	**8,419**	**31**	**15**	**45**	48,709	50	5	13
Options written	**9,328**	**—**	**—**	**—**	48,483	—	—	—
	518,144	**661**	**388**	**800**	493,487	949	476	587
Foreign exchange contracts								
Forward agreements	**48,850**	**514**	**836**	**741**	37,173	259	390	372
Futures	**—**	**—**	**—**	**—**	5	—	—	—
Currency swaps	**36,161**	**377**	**361**	**229**	22,492	71	166	165
Options purchased	**1,362**	**34**	**61**	**85**	1,535	21	54	93
Options written	**1,900**	**—**	**—**	**—**	1,854	—	—	—
	88,273	**925**	**1,258**	**1,055**	63,059	351	610	630
Other contracts								
Swaps	**170**	**—**	**2**	**3**	1,703	3	91	40
Futures	**975**	**—**	**—**	**—**	818	—	—	—
Options purchased	**41,277**	**4,137**	**3,554**	**3,054**	38,725	4,525	3,300	2,972
Options written	**39,268**	**—**	**—**	**—**	36,583	—	—	—
	81,690	**4,137**	**3,556**	**3,057**	77,829	4,528	3,391	3,012
Total derivative financial instruments before impact of master netting agreements	**$ 688,107**	**$ 5,723**	**$ 5,202**	**$ 4,912**	$ 634,375	$ 5,828	$ 4,477	$ 4,229
Less:								
Impact of master netting agreements[1]	**—**	**1,452**	**—**	**36**	—	1,061	—	50
Total derivative financial instruments after impact of master netting agreements	**$ 688,107**	**$ 4,271**	**$ 5,202**	**$ 4,876**	$ 634,375	$ 4,767	$ 4,477	$ 4,179

(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 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK *(continued)*

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

	As at December 31, 2022		As at December 31, 2021	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating[1]				
AAA, AA+, AA, AA-	**$ 2,299**	**$ 972**	$ 2,069	$ 811
A+, A, A-	**2,501**	**1,257**	3,491	2,243
BBB, B, BB-, BBB-	**635**	**1,330**	125	377
CCC, CC, C	**—**	**—**	—	—
Not rated	**288**	**1,353**	143	798
	5,723	**4,912**	5,828	4,229
Less:				
Impact of master netting agreements[2]	**1,452**	**36**	1,061	50
Total after impact of master netting agreements	**$ 4,271**	**$ 4,876**	$ 4,767	$ 4,179
Type of counterparty				
Financial institutions	**$ 5,233**	**$ 2,928**	$ 5,541	$ 3,010
Other	**490**	**1,984**	287	1,219
	5,723	**4,912**	5,828	4,229
Less:				
Impact of master netting agreements[2]	**1,452**	**36**	1,061	50
Total after impact of master netting agreements	**$ 4,271**	**$ 4,876**	$ 4,767	$ 4,179

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group. Although the table presents information by external rating, risk-weighted assets have been calculated using internal ratings.

(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 22 – SIGNIFICANT TRANSACTIONS

Year ended December 31, 2022

Acquisition of the independent insurance and individual savings distribution networks of Guardian Capital Group Limited

On November 30, 2022, through 9479-5176 Québec inc., a wholly-owned indirect subsidiary of the Federation, Desjardins Group undertook to acquire the independent insurance and individual savings distribution networks of Guardian Capital Group Limited, notably by acquiring all the shares of IDC Worldsource Insurance Network Inc., Worldsource Financial Management Inc. and Worldsource Securities Inc., for an amount totalling $750 million, subject to customary purchase price adjustments.

The transaction is expected to close in the first quarter of 2023, subject to obtaining the required regulatory approvals and satisfying customary closing conditions.

Acquisition of an interest in The Insurance Company of Prince Edward Island

On December 9, 2022, 1000379969 Ontario Limited, an entity representing a consortium of acquirers comprising Desjardins General Insurance Group Inc., an indirect subsidiary of the Federation, certain key members of management of The Insurance Company of Prince Edward Island (ICPEI), certain other employees of ICPEI and shareholders of ICPEI Holdings Inc., the parent company of ICPEI (ICPEI Holdings), as well as certain other investors, submitted a bid to the shareholders of ICPEI Holdings to acquire all the shares of ICPEI Holdings.

At the date of closing of the transaction, Desjardins Group, through its interest in 1000379969 Ontario Limited, will hold a minority interest in ICPEI Holdings acquired for a cash consideration of $17 million.

The transaction is expected to close in the first quarter of 2023, subject to satisfying closing conditions.

Year ended December 31, 2021

On September 1, 2021, Desjardins Group, through Desjardins Global Asset Management Inc., a wholly-owned indirect subsidiary of the Federation, acquired the assets of investment firm Hexavest Inc., which serves a primarily institutional clientele located mainly in Canada and also internationally. The transaction represents a business combination, and the purchase price allocation was completed during the year ended December 31, 2021. Closing fees directly attributable to the acquisition were recognized under “Non-interest expenses – Other”.

NOTE 23 – CAPITAL STOCK

AUTHORIZED

Capital stock comprises qualifying shares and capital shares.

The caisses may issue an unlimited number of qualifying shares with a par value of $5, redeemable at the option of the caisses in the cases set forth in the Act. Qualifying shares give their member holder one vote for the caisse that issued them, regardless of the number of qualifying shares of such caisse held.

The Federation may issue an unlimited number of F capital shares and contingent Z-capital shares (Z capital shares) with a par value of $10. These shares do not carry any voting rights. F capital shares may be issued only to members of Desjardins caisses in Québec, including their auxiliary members. Z capital shares may be issued to any person in accordance with the Act, but only for converting non-viability contingent capital instruments of the Federation or at the discretion of the Federation after such conversion. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, F and Z capital shares if any, at any time. The Federation may also purchase, in whole or in part, F and Z capital shares, if any, by private agreement, at any time, with the authorization of the AMF. The interest rate on F and Z capital shares, if any, is determined by the Federation's Board of Directors, which approves annually the surplus earnings that may be allocated to the payment of interest on these capital shares. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2022	As at December 31, 2021
Qualifying shares	**$ 26**	$ 25
F capital shares	**4,760**	4,864
Permanent shares	**—**	75
Surplus shares	**—**	18
	$ 4,786	$ 4,982

REDEMPTION OF SHARES

During the year ended December 31, 2022, the caisses redeemed for cancellation all permanent shares and surplus shares for a cash consideration of $75 million and $18 million, respectively.

NOTE 24 – SHARE CAPITAL

AUTHORIZED

There is an unlimited number of Class A preferred shares, offered only to members of CDO, non-voting, without par value, redeemable at the option of the issuer, i.e. CDO, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative.

There is an unlimited number of Class B preferred shares, non-voting, without par value, redeemable at the option of the issuer, i.e. CDO, 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.

NOTE 25 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the main components of “Accumulated other comprehensive income” (net of taxes).

	As at December 31, 2022		As at December 31, 2021	
	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 (losses) on debt securities classified as at fair value through other comprehensive income[1]	**$ (1,237)**	**$ (13)**	$ 234	$ (1)
Net unrealized gains (losses) related to the overlay approach adjustment for insurance operations financial assets	**(108)**	**(6)**	448	33
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(815)**	**—**	84	—
Share of associates and joint ventures accounted for using the equity method	**(6)**	**—**	(1)	—
Accumulated other comprehensive income	**$ (2,166)**	**$ (19)**	$ 765	$ 32

(1) Reflects an allowance for credit losses of $10 million as at December 31, 2022 ($4 million as at December 31, 2021) on securities classified as at fair value through other comprehensive income.

NOTE 26 – CAPITAL MANAGEMENT

The goal of capital management at Desjardins Group is to ensure that the capital level is consistent with its risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members, clients and creditors, and regulator's expectations and requirements. Capital is managed in accordance with the Desjardins Group capital management policy approved by the Federation’s Board of Directors.

DESJARDINS GROUP’S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The regulatory capital adequacy and composition of Desjardins Group as a whole are evaluated using the base capital adequacy guideline applicable to financial services cooperatives issued by the AMF, which is derived from the normative framework developed by the Basel Committee on Banking Supervision, and reflect the applicable relief measures implemented by the AMF in response to the COVID-19 pandemic. This guideline requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components. The holding company Desjardins Financial Corporation Inc. is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF. Consequently, for purposes of calculating capital, the holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and partly deducted from capital, in accordance with the significant investments rules set out in the base capital adequacy guideline applicable to financial services cooperatives.

Some subsidiaries included in the scope of Desjardins Group are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements. Desjardins Group monitors and manages these entities’ capital requirements to ensure capital is effectively used and regulations are complied with on an ongoing basis.

Desjardins Group’s capital ratios are calculated according to the base capital adequacy guideline applicable to financial services cooperatives and are expressed as regulatory capital as a percentage of risk-weighted assets (RWA). As it was designated by the AMF as a domestic systemically important financial institution, Desjardins Group is subject to an additional capital surcharge of 1% and must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. These ratios include a 2.5% capital conservation buffer. Desjardins Group is also subject to an RWA floor. When modeled RWA is less that RWA calculated using the Standardized Approach multiplied by a factor determined by the AMF, the difference is added to the denominator for regulatory capital ratios.

Desjardins Group is also required by the AMF to meet a minimum leverage ratio of 3.5%. This ratio is determined by dividing Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet exposures.

Since April 1, 2022, Desjardins Group has to meet the requirements of the Total Loss Absorbing Capacity (TLAC) Guideline issued by the AMF. The TLAC ratio and TLAC leverage ratio are calculated in accordance with this guideline. The guideline applies to a resolution group deemed to be Desjardins Group excluding CDO. Desjardins Group is required to maintain a TLAC ratio of at least 21.5% and a TLAC leverage ratio of at least 6.75%.

NOTE 26 – CAPITAL MANAGEMENT *(continued)*

REGULATORY CAPITAL

The regulatory capital of Desjardins Group differs from the equity disclosed in the Combined Balance Sheets. It comprises the following components:

(i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1A (core capital) and Tier 1B (additional capital). Tier 1A capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings and accumulated other comprehensive income. Tier 1B capital consists of non-controlling interests. Non-controlling interests are determined, in particular, based on the nature of the operations and the capitalization of the investee.

(ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It comprises subordinated notes qualified as Non-Viability Contingent Capital (NVCC), eligible qualifying shares and the eligible portion of the collective allowance.

The following table presents the regulatory capital and available total loss absorbing capital (TLAC) balances, risk-weighted assets and regulatory ratios.

(in millions of dollars and as a percentage)	As at December 31, 2022	As at December 31, 2021
Capital and TLAC		
Tier 1A capital	**$ 28,156**	$ 28,437
Tier 1 capital	**28,156**	28,437
Total capital	**30,445**	29,721
Available total loss absorbing capacity (TLAC)[1]	**38,722**	34,325
Risk-weighted assets		
Credit risk	**118,783**	117,168
Market risk	**3,959**	2,874
Operational risk	**15,114**	14,476
Total risk-weighted assets before the capital floor	**137,856**	134,518
Transitional capital floor adjustment	**1,455**	—
Total risk-weighted assets	**$ 139,311**	$ 134,518
Total risk-weighted assets for TLAC ratio purposes[1]	**134,880**	129,311
Leverage ratio exposure	**371,598**	336,136
TLAC leverage ratio exposure[1]	**364,519**	329,634
Ratios		
Tier 1A capital	**20.2 %**	21.1 %
Tier 1 capital	**20.2**	21.1
Total capital	**21.9**	22.1
TLAC[1]	**28.7**	26.5
Leverage	**7.6**	8.5
TLAC leverage[1]	**10.6**	10.4

(1) Data calculated at the resolution group level that is deemed to be Desjardins Group excluding Caisse Desjardins Ontario Credit Union Inc.

COMPLIANCE WITH REQUIREMENTS

Desjardins Group and all its components that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2022, as they were in the previous year.

NOTE 27 – NET INTEREST INCOME AND NET INVESTMENT INCOME (LOSS)

NET INTEREST INCOME

The following table presents the breakdown of net interest income according to the classification of financial assets and liabilities.

For the years ended December 31	2022	2021
Interest income on financial assets		
At amortized cost	**$ 8,403**	$ 6,967
At fair value through other comprehensive income	**972**	420
At fair value through profit or loss	**10**	14
	9,385	7,401
Interest expense on financial liabilities		
At amortized cost	**3,038**	1,599
At fair value through profit or loss	**17**	16
	3,055	1,615
	$ 6,330	$ 5,786

NET INVESTMENT INCOME (LOSS)

The following table presents the breakdown of investment income and loss according to the classification of financial assets and liabilities.

For the years ended December 31	2022			2021		
	Interest income and expense	Change in fair value and other	Total	Interest income and expense	Change in fair value and other	Total
Net investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 167**	**$ (1,307)**	**$ (1,140)**	$ 333	$ 525	$ 858
Designated as at fair value through profit or loss	**605**	**(4,122)**	**(3,517)**	516	(1,300)	(784)
Classified as at fair value through other comprehensive income	**148**	**(157)**	**(9)**	109	(24)	85
At amortized cost and other	**103**	**58**	**161**	129	31	160
	$ 1,023	**$ (5,528)**	**$ (4,505)**	$ 1,087	$ (768)	$ 319

NOTE 28 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense recognized in the Combined Financial Statements for the years ended December 31 is detailed as follows:

	2022	2021
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 897**	$ 963
Adjustments for current tax of prior years	**14**	(14)
Current tax recovery on remuneration on capital stock	**(69)**	(55)
Tax recovery on member dividends	**(106)**	(103)
	736	791
Deferred income taxes		
Origination and reversal of temporary differences	**(256)**	(36)
Change in tax rates	**12**	—
Adjustments for deferred tax of prior years	**(23)**	2
	(267)	(34)
	$ 469	$ 757
Combined Statements of Comprehensive Income		
Current income taxes	**$ (504)**	$ (26)
Deferred income taxes	**(250)**	327
	(754)	301
Total income tax expense	**$ (285)**	$ 1,058

Income taxes on surplus earnings presented in the Combined Statements of Income for the years ended December 31 are detailed as follows:

	2022	2021
Income taxes on surplus earnings	**$ 575**	$ 860
Tax recovery on member dividends	**(106)**	(103)
Income taxes on surplus earnings	**$ 469**	$ 757

NOTE 28 – INCOME TAXES ON SURPLUS EARNINGS *(continued)*

TAX RATE RECONCILIATION

The income tax expense on surplus earnings recognized in the Combined Statements of Income for the years ended December 31 differs from the income tax expense determined using the Canadian statutory rate for the following reasons:

	2022	2021
Income taxes at the combined Canadian federal and provincial statutory rate of 26.75% (26.36% in 2021)	**$ 702**	$ 1,003
Tax recovery on member dividends	**(106)**	(103)
Small business deduction	**(7)**	(12)
Non-taxable investment income and other items	**(65)**	(92)
Change in tax rates	**12**	—
Non-deductible expenses	**17**	19
Adjustment for current and deferred tax of prior years	**(9)**	(12)
Tax recovery on remuneration on capital stock	**(69)**	(55)
Other	**(6)**	9
	$ 469	$ 757

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		Combined Statements of Income	
	As at December 31, 2022	As at December 31, 2021	2022	2021
Deferred tax assets				
Lease liabilities	**$ 162**	$ 155	**$ (7)**	$ 10
Allowance for credit losses	**200**	194	**(6)**	20
Net defined benefit plan liabilities	**170**	274	**19**	38
Tax losses	**410**	209	**(201)**	(52)
Securities and other financial instruments	**483**	—	**(31)**	—
Other	**171**	107	**(64)**	(25)
	1,596	939	**(290)**	(9)
Deferred tax liabilities				
Property, plant and equipment, intangible assets and investment property	**164**	131	**33**	(27)
Right-of-use assets	**152**	148	**4**	(11)
Securities and other financial instruments	**—**	47	**—**	(16)
Insurance contract liabilities	**95**	109	**(14)**	29
Net defined benefit plan assets	**178**	16	**—**	—
	589	451	**23**	(25)
Net deferred income tax assets	**$ 1,007**	$ 488	**$ (267)**	$ (34)

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, 2022	As at December 31, 2021
Deferred tax assets[1]	**$ 1,440**	$ 789
Deferred tax liabilities[1]	**433**	301
	$ 1,007	$ 488

(1) Deferred income taxes will reverse mainly in the long term.

The amount of deductible temporary differences, undue tax losses and tax credits for which no deferred tax assets have been recognized in the Combined Balance Sheets was $111 million ($20 million as at December 31, 2021).

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND GUARANTEES

In the normal course of operations, Desjardins Group uses credit instruments and off-balance sheet guarantees to meet the financing needs of its members and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that Desjardins Group granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that Desjardins Group could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that Desjardins Group could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater than the amount recognized in the Combined Balance Sheets.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Combined Balance Sheets expose Desjardins Group to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2022	As at December 31, 2021
Commitments		
Credit commitments	**$ 124,533**	$ 126,763
Indemnification commitments related to securities lending	**3,385**	2,382
Documentary letters of credit	**18**	18
Guarantees		
Guarantees and standby letters of credit	**1,510**	1,400
Credit default swaps	**—**	645

Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Indemnification commitments related to securities lending

As part of its asset custody operations, Desjardins Group enters into securities lending agreements with clients. Desjardins Group makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount. There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

Documentary letters of credit

Documentary letters of credit are instruments issued for a member or a client and represent Desjardins Group's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. Desjardins Group is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by Desjardins Group to make payments in the event that a member or client cannot meet financial or performance obligations to third parties. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans. Guarantees and standby letters of credit for which payment depends on meeting a performance obligation are considered non-financial guarantees as the payment does not depend on a credit default on a debt security. Other guarantees and standby letters of credit are financial guarantees.

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, which is a financial guarantee, is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

COMMITMENTS AND GUARANTEES *(continued)*

Other indemnification agreements

In the normal course of its operations, Desjardins Group enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, Desjardins Group may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that Desjardins Group could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, Desjardins Group enters into asset pledge agreements and receives from its members and clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor's right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of Desjardins Group's financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	As at December 31, 2022	As at December 31, 2021
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	**$ 589**	$ 535
Securities	**21,507**	31,357
Loans	**26,681**	25,563
	48,777	57,455
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**23,667**	17,968
Less: Assets not sold or not repledged	**1,980**	636
	21,687	17,332
	$ 70,464	$ 74,787
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 30,670**	$ 35,806
Transactions involving commitments related to securities sold short	**9,972**	10,827
Securitization transactions	**13,767**	12,945
Covered bonds	**13,216**	12,687
Transactions on derivative financial instruments	**603**	138
Clearing systems, payment systems and depositories[1]	**1,523**	1,523
Transactions involving provisions for claims and adjustment expenses[2]	**533**	671
Caisse network money supply from the Bank of Canada	**180**	190
	$ 70,464	$ 74,787

(1) In the normal course of its operations, Desjardins Group must pledge intraday collateral to the Bank of Canada for the use of the Large Value Transfer System. Such collateral is excluded as it is released back at the end of the daily settlement cycle.

(2) Represent securities pledged as collateral in connection with the reinsurance treaty that transferred, at the date of acquisition, the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to Desjardins Group.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

PRIVACY BREACH

On June 14, 2022, the Superior Court of Québec approved the settlement agreement between Desjardins Group and the plaintiffs concluded on December 16, 2021 after class actions were filed in connection with the privacy breach announced in June 2019. The Combined Financial Statements reflect the financial impact of this settlement.

LITIGATION

In the normal course of its business, Desjardins Group is involved in various litigation matters and legal proceedings. It is not currently possible to predict the outcome of certain of these litigation matters and legal proceedings, the timing of such outcomes, or the potential impact on Desjardins Group's financial position. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and legal proceedings, to the extent that it can be measured, could have an impact on Desjardins Group's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which Desjardins Group assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas and tables marked with an asterisk (*) presented in that section are an integral part of these Combined Financial Statements. In addition, information on credit risk related to the recognition and measurement of expected credit losses are presented in these Combined Financial Statements, mainly in Note 2, "Significant accounting policies", and in Note 8, "Loans and allowance for credit losses".

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS

The following tables present assets and liabilities recorded on the Combined Balance Sheets and off-balance sheet commitments at their carrying amount and classified according to their residual contractual maturities. The classification of maturities is an information source with regard to liquidity and financing risk, but it differs from the analysis performed by Desjardins Group to determine the expected maturity of the items for liquidity risk management purposes. Many factors other than contractual maturity are taken into consideration to measure expected future cash flows and liquidity risk.

The value of credit commitments presented in these tables represents the maximum amount of additional credit that Desjardins Group could be required to grant if the commitments were fully used. The value of guarantees and standby letters of credit correspond to the maximum cash outflows that Desjardins Group could be required to make in the event of complete default of the parties to guarantees, without taking any possible recovery into account. These commitments and guarantees do not necessarily represent future liquidity needs, because a large portion of these instruments will expire or be cancelled without giving rise to any cash outflows.

Note 17, "Insurance contract liabilities", provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2022	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 7,900	$ 974	$ —	$ —	$ —	$ —	$ —	$ —	$ 39	$ 8,913
Securities										
Securities at fair value through profit or loss[1]	108	866	1,064	902	788	2,252	5,931	16,563	5,551	34,025
Securities at fair value through other comprehensive income[1]	554	1,646	1,613	1,640	869	5,792	24,093	14,986	65	51,258
Securities at amortized cost	—	—	—	—	1	1	6	42	—	50
Securities borrowed or purchased under reverse repurchase agreements	13,766	970	2,288	—	—	—	—	—	—	17,024
Loans										
Residential mortgages[2]	2,438	3,102	6,683	6,622	8,303	18,951	99,544	7,015	7,024	159,682
Consumer, credit card and other personal loans[2]	55	84	168	199	241	1,156	4,841	8,222	9,415	24,381
Business and government[2]	17,166	5,922	5,697	5,028	5,668	6,042	11,878	2,335	7,076	66,812
Allowance for credit losses	—	—	—	—	—	—	—	—	(1,035)	(1,035)
Segregated fund net assets	—	—	—	—	—	—	—	—	21,318	21,318
Clients' liability under acceptances	25	—	—	—	—	—	—	—	—	25
Premiums receivable	179	70	15	2	—	—	—	—	2,659	2,925
Derivative financial instruments	274	539	758	300	493	1,259	1,894	206	—	5,723
Amounts receivable from clients, brokers and financial institutions	2,771	5	—	—	—	—	—	—	710	3,486
Reinsurance assets	24	42	48	43	40	98	204	676	—	1,175
Right-of-use assets	—	—	—	—	—	—	—	—	543	543
Investment property	—	—	—	—	—	—	—	—	929	929
Property, plant and equipment	—	—	—	—	—	—	—	—	1,587	1,587
Goodwill	—	—	—	—	—	—	—	—	157	157
Intangible assets	—	—	—	—	—	—	—	—	692	692
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,465	1,465
Net defined benefit plan assets	—	—	—	—	—	—	—	—	679	679
Deferred tax assets	—	—	—	—	—	—	—	—	1,440	1,440
Other assets – Other	851	827	242	16	19	19	45	7	1,829	3,855
Total assets	$ 46,111	$ 15,047	$ 18,576	$ 14,752	$ 16,422	$ 35,570	$ 148,436	$ 50,052	$ 62,143	$407,109

For footnotes see next page.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2022	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[3]	$ 3,627	$ 3,817	$ 8,936	$ 6,750	$ 9,148	$ 19,852	$ 15,422	$ 260	$ 77,565	$ 145,377
Business and government[3]	11,216	8,919	4,938	2,447	2,845	8,220	19,852	3,963	51,772	114,172
Deposit-taking institutions[3]	61	12	7	4	3	6	2	—	192	287
Acceptances	25	—	—	—	—	—	—	—	—	25
Commitments related to securities sold short[4]	146	1,009	331	54	45	1,114	2,944	4,208	8	9,859
Commitments related to securities lent or sold under repurchase agreements	23,994	571	—	—	—	—	—	—	—	24,565
Derivative financial instruments	131	381	737	302	566	1,641	2,375	421	—	6,554
Amounts payable to clients, brokers and financial institutions	4,846	4	—	—	—	—	—	—	4,128	8,978
Lease liabilities	6	12	18	21	19	69	189	288	—	622
Insurance contract liabilities	527	898	1,093	999	921	2,200	4,736	16,879	3,101	31,354
Segregated fund net liabilities	—	—	—	—	—	—	—	—	21,284	21,284
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	654	654
Deferred tax liabilities	—	—	—	—	—	—	—	—	433	433
Other liabilities – Other	3,019	968	697	196	119	122	97	27	2,324	7,569
Subordinated notes	—	—	—	—	—	—	—	2,928	—	2,928
Total equity	—	—	—	—	—	—	—	—	32,448	32,448
Total liabilities and equity	$ 47,598	$ 16,591	$ 16,757	$ 10,773	$ 13,666	$ 33,224	$ 45,617	$ 28,974	$ 193,909	$ 407,109
Off-balance sheet commitments										
Credit commitments[5]	$ 1,223	$ 93	$ 574	$ 866	$ 885	$ 6,053	$ 10,994	$ 773	$ 103,072	$ 124,533
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	3,385	3,385
Documentary letters of credit	5	1	3	4	5	—	—	—	—	18
Guarantees and standby letters of credit	267	263	393	217	235	43	42	1	49	1,510

(1) Equity securities are classified under “No stated maturity”.

(2) Amounts repayable on demand are classified under “No stated maturity”.

(3) Deposits payable on demand or upon notice are considered as having “No stated maturity”.

(4) Amounts are presented by remaining contractual maturity of the underlying security.

(5) Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion. These items are classified in the “No stated maturity” column.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2021	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 15,867	$ 461	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 16,328
Securities										
Securities at fair value through profit or loss[1]	60	591	1,196	319	1,105	1,726	5,933	22,649	6,193	39,772
Securities at fair value through other comprehensive income[1]	403	665	265	683	1,147	7,353	24,363	18,335	72	53,286
Securities at amortized cost	—	—	1	1	—	1	4	34	—	41
Securities borrowed or purchased under reverse repurchase agreements	10,859	1,103	57	—	—	—	—	—	—	12,019
Loans										
Residential mortgages[2]	2,688	3,460	6,964	6,040	7,046	20,561	86,855	9,318	6,763	149,695
Consumer, credit card and other personal loans[2]	61	89	186	253	308	1,375	5,450	7,730	8,934	24,386
Business and government[2]	12,516	5,665	5,399	4,880	5,341	4,735	10,774	2,527	5,563	57,400
Allowance for credit losses	—	—	—	—	—	—	—	—	(970)	(970)
Segregated fund net assets	—	—	—	—	—	—	—	—	22,804	22,804
Clients' liability under acceptances	233	35	—	—	—	—	—	—	—	268
Premiums receivable	169	64	14	2	—	—	—	—	2,590	2,839
Derivative financial instruments	238	206	421	204	381	1,879	2,207	292	—	5,828
Amounts receivable from clients, brokers and financial institutions	1,769	3	—	—	—	—	—	—	785	2,557
Reinsurance assets	27	48	58	50	47	124	255	973	—	1,582
Right-of-use assets	—	—	—	—	—	—	—	—	530	530
Investment property	—	—	—	—	—	—	—	—	926	926
Property, plant and equipment	—	—	—	—	—	—	—	—	1,531	1,531
Goodwill	—	—	—	—	—	—	—	—	157	157
Intangible assets	—	—	—	—	—	—	—	—	497	497
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,380	1,380
Net defined benefit plan assets	—	—	—	—	—	—	—	—	62	62
Deferred tax assets	—	—	—	—	—	—	—	—	789	789
Other assets – Other	710	362	185	13	20	21	50	12	2,005	3,378
Total assets	$ 45,600	$ 12,752	$ 14,746	$ 12,445	$ 15,395	$ 37,775	$ 135,891	$ 61,870	$ 60,611	$397,085

For footnotes see next page.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2021	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[3]	$ 4,858	$ 4,425	$ 10,317	$ 4,962	$ 7,389	$ 14,429	$ 13,352	$ 390	$ 76,210	$ 136,332
Business and government[3]	7,622	8,001	2,366	3,411	1,597	6,334	15,431	3,823	53,059	101,644
Deposit-taking institutions[3]	20	1	1	3	2	5	4	—	343	379
Acceptances	233	35	—	—	—	—	—	—	—	268
Commitments related to securities sold short[4]	147	536	133	40	8	1,240	2,637	6,597	4	11,342
Commitments related to securities lent or sold under repurchase agreements	31,177	—	—	—	—	—	—	—	—	31,177
Derivative financial instruments	155	187	377	260	348	1,822	2,198	153	—	5,500
Amounts payable to clients, brokers and financial institutions	1,040	2	—	—	—	—	—	—	6,896	7,938
Lease liabilities	6	10	16	15	15	60	162	303	9	596
Insurance contract liabilities	462	807	1,036	911	856	2,219	4,681	20,728	3,062	34,762
Segregated fund net liabilities	—	—	—	—	—	—	—	—	22,796	22,796
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	1,048	1,048
Deferred tax liabilities	—	—	—	—	—	—	—	—	301	301
Other liabilities – Other	2,933	1,013	677	57	52	149	109	29	2,497	7,516
Subordinated notes	—	—	—	—	—	—	—	1,960	—	1,960
Total equity	—	—	—	—	—	—	—	—	33,526	33,526
Total liabilities and equity	$ 48,653	$ 15,017	$ 14,923	$ 9,659	$ 10,267	$ 26,258	$ 38,574	$ 33,983	$ 199,751	$ 397,085
Off-balance sheet commitments										
Credit commitments[5]	$ 744	$ 81	$ 739	$ 1,002	$ 742	$ 2,596	$ 10,408	$ 126	$ 110,325	$ 126,763
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	2,382	2,382
Documentary letters of credit	7	2	6	1	2	—	—	—	—	18
Guarantees and standby letters of credit	219	224	337	303	200	25	34	41	17	1,400
Credit default swaps	—	—	—	—	—	—	645	—	—	645

(1) Equity securities are classified under “No stated maturity”.
(2) Amounts repayable on demand are classified under “No stated maturity”.
(3) Deposits payable on demand or upon notice are considered as having “No stated maturity”.
(4) Amounts are presented by remaining contractual maturity of the underlying security.
(5) Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion. These items are classified in the “No stated maturity” column.

NOTE 31 – SEGMENTED INFORMATION

Desjardins Group's financial reporting is grouped by activities, which are defined based on the needs of its members and clients and the markets in which Desjardins Group operates and reflect Desjardins Group's internal management method. Accordingly, Desjardins Group's financial results are grouped in three business segments, namely Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty insurance, plus an "Other" category.

The Personal and Business Services segment offers Desjardins Group's members and clients a comprehensive, integrated offering designed to meet the needs of individuals, businesses, institutions, not-for-profit organizations and cooperatives through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. This offering meets a range of needs including day-to-day transactions, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice and, through its distribution network, life and health and property and casualty insurance products. This segment also offers its products and services through complementary distribution networks and mortgage representatives, by phone, online and via applications for mobile devices, as well as ATMs.

The Wealth Management and Life and Health Insurance segment provides various categories of service offerings aimed at increasing the wealth of members and clients of Desjardins Group and helping them protect their financial security. These offerings are intended for individuals or businesses, while group insurance or savings plans meet the needs of employees through their businesses or those of individuals who are part of any other group. This segment designs several lines of life and health insurance protection and savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private management products. This segment also includes asset management for institutional clients. Its products and services are distributed through employees of the Desjardins caisse network and Desjardins Business centres, financial security advisors, investment advisors, private managers, exclusive agents, independent partners, actuarial consulting firms and group plan representatives. Certain product lines are also distributed online, via applications for mobile devices and through client care centres.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in Québec and outside Québec, online and via applications for mobile devices.

The "Other" category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities and activities related to financial intermediation between surplus liquidity and the liquidity needs of the caisses. This category also includes the results of the support functions provided by the Federation to Desjardins Group. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments necessary to prepare the Combined Financial Statements, the intersegment balance eliminations are classified in this category.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Combined Financial Statements of Desjardins Group.

NOTE 31 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of Desjardins Group's financial results by business segment for the years ended December 31.

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Net interest income	**$ 5,631**	$ 5,005	**$ 7**	$ —	**$ —**	$ —	**$ 692**	$ 781	**$ 6,330**	$ 5,786
Net premiums	**—**	—	**6,166**	5,667	**6,005**	5,909	**(329)**	(298)	**11,842**	11,278
Other income	**3,027**	2,925	**(1,972)**	1,432	**101**	(58)	**(1,288)**	(1,043)	**(132)**	3,256
Total income	**8,658**	7,930	**4,201**	7,099	**6,106**	5,851	**(925)**	(560)	**18,040**	20,320
Provision for credit losses	**274**	75	**—**	—	**—**	—	**3**	(6)	**277**	69
Claims, benefits, annuities and changes in insurance contract liabilities	**—**	—	**634**	4,115	**3,911**	2,792	**(45)**	(24)	**4,500**	6,883
Non-interest expense	**6,860**	5,886	**2,653**	2,448	**1,612**	1,460	**(487)**	(228)	**10,638**	9,566
Operating surplus earnings	**1,524**	1,969	**914**	536	**583**	1,599	**(396)**	(302)	**2,625**	3,802
Income taxes on surplus earnings	**398**	510	**222**	73	**133**	402	**(178)**	(125)	**575**	860
Surplus earnings before member dividends	**1,126**	1,459	**692**	463	**450**	1,197	**(218)**	(177)	**2,050**	2,942
Member dividends, net of income tax recovery	**297**	284	**—**	—	**—**	—	**—**	—	**297**	284
Net surplus earnings for the year after member dividends	**$ 829**	$ 1,175	**$ 692**	$ 463	**$ 450**	$ 1,197	**$ (218)**	$ (177)	**$ 1,753**	$ 2,658
of which:										
Group's share	**$ 829**	$ 1,175	**$ 692**	$ 463	**$ 383**	$ 1,055	**$ (218)**	$ (178)	**$ 1,686**	$ 2,515
Non-controlling interests' share	**—**	—	**—**	—	**67**	142	**—**	1	**67**	143

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at December 31, 2022	**$ 321,357**	**$ 51,737**	**$ 15,473**	**$ 18,542**	**$ 407,109**
As at December 31, 2021	$ 306,878	$ 56,891	$ 16,574	$ 16,742	$ 397,085

NOTE 32 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and employee benefit plans, as well as certain entities for which the substance of the relationship indicates that they are related to Desjardins Group, including the Desjardins Funds. They also include Desjardins Group's key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH DESJARDINS GROUP'S RELATED PARTIES

Transactions with Desjardins Group's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The main transactions are associated with fund management and custody fees. They are also associated with management income from pension plans and interest expense paid to the Desjardins Group Pension Plan.

These transactions and balances as at the reporting dates are as follows:

	2022			2021		
	Associates / Joint ventures	**Other related parties**	**Total**	Associates / Joint ventures	Other related parties	Total
Combined Statements of Income						
Brokerage and investment fund services	**$ 1**	**$ 635**	**$ 636**	$ 1	$ 686	$ 687
Net investment income (loss)	**10**	**41**	**51**	3	(14)	(11)
Other income	**20**	**143**	**163**	13	58	71
Other expenses	**(6)**	**—**	**(6)**	(7)	(2)	(9)
Combined Balance Sheets						
Securities	**$ 51**	**$ 29**	**$ 80**	$ 60	$ 58	$ 118
Securities borrowed or purchased under reverse repurchase agreements	**—**	**226**	**226**	—	635	635
Loans	**114**	**3**	**117**	122	—	122
Segregated fund net assets	**—**	**3,308**	**3,308**	—	3,357	3,357
Other assets	**11**	**76**	**87**	6	24	30
Deposits	**97**	**132**	**229**	173	280	453
Commitments related to securities lent or sold under repurchase agreements	**—**	**12**	**12**	—	300	300
Other liabilities	**3**	**100**	**103**	1	99	100
Other						
Commitments given	**$ 142**	**$ 571**	**$ 713**	$ 103	$ 568	$ 671
Guarantees given	**40**	**143**	**183**	40	921	961
Guarantees received	**—**	**216**	**216**	—	642	642

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:

	2022	2021
Short-term benefits	**$ 19**	$ 16
Other long-term and post-employment benefits	**11**	8
	$ 30	$ 24