Desjardins

Financial Report

Third quarter of 2020

Desjardins Group records surplus earnings of $729 million for the third quarter

FINANCIAL HIGHLIGHTS

(in millions of dollars and as a percentage)	As at and for the three-month periods ended			As at and for the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019[1]	**September 30, 2020**	September 30, 2019[1]
Results					
Net interest income	**$ 1,450**	$ 1,353	$ 1,372	**$ 4,156**	$ 3,935
Net premiums	**2,534**	2,238	2,326	**7,294**	6,885
Other operating income[2]	**656**	685	696	**2,111**	2,113
Operating income[2]	**4,640**	4,276	4,394	**13,561**	12,933
Investment income[2]	**173**	2,340	592	**2,569**	2,999
Total income	**4,813**	6,616	4,986	**16,130**	15,932
Provision for credit losses	**99**	271	154	**694**	252
Claims, benefits, annuities and changes in insurance contract liabilities	**1,753**	3,615	2,258	**7,451**	7,737
Non-interest expense	**1,985**	2,010	1,849	**5,987**	5,821
Income taxes on surplus earnings	**247**	191	155	**455**	459
Surplus earnings before member dividends	**$ 729**	$ 529	$ 570	**$ 1,543**	$ 1,663
Contribution to combined surplus earnings by business segment[3]					
Personal and Business Services	**$ 468**	$ 337	$ 421	**$ 1,018**	$ 1,227
Wealth Management and Life and Health Insurance	**140**	261	100	**360**	412
Property and Casualty Insurance	**155**	16	34	**244**	76
Other	**(34)**	(85)	15	**(79)**	(52)
	$ 729	$ 529	$ 570	**$ 1,543**	$ 1,663
Return to members and the community					
Member dividends	**$ 80**	$ 80	$ 80	**$ 237**	$ 237
Sponsorships, donations and bursaries	**14**	14	17	**44**	55
Desjardins Member Advantages program	**10**	12	9	**33**	31
	$ 104	$ 106	$ 106	**$ 314**	$ 323
Indicators					
Net interest margin[2]	**2.39%**	2.35%	2.52%	**2.30%**	2.44%
Return on equity[2]	**9.9**	7.5	8.5	**7.2**	8.6
Productivity index[2]	**64.9**	67.0	67.8	**69.0**	71.0
Credit loss provisioning rate[2]	**0.19**	0.52	0.31	**0.45**	0.17
Gross credit-impaired loans/gross loans and acceptances[2]	**0.64**	0.63	0.60	**0.64**	0.60
Liquidity coverage ratio[4]	**157.1**	166.7	125.6	**157.1**	125.6
On-balance sheet and off-balance sheet					
Assets	**$ 359,887**	$ 349,934	$ 312,731	**$ 359,887**	$ 312,731
Net loans and acceptances	**209,931**	207,169	199,975	**209,931**	199,975
Deposits	**225,820**	220,270	192,820	**225,820**	192,820
Equity	**29,418**	28,767	26,988	**29,418**	26,988
Assets under administration[5]	**446,812**	433,888	436,694	**446,812**	436,694
Assets under management[6]	**73,118**	71,294	66,327	**73,118**	66,327
Capital ratios and leverage ratio					
Tier 1A capital ratio	**21.4%**	21.8%	17.9%	**21.4%**	17.9%
Tier 1 capital ratio	**21.4**	21.8	17.9	**21.4**	17.9
Total capital ratio	**22.1**	22.4	18.1	**22.1**	18.1
Leverage ratio	**8.3**	8.6	8.6	**8.3**	8.6
Other information					
Number of employees	**48,791**	48,550	48,033	**48,791**	48,033

(1) The data have been reclassified to conform to the current period's presentation.
(2) See “Non-GAAP measures”.
(3) The breakdown by line item is presented in Note 12, “Segmented information”, to the Interim Combined Financial Statements.
(4) The ratio is presented based on the average of the daily data during the quarter.
(5) Data for 2019 have been reclassified to conform to the current period's presentation.
(6) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.

MESSAGE FROM SENIOR MANAGEMENT

Lévis, November 13, 2020 – For the third quarter ended September 30, 2020, Desjardins Group, the leading financial cooperative group in Canada, posted surplus earnings before member dividends of $729 million, up $159 million, or 27.9%, compared to the corresponding quarter of 2019. The results for the quarter are due to the solid performance of the caisse network, Desjardins Securities Inc. and the Property and Casualty Insurance segment. The increase in surplus earnings is also the result of the lower provision for credit losses because of the migration of exposures to higher risk ratings in the third quarter of 2019. This increase was partially offset by lower business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.

This result reflects the contribution of $468 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $140 million and $155 million, respectively, to surplus earnings.

The total amount returned to members and the community was $104 million in the third quarter of 2020, including an $80 million provision for member dividends, $14 million in the form of sponsorships, donations and bursaries, and $10 million paid out through the Desjardins Member Advantages program, compared to a total amount returned to members and the community of $106 million for the corresponding period of 2019. In addition to this, $7 million of commitments were made for the third quarter of 2020 with regard to the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions.

In the context of the COVID-19 pandemic, the Government of Canada, through the Bank of Canada and the CMHC, deployed a number of financing initiatives to support the Canadian financial system by maintaining a source of financing for businesses. Like the Canadian banks, Desjardins Group made use of these programs for an amount of $11.3 billion as at September 30, 2020. These additional sources of funding allow Desjardins to maintain a sufficient level of liquidity to deal with the repercussions of the pandemic.

Desjardins Group complies with Basel III rules and maintains very good capitalization. As at September 30, 2020, Desjardins Group's Tier 1A and total capital ratios were 21.4% and 22.1%, respectively, compared to 21.6% in both cases as at December 31, 2019.

"Desjardins posts solid financial results for the third-quarter, in particular due to higher surplus earnings and exceptional financial stability, despite the financial impacts of the COVID-19 pandemic," said Desjardins President and CEO, Guy Cormier. "Desjardins continues to meet the needs of its members and clients in this time of crisis by offering relief measures and by taking numerous initiatives to restart the economy. In addition, Desjardins is the most generous company in Québec, according to a recent survey on philanthropy conducted by the consulting firm Épisode."

Despite the pandemic, Desjardins Group continues to be a very strong financial institution that can support its members and clients.

ENHANCED DISCLOSURE TASK FORCE RECOMMENDATIONS INDEX

On October 29, 2012, the Enhanced Disclosure Task Force (EDTF), established by the Financial Stability Board, released its report, "Enhancing the Risk Disclosures of Banks", in which it issued 32 recommendations aimed at improving risk disclosure and transparency.

Information regarding the EDTF recommendations is presented in the 2019 Annual Report, the interim financial report for the third quarter of 2020 and the documents "Supplemental Financial Information" and "Pillar 3 Report", which are available on Desjardins Group's website at www.desjardins.com/ca/about-us/investor-relations. The documents "Supplemental Financial Information" and "Pillar 3 Report" are not incorporated by reference in this Management's Discussion and Analysis (MD&A).

Below is a summary of disclosures under the EDTF recommendations and the location of the disclosures (page number):

Type of risk	Recommen-dation	Disclosure	2019 Annual Report	Interim Financial Report	Supplemental Financial Information	Pillar 3 Report
General	1	Summary of risk information	XII	Current page		
	2	Risk terminology, risk measures and key parameters	62-67, 229-235			20, 21
	3	Principal and emerging risks	51-53, 59, 60, 67, 68, 85	31, 32, 43, 44		
	4	New regulatory ratios	51-55, 85-91, 192, 193	31-33, 43, 44, 46, 47	7, 9	
Risk governance, risk management and business models	5	Organizational risk management structure	64-67			
	6	Risk management culture	64-67			
	7	Risks from business model and risk appetite	14, 30-42, 51, 55-57, 62-68			
	8	Stress testing	63			
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	52	31, 32		6-8, 14, 15
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	53-55, 192, 193	33	6-8	6-10
	11	Movements in regulatory capital	53-55	34	7	
	12	Capital management and planning	51-55	31-35	6	
	13	Risk-weighted assets by business segments	55-57, 67, 68		11, 12	5
	14	Breakdown of capital requirements by type of risk and by calculation method	55-57, 73, 81, 82	40-42	11, 12	5
	15	Credit risk			27-40	5
	16	Movements in risk-weighted assets by type of risk	57	35	13-15	5
	17	Back testing and validation of credit models	73		41	
Liquidity	18	Management of liquidity needs and reserve	85-91	43-45		
Funding	19	Encumbered and unencumbered assets	87-91, 197-199	46, 47, 49		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	88-90, 199-203	47, 50-53		
	21	Funding sources and strategies	50, 51, 85, 88-90	44, 47-49		
Market risk	22	Reconciliation of market risk measures to balance sheet	80, 81	39, 40		
	23	Market risk factors	80-84, 174-177	38-43		
	24	Assumptions, limitations and validation procedures for market risk models	81-83	40-42		
	25	Extreme loss measures	51, 63, 81-83	40-42		
Credit risk	26	Credit risk profile	50, 60, 61, 63, 73, 74, 76-79	30, 38	10-12, 27-40, 46, 48, 50, 52	13
	27	Policy for identifying gross credit-impaired loans	75, 117-136			
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	50, 75-79, 117-136, 149-156	30, 37,73-80	46, 49	
	29	Counterparty risk related to derivatives	79, 179-188			
	30	Credit risk mitigation techniques	74, 79, 179, 188		24-26	
Other risks	31	Management of other risks	55-57, 65-68, 91-95	35		
	32	Publicly known risk events	91, 92, 197-199			

MANAGEMENT'S DISCUSSION AND ANALYSIS

Desjardins Group (hereinafter also referred to as Desjardins) comprises the Desjardins caisses in Québec and the Caisse Desjardins Ontario Credit Union Inc. (the caisses), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, and the *Fonds de sécurité Desjardins*.

The Management's Discussion and Analysis (MD&A) dated November 13, 2020 presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended September 30, 2020, in comparison to previous periods. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this regulation. However, it has chosen to apply the practices provided in this regulation to demonstrate its willingness to comply with best practices in financial governance. Information on Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Combined Financial Statements (the Interim Combined Financial Statements), including the notes thereto, as at September 30, 2020, and Desjardins Group's 2019 Annual Report (the 2019 Annual Report), which contains the MD&A and the audited Annual Combined Financial Statements (the Annual Combined Financial Statements).

Additional information about Desjardins Group is available on the SEDAR website at www.sedar.com (under the Desjardins Capital Inc. profile). The Annual Information Form of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can be found on SEDAR as well. Further information is available on the Desjardins website at www.desjardins.com/ca/about-us/investor-relations. None of the information presented on these sites is incorporated by reference into this MD&A.

The Annual and Interim 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. IFRS represent Canadian generally accepted accounting principles (GAAP). These Interim Combined Financial Statements of Desjardins Group have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements.

This MD&A was prepared in accordance with the regulations in force on continuous disclosure obligations issued by the CSA. Unless otherwise indicated, all amounts are presented in Canadian dollars ($) and are primarily from Desjardins Group's Annual and Interim Combined Financial Statements.

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements, within the meaning of applicable securities legislation. Such forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, the outlook for the Québec, Canadian, U.S. and global economies, as well as the possible impact of the COVID-19 pandemic on our operations, our results and our financial position, as well as on economic conditions and financial markets. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan" and "may", words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions made may be incorrect, or the predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially.

A number of factors, many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0, "Risk management", of Desjardins Group's 2019 annual MD&A and in the "COVID-19 pandemic" and "Risk management" sections of this MD&A for the third quarter of 2020, such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include legal and regulatory risk, environmental or social risk, and the risk related to pension plans.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to climate change, household indebtedness and real estate market trends, technological advancement and regulatory developments, interest rate fluctuations and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; cyber threats; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; geographic concentration; acquisitions and joint arrangements; and credit ratings. Other factors include amendments to tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts on operations, public health crises, such as pandemics and epidemics, including the COVID-19 pandemic, or any other similar disease affecting the local, national or global economy, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment. Additional information about these factors is found in Section 4.0, "Risk management" of Desjardins Group's 2019 annual MD&A and in the "COVID-19 pandemic" and "Risk management" sections of this MD&A for the third quarter of 2020.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of Desjardins Group's 2019 annual MD&A.

Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable and founded on valid bases, it cannot guarantee that these expectations will materialize or prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions, given that actual results, conditions, actions or future events could differ significantly from the targets, expectations, estimates or intentions advanced in them, explicitly or implicitly. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events, including the uncertainty inherent in forward-looking statements.

The significant economic assumptions underlying the forward-looking statements in this document are described in Section 1.5 "Economic environment and outlook" of Desjardins Group's 2019 annual MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section. To develop our economic growth forecasts, in general and for the financial services sector, we mainly use historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies. Given how the COVID-19 pandemic has developed, greater uncertainty is attached to our economic assumptions compared to previous periods, such assumptions being based on uncertain future developments and considering the difficulty of anticipating the extent of the pandemic's long-term effects.

Any forward-looking statements contained in this MD&A represent the views of management only as at the date hereof, and are presented for the purpose of assisting readers in understanding and interpreting Desjardins Group's balance sheet as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives as considered as at the date hereof. These statements may not be appropriate for other purposes. Desjardins Group does not undertake to update any oral or written forward-looking statements that could be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

SIGNIFICANT EVENTS

COVID-19 pandemic

On March 11, 2020, the World Health Organization declared a COVID-19 pandemic, and on March 13, 2020, the Québec government declared a public health emergency throughout Québec. Since this date, the declaration of a public health emergency has been successively extended. The Canadian government introduced various protection measures during the first three quarters of 2020. Since March, the governments of affected regions have implemented measures designed to contain the spread of the virus, including business shutdowns, travel restrictions, quarantines, prohibition of gatherings and event cancellations. Following recommendations by government authorities concerning the spread of COVID-19, Desjardins Group implemented a number of protection and relief measures as of March.

In May, Québec and Ontario gradually started to ease restrictions, and the various stores and businesses were given permission to reopen to the public under certain conditions and in compliance with public health directives regarding physical distancing and hygiene measures. On October 1, 2020, a strong surge in the number of people testing positive for COVID-19 led the different governments to reintroduce some of the restrictions that had previously been lifted. In Québec, these new measures, varying in strictness from one region to another, are intended to limit certain private gatherings, restaurant, bar and rental hall operations, tourist accommodation services, access to long-term care facilities, and activities in a number of other sectors. The new restrictions were in effect until the end of October, but were then extended until November 23, 2020. Desjardins continues to make the health and safety of its members and employees its top priority, and to favour online or remote service delivery. In September, more than 80% of employees were working from home. Desjardins is closely monitoring the situation and continues to adjust to ensure service continuity during the COVID-19 pandemic.

Virtual special general meetings

In March 2020, in the context of COVID-19 and to comply with social distancing measures to limit the spread of the virus, Desjardins Group announced that it would postpone the caisse general meetings, usually held in April, which as a result delayed the payment of member dividends, for which a vote by members is necessary. To allow members to vote for their dividend payment, Desjardins held special general meetings of the caisses in virtual mode. More than 200 virtual meetings were held between August 16 and September 17, 2020, during which caisse members voted for their dividend payment. Dividend payments began in October and ended in early November 2020.

Main measures for the benefit of members and clients

Desjardins has deployed a number of measures to support its members and clients in the context of COVID-19. A number of relief measures have been in place since March 16, 2020 for personal and business members and clients who might experience difficulty meeting their financial obligations because of the current situation. The solutions available to personal members and clients include payment relief for all their financing products and offering credit to members and clients needing quick access to cash, such as loans of last resort of up to $3,000 to personal members hit hard by COVID-19. In addition, Desjardins is temporarily granting an annual interest rate of 10.9% to personal members and clients who have Desjardins Visa and MasterCard credit cards and obtained a payment deferral on a Desjardins financing product. For business members and clients, needs are analyzed on a case-by-case basis, and special measures could be adopted to meet them, such as a temporary revision of financing conditions for credit lines, accelerated decision-making, deferred payments on credit cards and Accord D financing, and refinancing of certain assets.

In addition, since the extended lockdown period and travel restrictions led to a significant reduction in auto insurance claims, Desjardins Group's property and casualty insurance subsidiaries have granted more than 2.1 million eligible personal and business insureds a refund of between 25% to 40% of the amount of their monthly auto insurance premium, based on the conditions in each market, for a total of $105 million, bringing the total refunds for auto insurance clients to $155 million, since they received an initial $50 million in April.

Since the situation remains precarious for many, Desjardins announced in September 2020 that it would be maintaining these relief measures, in addition to concrete commitments to support business members. For instance, the most hard-hit businesses, whose short-term survival is under threat, may benefit from financing rates that are guaranteed for two years, at the best rates available. Business members and clients can also receive significant discounts on virtual health care services, in partnership with Medisys and Optima Global Health. Businesses can offer the telemedicine program to their staff and give them access to health care providers in numerous fields of expertise.

The table below presents members' and clients' use of the main relief measures as at September 30, 2020.

Products			
Financing	**Number of requests**	**Total loans - reliefs granted**	**Loan balance as at September 30, 2020**
Residential mortgages and consumer loans	**151,600**	**$18.1 billion**	**$4.6 billion**
Credit card and other personal loans	**141,800**	**$0.9 billion**	**$0.2 billion**
Business loans	**26,600**	**$15.3 billion**	**$5.0 billion**
Insurance	**Number**	**Value of refund**	
Auto insurance premium refund	**2,151,000**	**$155 million**	

In addition to these measures, Desjardins set up partnerships with the Québec and Canadian governments in order to offer solutions to members and clients. Desjardins Group is participating in the following assistance programs in particular, which help to provide additional liquidity to finance operations or enhance working capital for businesses experiencing temporary difficulties on account of COVID-19.

- Canada Emergency Business Account (CEBA)

  Under this program, implemented in collaboration with Export Development Canada (EDC), Desjardins Group provides loans of $40,000 interest-free until December 31, 2022 (and at a rate of 5% thereafter), funded by the federal government, to small businesses and not-for-profits to help them cover their operating expenses during a time when their revenue has been temporarily reduced. Loans granted under this program are derecognized from Desjardins Group's Combined Balance Sheets as the program meets the criteria for transfer of cash flows and of substantially all the risks and rewards of ownership of the loans to the government. On October 26, 2020, eligibility was extended to allow businesses operating out of a personal banking account to take advantage of the program under the conditions established by the government. As at September 30, 2020, approximately 70,000 loans totalling $2.8 billion had been granted to Desjardins Group members and clients under the CEBA program.

- Business Development Bank of Canada (BDC) Co-Lending Program

  Under this program, set up through the Business Credit Availability Program (BCAP), Desjardins Group grants term loans for which the maximum amount is calculated based on sales, with conditions tailored to the business' needs. BDC and Desjardins Group entered into a joint facility under which BDC automatically acquires an 80% participation in term loans granted to eligible Desjardins Group members and clients. The maximum loan amount is $6.25 million ($18.75 million per borrower group) and a moratorium on principal payments of up to 12 months is permitted. The participation in loans funded by BDC is derecognized from Desjardins Group's Combined Balance Sheets as the program meets the criteria for transfer of substantially all the risks and rewards of ownership of the loans to the government. As at September 30, 2020, 66 loans totalling $35 million had been granted to Desjardins Group members and clients under this co-lending program, $7 million of which remain on Desjardins Group's Combined Balance Sheets.

- BDC mid-market financing program

  Under this program, commercial loans of $12.5 million to $60 million are granted to medium-sized companies (annual revenue in excess of $100 million) that have been particularly impacted by the COVID-19 pandemic and whose credit requirements exceed what is already available under the BCAP and other measures. The loans will be granted by the BDC (90%), in close collaboration with the business' senior lender or lending syndicate (10%), to cover operational liquidity needs and support business continuity. Interest will be capitalized for the first 12 months and no principal payments are required until the 48 month maturity. No loans have been granted by Desjardins since the program was launched in July 2020.

- Loan guarantees for small- and medium-sized enterprises (EDC)

  Under the BCAP, EDC also offers a guarantee of up to 80% of the financial institution's residual loss for new operating lines of credit and new term loans of up to $6.25 million for small and medium-sized enterprises (SMEs). Desjardins favours granting term loans, with a moratorium on principal of up to 12 months and a maximum amortization of 60 months. Guarantee fees are payable by the borrower to EDC. As at September 30, 2020, 109 loans totalling $69 million had been granted to Desjardins Group's members and clients under this program.

- Mid-market guarantee program (EDC)

  Under the BCAP, EDC also offers a guarantee of up to 75% of the residual loss of the lender or lending syndicate for new operating lines of credit and new term loans of between C$12.5 million (US$8.75 million) and C$80 million (US$56 million) for medium-sized businesses (annual revenue of between $50 million and $300 million). This program is intended for medium-sized businesses and large corporations with financing at the Federation. No loans have been granted by Desjardins since the program was launched.

- Concerted temporary action program for businesses (PACTE) with Investissement Québec

  Investissement Québec (IQ) offers a guarantee of up to 70% of the financial institution's residual loss for new operating lines of credit and new term loans (minimum $71,500) for funding needs over a period of up to 12 months, for businesses operating in Québec, including cooperatives and other social economy enterprises with commercial operations. Desjardins favours granting term loans, with a moratorium on principal of up to 12 months and a recommended amortization of 36 months, but a possible maximum of 60 months. Guarantee fees are payable by the borrower to IQ. In addition, IQ offers a similar guarantee for eligible tourist establishments and attractions of up to 90% of the financial institution's residual net loss for new operating lines of credit and new term loans (no minimum or maximum) for funding requirements limited to a maximum period of 18 months, with a moratorium on principal and/or interest for up to 24 months. As at September 30, 2020, 192 loans totalling $73 million had been granted to Desjardins Group's members and clients under the PACTE program.

Capital and liquidity measures

In view of the COVID-19 pandemic, the AMF introduced a series of measures to support Québec's financial system, including adjustments to capital requirements related to the COVID-19 pandemic, regulatory and administrative relief in respect of certain provisions of the *Deposit Institutions and Deposit Protection Act*, and additional information regarding the consultation and supervisory processes. For details on the measures put in place by Desjardins Group in this regard, please see the "Capital management" section of this MD&A.

In addition, the Canadian government set up programs for extraordinary liquidity facilities to facilitate access to funding for financial institutions. Additional information on the federal government programs used by Desjardins Group may be found under "Sources of funding" in the "Risk management" section of this MD&A.

These additional funding sources allow Desjardins Group to maintain adequate liquidity levels to deal with impacts related to the pandemic. Furthermore, Desjardins Group complies with Basel III rules and maintains very good capitalization. As at September 30, 2020, Desjardins Group's Tier 1A and total capital ratios were 21.4% and 22.1%, respectively, compared to 21.8% and 22.4% as at June 30, 2020, 22.2% as at March 31, 2020 and 21.6% as at December 31, 2019.

Social measures and reopening of the economy

We should remember that as of March, Desjardins Group had announced a number of hygiene and protection measures to help limit the spread of COVID-19 and its effects. These included in particular reducing the number of service outlets open to members and clients, increasing the contactless payment limit for credit and debit cards at Desjardins payment terminals, reducing physical access hours at Desjardins caisses, introducing assistance measures for young clients, improving support for members aged 70 and over, making donations to community organizations meeting basic needs and donating protective masks to the Québec government.

By the end of September 2020, close to 800 service centres in Québec and Ontario had been reopened to properly serve members and clients while complying with public health measures to limit the spread of COVID-19.

While Québec and Ontario are experiencing a second wave of COVID-19, Desjardins continues to promote remote service delivery and recommends virtual meetings with members and clients. Where this is not possible, Desjardins has implemented hygiene rules and physical distancing while following the guidelines for wearing a face mask in enclosed public spaces. Members and clients continue to have access to Desjardins ATMs, telephone services as well as its *AccèsD* Internet, telephone and mobile services. In addition to workplace hygiene and protection rules, Desjardins has introduced maintenance, cleaning and disinfection measures as well as certain access restrictions to limit movement at its corporate sites.

As at September 30, more than 39,000 employees were still working from home. Those who continue to travel physically to the workplace are those who work in service outlets, but also those for whom their function, nature of the tasks, equipment used or business continuity requirements do not permit remote work. Desjardins also authorizes the one-time return of employees to corporate sites for specific reasons and upon approval by the manager. A rigorous procedure and preventive measures make it possible to manage the number of people on the sites and ensure a safe work environment. It should be noted that information security rules in a telework context are the same as when employees are physically in the workplace and that they remain subject to the various codes of conduct and ethics.

To contribute to the reopening of the Québec and Ontario economies, Desjardins has put forward a number of initiatives to encourage innovation and entrepreneurship and thereby help out businesses and community organizations. These initiatives include, in particular, the creation of the $150 million GoodSpark Fund and the $10 million Momentum Fund, as well as a partnership with Google and Bonjour Startup Montréal to hold an innovation competition.

- GoodSpark Fund

  The GoodSpark Fund will use its $150 million budget for initiatives extending into 2024, in particular to stimulate regional, social and economic activity in order to back projects that support community priorities, such as education, the environment, employment and entrepreneurship.

- Momentum Fund

  The Momentum Fund's aim is to help local businesses accelerate growth and create quality jobs—two key drivers in regional economic development. Over the next two years, its $10 million budget will provide funding equal to 25% of project costs, up to a maximum of $10,000. Businesses can apply under a wide range of categories, including digital transformation, ergonomics and social distancing, psychological support, business model transformation, innovation, business succession, international market development, and investment in talent and energy-efficient equipment.

- The < Post > COVID Challenge

  Close to 400 contestants have submitted projects under the < Post > COVID Challenge, a virtual competition extended over four weeks and whose mission is to find innovative solutions to societal issues resulting from COVID-19 in Québec. Organized by Bonjour Startup Montréal, Desjardins (through *Coopérathon*) and Google Canada, in cooperation with a number of other stakeholders in the startup ecosystem, the < Post > COVID Challenge has selected three promising challenges, submitted by individuals and startups. These winning projects will continue to be developed with support from experienced entrepreneurs and experts from multiple domains. As a prerequisite, each project must address a real need in a sector that has been particularly affected by the crisis, i.e. health care, education or employment. A winning project has been selected for each sector.

Impact of the pandemic

As mentioned in the "Economic environment and outlook" section of this MD&A, the spread of the COVID-19 has had a disruptive impact on the countries and Canadian provinces where Desjardins Group operates, and on the global economy in general, while triggering higher volatility and a decline on financial markets. Should the COVID-19 pandemic be prolonged or should subsequent waves of the pandemic occur, or should other diseases appear with similar effects, the adverse impact on the global economy could be exacerbated and lead to even sharper declines on capital markets. Desjardins Group's operations largely consist of granting loans or providing financial services and insurance products to governments, public and parapublic institutions, individuals and medium-sized businesses and large corporations. The impact of the COVID-19 pandemic on such borrowers and clients could have a significant negative impact on Desjardins Group's financial results, operations, financial position or liquidities. The COVID-19 pandemic could also lead to disruptions among Desjardins Group's main suppliers of goods and services and result in the increased unavailability of personnel, which would have an adverse impact on the quality and continuity of customer services and on Desjardins Group's reputation. Consequently, the impact of the COVID-19 pandemic could have a negative effect on Desjardins Group's operations, operating results, profitability, reputation and financial position for an undetermined, considerable period of time. Desjardins Group is continuing to monitor developments in the COVID-19 pandemic and the potential detrimental effects on its operations. The pandemic's repercussions on the economy, markets and our activities and financial position depend on highly uncertain future developments that are difficult to foresee given the uncertainty about the magnitude, gravity and duration of the pandemic, the size of the current second wave in Québec and the rest of Canada, as well as the possibility of subsequent waves that could prolong the closure of certain sectors of the economy, or result in additional closures or a tightening of confinement measures by government authorities.

The COVID-19 pandemic has led to, or could lead to, an increase in some of the risks described in the "Risk management" section on pages 59 to 95 of the 2019 annual MD&A, including credit, market and liquidity risks, insurance risk and operational risk. We could also be faced with an increased risk of litigation with our members and clients, and of regulatory and government supervision because of the effects of the COVID-19 pandemic on market and economic conditions, and the measures taken by government authorities to counter them. The COVID-19 pandemic and its associated risks are the main situation being monitored by Desjardins Group. Desjardins is closely following developments in these risks to ensure the sustainability of its operations in a crisis situation. For details about the impact of the pandemic on risks, see the "Risk management" section of this MD&A.

On March 2, 2020, Desjardins Group released its financial objectives and outlook for 2020 in its annual MD&A for the year ended December 31, 2019, which did not take into account the potential impact of the disruptions related to the COVID-19 pandemic. Given the risk and uncertainty created by COVID-19 for the local, national and global economy, as well as for its members and clients and its operations, Desjardins Group withdrew its financial objectives and outlook for 2020 published in section 1.4 "Strategic orientations and financial objectives" in its 2019 annual MD&A.

The impact of the COVID-19 pandemic on Desjardins Group's financial results for the first nine months of 2020 is reflected particularly in the $442 million increase in the provision for credit losses mainly as a result of the significant deterioration in the economic outlook and the increase of $49 million in costs related to travel insurance following the Canadian government's announcement of travel restrictions. Refunds of $155 million on auto insurance premiums granted to members and clients in the second quarter as a relief measure to support them during this pandemic period were offset by lower auto insurance claims for the current year as a result of changes in driving habits attributable to the COVID-19 pandemic.

Acquisition of DuProprio and Purplebricks Canada

On July 15, 2020, Desjardins Group reached an agreement with Purplebricks Group plc (Purplebricks), the leading UK hybrid real estate agency, through which Purplebricks sold it its Canadian holding company, 9059-2114 Québec inc. The Canadian holding company and its subsidiaries mainly operate two brands, DuProprio and Purplebricks Canada, each with a unique business model. The acquired companies have more than 500 employees, with over 300 in Québec and some 200 across Ontario, Manitoba and Alberta. The deal, valued at about $61 million, took effect on July 15, 2020.

Changes to merchant financing activities

As announced on October 31, 2019, Desjardins Group has been gradually phasing out in-store Accord D financing since May 1, 2020. These activities were presented in the Personal and Business Services segment.

Purchase of a home mortgage portfolio

On February 1, 2020, Desjardins Group, through the Federation, acquired a portfolio of quality home mortgages from La Capitale, for a total consideration of $474 million. This acquisition consolidated Desjardins Group's leadership position in Québec's residential mortgage market.

NON-GAAP MEASURES

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

Average assets – Average loans and acceptances – Average deposits – Average equity

The average balances for these items are used to measure growth. They are equal to averages of the amounts presented in the Combined Financial Statements at the end of the quarters calculated starting from the quarter prior to the period concerned.

Productivity index

The productivity index is used to measure efficiency and is equal to the ratio of non-interest expense to total income, net of expenses related to claims, benefits, annuities and changes in insurance contract liabilities, expressed as a percentage. A lower ratio indicates greater productivity.

The following table presents the calculation of the productivity index as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Non-interest expense	**$ 1,985**	$ 2,010	$ 1,849	**$ 5,987**	$ 5,821
Total income	**4,813**	6,616	4,986	**16,130**	15,932
Claims, benefits, annuities and changes in insurance contract liabilities	**(1,753)**	(3,615)	(2,258)	**(7,451)**	(7,737)
Total income excluding claims	**$ 3,060**	$ 3,001	$ 2,728	**$ 8,679**	$ 8,195
Productivity index	**64.9%**	67.0%	67.8%	**69.0%**	71.0%

Net interest margin

Net interest margin is used to measure profitability. It is equal to net interest income expressed as a percentage of average interest-bearing assets.

Gross credit-impaired loans/gross loans and acceptances

The gross credit-impaired loans/gross loans and acceptances ratio is used to measure loan portfolio quality and is equal to gross credit-impaired loans expressed as a percentage of total gross loans and acceptances.

The "Gross credit-impaired loans by borrower category" table of the MD&A provides more detailed information on this ratio.

Loss ratio – Expense ratio – Combined ratio

These ratios are used to measure the performance of the Property and Casualty Insurance segment.

The loss ratio is equal to incurred claims less reinsurance, expressed as a percentage of net premiums earned, excluding the market yield adjustment. Market yield adjustment is defined as the impact of changes in the discount rate on the provisions for claims and adjustment expenses based on the change in the market-based yield of the underlying assets for these provisions.

The loss ratio is comprised of the following ratios:

- Current year loss ratio, which is the loss ratio excluding catastrophe and major event claims expenses for the current year as well as changes in prior year claims, net of related reinsurance, not including reinstatement premiums, as applicable.
- Loss ratio related to catastrophes and major events, which is the loss ratio including catastrophe and major event claims expenses for the current year, net of reinsurance and including the impact of reinstatement premiums, as applicable.
- Ratio of changes in prior year claims, which is the loss ratio including the effect of changes in prior year claims, net of related reinsurance, not including reinstatement premiums, as applicable.

The expense ratio is equal to operating expenses expressed as a percentage of net premiums earned.

The combined ratio is equal to the sum of the loss ratio and the expense ratio.

The following table presents the calculation of the loss ratio, the expense ratio and the combined ratio, as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Net premiums	**$ 1,436**	$ 1,215	$ 1,279	**$ 4,028**	$ 3,685
Net premiums considered in the ratio denominators	**$ 1,436**	$ 1,215	$ 1,279	**$ 4,028**	$ 3,685
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 880**	$ 1,026	$ 925	**$ 2,948**	$ 2,831
Market yield adjustment (MYA)	**(14)**	(119)	(1)	**(255)**	(111)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 866**	$ 907	$ 924	**$ 2,693**	$ 2,720
Loss ratio	**60.3%**	74.7%	72.2%	**66.9%**	73.8%
Non-interest expense	**$ 362**	$ 323	$ 299	**$ 1,015**	$ 909
Other expenses excluded from the expense ratio[1]	**(39)**	(8)	(1)	**(50)**	6
Operating expenses	**$ 323**	$ 315	$ 298	**$ 965**	$ 915
Expense ratio	**22.5%**	25.9%	23.3%	**24.0%**	24.8%
Combined ratio	**82.8%**	100.6%	95.5%	**90.9%**	98.6%

(1) Comes mainly from investment management expenses as well as certain other expenses.

Return on equity

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

The following table presents the reconciliation of return on equity with surplus earnings before member dividends as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Surplus earnings before member dividends	**$ 729**	$ 529	$ 570	**$ 1,543**	$ 1,663
Non-controlling interests' share	**(21)**	(7)	(11)	**(41)**	(26)
Group's share	**$ 708**	$ 522	$ 559	**$ 1,502**	$ 1,637
Average equity before non-controlling interests' share	**$ 28,399**	$ 28,177	$ 26,000	**$ 27,931**	$ 25,570
Return on equity[1]	**9.9%**	7.5%	8.5%	**7.2%**	8.6%

(1) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

Income

Operating income

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

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

Investment income

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

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

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Presentation of income in the Combined Financial Statements					
Net interest income	**$ 1,450**	$ 1,353	$ 1,372	**$ 4,156**	$ 3,935
Net premiums	**2,534**	2,238	2,326	**7,294**	6,885
Other income					
Deposit and payment service charges	**96**	83	116	**284**	322
Lending fees and credit card service revenues	**126**	141	193	**463**	589
Brokerage and investment fund services	**235**	235	223	**711**	660
Management and custodial service fees	**152**	147	146	**449**	427
Net investment income[1]	**316**	2,639	605	**2,499**	3,169
Overlay approach adjustment for insurance operations financial assets	**(143)**	(299)	(13)	**70**	(170)
Foreign exchange income	**22**	14	11	**82**	52
Other	**25**	65	7	**122**	63
Total income	**$ 4,813**	$ 6,616	$ 4,986	**$ 16,130**	$ 15,932
Presentation of income in the MD&A					
Net interest income	**$ 1,450**	$ 1,353	$ 1,372	**$ 4,156**	$ 3,935
Net premiums	**2,534**	2,238	2,326	**7,294**	6,885
Other operating income					
Deposit and payment service charges	**96**	83	116	**284**	322
Lending fees and credit card service revenues	**126**	141	193	**463**	589
Brokerage and investment fund services	**235**	235	223	**711**	660
Management and custodial service fees	**152**	147	146	**449**	427
Foreign exchange income	**22**	14	11	**82**	52
Other	**25**	65	7	**122**	63
Operating income	**4,640**	4,276	4,394	**13,561**	12,933
Investment income					
Net investment income[1]	**316**	2,639	605	**2,499**	3,169
Overlay approach adjustment for insurance operations financial assets	**(143)**	(299)	(13)	**70**	(170)
Investment income	**173**	2,340	592	**2,569**	2,999
Total income	**$ 4,813**	$ 6,616	$ 4,986	**$ 16,130**	$ 15,932

[1] The breakdown of this line item is presented in Note 11, "Net interest income and net investment income", to the Interim Combined Financial Statements.

Credit loss provisioning rate

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Provision for credit losses	**$ 99**	$ 271	$ 154	**$ 694**	$ 252
Average gross loans	**209,494**	207,566	198,913	**207,469**	195,444
Average gross acceptances	**104**	145	188	**168**	170
Average gross loans and acceptances	**$ 209,598**	$ 207,711	$ 199,101	**$ 207,637**	$ 195,614
Credit loss provisioning rate[1]	**0.19%**	0.52%	0.31%	**0.45%**	0.17%

[1] Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial cooperative in Canada, with assets of $359.9 billion. The organization included 218 caisses in Québec and Ontario as at September 30, 2020, the Caisse Desjardins Ontario Credit Union Inc., the *Fédération des caisses Desjardins du Québec* and its subsidiaries, and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association. The Caisse Desjardins Ontario Credit Union Inc. is the product of a merger between the *Fédération des caisses populaires de l'Ontario Inc.* and its 11 member caisses populaires. The merger took effect on January 1, 2020.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of nearly 48,800 employees and the commitment of over 2,600 directors.

The Federation is, among other things, the treasurer and official representative of Desjardins Group with the Bank of Canada and the Canadian banking system.

CHANGES IN THE REGULATORY ENVIRONMENT

Desjardins Group closely monitors regulations for financial products and services, as well as new developments in fraud, corruption, tax evasion, protection of personal information, money laundering, terrorist financing and domestic and international economic sanctions in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information can be found in the "Regulatory environment" section of the 2019 annual MD&A, and the "Capital management" section presents further information on regulatory developments relating to capital.

Rules concerning capital instruments

Desjardins Group, under the AMF's Guideline on adequacy of capital base standards for financial services cooperatives, is subject to rules applicable to Non-Viability Contingent Capital (NVCC) instruments in its regulatory capital. These rules are similar to the ones set out by the OSFI applicable to Canadian financial institutions. The Federation is able to issue NVCC instruments on Canadian, U.S. and European markets.

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA)

The final version of the amendments to the PCMLTFA and its regulations, tabled in June 2018, was published by the Department of Finance Canada on July 10, 2019. Some of the amendments took effect upon official publication, certain others in June 2020 and the rest will take effect in June 2021. In February 2020, the Department of Finance Canada published new proposed regulatory changes, which were commented by Desjardins. The final publication of these recent regulatory changes on June 10, 2020 had to do in particular with ongoing monitoring of business relationships. Desjardins Group is continuing to analyze the various regulatory changes and will make the required adjustments, particularly the changes to be made to the systems for electronic funds transfers and large cash transaction reports.

The *Income Tax Act* (ITA) – Part XVIII (FATCA – Foreign Account Tax Compliance Act) and Part XIX (CRS – Common Reporting Standard)

On April 20, 2020, the Canada Revenue Agency (CRA) published amendments to Parts XVIII (FATCA) and XIX (CRS) of the ITA. The amendments, which will take effect on January 1, 2021, provide clarification on the requirements regarding reasonable measures to be taken and the penalties applicable for non-compliance. Desjardins Group is continuing to analyze the various regulatory changes and will make the required adjustments. The work sessions are continuing with the Canadian Life and Health Insurance Association, the Investment Industry Association of Canada, the Canadian Bankers Association, the Investment Funds Institute of Canada and the CRA.

U.S. financial reform bills

U.S. reform initiatives pertaining to financial regulation could affect non-U.S. financial institutions operating in the United States, including Desjardins Group. The deregulation bill of U.S. Congress and the American regulators has been set in motion, in particular with the enactment of a statute providing some relief concerning certain rules prescribed by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and continued with the finalizing of a second draft regulation aimed at simplifying the Volcker rule, whose original purpose was to prohibit banking entities from engaging in proprietary trading and to limit their investing in or sponsoring hedge funds and private equity funds. The final changes to the restrictions on the Volcker rule dated June 25, 2020 concerning investing in and sponsoring hedge funds and private equity funds took effect on October 1, 2020. These changes round out the other revisions to the Volcker rule that took effect on January 1, 2020. The final changes to the restrictions on the control framework pursuant to the *Bank Holding Company Act* took effect on September 30, 2020.

Data confidentiality and security

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. In May 2019, the Government of Canada issued its Digital Charter, which provides 10 principles to guide the government's action in terms of information technology, big data and artificial intelligence. On June 16, 2020, the *Québec Ministère de la Justice* tabled Bill 64, *An Act to Modernize Legislative Provisions Respecting the Protection of Personal Information*. As anticipated, Bill 64 follows the broad outline of the European Union's *General Data Protection Regulation*, particularly as it concerns transparency, the duty to inform, consent, the right to data portability and the right to be forgotten. Public consultations were held at the end of September. Desjardins Group is currently analyzing the bill to determine its impact on its operations. At the same time, the federal government is also preparing to overhaul its regulations to protect personal information in the private sector.

Pillar 3 financial disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These requirements related to the third pillar aim to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group has issued a Pillar 3 Report since December 31, 2018 in order to comply with it. In October 2019, as part of a public consultation by the AMF, Pillar 3 financial disclosure requirements were removed from the *Capital Adequacy Guideline* and included in a separate document entitled *Pillar 3 Disclosure Requirements Guideline*. This document took effect on January 1, 2020 and features new requirements that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. It was anticipated that these requirements would be phased in until January 1, 2022. However, during the first two quarters of 2020, the AMF announced relief measures intended to minimize the impact of COVID-19 on Québec's financial system. These measures included, in particular, postponing the effective date of the disclosures to first quarter 2023 and the adjustment of certain existing requirements in order to include additional information on regulatory capital. Desjardins Group is continuing to work toward compliance with these new requirements.

Report on Ontario's auto insurance system

Following the Ontario government's economic update concerning, among other things, property insurance and general insurance, the current automobile insurance plan will undergo another review. In the update, the government showed that it wanted to make automobile insurance more affordable for Ontario drivers. Although a first wave of changes was expected to roll out during the year, in the wake of the COVID-19 pandemic, the Ontario government is reviewing its priorities for the remainder of 2020 and it is possible that certain files may be delayed, including the review of the auto insurance system. Once this file is back on the Ontario government's agenda, the Financial Services Regulatory Authority of Ontario (FSRA), the regulator that has overseen the province's financial regime since June 2019, will in particular study how insurance rates are regulated. The FSRA aims to be a modern and innovative regulator capable of responding to the dynamic pace of change in the marketplace, the industry and consumer expectations. The Canadian insurance industry, which includes Desjardins Group, is actively working with the current government to ensure a smooth transition to the FSRA until the new reform of Ontario's automobile insurance system is in place.

Amalgamation of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association (MFDA)

On June 25, 2020, the Canadian Securities Administrators (CSA) launched a consultation on the regulatory framework for the operations of self-regulatory organizations (SROs). The CSA is seeking input on whether the current SRO framework best serves the interests of Canadian investors and the investment industry, in light of the evolution of the financial services industry. Desjardins Group continues to monitor developments in this file and to analyze the potential impact on its operations.

Client focused reforms

In October 2019, the CSA adopted new obligations for brokerage firms and investment dealers, called the Client Focused Reforms. The new obligations have to do in particular with "know your client" and "know your product", the suitability of recommendations and dealing with conflicts of interest. The CSA also developed a new fundamental requirement for registrants, namely that clients' interests come first in terms of suitability of investments. Desjardins Group is continuing its analysis to determine the impact on its operations and to comply within the time limit provided. The Client Focused Reforms have been in effect since December 31, 2019 and their application is expected to extend over a period of two years. On April 16, 2020, the CSA published temporary relief orders, essentially harmonized, concerning certain regulatory deposit obligations. Due to the pandemic, many registrants are not able to implement the reforms since they are delaying redeployment of their staff to ensure key business functions continue to operate.

Guideline on Information and Communications Technology Risk Management

In February 2020, the AMF published the final version of the Guideline on Information and Communications Technology Risk Management (GICT), applying, in particular, to insurers and financial services cooperatives. The financial institutions targeted by the guideline are to comply with its expectations by February 2021. An analysis of the GICT's impact on Desjardins Group's operations was completed in July 2020. Work to assess the implementation of this guideline and to identify action plans is underway.

ECONOMIC ENVIRONMENT AND OUTLOOK

Global economy

The global economy was showing signs of improving at the start of the year, due in part to reduced trade tensions between China and the United States. However, this changed with the outbreak of COVID-19 in China. For the global economy the initial consequences were falling Chinese demand and supply problems. However, as the coronavirus spread to many other countries and became a full-blown pandemic, economic development around the world faced even greater problems. The decline in tourism, the temporary closure of several services and the required health and lockdown measures either suggested or imposed by the public authorities of many countries led to major declines in real GDP in the first and second quarters, confirming a global recession. In the second quarter, real GDP in the G20 fell 6.9% (24.9% at an annualized rate), the worst decline since data have been compiled. However, as early as May several economic indicators had turned around, beginning to improve at a brisk pace and in direct response to the easing of the main lockdown measures implemented by many countries. The recovery continued in the third quarter and real GDP growth in most countries was very strong. China's GDP even exceeded its pre-pandemic level. However, the arrival of a second wave of COVID-19 changed the picture in the fall. Several countries, particularly in Europe, implemented new health measures that will affect economic activity in the fourth quarter.

The quick rally in the stock markets continued through the summer, with the S&P 500 Index surpassing its pre-pandemic peak in August. September proved more difficult, however, as a rebound in COVID-19 cases in several countries raised more concerns and prompted many investors to realize some of their gains in the stock market run-up since April. The inability of U.S. politicians to agree on a new economic support plan and the approaching presidential elections have also helped bring renewed volatility to the markets. The financial markets nevertheless performed very well, overall, in the third quarter. The U.S. Federal Reserve (the Fed) and the Bank of Canada (the BoC) have committed to keeping their key interest rates as low as possible until the economy can fully recover, and they have continued to buy bonds on a massive scale. Bond rates have therefore remained very low, and corporate credit spreads have narrowed slightly more since the end of June.

In an environment where inflation and economic activity are expected to recover very gradually and where health risks are likely to persist, the Fed and the BoC are committed to keep using all the tools at their disposal to support the economic recovery and the smooth functioning of financial markets. Key interest rates should therefore remain stable in North America for several years, and this will help keep bond rates very low. Abundant liquidity and low interest rates may continue to underpin value for all financial assets.

United States

The U.S. economy was growing quite strongly at the start of 2020. However, the halt in activities imposed under the health measures and the lockdown led to a quarterly contraction in real GDP in the spring that was the worst ever recorded in the national accounts. More than three-quarters of the decline stemmed from an implosion in real consumption, especially in services. The meltdown was mainly a reflection of what occurred in March and April. Since May, most economic indicators have been improving. For example, more than 12 million jobs have been created since May, compared to a total of 22,160,000 jobs lost in March and April. Real GDP grew at a strong annualized rate of more than 30% in the third quarter. Home sales recently were more brisk than at any time since 2006. Growth should be strong in 2021. This improvement is supported, among other things, by a first federal government's assistance plan and the measures taken by the Fed.

Canada

As expected, Canada’s lockdown in March and April resulted in a historic drop in economic activity. Among other things, this led to an 11.5% decline in real GDP (38.7% on an annualized basis) in the second quarter. All eyes are now on the gradual reopening of the economy that began in May and the recovery in the Canadian economy. Despite having been very costly to public finances, the federal government’s support measures have made a considerable difference. As a result, the financial position of households has generally held up fairly well, in spite of the turbulence associated with COVID-19. In addition, increases in government transfers to individuals, in particular through the Canadian Emergency Response Benefit (CERB) and the Canada Emergency Student Benefit (CESB), more than offset the decline in employee compensation that resulted from the many job losses and from reduced hours of work. As a result, not only did household disposable income not decline as expected, it posted a 10.8% gain, the indicator’s largest ever quarterly increase. Taking into account the 13.7% drop in consumer spending, the household savings rate therefore rose sharply in the second quarter, from 7.6% to 28.2%, which is an all-time high. With the significant rebound in economic activity during the summer, real GDP could grow by close to 10% (or almost 45% on an annualized basis) in the third quarter. However, the Canadian economy will enter a more modest growth phase in the fall when the persisting effects of the COVID-19 pandemic will become more noticeable. Many restrictive measures are still in force, and several sectors will continue to face headwinds over the next few quarters. A second wave of the pandemic in the fall is also expected to slow economic growth in some regions and sectors. Contrary to the situation last spring, however, the negative impacts of the second wave will be less widespread. Ultimately, real GDP for 2020 as a whole could decline by 5.8%, followed by a 4.5% rebound in 2021.

Québec

Real GDP fell 12.2% (or 40.4% on an annualized basis) in the second quarter of 2020, representing the largest quarterly decline since statistics began being collected in 1981. Beginning in May, the Québec economy recovered quickly as the businesses that were closed during the lockdown gradually reopened. Real GDP is thus expected to rebound strongly in the third quarter, but the fourth quarter will be weakened by the closure of some businesses in the Maximum Alert regions. The measures taken to slow the second wave will delay the full recovery of the economy. However, some indicators are almost back to pre-pandemic levels and others have already fully recovered, in particular retail sales and sales of residential properties. Real GDP and employment are not expected to completely recover for several more quarters since a slight deterioration in the figures is likely this fall. Thereafter the economy will gradually improve, as some sectors will continue to be severely affected by social distancing measures.

REVIEW OF FINANCIAL RESULTS

IMPACT OF SIGNIFICANT TRANSACTION

Changes related to merchant payment and financing activities in 2019

On December 31, 2019, Desjardins Group, through the Federation, completed the sale to Global Payments of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand, and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. Thus, as announced on October 31, 2019, Desjardins Group has been gradually phasing out in-store Accord D financing since May 1, 2020. These activities were presented in the Personal and Business Services segment.

ANALYSIS OF RESULTS

Financial results and indicators

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019[1]	**September 30, 2020**	September 30, 2019[1]
Results					
Net interest income	**$ 1,450**	$ 1,353	$ 1,372	**$ 4,156**	$ 3,935
Net premiums	**2,534**	2,238	2,326	**7,294**	6,885
Other operating income[2]					
Deposit and payment service charges	**96**	83	116	**284**	322
Lending fees and credit card service revenues	**126**	141	193	**463**	589
Brokerage and investment fund services	**235**	235	223	**711**	660
Management and custodial service fees	**152**	147	146	**449**	427
Foreign exchange income	**22**	14	11	**82**	52
Other	**25**	65	7	**122**	63
Operating income[2]	**4,640**	4,276	4,394	**13,561**	12,933
Investment income[2]					
Net investment income	**316**	2,639	605	**2,499**	3,169
Overlay approach adjustment for insurance operations financial assets	**(143)**	(299)	(13)	**70**	(170)
Investment income[2]	**173**	2,340	592	**2,569**	2,999
Total income	**4,813**	6,616	4,986	**16,130**	15,932
Provision for credit losses	**99**	271	154	**694**	252
Claims, benefits, annuities and changes in insurance contract liabilities	**1,753**	3,615	2,258	**7,451**	7,737
Non-interest expense	**1,985**	2,010	1,849	**5,987**	5,821
Income taxes on surplus earnings	**247**	191	155	**455**	459
Surplus earnings before member dividends	**$ 729**	$ 529	$ 570	**$ 1,543**	$ 1,663
Contribution to combined surplus earnings by business segment[3]					
Personal and Business Services	**$ 468**	$ 337	$ 421	**$ 1,018**	$ 1,227
Wealth Management and Life and Health Insurance	**140**	261	100	**360**	412
Property and Casualty Insurance	**155**	16	34	**244**	76
Other	**(34)**	(85)	15	**(79)**	(52)
	$ 729	$ 529	$ 570	**$ 1,543**	$ 1,663
Return to members and the community					
Member dividends	**$ 80**	$ 80	$ 80	**$ 237**	$ 237
Sponsorships, donations and bursaries	**14**	14	17	**44**	55
Desjardins Member Advantages program	**10**	12	9	**33**	31
	$ 104	$ 106	$ 106	**$ 314**	$ 323
Indicators					
Net interest margin[2]	**2.39%**	2.35%	2.52%	**2.30%**	2.44%
Return on equity[2]	**9.9**	7.5	8.5	**7.2**	8.6
Productivity index[2]	**64.9**	67.0	67.8	**69.0**	71.0
Credit loss provisioning rate[2]	**0.19**	0.52	0.31	**0.45**	0.17

[1] The data have been reclassified to conform to the current period's presentation.
[2] See “Non-GAAP measures”.
[3] The breakdown by line item is presented in Note 12, “Segmented information”, to the Interim Combined Financial Statements.

COMPARISON OF THE THIRD QUARTERS OF 2020 AND 2019

Surplus earnings

For the third quarter ended September 30, 2020, Desjardins Group posted surplus earnings before member dividends of $729 million, a $159 million, or 27.9%, increase compared to the corresponding quarter of 2019. The results for the quarter are due to the solid performance of the caisse network, Desjardins Securities Inc. and the Property and Casualty Insurance segment. The increase in surplus earnings is also the result of the lower provision for credit losses because of the migration of exposures to higher risk ratings in the third quarter of 2019. This increase was partially offset by lower business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the third quarter of 2020 by keeping the provision for member dividends at a comparable level to 2019.

- A total of $104 million was returned to members and the community, compared to $106 million for the corresponding period in 2019.
  - The provision for member dividends totalled $80 million for the quarter ended September 30, 2020, the same amount as in the third quarter of 2019.
  - An amount of $14 million was returned in the form of sponsorships, donations and bursaries, compared to $17 million for the same period in 2019.
  - Through the Desjardins Member Advantages program, $10 million was paid out, compared to $9 million in the third quarter of 2019.
- Commitments of $7 million were made for the third quarter of 2020 with regard to the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions.

Business segment contributions to surplus earnings

- Personal and Business Services: **Contribution of $468 million,** up $47 million, or 11.2% compared to the same period in 2019.
  - Decrease in the provision for credit losses because of the migration of exposures to higher risk ratings in the third quarter of 2019.
  - Solid performance from the caisse network and Desjardins Securities Inc.

  This increase was partially offset by:
  - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.
  - Decrease in income from deposit and payment service charges on account of the relief measures granted to members.
- Wealth Management and Life and Health Insurance: **Contribution of $140 million,** an increase of $40 million, or 40.0%, compared to the corresponding quarter in 2019.
  - The markets' positive impact on guaranteed investment funds.
  - Revision of the travel insurance provisions taken in first quarter 2020 in relation to the COVID-19 pandemic based on the current and expected volume of claim applications.
- Property and Casualty Insurance: **Contribution of $155 million,** up $121 million compared to the third quarter of 2019.
  - Increase in net premiums.
  - Decrease in the cost of claims due to lower loss experience for the current year, essentially in auto insurance, in particular because of changes in driving habits attributable to the COVID-19 pandemic.

- **Return on equity was 9.9%,** up compared to 8.5% for the quarter ended September 30, 2019, mainly because of higher surplus earnings, as explained earlier.

Operating income

Operating income totalled $4,640 million, up $246 million, or 5.6%, compared to the third quarter of 2019.

Net interest income is the difference between interest income earned on assets, such as loans and securities, and the interest expense related to liabilities, such as deposits and subordinated notes. It is sensitive to interest rate fluctuations, funding and matching strategies, as well as to the composition of both interest-bearing and non-interest-bearing financial instruments.

- **Net interest income of $1,450 million,** up $78 million, or 5.7%, mainly because of growth in average loans outstanding, particularly residential mortgages, as well as higher interest income from the securities portfolio related to treasury activities. In addition, the lower average cost of funds, derived mainly from deposits, resulted in lower interest expense. This increase in net interest income was partially offset by a decrease in average consumer and credit card loans outstanding related to the decline in purchases as well as the prevention and relief measures and the lower interest rates on certain credit cards introduced to support members and clients during the COVID-19 pandemic.

- **Net interest margin of 2.39%** for the quarter ended September 30, 2020, as a percentage of average interest-bearing assets, down 13 basis points compared to the same period in 2019, mainly because of the significant increase in securities and liquidities as well as the lower interest rates.

Net premiums were up $208 million, or 8.9%, compared to the third quarter of 2019, to total $2,534 million as at September 30, 2020.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $1,167 million,** up $52 million, or 4.7%, essentially on account of higher group annuity premiums.

Property and Casualty Insurance segment

- **Net premiums of $1,436 million,** up $157 million, or 12.3%, due to the following:
  - Growth in average premiums.
  - End of the cession of premiums for new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm).

Other operating income stood at $656 million, down $40 million, or 5.7%, compared to the third quarter of 2019, due to the following:
- Decrease in income following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
- Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.
- Decrease in income from deposit and payment service charges on account of the relief measures granted to members.
- Offset by the smaller increase than in third quarter 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.

Investment income

Investment income totalled $173 million, a decrease of $419 million compared to the third quarter of 2019, essentially due to the following:
- Decrease primarily due to fluctuations in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to interest rate variations combined with credit spreads, partly as a result of the COVID-19 pandemic.
  - Decrease largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Unfavorable change in the fair value of derivative financial instruments due in particular to financial market volatility.

This decrease was partially offset by the following:
- Higher trading income as a result of the increased rate of activity related to financial market volatility.
- Higher gains on the disposal of securities compared to 2019.

Total income

Total income amounted to $4,813 million, a decrease of $173 million, or 3.5%, compared to the same period in 2019.

Provision for credit losses

The provision for credit losses totalled $99 million, a decrease of $55 million compared to the same period in 2019, mainly due to the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in third quarter 2019.

Desjardins Group continued to present a quality loan portfolio in 2020.
- The credit loss provisioning rate was 0.19% for the third quarter of 2020, compared to 0.31% for the corresponding period of 2019. The migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in third quarter 2019 explains the decrease in this indicator in the third quarter of 2020.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.64%, compared to 0.60% as at September 30, 2019.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $1,753 million, down $505 million, or 22.4%, compared to the corresponding quarter of 2019.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $885 million,** down $446 million, or 33.5%, basically due to the following:
  - Decrease of $458 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments.
  - Offset by the increase in provisions for dividends and experience refunds essentially as a result of the decrease in group insurance claim applications related to the COVID-19 pandemic.

Property and Casualty Insurance segment

- **Cost of claims of $880 million,** down $45 million, or 4.9%, due to the following:
  - Loss ratio of 60.3% compared to 72.2% for the corresponding period in 2019.
    - Lower current year loss ratio compared to third quarter 2019, namely 64.8% vs. 78.6%, due to lower loss experience in auto insurance particularly on account of changes in driving habits related to the COVID-19 pandemic.

    The drop in the ratio was partially offset by:
    - Higher loss ratio related to catastrophes and major events than in the comparative quarter of 2019, namely 1.3% vs. 0.2%. The third quarter of 2020 was marked by one major event, a hailstorm in Alberta, while in the corresponding quarter of 2019, one major event of smaller scope was noted.
    - Less favourable ratio of changes in prior year claims compared to the corresponding quarter of 2019, i.e. (5.8)% vs. (6.6)%.

  This reduction in the cost of claims was partially offset by:
  - Business growth, which led to a higher cost of claims.
  - Increase due to the effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - More unfavourable impact of the decrease in the discount rates used to measure the provision for claims compared to third quarter 2019.

Non-interest expense and productivity index

- **Non-interest expense totalled $1,985 million,** up $136 million, or 7.4%, compared to the third quarter of 2019, essentially because of:
  - Higher salaries as a result of growth in operations and indexing.
  - The effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations and growth in business leading to higher expenses for the P&C insurance segment.
  - Increase in expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital shift and information security.

  This increase was partially offset by the following:
  - Lower expenses following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
  - Contraction in certain costs related to the COVID-19 pandemic situation.

- **Productivity index at 64.9% for the third quarter of 2020,** compared to 67.8% for the corresponding period in 2019.

Income taxes

- **Income taxes on surplus earnings before member dividends of $247 million,** up $92 million compared to the third quarter of 2019.
  - Effective tax rate of 25.3% for the quarter ended September 30, 2020, up compared to 21.4% for the corresponding period in 2019. The increase was mainly due to the lower tax recovery in the third quarter of 2020 related to the remuneration of F capital shares.

COMPARISON OF THE FIRST NINE MONTHS OF 2020 AND 2019

Surplus earnings

For the first nine months ended September 30, 2020, Desjardins Group posted surplus earnings before member dividends of $1,543 million, a $120 million, or 7.2%, decrease compared to the same period in 2019. The financial impact of the COVID-19 pandemic affected results. This impact included a $442 million increase in the provision for credit losses, mainly because of the significant deterioration in the economic outlook and the increase of $49 million in costs related to travel insurance. The solid performance of the caisse network, Desjardins Securities Inc. and the Property and Casualty Insurance segment mitigated the decrease in surplus earnings. The premium refunds of $155 million granted to more than 2.1 million auto insurance clients as a relief measure were offset by lower auto insurance claims for the current year as a result of changes in driving habits attributable to the COVID-19 pandemic.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the first nine months of 2020 by keeping the provision for member dividends at a comparable level to 2019, despite the financial impact of the pandemic on Desjardins Group's financial results.

- A total of $314 million was returned to members and the community, compared to $323 million for the corresponding period in 2019.
  - The provision for member dividends totalled $237 million for the nine months ended September 30, 2020, the same amount as in the first nine months of 2019.
  - An amount of $44 million was returned in the form of sponsorships, donations and bursaries, compared to $55 million in the first nine months of 2019.
  - Through the Desjardins Member Advantages program, $33 million was paid out, compared to $31 million in the corresponding period in 2019.
- Commitments of $22 million were made for the first nine months of 2020 with regard to the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions.

Business segment contributions to surplus earnings

- Personal and Business Services: **Contribution of $1,018 million,** down $209 million, or 17.0%, compared to the same period in 2019.
  - Increase in the provision for credit losses, mainly as a result of the significant deterioration in the economic outlook, as well as the higher probability of default due to the COVID-19 pandemic.
  - Lower business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.

  This decrease was partially offset by the following:
  - Solid performance from the caisse network, related especially to higher net interest income.
  - Higher trading income as a result of the increased rate of activity related to financial market volatility.
  - Growth in income from new capital market issues.
- Wealth Management and Life and Health Insurance: **Contribution of $360 million,** down $52 million, or 12.6%, mainly because of the following, partially due to the COVID-19 pandemic:
  - After the Canadian government's announcement of travel restrictions, increase in the current and expected volume of claim applications related to trip cancellations, leading to an increase of $49 million in costs related to travel insurance.
  - The markets' negative impact on guaranteed investment funds.
  - Offset by higher gains on the disposal of securities and real estate investments compared to 2019.
- Property and Casualty Insurance: **Contribution of $244 million,** up $168 million compared to the first nine months of 2019.
  - Increase in net premiums, mitigated by auto insurance premium refunds of $155 million granted to members and clients as a relief measure to support them during the pandemic.
  - Lower current year loss ratio compared to the corresponding period in 2019, mainly in auto insurance, in particular on account of changes in driving habits related to the COVID-19 pandemic.

  This increase was partially offset by the following:
  - Increase in non-interest expense due to business growth.
  - Lower investment income, excluding the change in fair value of matched bonds.

- **Return on equity was 7.2%,** compared to 8.6% for the nine-month period ended September 30, 2019, mainly because of lower surplus earnings, as explained earlier.

Operating income

Operating income totalled $13,561 million, up $628 million, or 4.9%, compared to the first nine months of 2019.

Net interest income is the difference between interest income earned on assets, such as loans and securities, and the interest expense related to liabilities, such as deposits and subordinated notes. It is sensitive to interest rate fluctuations, funding and matching strategies, as well as to the composition of both interest-bearing and non-interest-bearing financial instruments.

- **Net interest income of $4,156 million,** up $221 million, or 5.6%, mainly because of growth in average loans outstanding, particularly residential mortgages, and loans to medium-sized businesses and large corporations, as well as higher interest income from the securities portfolio related to treasury activities. In addition, the lower average cost of funds, derived mainly from deposits, resulted in lower interest expense. This increase in net interest income was partially offset by a decrease in average consumer and credit card loans outstanding related to the decline in purchases as well as prevention and relief measures and the lower interest rates on certain credit cards introduced to support members and clients during the pandemic.

- **Net interest margin of 2.30%** for the nine months ended September 30, 2020, as a percentage of average interest-bearing assets, down 14 basis points compared to the same period in 2019, mainly because of the significant increase in securities and liquidities as well as the lower interest rates.

Net premiums were up $409 million, or 5.9%, compared to the first nine months of 2019, to total $7,294 million as at September 30, 2020.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $3,471 million,** up $74 million, or 2.2%, mainly because of the following:
  - An increase of $62 million, mainly in group annuity premiums, $6 million in individual insurance premiums and $6 million in group insurance premiums.

Property and Casualty Insurance segment

- **Net premiums of $4,028 million,** up $343 million, or 9.3%, due to the following:
  - Growth in the average premium as a result of rate increases during the previous 12 months, reflecting the trend in the Canadian P&C insurance market.
  - End of the cession of premiums for new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Offset by the refunds of $155 million on auto insurance premiums granted to members and clients as a relief measure to support them during the pandemic.

Other operating income stood at $2,111 million, which is comparable to the first nine months of 2019, mainly due to the following:
- Smaller increase than in the first nine months of 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.
- Growth in income from assets under management.
- Growth in income from new capital market issues.
- Growth in income from securities brokerage activities.

This increase was partially offset by the following:
- Decrease in income following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
- Lower business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.
- Lower income from deposit and payment service charges on account of the relief measures granted to members.

Investment income

Investment income totalled $2,569 million, down $430 million, or 14.3%, compared to the first nine months of 2019, essentially because of the following:
- Decrease primarily due to fluctuations in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to interest rate variations combined with credit spreads, partly as a result of the COVID-19 pandemic.
  - Decrease partially offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Decrease in the fair value of derivative financial instruments due in particular to volatility on financial markets and in credit spreads in the first nine months of 2020 and related to the COVID-19 pandemic.

This decrease was partially offset by the following:
- Higher gains on the disposal of securities and real estate investments compared to 2019.
- Larger increase in the fair value of matched bonds in the Property and Casualty Insurance segment than in the comparative period of 2019, mainly on account of a larger decline in market interest rates in the first nine months of 2020 compared to the corresponding period of 2019. It should be remembered that this increase in the value of bonds was partially offset by an increase in the cost of claims because of a matching strategy.
- Higher trading income as a result of the increased rate of activity related to financial market volatility.

Total income

Total income amounted to $16,130 million, an increase of $198 million, or 1.2%, compared to the same period in 2019.

Provision for credit losses

The provision for credit losses totalled $694 million, an increase of $442 million compared to the first nine months of 2019, essentially due to the following:

- The significant deterioration in the economic outlook due to the COVID-19 pandemic with the higher unemployment rate and decline in GDP, as well as the higher probability of default, which led to an increase in the loss allowance for expected credit losses. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, “Loans and allowance for credit losses”, to the Interim Combined Financial Statements.
- Unfavourable migration of the risk ratings for certain borrowers in the business loan portfolio as a result of the COVID-19 pandemic.
- In the second quarter of 2019, a refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards and credit lines, had a positive impact.
- Offset by migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in third quarter 2019.

Desjardins Group has continued to present a quality loan portfolio in 2020.

- The credit loss provisioning rate was 0.45% for the first nine months of 2020, up from 0.17% for the corresponding period of 2019. The significant adjustment of the provision related to the pandemic, as explained earlier, was a major factor in the increase in this indicator.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.64% compared to 0.60% as at September 30, 2019.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $7,451 million, down $286 million, or 3.7%, compared to the corresponding period of 2019.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $4,516 million,** down $393 million, or 8.0%, basically due to the following:
  - Decrease of $472 million in actuarial liabilities under “Insurance contract liabilities”, which included the effect of the decrease in the fair value of matched investments.

  This decrease was partially offset by the following:
  - Increase in provisions for dividends and experience refunds essentially as a result of the decrease in group insurance claim applications related to the COVID-19 pandemic.
  - Increase in benefits essentially as a result of the larger number of travel insurance claim applications related to the COVID-19 pandemic, offset by the decrease in benefits for the majority of other coverages.

Property and Casualty Insurance segment

- **Cost of claims of $2,948 million,** up $117 million, or 4.1%, as a result of the following:
  - Growth in business, which led to a higher cost of claims.
  - More unfavourable impact of the decrease in the discount rates used to measure the provision for claims than in the comparative period of 2019. It should be mentioned that this increase in the cost of claims was partially offset by an increase in matched bonds.
  - Effect of the reinsurance treaty signed as part of the acquisition of State Farm’s Canadian operations.
  - Loss ratio of 66.9% for the nine months ended September 30, 2020, compared to 73.8% for the corresponding period in 2019: this lower ratio helped to mitigate the increase in the cost of claims:
    - Lower current year loss ratio compared to the corresponding period in 2019, namely 69.6% vs. 81.2%, due to lower loss experience in auto insurance related to the COVID-19 pandemic, as mentioned earlier.

    This decrease in the ratio was partially offset by the following:
    - Less favourable ratio of changes in prior year claims than in the first nine months of 2019, i.e. (5.7)% vs. (9.0)%.
    - Higher loss ratio related to catastrophes and major events than in the comparative period of 2019, namely 3.0% vs. 1.6%. The first nine months of 2020 were marked by one catastrophe, while in the corresponding period of 2019, nine major events of smaller scope were noted.

Non-interest expense and productivity index

- Non-interest expense totalled $5,987 million, up $166 million, or 2.9%, compared to the first nine months of 2019, mainly because of:
  - Increase in salaries as a result of growth in operations and indexing.
  - Business growth resulting in an increase in expenses and the effect of the reinsurance treaty signed as part of the acquisition of State Farm’s Canadian operations for the P&C Insurance segment.
  - Increase in expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital shift and information security.
  - Reduction in investment portfolio provisions in the first quarter of 2019.

  This increase was partially offset by the following:
  - Lower expenses following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
  - Contraction in certain costs related to the COVID-19 pandemic situation.
  - In the second quarter of 2019, $70 million in expenses were recognized related to costs incurred and the establishment of a provision for the implementation of Desjardins Identity Protection.

- **Productivity index at 69.0% for the first nine months of 2020,** compared to 71.0% for the corresponding period in 2019.

Income taxes

- **Income taxes on surplus earnings before member dividends of $455 million,** down $4 million compared to the corresponding period in 2019.
  - Effective tax rate of 22.8% for the first nine months of 2020, compared to 21.6% for the corresponding period in 2019.

RESULTS BY BUSINESS SEGMENT

Desjardins Group's financial reporting is organized by business segments, which are defined based on the needs of members and clients, the markets in which Desjardins operates, and on its internal management structure. Desjardins Group's financial results are divided into the following three business segments: Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance. In addition to these three segments, there is also the Other category. This section presents an analysis of results for each of these segments. During the first quarter of 2020, certain changes were made to the business segments to reflect management's decisions concerning the way each segment is managed, as mentioned in the section on each one.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed upon by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets.

Additional information about each business segment, particularly its profile, activities, industry and 2020 strategies and priorities, can be found on pages 30 to 42 of the 2019 annual MD&A.

Personal and Business Services

Personal and Business Services is central to Desjardins Group's operations. Through a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, Desjardins Group is a leader in financial services in Québec and a player on the financial services scene in Ontario as well.

Desjardins's offer includes everyday financial management, savings transactions, payment services, financing, specialized services, access to capital markets, development capital, business ownership transfers and advisory services, and through its distribution network, life and health insurance and property and casualty insurance products.

In addition, members and clients know that they can rely on the largest advisory force in Québec, made up of dedicated professionals who are there for them at every stage in their life or entrepreneurial growth.

To meet the constantly-changing needs of its members and clients, Desjardins Group offers its services through the caisse network, the Desjardins Business centres and the Signature Service centres, as well as through complementary distribution networks and specialized teams, by phone, online, via applications for mobile devices, and at ATMs.

The operations of Desjardins Securities Inc. and Desjardins Investment Management Inc., such as securities brokerage and private management activities, formerly reported in the Wealth Management and Life and Health Insurance segment, have been fully included in the Personal and Business Services segment since the first quarter of 2020, while the operations of Desjardins Trust Inc., such as custodial and trust services, formerly reported in the Personal and Business Services segment, have been fully included in the in the Wealth Management and Life and Health Insurance segment since the first quarter of 2020. Data for 2019 have been reclassified to conform to these changes.

On December 31, 2019, Desjardins Group, through the Federation, completed the sale to Global Payments of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. Thus, as announced on October 31, 2019, Desjardins Group has been gradually phasing out in-store Accord D financing since May 1, 2020.

Personal and Business Services – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019[1]	**September 30, 2020**	September 30, 2019[1]
Net interest income	**$ 1,254**	$ 1,195	$ 1,273	**$ 3,688**	$ 3,591
Other operating income[2]	**555**	543	609	**1,741**	1,844
Operating income[2]	**1,809**	1,738	1,882	**5,429**	5,435
Investment income (loss)[2]	**93**	133	(3)	**205**	57
Total income	**1,902**	1,871	1,879	**5,634**	5,492
Provision for credit losses	**90**	262	154	**671**	251
Non-interest expense	**1,173**	1,163	1,152	**3,595**	3,584
Income taxes on surplus earnings	**171**	109	152	**350**	430
Surplus earnings before member dividends	**468**	337	421	**1,018**	1,227
Member dividends, net of income tax recovery	**60**	59	60	**175**	175
Net surplus earnings for the period after member dividends	**$ 408**	$ 278	$ 361	**$ 843**	$ 1,052
Indicators					
Average gross loans and acceptances[2]	**$ 204,425**	$ 203,274	$ 193,714	**$ 202,651**	$ 190,340
Average deposits[2]	**185,646**	185,482	160,434	**175,541**	155,419
Credit loss provisioning rate[2]	**0.18%**	0.52%	0.32%	**0.44%**	0.18%
Gross credit-impaired loans/gross loans and acceptances[2]	**0.65**	0.64	0.61	**0.65**	0.61

[1] The data have been reclassified to conform to the current period's presentation.
[2] See "Non-GAAP measures".

COMPARISON OF THE THIRD QUARTERS OF 2020 AND 2019 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $468 million,** up $47 million, or 11.2%. This increase was essentially due to the following:
  - Decrease in the provision for credit losses due to the migration of exposures to higher risk ratings in third quarter 2019.
  - Solid performance of the caisse network and Desjardins Securities Inc.

  This increase was partially offset by:
  - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.
  - Decrease in income from deposit and payment service charges on account of the relief measures granted to members.

- **Operating income of $1,809 million,** down $73 million, or 3.9%.
  - Decrease of $19 million in net interest income mainly as a result of the drop in the average consumer and credit card loans outstanding related to the decline in purchases as well as prevention and relief measures and the lower interest rates on certain credit cards introduced to support members and clients during the COVID-19 pandemic. This decrease was partially offset by growth in the average residential mortgages outstanding.
  - Other operating income of $555 million, down $54 million, or 8.9%, mainly due to:
    - Decrease in income following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
    - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.
    - Decrease in income from deposit and payment service charges on account of the relief measures granted to members.

- **Investment income of $93 million,** up $96 million essentially because of:
  - Higher trading income as a result of the increased rate of activity related to financial market volatility.
  - Increase in activities related to derivative financial instruments.
  - Higher gains on the disposal of securities.

- **Total income of $1,902 million,** up $23 million, or 1.2%.

- **Provision for credit losses of $90 million,** down $64 million, compared to the same period in 2019, mainly due to the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in third quarter 2019.

- **Non-interest expense of $1,173 million,** up $21 million, or 1.8%, essentially due to:
  - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including activities related to *AccèsD* services, the online business centre and the shared services centre.

  This increase was partially offset by:
  - Lower expenses following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
  - Contraction of certain costs related to the COVID-19 pandemic situation.

COMPARISON OF THE FIRST NINE MONTHS OF 2020 AND 2019 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $1,018 million,** down $209 million, or 17.0%. This decrease was essentially due to:
  - Increase in the provision for credit losses arising mainly from the significant deterioration in the economic outlook and the higher probability of default as a result of the COVID-19 pandemic.
  - Lower business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.

  This decrease was partially offset by:
  - Solid performance of the caisse network related in particular to higher net interest income.
  - Higher trading income as a result of the increased rate of activity related to financial market volatility.
  - Growth in income from new capital market issues.

- **Operating income of $5,429 million,** down $6 million, or 0.1%.
  - Increase of $97 million in net interest income mainly due to growth in the average loans outstanding, including residential mortgages and loans to medium-sized businesses and large corporations. This increase was partially reduced by a drop in the average consumer and credit card loans outstanding related to the decline in purchases as well as prevention and relief measures and the lower interest rates on certain credit cards introduced to support members and clients during the COVID-19 pandemic.
  - Other operating income of $1,741 million, down $103 million, or 5.6%, mainly due to the following:
    - Decrease in income following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
    - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.
    - Decrease in income from deposit and payment service charges on account of the relief measures granted to members.

    This decrease was partially offset by:
    - Growth in income from new capital market issues.
    - Higher income from securities brokerage activities.

- **Investment income of $205 million,** up $148 million essentially due to:
  - Higher trading income as a result of the increased rate of activity related to financial market volatility.
  - Higher gains on the disposal of securities.
  - Increase in activities related to derivative financial instruments.

- **Total income of $5,634 million,** up $142 million, or 2.6%.

- **Provision for credit losses of $671 million,** up $420 million compared to the same period in 2019, essentially due to:
  - The significant deterioration in the economic outlook as a result of the COVID-19 pandemic, with the higher unemployment rate and decline in GDP, as well as the higher probability of default, led to a higher loss allowance for expected credit losses. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, “Loans and allowance for credit losses”, to the Interim Combined Financial Statements.
  - Unfavourable migration of the risk ratings for certain borrowers in the business loan portfolio as a result of the COVID-19 pandemic.
  - In the second quarter of 2019, a refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards and credit lines, had a positive impact.
  - Offset by migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in third quarter 2019.

- **Non-interest expense of $3,595 million,** up $11 million, or 0.3%, essentially due to:
  - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including activities related to *AccèsD* services, the online business centre and the shared services centre.

  This increase was partially offset by:
  - Lower expenses following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
  - Contraction of certain costs related to the COVID-19 pandemic situation.

Wealth Management and Life and Health Insurance

The Wealth Management and Life and Health Insurance segment combines different categories of service offers aimed at growing the assets of Desjardins Group members and clients and helping them protect their financial security. These offers are intended for individuals and businesses, while its group insurance and savings plans meet the needs of employees through their company, or individuals who are part of any other group.

The segment designs several lines of individual insurance (life and health) coverage as well as 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 wealth management services. The segment also includes asset management for institutional clients.

The greatest strengths of the Wealth Management and Life and Health Insurance segment include its vast and diversified Canada-wide distribution networks, which are mainly comprised of:

- Employees of the caisse network and Desjardins Business centres.
- Financial security advisers dedicated to caisse members.
- Investment advisers and private managers.
- Exclusive agents and independent partners.
- Actuarial consulting firms and group plan representatives.

To meet members’ and clients’ needs and preferences, certain product lines are also distributed directly via customer care centres, online or through applications for mobile devices. Online services are constantly being finetuned so that they properly meet clients’ changing requirements.

The operations of Desjardins Securities Inc. and Desjardins Investment Management Inc., such as securities brokerage and private management activities, formerly reported in the Wealth Management and Life and Health Insurance segment, have been fully included in the Personal and Business Services segment since the first quarter of 2020, while the operations of Desjardins Trust Inc., such as custodial and trust services, formerly reported in the Personal and Business Services segment, have been fully included in the Wealth Management and Life and Health Insurance segment since the first quarter of 2020. Data for 2019 have been reclassified to conform to these changes.

Wealth Management and Life and Health Insurance – Segment results

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019[1]	**September 30, 2020**	September 30, 2019[1]
Net interest income	**$ 1**	$ 3	$ 2	**$ 7**	$ 8
Net premiums	**1,167**	1,087	1,115	**3,471**	3,397
Other operating income[2]	**324**	317	320	**962**	943
Operating income[2]	**1,492**	1,407	1,437	**4,440**	4,348
Investment income[2]	**89**	2,041	532	**2,087**	2,593
Total income	**1,581**	3,448	1,969	**6,527**	6,941
Provision for (recovery of) credit losses	**(1)**	1	1	**2**	1
Claims, benefits, annuities and changes in insurance contract liabilities	**885**	2,590	1,331	**4,516**	4,909
Non-interest expense	**518**	519	515	**1,561**	1,524
Income taxes on surplus earnings	**39**	77	22	**88**	95
Net surplus earnings for the period	**$ 140**	$ 261	$ 100	**$ 360**	$ 412
Indicators					
Net sales of savings products	**$ 897**	$ 679	$ 1,076	**$ 3,475**	$ 4,684
Insurance sales	**103**	81	82	**306**	374
Group insurance premiums	**812**	799	810	**2,443**	2,437
Individual insurance premiums	**221**	220	222	**663**	657
Annuity premiums	**134**	68	83	**365**	303
Segregated fund receipts	**538**	448	532	**1,751**	2,940

[1] The data have been reclassified to conform to the current period's presentation.
[2] See "Non-GAAP measures".

COMPARISON OF THE THIRD QUARTERS OF 2020 AND 2019 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $140 million,** up $40 million, or 40.0%, compared to the third quarter of 2019, mainly due to the following:
  - Markets' positive impact on guaranteed investment funds.
  - Revision of the travel insurance provisions taken in first quarter 2020 in relation to the COVID-19 pandemic based on the current and expected volume of claim applications.

- **Operating income of $1,492 million,** up $55 million, or 3.8%.

- **Net premiums of $1,167 million,** up $52 million, or 4.7%, on account of essentially higher group annuity premiums.

- **Other operating income of $324 million,** which is comparable to the corresponding quarter.

- **Investment income of $89 million,** down $443 million, mainly as a result of the following:
  - Decrease primarily due to the change in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio primarily related to interest rate variations combined with credit spreads, partly as a result of the COVID-19 pandemic.
    - Decrease largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

- **Total income of $1,581 million,** down $388 million, or 19.7%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $885 million,** down $446 million, or 33.5%, essentially due to the following:
  - Decrease of $458 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments.
  - Offset by higher provisions for dividends and experience refunds essentially as a result of the decrease in group insurance claim applications related to the COVID-19 pandemic.

- **Non-interest expense of $518 million,** an amount comparable to that of the corresponding quarter.

COMPARISON OF THE FIRST NINE MONTHS OF 2020 AND 2019 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $360 million,** down $52 million, or 12.6%, mainly due to the following items partially as a result of the COVID-19 pandemic:
  - After the Canadian government's announcement of travel restrictions, increase in the current and expected volumes of claim applications related to trip cancellations, leading to an increase of $49 million in costs related to travel insurance.
  - Markets' negative impact on guaranteed investment funds.
  - Offset by higher gains on the disposal of securities and real estate investments compared to 2019.

- **Operating income of $4,440 million,** up $92 million, or 2.1%.

- **Net premiums of $3,471 million,** up $74 million, or 2.2%, primarily due to:
  - Increase of $62 million chiefly from group annuities, $6 million from individual insurance and $6 million from group insurance.

- **Other operating income of $962 million,** up $19 million, or 2.0%, mainly on account of higher income from assets under management.

- **Investment income of $2,087 million**, down $506 million, or 19.5%, mainly due to:
  - Decrease primarily because of the change in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to interest rate variations combined with credit spreads, partly as a result of the COVID-19 pandemic.
    - Decrease partially offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Mitigated by higher gains on the disposal of securities and real estate investments compared to 2019.

- **Total income of $6,527 million,** down $414 million, or 6.0%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $4,516 million,** down $393 million, or 8.0%, essentially due to:
  - Decrease of $472 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments.

  This decrease was mitigated by:
  - Higher provisions for dividends and experience refunds essentially as a result of the decrease in group insurance claim applications related to the COVID-19 pandemic.
  - Increase in benefits essentially due to the larger number of travel insurance claim applications related to the COVID-19 pandemic, offset by the decrease in benefits for the majority of other coverages.

- **Non-interest expense of $1,561 million,** up $37 million, or 2.4%, chiefly due to:
  - Decrease in investment portfolio provisions during first quarter 2019.
  - Higher expenses for assets under management.

Property and Casualty Insurance

The Property and Casualty Insurance segment offers insurance products providing coverage for Desjardins Group members and clients against disasters. It includes the operations of Desjardins General Insurance Group Inc. and its subsidiaries. Desjardins General Insurance Group Inc. offers a personal line of automobile and property insurance products across Canada and also provides businesses with insurance products. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network in Québec, a number of client care centres (call centres) and Desjardins Business centres, through an exclusive agent network of close to 500 agencies in Ontario, Alberta and New Brunswick distributing P&C insurance and several other financial products online and via applications for mobile devices.

Desjardins General Insurance Group Inc., which has more than 3,000,000 clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner. Desjardins Group has completed the integration of State Farm's Canadian operations and now offers its products under the Desjardins Insurance banner through the exclusive agent network.

Property and Casualty Insurance – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Net premiums	**$ 1,436**	$ 1,215	$ 1,279	**$ 4,028**	$ 3,685
Other operating income (loss)[1]	**(46)**	(7)	(59)	**(82)**	(125)
Operating income[1]	**1,390**	1,208	1,220	**3,946**	3,560
Investment income[1]	**57**	164	47	**335**	273
Total income	**1,447**	1,372	1,267	**4,281**	3,833
Claims, benefits, annuities and changes in insurance contract liabilities	**880**	1,026	925	**2,948**	2,831
Non-interest expense	**362**	323	299	**1,015**	909
Income taxes on surplus earnings	**50**	7	9	**74**	17
Net surplus earnings for the period	**$ 155**	$ 16	$ 34	**$ 244**	$ 76
Of which:					
Group's share	**$ 134**	$ 9	$ 23	**$ 203**	$ 50
Non-controlling interests' share	**21**	7	11	**41**	26
Indicators					
Gross written premiums	**$ 1,634**	$ 1,439	$ 1,508	**$ 4,317**	$ 4,220
Loss ratio[1]	**60.3%**	74.7%	72.2%	**66.9%**	73.8%
Current year loss ratio[1]	**64.8**	67.8	78.6	**69.6**	81.2
Loss ratio related to catastrophes and major events[1]	**1.3**	8.4	0.2	**3.0**	1.6
Ratio of favourable changes in prior year claims[1]	**(5.8)**	(1.5)	(6.6)	**(5.7)**	(9.0)
Expense ratio[1]	**22.5**	25.9	23.3	**24.0**	24.8
Combined ratio[1]	**82.8**	100.6	95.5	**90.9**	98.6

[1] See "Non-GAAP measures".

COMPARISON OF THE THIRD QUARTERS OF 2020 AND 2019 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $155 million,** up $121 million compared to third quarter 2019, due to:
  - Increase in net premiums.
  - Decrease in the cost of claims due to lower loss experience for the current year, essentially in auto insurance, in particular because of changes in driving habits attributable to the COVID-19 pandemic.

- **Operating income of $1,390 million,** up $170 million, or 13.9%.

- **Net premiums of $1,436 million,** up $157 million, or 12.3%, due to:
  - Growth in the average premium.
  - End of the cession of premiums for new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.

- **Loss totalling $46 million, presented under "Other operating income (loss)",** down $13 million, essentially as a result of the smaller increase than in third quarter 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.

- **Investment income of $57 million,** up $10 million, or 21.3%, as a result of:
  - Net gains on disposal of fixed income securities higher than in the comparative quarter in 2019.
  - Net gains on common shares while net losses were recorded in third quarter 2019.

- **Total income of $1,447 million,** up $180 million, or 14.2%.

- **Cost of claims totalling $880 million,** down $45 million, or 4.9%, as a result of:
  - Loss ratio of 60.3% vs. 72.2% for the corresponding period in 2019.
    - Lower current year loss ratio compared to the corresponding quarter in 2019, namely 64.8% vs. 78.6%, essentially due to a lower loss experience in auto insurance, in particular because of changes in driving habits attributable to the COVID-19 pandemic.

    This lower ratio was partially offset by:
    - Higher loss ratio related to catastrophes and major events than in the comparative quarter of 2019, i.e. 1.3% vs. 0.2%. The third quarter of 2020 was marked by one major event, a hailstorm in Alberta, while in the corresponding quarter of 2019, there was one major event of smaller scope.
    - Less favourable ratio of changes in prior year claims compared to the corresponding quarter of 2019, i.e. (5.8)% vs. (6.6)%.

The decrease in the cost of claims was partially offset by:
- Business growth, which led to a higher cost of claims.
- Increase due to the effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
- More unfavourable impact of the decrease in discount rates used to measure the provision for claims compared to the corresponding period in 2019.

- **Non-interest expense of $362 million,** up $63 million, or 21.1%, because of:
  - Effect of the reinsurance treaty, as previously mentioned, on the expenses covered by the treaty.
  - Business growth, which led to higher expenses.

COMPARISON OF THE FIRST NINE MONTHS OF 2020 AND 2019 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $244 million,** up $168 million compared to the first nine months of 2019, due to:
  - Increase in net premiums, mitigated by refunds of $155 million on auto insurance premiums granted to members and clients as a relief measure to support them during the pandemic period.
  - Lower current year loss ratio compared to the corresponding quarter in 2019, mainly in auto insurance, in particular because of changes in driving habits attributable to the COVID-19 pandemic.

  This increase was partially offset by:
  - Higher non-interest expense on account of business growth.
  - Lower investment income, excluding the change in the fair value of matched bonds.

- **Operating income of $3,946 million,** up $386 million, or 10.8%.

- **Net premiums of $4,028 million,** up $343 million, or 9.3%, due to:
  - Growth in the average premium as a result of rate increases during the previous 12 months, reflecting the trend in the Canadian P&C insurance market.
  - End of the cession of premiums for new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Offset by refunds of $155 million on auto insurance premiums granted to members and clients as a relief measure to support them during the pandemic period.

- **Loss totalling $82 million, presented under "Other operating income (loss)",** down $43 million, as a result of the smaller increase than in the first nine months of 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.

- **Investment income of $335 million,** up $62 million, or 22.7%, essentially as a result of:
  - Larger increase in the fair value of matched bonds compared to the corresponding period in 2019, mainly on account of lower market interest rates in the first nine months of 2020 than in the corresponding period in 2019. It should be remembered that this increase in the value of bonds was mitigated by an increase in the cost of claims because of a matching strategy.

  This increase was partially offset by:
  - Unfavourable results of derivative financial instruments while favourable results had been noted in the comparative period of 2019.
  - Net losses on investments for the first nine months of 2020, while net gains had been recorded in the corresponding period of 2019.

- **Total income of $4,281 million,** up $448 million, or 11.7%.

- **Cost of claims totalling $2,948 million,** up $117 million, or 4.1%, as a result of:
  - Business growth, which led to an increase in the cost of claims.
  - More unfavourable impact of the decrease in the discount rates used to measure the provision for claims compared to the corresponding period in 2019. It should be remembered that this higher cost of claims was partially offset by an increase in matched bonds.
  - Effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Loss ratio of 66.9% for the nine months ended September 30, 2020, compared to 73.8% for the corresponding period in 2019. The lower ratio helped mitigate the increase in the cost of claims.
    - Lower current year loss ratio compared to the corresponding quarter in 2019, namely 69.6% vs. 81.2%, due to a lower loss experience in auto insurance attributable to the COVID-19 pandemic, as previously mentioned.

    This lower ratio was partially offset by:
    - Less favourable ratio of changes in prior year claims than in the first nine months of 2019, i.e. (5.7)% vs. (9.0)%.
    - Higher loss ratio related to catastrophes and major events than in the comparative period of 2019, namely 3.0% vs. 1.6%. During the first nine months of 2020, one catastrophe and one major event were recorded, while in the corresponding period of 2019, there were nine major events of smaller scope.

- **Non-interest expense of $1,015 million,** up $106 million, or 11.7%, due to:
  - Business growth, which led to higher expenses.
  - Effect of the reinsurance treaty, as previously mentioned, on the expenses covered by the treaty.

Other category

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities and financial intermediation between liquidity surpluses and needs of the caisses. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole, including finance, administration, risk management, human resources, communications and marketing. It also includes the operations of Desjardins Capital Inc. and Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Interim Combined Financial Statements, intersegment balance eliminations are classified in this category.

Since the third quarter of 2020, the Other category has also included the operations of the real estate agency 9059-2114 Québec Inc., which manages two brands: DuProprio and Purplebricks Canada.

Other category

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019[1]	**September 30, 2020**	September 30, 2019[1]
Net interest income	**$ 195**	$ 155	$ 97	**$ 461**	$ 336
Net premiums	**(69)**	(64)	(68)	**(205)**	(197)
Other operating income (loss)[2]	**(177)**	(168)	(174)	**(510)**	(549)
Operating income (loss)[2]	**(51)**	(77)	(145)	**(254)**	(410)
Investment income (loss)[2]	**(66)**	2	16	**(58)**	76
Total income (loss)	**(117)**	(75)	(129)	**(312)**	(334)
Provision for (recovery of) credit losses	**10**	8	(1)	**21**	-
Claims, benefits, annuities and changes in insurance contract liabilities	**(12)**	(1)	2	**(13)**	(3)
Non-interest expense	**(68)**	5	(117)	**(184)**	(196)
Income taxes on surplus earnings	**(13)**	(2)	(28)	**(57)**	(83)
Net surplus earnings (deficit) for the period	**$ (34)**	$ (85)	$ 15	**$ (79)**	$ (52)

[1] The data have been reclassified to conform to the current period's presentation.
[2] See "Non-GAAP measures".

COMPARISON OF THE THIRD QUARTERS OF 2020 AND 2019 – CONTRIBUTION OF OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $34 million,** compared to net surplus earnings of $15 million for the third quarter of 2019.
  - Lower tax recovery in third quarter 2020 related to the remuneration of F capital shares.
  - In relation to treasury activities, market rate fluctuations as well as changes in hedging positions for matching activities had an overall favourable effect on total income.
  - Non-interest expense included expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital shift and information security, thereby enhancing the member and client experience and improving productivity. It also included commitments made regarding the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions, and the amounts paid out under the Desjardins Member Advantages program.

COMPARISON OF THE FIRST NINE MONTHS OF 2020 AND 2019 – CONTRIBUTION OF OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $79 million,** compared to a net deficit of $52 million for the corresponding period in 2019.
  - Lower tax recovery in the second and third quarters of 2020 related to the remuneration of F capital shares.
  - In relation to treasury activities, market rate fluctuations as well as changes in hedging positions for matching activities had an overall unfavourable effect on total income.
  - Non-interest expense included expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital shift and information security, thereby enhancing the member and client experience and improving productivity. It also included commitments made with regard to the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions, and the amounts paid out under the Desjardins Member Advantages program.
  - Decrease in investment portfolio provisions in the first quarter of 2019.
  - In the second quarter of 2019, $70 million in expenses were recognized related to costs incurred and the establishment of a provision for the implementation of Desjardins Identity Protection.

SUMMARY OF INTERIM RESULTS

The table below presents a summary of data related to the results for Desjardins Group's most recent eight quarters.

Results of the most recent eight quarters

(in millions of dollars)	2020			2019				2018
	Q3[1]	Q2[1]	Q1[1][2]	Q4[1][2]	Q3[1]	Q2[1]	Q1[1]	Q4
Net interest income	**$ 1,450**	$ 1,353	$ 1,353	$ 1,388	$ 1,372	$ 1,299	$ 1,264	$ 1,284
Net premiums	**2,534**	2,238	2,522	2,527	2,326	2,242	2,317	2,221
Other operating income[3]								
Deposit and payment service charges	**96**	83	105	109	116	103	103	114
Lending fees and credit card service revenues	**126**	141	196	185	193	186	210	177
Brokerage and investment fund services	**235**	235	241	226	223	223	214	211
Management and custodial service fees	**152**	147	150	155	146	141	140	130
Foreign exchange income	**22**	14	46	12	11	27	14	29
Other	**25**	65	32	338	7	6	50	(21)
Operating income[3]	**4,640**	4,276	4,645	4,940	4,394	4,227	4,312	4,145
Investment income (loss)[3]								
Net investment income (loss)	**316**	2,639	(456)	(94)	605	1,045	1,519	45
Overlay approach adjustment for insurance operations financial assets	**(143)**	(299)	512	(22)	(13)	10	(167)	258
Investment income (loss)[3]	**173**	2,340	56	(116)	592	1,055	1,352	303
Total income	**4,813**	6,616	4,701	4,824	4,986	5,282	5,664	4,448
Provision for (recovery of) credit losses	**99**	271	324	113	154	(11)	109	89
Claims, benefits, annuities and changes in insurance contract liabilities	**1,753**	3,615	2,083	1,426	2,258	2,361	3,118	1,821
Non-interest expense	**1,985**	2,010	1,992	2,158	1,849	2,053	1,919	1,846
Income taxes on surplus earnings	**247**	191	17	192	155	187	117	114
Surplus earnings before member dividends	**729**	529	285	935	570	692	401	578
Member dividends, net of income tax recovery	**60**	58	57	57	60	58	57	43
Net surplus earnings for the period after member dividends	**$ 669**	$ 471	$ 228	$ 878	$ 510	$ 634	$ 344	$ 535
Of which:								
Group's share	**$ 648**	$ 464	$ 215	$ 858	$ 499	$ 616	$ 347	$ 527
Non-controlling interests' share	**21**	7	13	20	11	18	(3)	8

(1) The information presented for the 2020 and 2019 quarters takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements.
(2) Data have been reclassified to conform to the current period's presentation notwithstanding the adoption of IFRS 16 on January 1, 2019.
(3) See "Non-GAAP measures".

Quarterly income, expenses and surplus earnings before member dividends are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the financial markets. The quarterly results in 2020 were affected by the financial impact of the COVID-19 pandemic, as explained in the "Analysis of Results" in this MD&A, while the results of the fourth quarter of 2019 were affected by the sale to Global Payments of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand, completed on December 31, 2019. For more information about quarterly trends, see pages 46 and 47 of the 2019 annual MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

Combined Balance Sheets

(in millions of dollars and as a percentage)	As at September 30, 2020		As at December 31, 2019	
Assets				
Cash and deposits with financial institutions	**$ 8,844**	**2.5%**	$ 3,709	1.2%
Securities	**89,253**	**24.8**	59,693	19.1
Securities borrowed or purchased under reverse repurchase agreements	**9,706**	**2.7**	10,032	3.2
Net loans and acceptances	**209,931**	**58.3**	203,462	65.0
Segregated fund net assets	**18,032**	**5.0**	17,026	5.4
Derivative financial instruments	**5,846**	**1.6**	4,246	1.4
Other assets	**18,275**	**5.1**	14,828	4.7
Total assets	**$ 359,887**	**100.0%**	$ 312,996	100.0%
Liabilities and equity				
Deposits	**$ 225,820**	**62.7%**	$ 193,918	61.9%
Commitments related to securities sold short	**8,846**	**2.5**	10,615	3.4
Commitments related to securities lent or sold under repurchase agreements	**17,673**	**4.9**	10,562	3.4
Derivative financial instruments	**4,095**	**1.1**	4,278	1.4
Insurance contract liabilities	**34,760**	**9.7**	31,595	10.1
Segregated fund net liabilities	**18,025**	**5.0**	17,002	5.4
Other liabilities	**19,785**	**5.5**	16,199	5.2
Subordinated notes	**1,465**	**0.4**	1,398	0.4
Equity	**29,418**	**8.2**	27,429	8.8
Total liabilities and equity	**$ 359,887**	**100.0%**	$ 312,996	100.0%

Assets

As at September 30, 2020, Desjardins Group's total assets stood at $359.9 billion, up by $46.9 billion, or 15.0%, since December 31, 2019. This growth was due in part to a $29.2 billion increase in securities, including those borrowed or purchased under reverse repurchase agreements. In addition, net loans and acceptances, as well as cash and deposits with financial institutions, were up by $6.5 billion and $5.1 billion, respectively.

The increase in Desjardins Group's cash and deposits with financial institutions was derived in particular from the liquidity obtained under the Government of Canada's funding initiatives, through the Bank of Canada and CMHC, to support the Canadian financial system during the COVID-19 pandemic. Securities, including securities borrowed or purchased under reverse repurchase agreements, increased because of growth in market activities and totalled $99.0 billion.

Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, increased by $6.5 billion, or 3.2%.

Loans and acceptances

(in millions of dollars and as a percentage)	As at September 30, 2020		As at December 31, 2019	
Residential mortgages	**$ 134,105**	**63.6%**	$ 126,757	62.1%
Consumer, credit card and other personal loans	**25,828**	**12.2**	27,022	13.2
Business and government	**51,046**	**24.2**	50,368	24.7
	210,979	**100.0%**	204,147	100.0%
Allowance for credit losses	**(1,048)**		(685)	
Total loans and acceptances by borrower category	**$ 209,931**		$ 203,462	

Desjardins Group's residential mortgages were up $7.3 billion, or 5.8%. It should be mentioned that on February 1, 2020, Desjardins Group, through the Federation, acquired a portfolio of quality mortgages from La Capitale, for a total consideration of $474 million. Outstanding business and government loans, including acceptances, increased by $678 million, or 1.3%. Consumer, credit card and other personal loans outstanding were down $1.2 billion, or 4.4%, since the end of 2019, essentially because of the decrease in credit card loans outstanding related in particular to the decline in purchases during the COVID-19 pandemic.

Information on the quality of Desjardins Group's credit portfolio can be found in the "Risk management" section, on pages 37 and 38 of this MD&A.

Segregated fund net assets were up $1.0 billion, or 5.9%, on account of growth in the number of policyholders making investments as well as the financial performance of segregated funds.

Derivative financial instrument assets grew by $1.6 billion, or 37.7%, because of lower interest rates and fluctuating foreign exchange rates.

Other assets increased by $3.4 billion, or 23.2%, mainly as a result of the higher amounts receivable from clients, brokers and financial institutions.

Liabilities

Desjardins Group's total liabilities amounted to $330.5 billion as at September 30, 2020, up $44.9 billion, or 15.7%, since December 31, 2019, largely due to the increase in deposits.

Outstanding deposits grew by $31.9 billion, or 16.5%. The increase in business and government deposits, which comprised 44.4% of Desjardins Group's total deposit portfolio as at the same date, partly accounted for this growth. In fact, outstanding deposits were up $18.7 billion, or 23.0%, particularly because of growth in member deposits in the caisse network. Various securities, including covered bonds, issued on U.S., Canadian and European markets, which made it possible to support the growth of Desjardins Group's funding requirements, were also responsible for this increase.

Deposits

(in millions of dollars and as a percentage)	As at September 30, 2020		As at December 31, 2019	
Individuals	**$ 124,541**	**55.2%**	$ 111,665	57.5%
Business and government	**100,304**	**44.4**	81,556	42.1
Deposit-taking institutions	**975**	**0.4**	697	0.4
Total deposits	**$ 225,820**	**100.0%**	$ 193,918	100.0%

Personal deposits outstanding, which accounted for 55.2% of the total deposit portfolio, increased by $12.9 billion, or 11.5%, because of growth in member deposits in the caisse network. Deposits from deposit-taking institutions were up by $278 million, or 39.9%.

Commitments related to securities sold short and lent or sold under repurchase agreements increased by $5.3 billion, or 25.2%, to reach a volume of $26.5 billion.

Derivative financial instrument liabilities decreased by $183 million, or 4.3%, because of the lower interest rates on swaps.

Desjardins Group's insurance contract liabilities were up by $3.2 billion, or 10.0%, largely as a result of actuarial liabilities arising from life and health insurance operations, and provisions for claims and adjustment expenses related to P&C insurance operations.

Segregated fund net liabilities increased by $1.0 billion, or 6.0%, because of growth in the number of policyholders making investments as well as the financial performance of segregated funds.

Other liabilities grew by $3.6 billion, or 22.1%, due to the higher amounts payable to clients, brokers and financial institutions.

Equity

Equity was up $2.0 billion, or 7.3%, since December 31, 2019. Net surplus earnings after member dividends, totalling $1.4 billion for the first nine months of 2020, were the primary source of this growth.

Note 22, "Capital stock", and Note 23, "Share capital", to the Annual Combined Financial Statements provide additional information about Desjardins Group's capital stock and share capital.

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, and regulators' expectations and requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of Desjardins Group's 2019 annual MD&A.

Regulatory framework and internal policies

Desjardins Group's capital management is the responsibility of the Federation's Board of Directors. To support it with this task, it has mandated the Management Committee, through the Finance and Risk Management Committee, to ensure that Desjardins Group has a sufficient capital base in light of the organization's strategic objectives and regulatory obligations. The Finance, Treasury and Administration Executive Division is responsible for preparing, on an annual basis, a capitalization plan to forecast capital trends, devise strategies and recommend action plans for achieving capital objectives and targets.

The current situation and the forecasts show that overall, Desjardins Group has a solid capital base that maintains it among the best-capitalized financial institutions.

Desjardins Group's regulatory capital ratios are calculated according to the AMF's Guideline on adequacy of capital base standards for financial services cooperatives (the guideline). This guideline takes into account the global regulatory framework for more resilient banks and banking systems (Basel III) issued by the Bank for International Settlements.

Under this framework, a minimum amount of capital must be maintained on a combined basis by all the Desjardins Group components. Some of these components are subject to separate requirements regarding regulatory capital, liquidity and funding, which are set by regulatory authorities governing banks, insurers and securities, in particular. Desjardins Group oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulation.

In this regard, it should be mentioned that the life and health insurance subsidiaries under provincial jurisdiction are subject to the Capital Adequacy Requirements Guideline (CARLI) issued by the AMF. The property and casualty insurance subsidiaries under provincial jurisdiction must comply with the Guideline on Capital Adequacy Requirements issued by the AMF. The property and casualty insurance subsidiaries under federal jurisdiction must comply with the OSFI's Minimum Capital Test Guideline for federally regulated property and casualty insurance companies.

For the purpose of calculating capital, Desjardins Financial Corporation Inc., the holding corporation that mainly includes the insurance companies, has been deconsolidated and presented as a partial capital deduction under the rules for significant investments stated in the guideline. Furthermore, Desjardins Financial Corporation Inc. is subject to the AMF's CARLI guideline.

In addition, the Total Loss Absorbing Capacity Guideline (TLAC Guideline) issued by the AMF took effect on March 31, 2019. As of April 1, 2022, Desjardins Group will be required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the target criteria, or regulatory capital instruments to support its recapitalization in the event of a failure.

Under the TLAC Guideline, the AMF expects Desjardins Group to maintain a risk-based TLAC ratio of at least 21.5% of risk-weighted assets as well as a TLAC leverage ratio of at least 6.75% as of the second quarter of 2022. For this purpose, Desjardins Group started issuing TLAC-eligible debt on October 1, 2019.

The table below presents a summary of the target regulatory ratios set by the AMF under Basel III.

Summary of ratios regulated by the AMF under Basel III[1][2]

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[3][4]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at September 30, 2020
Tier 1A capital	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**21.4%**
Tier 1 capital	> 6.0	2.5	> 8.5	1.0	> 9.5	**21.4**
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	**22.1**
Leverage ratio	> 3.5	N/A	> 3.5	N/A	> 3.5	**8.3**

(1) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets, as required in the guideline.
(2) The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk and includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet items.
(3) In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios.
(4) At its discretion, the AMF may also set higher target ratios when warranted by circumstances. In this regard, since March 31, 2019, the AMF could activate the countercyclical buffer when it considers that excess credit growth is associated with a build-up of system-wide risk. Based on this assessment, a countercyclical buffer requirement representing between 0% and 2.5% of total risk-weighted assets (RWA) will be put in place when circumstances warrant. This requirement will be lifted when the risk either crystallizes or dissipates.

Adjustments to capital requirements related to the COVID-19 pandemic

Since March 31, 2020, the AMF has issued a series of measures to minimize the impact of the COVID-19 pandemic and support Québec's financial system. For the calculation of capital ratios and the leverage ratio as at September 30, 2020, Desjardins Group introduced the following measures:

- Inclusion in Tier 1A capital of a portion of the loss allowance for expected credit losses that would otherwise have been included in Tier 2 capital. This adjustment of Tier 1A capital will be measured dynamically each quarter as the increase in the Stage 1 and Stage 2 allowances compared to the baseline amount. The baseline amount is the amount of the Stage 1 and Stage 2 allowances for the quarter ended December 31, 2019. This increased amount is adjusted for tax effects and subject to a scaling factor that decreases over time. The factor is set at 70% for fiscal 2020, 50% for 2021 and 25% for 2022. Since the amounts attributable to portfolios treated using the Internal Ratings-Based Approach show a deficit in expected losses during the transition, they will not be eligible for this treatment. For more information about the Stage 1 and Stage 2 allowances, see Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements.
- Loans for which a moratorium has been granted on payment of principal or interest are treated as performing loans for regulatory purposes if they were not in default at the time the moratorium took effect. No change is required in the weighting and the probability of default associated with such loans covered by a moratorium. This temporary measure was applicable for a maximum period of six months, i.e., from March 31, 2020 to September 30, 2020, and was not renewed.
- Reduction of the stressed Value-at-Risk multiplier under market risk from 3 to 1.
- Exclusion of reserves with central banks and securities issued by sovereign borrowers that meet the eligibility criteria for high-quality liquid assets in the total exposure used when calculating the leverage ratio.

In addition, loan exposures covered by the new Canada Emergency Business Account (CEBA), since they are funded by the Government of Canada, are excluded from capital ratios and the leverage ratio.

Under the Québec concerted temporary action program for businesses (PACTE) and the Export Guarantee Program of Export Development Canada, the guaranteed portion of a loan is treated as an exposure of the Québec or Canadian government and the remaining portion not covered by the guarantee must be considered a borrower exposure. The total amount of the loan is included for the purpose of calculating the leverage ratio.

As for the Business Development Bank of Canada's Co-Lending Program, the AMF expects that, under the Standardized Approach for credit risk, the portion of the loan granted by the financial institution concerned is subject to the risk weighting applicable to the borrower, whereas under the Internal Ratings-Based Approach, it is considered a borrower exposure. For the purpose of calculating the capital ratios and the leverage ratio, the portion of the loan granted to the borrower by the financial institution concerned is included in the exposure measure.

Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS) and to assess their impact on the capital ratios and the leverage ratio. Additional information in this regard can be found in the 2019 annual MD&A on page 53. The “Changes in the regulatory environment” section also presents additional details on regulation as it affects all Desjardins Group operations.

On March 27, the BCBS announced the postponement of the international implementation calendar for the Basel III reforms released in December 2017. In line with this extension, the AMF announced on March 31 that it was postponing the implementation date of these reforms to the first quarter of 2023. This postponement included the revisions to the Standardized Approach and the Internal Ratings-Based Approach for credit risk, the operational risk framework, the leverage ratio framework, and the introduction of a more risk-sensitive capital floor.

Implementation of the revisions to the BCBS market risk framework, namely the fundamental review of the trading book, issued in January 2019, was postponed until January 2024. As a result, the implementation date of the revised credit valuation adjustment risk framework has also been postponed until January 2024.

Compliance with requirements

As at September 30, 2020, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 21.4%, 21.4% and 22.1%, respectively. The leverage ratio was 8.3%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

As at September 30, 2020, the Tier 1A capital ratio was down 12 basis points compared to December 31, 2019, due to growth in risk-weighted assets, partially offset by the increase in reserves and undistributed surplus earnings as well as eligible accumulated other comprehensive income.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at September 30, 2020.

Regulatory capital

The following tables present Desjardins Group’s main capital components, regulatory capital balances, risk-weighted assets, capital ratios, and movements in capital during the period.

Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A[1]	Tier 1B[1]	
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • Federation's capital shares • Permanent shares and surplus shares subject to phase-out • Eligible portion of general allowance[4]	• Non-controlling interests[2]	• General allowance • Senior notes subject to phase-out • NVCC subordinated notes[3] • Eligible qualifying shares
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance		
Deductions	• Mainly significant investments in financial entities[5]	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes • Subordinated financial instrument

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions’ CET1 and AT1 ratios, for financial services cooperatives regulated by the AMF.
(2) The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(3) These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the guideline.
(4) On March 31, 2020, the AMF published transitional provisions stipulating that a portion of the general allowance initially included in Tier 2 capital could be included in Tier 1A capital. For more information, see “Adjustments to capital requirements related to the COVID-19 pandemic” in this section.
(5) Represent the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from this capital. The net non-deducted balance is subject to risk-weighting at a rate of 250%.

Regulatory capital, risk-weighted assets and capital ratios

(in millions of dollars and as a percentage)	As at September 30, 2020	As at December 31, 2019
Capital		
Tier 1A capital	**$ 25,860**	$ 24,549
Tier 1 capital	**25,860**	24,549
Total capital	**26,616**	24,549
Risk-weighted assets		
Credit risk	**$ 104,688**	$ 94,799
Market risk	**2,453**	3,095
Operational risk	**13,462**	13,021
Total risk-weighted assets before the RWA floor	**120,603**	110,915
RWA floor adjustment[1]	**-**	2,946
Total risk-weighted assets	**$ 120,603**	$ 113,861
Ratios and leverage ratio exposure		
Tier 1A capital	**21.4%**	21.6%
Tier 1 capital	**21.4**	21.6
Total capital	**22.1**	21.6
Leverage	**8.3**	8.8
Leverage ratio exposure	**$ 310,505**	$ 280,322

(1) In accordance with the guideline updated during first quarter 2019, the RWA floor is now defined under the standardized approaches presented in the guideline.

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

In addition, the subordinated notes issued by Desjardins Capital Inc. are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements.

The Federation is able to issue NVCC instruments on Canadian, U.S. and European markets, and carried out an issue of $1.0 billion of such securities on May 26, 2020.

Change in regulatory capital

For the nine-month period ended

(in millions of dollars)	September 30, 2020
Tier 1A capital	
Balance at beginning of period	**$ 24,549**
Increase in reserves and undistributed surplus earnings[1]	**1,214**
Eligible accumulated other comprehensive income	**962**
Permanent shares and surplus shares subject to phase-out	**(106)**
Deductions	**(759)**
Balance at end of period	**25,860**
Total Tier 1 capital[2]	**25,860**
Tier 2 capital	
Balance at beginning of period	**-**
Eligible instruments	**973**
Senior notes subject to phase-out	**(199)**
General allowance	**19**
Deductions	**(37)**
Balance at end of period	**756**
Total capital	**$ 26,616**

(1) Amount including the change in defined benefit pension plan liabilities.
(2) No Tier 1B capital instrument has been issued to date.

Risk-weighted assets (RWA)

Desjardins Group calculates risk-weighted assets for credit risk, market risk and operational risk.

Credit risk

- Desjardins uses the Internal Ratings-Based Approach for credit risk.
- Since March 2009, the Internal Ratings-Based Approach has been used for credit risk related to retail exposures − Personal.
- Since December 2019, the Internal Ratings-Based Approach has been used for most exposures in the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures.
- The Standardized Approach is used to measure the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are not significant in terms of amount and perceived risk profile.

Market risk

- Since September 2018, Desjardins Group has been using market risk internal models for trading portfolios.
- The Standardized Approach is used for foreign exchange risk and commodity risk in the banking portfolio.

Operational risk

- Since June 2017, Desjardins Group has been using the Standardized Approach to calculate operational risk.

Desjardins is also subject to an RWA floor. When the RWA modelled are lower than the RWA calculated using the Standardized Approach multiplied by a factor set by the AMF, the difference is added to the denominator of the regulatory capital, as specified in the Guideline on adequacy of capital base standards for financial services cooperatives issued by the AMF.

RWA totalled $120.6 billion as at September 30, 2020, up $3.5 billion compared to the previous quarter.

For credit risk, changes in RWA for the third quarter of 2020 are divided into two segments: credit risk other than counterparty risk, and counterparty risk. In credit risk other than counterparty risk, the net increase of $4.5 billion in RWA was mainly the result of changes in portfolio size, which led to a $2.9 billion increase, changes in portfolio quality, which caused a $928 million increase, as well as changes in methods and policies, which resulted in an increase of $899 million. In counterparty risk, a $793 million decrease in RWA was basically due to the updating of models.

In market risk, a $509 million decrease in RWA resulted from a change in risk levels.

An increase of $209 million in RWA was noted in operational risk as a result of fluctuations in the income generated.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, guarantees and structured entities, including securitization. Additional information can be found in the “Off-balance sheet arrangements” section of Desjardins Group’s 2019 annual MD&A.

Note 13, “Interests in other entities”, and Note 29, “Commitments, guarantees and contingent liabilities”, to Desjardins Group’s Annual Combined Financial Statements contain information about structured entities, credit instruments and guarantees, while Note 8, “Derecognition of financial assets”, to the Annual Combined Financial Statements provides information about the securitization of Desjardins Group’s loans.

During the second and third quarters, Desjardins Group took part in the Canada Emergency Business Account (CEBA) program to grant government-funded loans, and also collaborated in the Business Development Bank of Canada’s Co-Lending Program. At the end of these programs, Desjardins does not recognize all these loans on its Combined Balance Sheets because the derecognition criteria have been met. Additional information on these programs is presented in Note 5, “Loans and allowance for credit losses” to the Interim Combined Balance Sheets.

Assets under management and under administration

As at September 30, 2020, Desjardins Group administered, for the account of its members and clients, assets worth $446.8 billion, for an increase of $9.8 billion, or 2.2%. The financial assets entrusted to Desjardins Group as wealth manager totalled $73.1 billion as at September 30, 2020, up $5.6 billion, or 8.2%, since December 31, 2019. The increase in assets under management and under administration is due in particular to volatility on financial markets as a result of the COVID-19 pandemic.

Assets under management and under administration by Desjardins Group are comprised essentially of financial assets in the form of investment funds, securities held in custody and assets accumulated by pension funds. They do not belong to Desjardins Group, but to its members and clients and, as a result, they are not recognized on the Combined Balance Sheets. The Wealth Management segment is primarily responsible for the activities related to assets under management and under administration.

RISK MANAGEMENT

RISK MANAGEMENT

Desjardins Group's objective in risk management is to optimize the risk-return trade-off by developing and applying integrated risk management strategies, frameworks, practices and procedures to all of the organization's business segments and support functions. To this end, Desjardins developed an Integrated Risk Management Framework reflective of its business strategies and organizational risk-taking philosophy which is aimed, among other things, at giving its senior management and the Federation's Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of the risks associated with the achievement of its objectives.

Desjardins Group is exposed to different types of risk in its normal course of operations, including credit risk, market risk, liquidity risk, operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental or social risk and risk related to the regulatory and legal environment.

Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding its financial soundness as well as its sustained and profitable growth, while complying with regulatory requirements. Desjardins Group considers risk an inextricable part of its development, and consequently strives to promote a proactive approach in which each of its business segments, employees and managers is responsible for risk management.

In the first nine months of fiscal 2020, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which it is exposed (including operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental or social risk and risk related to the regulatory and legal environment) did not change significantly from those described on pages 62 to 95 of the 2019 annual MD&A. In addition to these types of risk, other risk factors, which are beyond Desjardins Group's control, could have an impact on its future results. These principal risks and emerging risks, as well as other risk factors, did not change significantly from those described on pages 59 to 61 of the 2019 annual MD&A.

The COVID-19 pandemic and its associated risks are the primary situation being monitored by Desjardins Group. Much work has been done by Desjardins to deal with this, and the impact and developments of the COVID-19 pandemic are still subject to ongoing supervision. The pandemic has had and will continue to have repercussions on the risks to which Desjardins Group is exposed. Desjardins is closely monitoring developments in these risks to ensure the sustainability of its operations during the crisis. Below you will find the pandemic's main impact on some of the principal types of risk at Desjardins:

- Market risk
  - Market data are significantly affected by the global pandemic. Therefore, the extreme volatility during the first quarter is reflected in the data histories of subsequent quarters. Given that the VaR model uses one-year data histories, the data observed continue to have an impact on current VaR levels and this impact will persist in the coming quarters.

- Credit risk – Portfolio quality
  - The quality of the credit portfolio stabilized between the second and third quarters even though a number of moratoriums for individuals and businesses had ended since the beginning of September. A possible increase in delinquencies is being monitored.

- Credit risk – Provisioning
  - Although the economy grew more strongly than expected following its reopening as of May, Desjardins considers that the economic climate is still uncertain and as a result, it did not reduce provisioning during the third quarter. The second wave of COVID-19 is in fact prompting the government to shut down certain sectors and further restrict consumer movements.

- Insurance risk – Life and Health Insurance
  - The evolution of the experience as a result of the pandemic continues to be monitored, in particular for disability and mortality.

- Insurance risk – Property and Casualty Insurance
  - Given COVID-19 confinement measures, year-to-date claims in 2020 have been lower than historical levels. The P&C Insurance segment is providing support to its insured clients by refunding premiums totalling $155 million.
  - There is still uncertainty about growth in premiums versus claims, the likely increase in fraud and potential civil liability claims for businesses. Additional margins are included in loss reserves and unearned premiums.

- Liquidity risk
  - In order to prevent liquidity from drying up, the Government of Canada has set up exceptional liquidity granting programs to facilitate access to funding from financial institutions. The use of these programs by Desjardins Group and the growth in deposits have resulted in very high liquidity ratios.

- Operational risks – Information security
  - Given the massive increase in telework, remote monitoring has been reinforced, including on applications with confidential data. The adequacy of the working environment for all employees has been assessed to ensure compliance with information security standards.

- Operational risks – Technology
  - The robustness and monitoring of technology infrastructures were enhanced in order to better meet performance needs for telework and the increased use of digital services by our members and clients. Enhanced monitoring of infrastructure stability has been put in place.

- Operational risks – Business continuity
  - The risk of abnormal absenteeism caused by a second wave of COVID-19 affecting Desjardins employees is being monitored, and business continuity plans are adjusted and finetuned on an ongoing basis to ensure backup of operations. The risk of exhausting resources, which increased due to the resulting disruptions in operations, and the abnormally fast pace of work are still also being monitored.

- Operational risks – Third parties
  - The pandemic is heightening third party risk. There is increased monitoring, in particular, of major suppliers' business continuity strategies. Furthermore, special attention is being paid to their financial soundness.

In order to mitigate this impact, Desjardins Group has increased the frequency of its risk management activities, which are set out in Section 4 of the 2019 annual MD&A. For more information about the impact of the COVID-19 pandemic and the measures implemented by Desjardins Group, please see "Significant events – COVID-19 pandemic" in this MD&A, which presents certain factors that could contribute to the risks described above and those presented in the 2019 annual MD&A.

CREDIT RISK

Credit risk is the risk of losses resulting from a borrower's, guarantor's, issuer's or counterparty's failure to honour its contractual obligations, whether or not such obligations appear on the Combined Balance Sheets.

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as securities transactions.

During the current COVID-19 pandemic, Desjardins Group has put forward several relief measures to support its members and clients and mitigate the impact of this crisis. Government authorities have also set up a number of programs to stabilize the situation and bolster the economy. Although future repercussions are still uncertain, the credit portfolio is being strictly monitored to take into consideration more or less long-term impacts.

Quality of loan portfolio

As at September 30, 2020, in accordance with Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements, the allowance for credit losses totalled $1,048 million, up $363 million compared to December 31, 2019. The significant deterioration in the economic outlook, such as the higher unemployment rate, the decline in GDP, the higher probability of default and the migration of certain borrowers' ratings on account of the COVID-19 pandemic, resulted in a higher loss allowance for expected credit losses. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements.

Gross credit-impaired loans outstanding are considered Stage 3 loans of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.64% for the third quarter of 2020, compared to 0.56% as at December 31, 2019. The allowance for credit losses on credit-impaired loans totalled $366 million as at September 30, 2020, resulting in a provisioning rate of 27.3% for credit-impaired loans.

The following table presents the aging of gross loans that are past due but not credit-impaired.

Gross loans past due but not credit-impaired

As at September 30, 2020[1]

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	**$ 1,457**	**$ 125**	**$ 40**	**$ 5**	**$ 1,627**
Consumer, credit card and other personal loans	**659**	**144**	**65**	**-**	**868**
Business and government	**374**	**18**	**13**	**-**	**405**
	$ 2,490	**$ 287**	**$ 118**	**$ 5**	**$ 2,900**

As at December 31, 2019

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 1,850	$ 145	$ 41	$ 3	$ 2,039
Consumer, credit card and other personal loans	965	181	88	12	1,246
Business and government	349	32	15	1	397
	$ 3,164	$ 358	$ 144	$ 16	$ 3,682

[1] Loans with payment deferrals granted under COVID-19 relief measures are classified as the past due loans that they were at the time of deferral. Residential mortgages granted to individuals, consumer loans and some other personal loans have however been treated as current while they were 15 days or less past due.

The following tables present gross credit-impaired loans by Desjardins Group borrower category and the change in the gross credit-impaired loan balance.

Gross credit-impaired loans by borrower category

(in millions of dollars and as a percentage)	As at September 30, 2020				As at December 31, 2019	
	Gross carrying amount		Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans
	Gross loans and acceptances	Gross credit-impaired loans				
Residential mortgages	**$ 134,105**	**$ 366 0.27%**	**$ 26**	**$ 340**	$ 326	$ 302
Consumer, credit card and other personal loans	**25,828**	**242 0.94**	**148**	**94**	276	133
Business and government	**51,046**	**732 1.43**	**192**	**540**	540	436
Total loans	**$ 210,979**	**$ 1,340 0.64%**	**$ 366**	**$ 974**	$ 1,142	$ 871

Change in gross credit-impaired loans

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Gross credit-impaired loans at the beginning of the period	**$ 1,307**	$ 1,167	$ 1,113	**$ 1,142**	$ 1,042
Gross loans that became credit-impaired since the last period	**440**	634	439	**1,557**	1,879
Loans returned to unimpaired status	**(325)**	(366)	(287)	**(1,098)**	(1,447)
Write-offs and recoveries	**(89)**	(88)	(88)	**(282)**	(282)
Other changes	**7**	(40)	21	**21**	6
Gross credit-impaired loans at the end of the period	**$ 1,340**	$ 1,307	$ 1,198	**$ 1,340**	$ 1,198

Counterparty and issuer risk

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

The Risk Management Executive Division sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. In addition, limits are set for certain financial instruments. The amounts are then allocated to different components based on their needs.

A large proportion of Desjardins Group's exposure is to the different levels of government in Canada, Québec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. Apart from the U.S. sovereign debt holdings and commitments with major international banks, Desjardins Group's exposure to foreign entities is low.

MARKET RISK

Market risk refers to the risk of changes in the fair value of financial instruments resulting from fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates, credit spreads and their volatility.

Desjardins Group is exposed to market risk through its trading activities, which result primarily from short-term transactions conducted with the intention of profiting from current price movements or to provide arbitrage revenue. Desjardins Group is also exposed to market risk through its non-trading activities, which group together mainly asset/liability management transactions in the course of its traditional banking activities as well as investment portfolios related to its insurance operations. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

Governance

Desjardins Group's components are primarily structured into different legal entities to deliver products and services that can be distributed to Desjardins Group members and clients. These legal entities manage financial instruments exposed to market risk and are subject to different regulatory environments such as the banking, securities brokerage, wealth management, life and health insurance and property and casualty insurance industries. The board of directors of these entities delegate to various committees the responsibility of setting up systems and procedures to establish measures adapted to their operations and regulatory environments. These measures, together with the appropriate follow-up procedures, are incorporated into their respective policies and guidelines. The function of the Risk Management Executive Division is to monitor these measures and ensure compliance with the said policies. The main measures used and their follow-up processes are described below.

Link between market risk and the Combined Balance Sheets

The following table presents the link between the main Combined Balance Sheet data and the positions included in trading activities and non-trading activities. The principal market risks associated with non-trading activities are also indicated in the table.

Link between market risk and the Combined Balance Sheets
As at September 30, 2020

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[1]	Exposed to market risk: Non-trading activities[2]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 8,844	$ -	$ 8,844	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	34,235	8,093	26,142	-	Interest rate
Securities at fair value through other comprehensive income	54,743	-	54,743	-	Interest rate, FX, price
Securities at amortized cost	275	-	275	-	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	9,706	8,591	1,115	-	Interest rate
Net loans and acceptances	209,931	-	209,931	-	Interest rate
Segregated fund net assets	18,032	-	18,032	-	Interest rate, price
Derivative financial instruments	5,846	367	5,479	-	Interest rate, FX, price
Other assets	18,275	-	-	18,275	
Total assets	$ 359,887	$ 17,051	$ 324,561	$ 18,275	
Liabilities and equity					
Deposits	$ 225,820	$ -	$ 225,820	$ -	Interest rate
Commitments related to securities sold short	8,846	8,799	47	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	17,673	8,796	8,877	-	Interest rate
Derivative financial instruments	4,095	254	3,841	-	Interest rate, FX, price
Insurance contract liabilities	34,760	-	34,760	-	Interest rate
Segregated fund net liabilities	18,025	-	18,025	-	Interest rate, price
Other liabilities	19,785	-	3,281	16,504	Interest rate
Subordinated notes	1,465	-	1,465	-	Interest rate
Equity	29,418	-	-	29,418	
Total liabilities and equity	$ 359,887	$ 17,849	$ 296,116	$ 45,922	

Footnotes to this table are presented on the next page.

Link between market risk and the Combined Balance Sheets (continued)

As at December 31, 2019

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[1]	Exposed to market risk: Non-trading activities[2]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 3,709	$ -	$ 3,709	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	35,168	11,468	23,700	-	Interest rate
Securities at fair value through other comprehensive income	22,909	-	22,909	-	Interest rate, FX, price
Securities at amortized cost	1,616	-	1,616	-	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	10,032	9,369	663	-	Interest rate
Net loans and acceptances	203,462	-	203,462	-	Interest rate
Segregated fund net assets	17,026	-	17,026	-	Interest rate, price
Derivative financial instruments	4,246	224	4,022	-	Interest rate, FX, price
Other assets	14,828	-	-	14,828	
Total assets	$ 312,996	$ 21,061	$ 277,107	$ 14,828	
Liabilities and equity					
Deposits	$ 193,918	$ -	$ 193,918	$ -	Interest rate
Commitments related to securities sold short	10,615	10,613	2	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	10,562	9,946	616	-	Interest rate
Derivative financial instruments	4,278	329	3,949	-	Interest rate, FX, price
Insurance contract liabilities	31,595	-	31,595	-	Interest rate
Segregated fund net liabilities	17,002	-	17,002	-	Interest rate, price
Other liabilities	16,199	-	3,068	13,131	Interest rate
Subordinated notes	1,398	-	1,398	-	Interest rate
Equity	27,429	-	-	27,429	
Total liabilities and equity	$ 312,996	$ 20,888	$ 251,548	$ 40,560	

[1] Trading activity positions for which the risk measure is VaR and SVaR.

[2] Positions mainly related to non-trading banking activities and insurance activities.

Management of market risk related to trading activities – Value at Risk

The market risk of trading portfolios is managed on a daily basis under specific frameworks, which set out the risk factors that must be measured and the limit for each of these factors as well as the total. Tolerance limits are also provided for various stress testing. Compliance with these limits is monitored daily and a market risk dashboard is produced on a daily basis and sent to senior management. Any limit exceeded is immediately analyzed and the appropriate action is taken.

The main tool used to measure this risk is “Value at Risk” (VaR). VaR is an estimate of the potential loss over a certain period of time at a given confidence level. A Monte Carlo VaR is calculated daily on the trading portfolios, using a 99% confidence level and a holding horizon of one day (holding horizon extended up to 10 days for regulatory capital calculations). It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

In addition to aggregate VaR, Desjardins Group calculates an aggregate stressed VaR (SVaR). It is calculated in the same way as aggregate VaR, except for the use of historical data. Therefore, instead of using the interval of the past year, aggregate SVaR takes into account the historical data for a crisis period of one year from September 2008.

The incremental risk charge (IRC) supplements the VaR and SVaR measures and represents an estimate of default and migration risks of unsecuritized products held in the trading portfolio, exposed to interest rate risk, and measured over a one-year horizon at a 99.9% confidence level.

The table below presents the aggregate VaR and the aggregate SVaR of trading activities by risk category, as well as the IRC. Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four risk categories to which Desjardins Group is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

Market risk measures for the trading portfolio

(in millions of dollars)	For the quarter ended September 30, 2020				For the quarters ended June 30, 2020		September 30, 2019	
	As at September 30, 2020	Average	High	Low	As at June 30, 2020	Average	As at September 30, 2019	Average
Equities	$ 1.3	$ 1.0	$ 1.8	$ 0.7	$ 1.8	$ 2.9	$ 1.4	$ 1.6
Foreign exchange	0.4	0.9	2.6	0.1	2.0	1.2	0.1	0.2
Interest rate	5.2	4.7	7.7	3.5	5.0	4.9	2.6	3.4
Specific interest rate risk[1]	2.7	2.7	3.8	1.3	3.6	4.9	6.6	6.1
Diversification effect[2]	(4.1)	(4.2)	N/A[3]	N/A[3]	(6.6)	(7.7)	(7.5)	(7.5)
Aggregate VaR	$ 5.5	$ 5.1	$ 8.1	$ 3.8	$ 5.8	$ 6.2	$ 3.2	$ 3.8
Aggregate SVaR	$ 9.3	$ 15.5	$ 28.9	$ 8.1	$ 23.1	$ 18.9	$ 14.8	$ 16.8
Incremental risk charge (IRC)	$ 43.6	$ 53.0	$ 84.4	$ 41.5	$ 54.9	$ 56.7	$ 95.0	$ 94.3

[1] Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish specific risk from general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of an issuer, such as provinces, municipalities and companies, and a sub-portfolio that contains the positions considered to be without issuer risk, such as governments in the local currency.

[2] Represents the risk reduction related to diversification, namely the difference between the sum of the VaR of the various market risks and the aggregate VaR.

[3] The highs and lows of the various market risk categories can refer to different dates.

The average of the trading portfolio's aggregate VaR was $5.1 million for the quarter ended September 30, 2020, down $1.1 million compared to the quarter ended June 30, 2020. The average of the aggregate SVaR was $15.5 million for the quarter ended September 30, 2020, down $3.4 million compared to the quarter ended June 30, 2020. The average of the incremental risk charge totalled $53.0 million, down $3.7 million compared to the previous quarter.

It should be noted that the decrease in Desjardins Group's average of the aggregate VaR was essentially due to the significant decline in the equity VaR. In addition, the decrease in the average of the aggregate VaR in periods of stress is explained by the decrease in the average Equity, Foreign Exchange and Interest Rate VaR in periods of stress during the period.

The VaR level is still quite high because of the extreme volatility observed during the first quarter of the year. In fact, given that the VaR model uses one-year data histories, the market data observed continue to have an impact on current VaR levels and this impact should persist over the coming quarters.

Aggregate VaR and aggregate SVaR are appropriate measures for a trading portfolio but they must be interpreted by taking into account certain limits, in particular the following ones:

- these measures do not allow future losses to be predicted if actual market fluctuations differ markedly from those used to do the calculations;
- these measures are used to determine the potential losses for a one-day holding period, and not the losses on positions that cannot be liquidated or hedged during this one-day period;
- these measures do not provide information on potential losses beyond the selected confidence level of 99%.

Given these limitations, the process of monitoring trading activities using VaR is supplemented by stress testing and by establishing limits in this regard.

Back testing

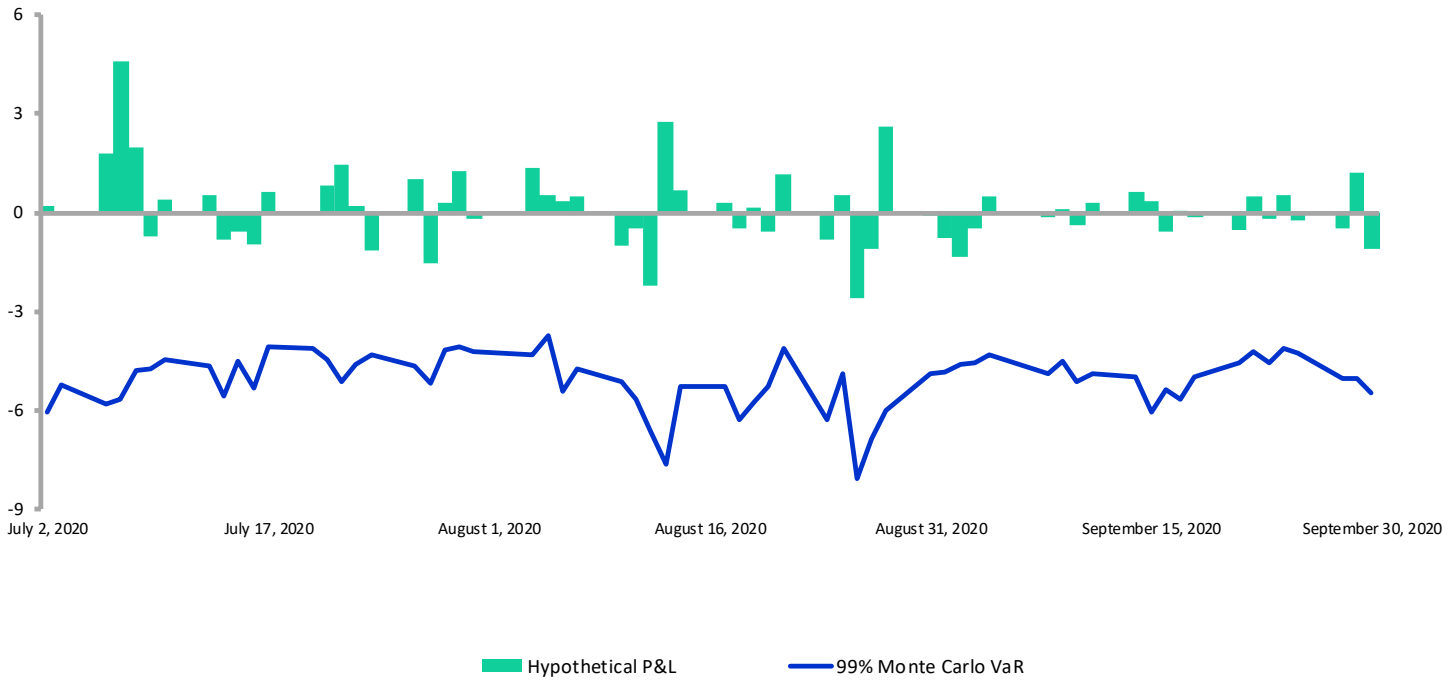
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the model every year.

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

The following graph shows changes in VaR for trading activities as well as the hypothetical P&L related to these activities. During the third quarter of 2020, no overages of actual P&L or hypothetical P&L compared to VaR were observed for Desjardins Group.

Despite the overages of hypothetical P&L since the beginning of 2020, the performance of the VaR model is considered adequate.

VaR compared to hypothetical P&L for trading activities
(in millions of dollars)



Stress testing

Certain events that are considered highly unlikely and that may have a significant impact on trading portfolios may occur from time to time. These events are at the tail-end of the distribution and are the result of extreme situations. Use of a stress-testing program is required to assess the impact of these potential situations.

The stress-testing program used for trading portfolios includes historical, hypothetical and sensitivity scenarios based, for instance, on events such as 9/11 or the 2008 credit crisis. Using such stress testing, changes can be monitored in the market value of positions held depending on various scenarios. Most stress-testing is predictive. For a given stress test, shocks are applied to certain risk factors (interest rates, exchange rates and commodities) and the effects of these shocks are passed on to all the risk factors taking historical correlations into account. The running of each stress test is considered to be independent of the others. In addition, certain stress testing is subject to limit tracking. Stress-testing results are analyzed and reported daily using a dashboard, together with VaR calculations, in order to detect vulnerability to such events. The stress-testing program is reviewed periodically to ensure that it is kept current.

Structural interest rate risk management

Desjardins Group is exposed to structural interest rate risk, which represents the potential impact of interest rate fluctuations on net interest income and the economic value of equity. This risk is the main component of market risk for Desjardins Group's traditional non-trading banking activities, such as accepting deposits and granting loans, as well as for its securities portfolios used for long-term investment purposes and as liquidity reserves.

Interest rate sensitivity is based on the earlier of the repricing or the maturity date of the assets, liabilities and derivative financial instruments used to manage structural interest rate risk. The situation presented reflects the position only on the date indicated and can change significantly in subsequent quarters depending on the preferences of Desjardins Group members and clients, and the application of policies on structural interest rate risk management.

Some Combined Balance Sheet items are considered non-interest-rate-sensitive instruments, including investments in equities, non-performing loans, non-interest-bearing deposits, non-maturity deposits with an interest rate not referenced to a specific rate (such as the prime rate), and equity. As dictated in its policies, Desjardins Group's management practices are based on prudent assumptions with respect to the maturity profile used in its models to determine the interest rate sensitivity of such instruments.

In addition to the total sensitivity gap, the main structural interest rate risk factors are:
- the trend in interest rate level and volatility;
- the changes in the shape of the interest rate curve;
- member and client behaviour in their choice of products;
- the financial intermediation margin;
- the optionality of the various financial products offered.

In order to mitigate these risk factors, sound and prudent management is applied to optimize net interest income while reducing the negative incidence of interest rate movements. The established policies describe the principles, limits and procedures that apply to structural interest rate risk management. Stress testing is used to measure the effect of different variables on changes in net interest income and the economic value of equity. These policies specify the structural interest rate risk factors, the risk measures selected, the risk tolerance levels and the management limits as well as the procedures in the event that limits are exceeded. Structural interest rate risk is assessed at the required frequency according to portfolio volatility (daily, monthly and quarterly).

The assumptions used in the stress testing are based on an analysis of historical data and on the effects of various interest rate environments on changes in such data. These assumptions concern changes in the structure of assets and liabilities, including modelling for non-maturity deposits and equity, in member and client behaviour, and in pricing. Desjardins Group's Asset/Liability Committee (ALCO) is responsible for analyzing and approving the global matching strategy on a monthly basis while respecting the parameters defined in structural interest rate risk management policies. In the current context of the COVID-19 pandemic, the situation is still under control because the portfolios are well matched.

The table below presents the potential impact before income taxes, with regard to structural interest rate risk management associated with banking activities, of a sudden and sustained 25 / 100-basis-point increase or decrease in interest rates on net interest income and the economic value of equity for Desjardins Group. The impact related to insurance activities is presented in Note 1 of this table.

Interest rate sensitivity (before income taxes)[1]

(in millions of dollars)	As at September 30, 2020		As at June 30, 2020		As at September 30, 2019	
	Net interest income[2]	**Economic value of equity[3]**	Net interest income[2]	Economic value of equity[3]	Net interest income[2]	Economic value of equity[3]
Impact of a 100-basis-point increase in interest rates	**$ (36)**	**$ (209)**	$ 13	$ (31)	$ (25)	$ (114)
Impact of a 25-basis-point decrease in interest rates (100-basis-point as at September 30, 2019)[4]	**12**	**32**	(2)	(7)	5	51

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a $185 million decrease in the economic value of equity before taxes as at September 30, 2020, and in a $168 million and $244 million decrease as at June 30, 2020 and September 30, 2019, respectively. A 25-basis-point decrease in interest rates would result in a $53 million increase in the economic value of equity before taxes as at September 30, 2020, and a 100-basis-point decrease in interest rates would result in a $311 million and $258 million increase in the economic value of equity as at June 30, 2020 and September 30, 2019, respectively.

(2) Represents the interest rate sensitivity of net interest income for the next 12 months.

(3) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.

(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates. In addition, given the current environment where interest rates are low, the impact of a decrease in interest rates has been calculated using a decrease of 25 basis points as at September 30, 2020 and June 30, 2020, compared to 100 basis points as at September 30, 2019.

Foreign exchange risk management

Foreign exchange risk arises when the actual or expected value of assets denominated in a foreign currency is higher or lower than that of liabilities denominated in the same currency.

In certain specific situations, Desjardins Group and its components may become exposed to foreign exchange risk, particularly with respect to the U.S. dollar and the euro. This exposure mainly arises from their intermediation activities with members and clients, and their financing and investment activities. A Desjardins Group policy on market risk has set foreign exchange risk exposure limits, which are monitored by the Risk Management Executive Division. To ensure that this risk is properly controlled, Desjardins Group and its components also use, among other things, derivative financial instruments such as foreign exchange forward contracts and currency swaps. Desjardins Group's residual exposure to this risk is low because it reduces its foreign exchange risk by using derivative financial instruments.

LIQUIDITY RISK

Liquidity risk refers to Desjardins Group's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the Combined Balance Sheets.

Desjardins Group manages liquidity risk in order to ensure that it has timely and cost-effective access to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations. Managing this risk involves maintaining a sufficient level of liquid securities, ensuring stable and diversified sources of funding, monitoring indicators and having a contingency plan in the event of a liquidity crisis.

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group has established policies describing the principles, limits, risk appetite thresholds as well as the procedures that apply to liquidity risk management. These policies are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated to reflect regulatory requirements and sound liquidity risk management practices. Given that the insurance companies are subject to specific regulatory requirements, they manage their liquidity risks based on their own needs while following Desjardins Group guidelines. The securities held by these components are not taken into account in the valuation of Desjardins Group's liquidity reserves.

Desjardins Group's Treasury ensures stable and diversified sources of institutional funding by type, source and maturity. It uses a wide range of financial products and borrowing programs on various markets for its funding needs. Through these operations, the funding needs of Desjardins Group components can be satisfied under conditions comparable to those offered on capital markets.

Furthermore, Desjardins Group issues covered bonds and securitizes CHMC-insured loans in the course of its normal operations. Desjardins Group is also eligible for the Bank of Canada's various intervention programs and loan facilities for Emergency Lending Assistance advances.

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF. It should be noted that since January 2020, Desjardins Group has adopted the regulatory requirements concerning the NSFR. Desjardins Group's NSFR was above the minimum regulatory level as at September 30, 2020.

In the current context of the COVID-19 pandemic, the Government of Canada has set up exceptional liquidity programs to facilitate access to funding for financial institutions. Additional information on Government of Canada programs is presented under "Sources of funding" in this section. Desjardins Group has used these programs to maintain adequate liquidity in order to deal with this unprecedented situation. Desjardins Group's average LCR was 157.1% for the quarter ended September 30, 2020, compared to 166.7% for the previous quarter. Despite this decline, the average ratio for the third quarter rose to a very high level as a result of the use of the aforementioned programs and the increase in deposits. The AMF requires that in the absence of stressed conditions, the ratio be greater than or equal to the minimum requirement of 100%. However, in order to promote the effective circulation of liquidity during the COVID-19 pandemic crisis, the AMF could exceptionally accept levels this one time that are lower than the minimum requirements. Desjardins Group does not expect its regulatory ratio to fall below the regulatory limit. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

Desjardins Group determines its liquidity needs by reviewing its current operations and evaluating its future forecasts for balance sheet growth and institutional funding conditions. Various analyses are used to determine the actual liquidity levels of assets and the stability of liabilities based on observed behaviours or contractual maturities. Maintaining liquidity reserves of high-quality assets is required to offset potential cash outflows following a disruption in capital markets, or events that would restrict its access to funding or result in a serious run on deposits.

The minimum liquid asset levels to be maintained by Desjardins Group are specifically prescribed by policies. Daily management of these securities and the reserve level to be maintained is centralized at Desjardins Group Treasury and is subject to monitoring by the Risk Management function under the supervision of the Finance and Risk Management Committee. Securities eligible for liquidity reserves must meet high security and negotiability criteria and provide assurance of their adequacy in the event of a severe liquidity crisis. The securities held are largely Canadian government securities.

In addition to complying with regulatory ratios, a Desjardins-wide stress-testing program has been set up. This program incorporates the concepts put forward by the Basel Committee on Banking Supervision in "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring". The scenarios make it possible to:

- measure the extent of potential cash outflows in a crisis situation;
- implement liquidity ratios and levels to be maintained across Desjardins Group;
- assess the potential marginal cost of such events, depending on the type, severity and level of the crisis.

Liquid assets

The table below presents a summary of Desjardins Group's liquid assets, which do not include assets held by the insurance subsidiaries because those assets are committed to cover insurance liabilities and not the liquidity needs of Desjardins Group's other components. Liquid assets constitute Desjardins Group's primary liquidity reserve for all its operations. Encumbered liquid assets mainly include liquid assets that are pledged as collateral or cannot be used as a result of regulatory, legal, operational or other requirements.

Liquid assets[1]

As at September 30, 2020

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	**$ 7,956**	**$ -**	**$ 7,956**	**$ -**	**$ 7,956**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**52,180**	**8,079**	**60,259**	**21,857**	**38,402**
Other securities in Canada	**6,172**	**1,401**	**7,573**	**4,334**	**3,239**
Issued or guaranteed by foreign issuers	**306**	**69**	**375**	**124**	**251**
Loans					
Insured residential mortgage-backed securities	**6,588**	**-**	**6,588**	**1,336**	**5,252**
Total	**$ 73,202**	**$ 9,549**	**$ 82,751**	**$ 27,651**	**$ 55,100**

As at December 31, 2019

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	$ 2,124	$ -	$ 2,124	$ -	$ 2,124
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	28,743	10,537	39,280	21,178	18,102
Other securities in Canada	2,625	235	2,860	412	2,448
Issued or guaranteed by foreign issuers	70	1	71	5	66
Loans					
Insured residential mortgage-backed securities	7,993	-	7,993	573	7,420
Total	$ 41,555	$ 10,773	$ 52,328	$ 22,168	$ 30,160

(1) Excluding assets held by insurance subsidiaries.

Unencumbered liquid assets by entity[1]

(in millions of dollars)	As at September 30, 2020	As at December 31, 2019
Federation	**$ 34,506**	$ 10,072
Caisse network	**16,964**	16,912
Other entities	**3,630**	3,176
Total	**$ 55,100**	$ 30,160

(1) Excluding assets held by insurance subsidiaries. Substantially all unencumbered liquid assets presented in this table are issued in Canadian dollars.

Encumbered assets

In the normal course of its operations, Desjardins Group pledges securities, loans and other assets as collateral, mainly with regard to financing operations, participation in clearing and payments systems and operations related to provisions for claims and adjustment expenses. The following table presents, for all assets on the Combined Balance Sheets and securities held as collateral, those that are encumbered as well as those that may be pledged as collateral as part of financing or other transactions.

Encumbered assets

As at September 30, 2020

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 8,844	$ -	$ 8,844	$ -	$ 519	$ 7,437	$ 888
Securities	89,253	14,822	104,075	31,229	1,284	40,967	30,595
Securities borrowed or purchased under reverse repurchase agreements	9,706	-	9,706	-	-	-	9,706
Net loans and acceptances	209,931	-	209,931	28,943	-	70,202	110,786
Segregated fund net assets	18,032	-	18,032	-	-	-	18,032
Other assets	24,121	-	24,121	-	-	-	24,121
Total	$ 359,887	$ 14,822	$ 374,709	$ 60,172	$ 1,803	$ 118,606	$ 194,128

As at December 31, 2019

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 3,709	$ -	$ 3,709	$ -	$ 318	$ 1,806	$ 1,585
Securities[3]	59,693	15,310	75,003	26,052	1,483	19,215	28,253
Securities borrowed or purchased under reverse repurchase agreements[3]	10,032	-	10,032	-	-	-	10,032
Net loans and acceptances	203,462	-	203,462	21,654	-	73,569	108,239
Segregated fund net assets	17,026	-	17,026	-	-	-	17,026
Other assets	19,074	-	19,074	-	-	-	19,074
Total	$ 312,996	$ 15,310	$ 328,306	$ 47,706	$ 1,801	$ 94,590	$ 184,209

(1) Assets that cannot be used for legal or other reasons.
(2) "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.
(3) Certain 2019 data has been restated to conform to the current period's presentation and thus to better reflect the nature of repo transactions.

Liquidity coverage ratio

The Basel Committee on Banking Supervision has developed a liquidity coverage ratio (LCR) to promote the short-term resilience of the liquidity risk profile of financial institutions. The LCR is the ratio of a stock of unencumbered high-quality liquid assets (HQLA) to net cash outflows over the next 30 days in the event of an acute liquidity stress scenario.

Under the AMF's Liquidity Adequacy Guideline, HQLA eligible for the purpose of calculating the LCR consist of assets that can be converted quickly into cash at little or no loss of value on capital markets. For Desjardins Group, such high-quality liquid assets are comprised essentially of cash and highly rated securities issued or guaranteed by various levels of government. The AMF Guideline also prescribes weightings for cash inflows and outflows.

The table below presents quantitative information regarding the LCR, based on the model recommended for disclosure requirements by the Basel Committee on Banking Supervision.

Liquidity coverage ratio[1]

(in millions of dollars and as a percentage)	For the quarter ended September 30, 2020 Total non-weighted value[2] (average[4])	For the quarter ended September 30, 2020 Total weighted value[3] (average[4])	For the quarter ended June 30, 2020 Total weighted value[3] (average[4])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 46,989**	$ 43,530
Cash outflows			
Retail deposits and small business deposits, including:	**$ 89,078**	**5,818**	5,298
Stable deposits	**44,133**	**1,324**	1,182
Less stable deposits	**44,945**	**4,494**	4,116
Unsecured wholesale funding, including:	**35,088**	**18,629**	15,995
Operational deposits (all counterparties) and deposits in cooperative bank networks	**8,440**	**2,009**	1,952
Non-operational deposits (all counterparties)	**17,080**	**7,052**	6,152
Unsecured debt	**9,568**	**9,568**	7,891
Secured wholesale funding	**N/A**	**13**	14
Additional requirements, including:	**14,395**	**3,089**	2,913
Outflows related to exposures on derivatives and other collateral required	**1,367**	**1,249**	1,144
Outflows related to funding loss on debt products	**68**	**68**	113
Credit and liquidity facilities	**12,960**	**1,772**	1,656
Other contractual funding liabilities	**3,791**	**2,081**	1,777
Other contingent funding liabilities	**91,473**	**2,281**	2,340
Total cash outflows	**N/A**	**$ 31,911**	$ 28,337
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 14,428**	**$ 42**	$ 73
Inflows related to completely effective exposures	**3,420**	**1,710**	1,671
Other cash inflows	**253**	**253**	476
Total cash inflows	**$ 18,101**	**$ 2,005**	$ 2,220

	Total adjusted value[5]	Total adjusted value[5]
Total high-quality liquid assets	**$ 46,989**	$ 43,530
Total net cash outflows	**29,906**	26,117
Liquidity coverage ratio	**157.1%**	166.7%

[1] Excluding the insurance subsidiaries.
[2] The non-weighted values of cash inflows and outflows represent unpaid balances either maturing or falling due and payable within 30 days.
[3] Weighted values are calculated after the "haircuts" prescribed for high-quality liquid assets and the rates prescribed for cash inflows and outflows have been applied.
[4] The ratio is presented based on the average of daily data for the quarter.
[5] The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

Sources of funding

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $225.8 billion as at September 30, 2020, up $31.9 billion since December 31, 2019. Additional information on deposits is presented in the "Balance sheet management" section.

Funding programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, and these strategies are regulated by policies. In the first nine months of 2020, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional funding and the contribution of the caisse network. Short-term wholesale funding is used to finance very liquid assets while long-term wholesale funding is mainly used to finance less liquid assets and to support reserves of liquid assets.

In order to secure long-term funding at the lowest cost on the market, the Federation maintains an active presence in the federally-guaranteed mortgage loan securitization market under the *National Housing Act* (NHA) Mortgage-Backed Securities Program. In addition, to ensure stable funding, it diversifies its sources from institutional markets. It therefore resorts to the capital markets when conditions are favourable, and makes public and private issues of term notes on Canadian, U.S. and European markets, as required.

The main programs currently used by the Federation are as follows:

Main funding programs
As at September 30, 2020

	Maximum authorized amount
Medium-term notes (Canadian)	**$10 billion**
Covered bonds (multi-currency)[1]	**$26 billion**
Short-term notes (European)	**€3 billion**
Short-term notes (U.S.)	**US$15 billion**
Medium-term and subordinated notes (multi-currency)	**€7 billion**
NVCC subordinated notes (Canadian)	**$3 billion**

(1) The maximum authorized amount under the covered bond program was increased from $14 billion to $26 billion following the increase in the prudential limit for covered bond issues by the AMF on March 31, 2020. This temporary easing is granted for at least a year and could be extended beyond that, if necessary.

The following table presents the remaining terms to maturity of wholesale funding.

Remaining contractual term to maturity of wholesale funding

(in millions of dollars)	As at September 30, 2020								As at December 31, 2019
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total – Less than 1 year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	**$ 2,018**	**$ 889**	**$ 13**	**$ 10**	**$ 2,930**	**$ -**	**$ -**	**$ 2,930**	$ 2,250
Commercial paper	**6,794**	**2,575**	**2,468**	**57**	**11,894**	**-**	**-**	**11,894**	13,058
Medium-term notes	**1,997**	**1,023**	**-**	**1,559**	**4,579**	**1,838**	**3,121**	**9,538**	11,171
Mortgage loan securitization	**-**	**353**	**241**	**676**	**1,270**	**1,569**	**9,091**	**11,930**	10,390
Covered bonds	**-**	**1,561**	**684**	**3,197**	**5,442**	**1,329**	**3,907**	**10,678**	5,655
Subordinated notes	**-**	**-**	**-**	**-**	**-**	**-**	**1,465**	**1,465**	1,398
Total	**$ 10,809**	**$ 6,401**	**$ 3,406**	**$ 5,499**	**$ 26,115**	**$ 4,736**	**$ 17,584**	**$ 48,435**	$ 43,922
Including:									
Secured	**$ -**	**$ 1,914**	**$ 925**	**$ 3,873**	**$ 6,712**	**$ 2,898**	**$ 14,463**	**$ 24,073**	$ 17,443
Unsecured	**10,809**	**4,487**	**2,481**	**1,626**	**19,403**	**1,838**	**3,121**	**24,362**	26,479

Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up $4.5 billion compared to December 31, 2019, mainly because of an increase in covered bonds.

In addition, Desjardins Group diversifies its funding sources in order to limit its reliance on a single currency. The "Wholesale funding by currency" table presents a breakdown of borrowings on markets and subordinated notes by currency. These funds are obtained primarily through short- and medium-term notes, mortgage loan securitization, covered bonds and subordinated notes.

Wholesale funding by currency

(in millions of dollars and as a percentage)	As at September 30, 2020		As at December 31, 2019	
Canadian dollars	**$ 24,311**	**50.1%**	$ 20,243	46.1%
U.S. dollars	**15,768**	**32.6**	16,708	38.0
Other	**8,356**	**17.3**	6,971	15.9
	$ 48,435	**100.0%**	$ 43,922	100.0%

Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $1.9 billion in the first nine months of 2020. During the same period, the Federation also made one issue for a total of US$1.0 billion, subject to the bail-in regime, under its multi-currency medium-term notes program. On May 26, 2020, the Federation issued notes qualifying as Non-Viability Contingent Capital (NVCC) for $1.0 billion under its Canadian NVCC Subordinated Notes Program. In addition, on September 24, 2020, the Federation floated an issue of 500 million euros under its legislative covered bond program. Finally, it should be noted that on October 7, 2020, the Federation made a new issue of US$750 million under its legislative covered bond program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $32.1 billion as at September 30, 2020, compared to $27.2 billion as at December 31, 2019. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Combined Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled $0.5 billion as at September 30, 2020, compared to $1.4 billion as at December 31, 2019.

During the COVID-19 pandemic, the Government of Canada, through the Bank of Canada and CMHC, has rolled out various funding initiatives with the aim of supporting the Canadian financial system by preserving a source of business financing. Like the Canadian banks, Desjardins Group made use of these programs for $11.3 billion as at September 30, 2020. These additional sources of funding allow Desjardins Group to maintain adequate liquidity levels to deal with the impacts related to this pandemic.

Among other things, under the Insured Mortgage Purchase Program (IMPP) implemented by CMHC, the Federation sold NHA mortgage-backed securities for $0.5 billion to CMHC. Under this program, the Government of Canada may purchase up to $150 billion of NHA-insured mortgage pools from financial institutions through CMHC. Furthermore, on March 30, 2020, the Federation launched an issue of own-name covered bonds (self-held) in the amount of $2.5 billion, in order to participate in the Bank of Canada's Term Repos program. The total amount of these covered bonds was pledged as collateral to the Bank of Canada under the program on March 31, with settlement on April 2, 2020.

On April 14, 2020, the Federation also issued own-name covered bonds (self-held) in the amount of $1.5 billion, for purposes of participating in the Bank of Canada's Term Repos program. The total amount of these covered bonds was pledged as collateral to the Bank of Canada under the said program on April 15 and 20, 2020.

On April 23, 2020, just like the Canadian banks, Desjardins Group also had access to the Standing Term Liquidity Facility that the Bank of Canada set up to support the liquidity of the financial system. Under the terms of this facility, eligible financial institutions can borrow from the Bank by giving as collateral a large pool of securities. In this way, they are better able to finance new loans.

These initiatives are included in the Federation's total participation in the Bank of Canada's and CMHC's initiatives for $11.3 billion.

Overall, these transactions made it possible to adequately meet the liquidity needs of Desjardins Group, to better diversify its sources of funding and to further extend the average term.

Credit ratings of securities issued and outstanding

Desjardins Group's credit ratings affect its ability to access sources of funding on capital markets, as well as the conditions of such funding. They are also a factor considered in certain Desjardins Group transactions involving counterparties.

Rating agencies assign credit ratings and related ratings outlooks based on their own proprietary methodology, which includes a number of analytical criteria, including factors that are not under Desjardins Group's control. The rating agencies evaluate Desjardins Group primarily on a combined basis and recognize its capitalization, its consistent financial performance, its significant market shares in Québec and the quality of its assets. Consequently, the credit ratings of the Federation, a reporting issuer, and of Desjardins Capital Inc., a venture issuer, are backed by Desjardins Group's financial strength.

The Federation and Desjardins Capital Inc. have first-class credit ratings that are among the best of the major Canadian and international banking institutions.

During the third quarter of 2020, the rating agencies DBRS and S&P affirmed Desjardins Group's credit ratings, while the ratings assigned by Fitch and Moody's remained the same.

As at the date of this MD&A, the outlooks assigned to Desjardins Group's ratings by DBRS, Moody's and S&P were stable, while the outlook assigned by Fitch was still negative.

The various credit ratings assigned to the instruments of the Federation and Desjardins Capital Inc. are listed in the table below.

Credit ratings of securities issued and outstanding

	DBRS	FITCH	MOODY'S	STANDARD & POOR'S
Fédération des caisses Desjardins du Québec				
Short-term debt	**R-1 (high)**	**F1+**	**P-1**	**A-1**
Medium- and long-term debt, existing senior[1]	**AA**	**AA**	**Aa2**	**A+**
Medium- and long-term debt, senior[2]	**AA (low)**	**AA-**	**A2**	**A-**
NVCC subordinated notes	**A (low)**	**A**	**A2**	**BBB+**
Covered bonds	**-**	**AAA**	**Aaa**	**-**
Desjardins Capital Inc.				
Medium- and long-term debt, senior	**A (high)**	**A**	**A2**	**A**

(1) Includes senior medium- and long-term debt issued before March 31, 2019, as well as senior medium- and long-term debt issued on or after this date and which is excluded from the recapitalization (bail-in) regime applicable to Desjardins Group.
(2) Includes senior medium- and long-term debt issued on or after March 31, 2019, which can be converted under the recapitalization (bail-in) regime applicable to Desjardins Group.

Desjardins Group regularly monitors the additional level of obligations that its counterparties would require in the event of a credit rating downgrade for the Federation and Desjardins Capital Inc. This monitoring enables Desjardins Group to assess the impact of such a downgrade on its funding capabilities and its ability to perform transactions in the normal course of its operations as well as ensure that it has the additional liquid assets and collateral necessary to meet its obligations. Currently, Desjardins Group is not obliged to provide additional collateral in the event of its credit rating being lowered three notches by one or more credit rating agencies.

Contractual maturities of on-balance sheet items and off-balance sheet commitments

The following table presents 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 for 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 the credit commitments presented in this table 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 amounts to the maximum cash outflows that Desjardins Group could be required to make in the event of complete default of the parties to the 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 16, “Insurance contract liabilities”, to the Annual Combined Financial Statements provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments
As at September 30, 2020

(in millions of dollars)	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	$ 8,410	$ 465	$ -	$ -	$ -	$ -	$ -	$ -	$ (31)	$ 8,844
Securities										
Securities at fair value through profit or loss[1]	204	652	276	613	345	1,594	6,319	19,661	4,571	34,235
Securities at fair value through other comprehensive income[1]	1,672	1,440	815	665	680	10,845	20,484	18,078	64	54,743
Securities at amortized cost	40	3	203	-	-	2	2	25	-	275
Securities borrowed or purchased under reverse repurchase agreements	8,430	832	288	156	-	-	-	-	-	9,706
Loans										
Residential mortgages[2]	3,008	3,437	5,770	7,762	6,717	26,525	71,059	3,440	6,387	134,105
Consumer, credit card and other personal loans[2]	55	73	138	195	342	1,425	5,914	8,429	9,257	25,828
Business and government[2]	12,009	5,856	4,793	5,471	4,643	3,581	6,723	2,709	5,261	51,046
Allowance for credit losses	-	-	-	-	-	-	-	-	(1,048)	(1,048)
Segregated fund net assets	-	-	-	-	-	-	-	-	18,032	18,032
Premiums receivable	176	66	14	3	-	-	-	-	2,611	2,870
Derivative financial instruments	283	263	174	271	193	796	3,172	694	-	5,846
Amounts receivable from clients, brokers and financial institutions	4,115	4	1	-	-	-	-	-	477	4,597
Reinsurance assets	44	84	86	74	70	193	390	1,048	-	1,989
Right-of-use assets	-	-	-	-	-	-	-	-	561	561
Investment property	-	-	-	-	-	-	-	-	937	937
Property, plant and equipment	-	-	-	-	-	-	-	-	1,487	1,487
Goodwill	-	-	-	-	-	-	-	-	156	156
Intangible assets	-	-	-	-	-	-	-	-	425	425
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,159	1,159
Deferred tax assets	-	-	-	-	-	-	-	-	1,178	1,178
Other assets	888	217	117	9	11	24	63	21	1,566	2,916
Total assets	$ 39,334	$ 13,392	$ 12,675	$ 15,219	$ 13,001	$ 44,985	$ 114,126	$ 54,105	$ 53,050	$ 359,887

See page 53 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at September 30, 2020

(in millions of dollars)	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]	$ 4,706	$ 3,692	$ 4,400	$ 8,143	$ 5,100	$ 15,095	$ 16,424	$ 334	$ 66,647	$ 124,541
Business and government[3]	13,247	6,942	4,145	4,296	2,400	6,191	14,268	4,135	44,680	100,304
Deposit-taking institutions[3]	211	1	5	3	-	15	5	-	735	975
Commitments related to securities sold short[4]	148	87	382	6	149	780	1,838	5,453	3	8,846
Commitments related to securities lent or sold under repurchase agreements	11,813	38	1,239	3,085	-	1,498	-	-	-	17,673
Derivative financial instruments	180	127	165	344	177	755	2,176	171	-	4,095
Amounts payable to clients, brokers and financial institutions	5,302	2	-	-	-	-	-	-	3,589	8,893
Lease liabilities	6	11	16	15	16	60	166	327	9	626
Insurance contract liabilities	487	892	1,047	928	885	2,155	4,848	20,479	3,039	34,760
Segregated fund net liabilities	-	-	-	-	-	-	-	-	18,025	18,025
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	3,281	3,281
Deferred tax liabilities	-	-	-	-	-	-	-	-	375	375
Other liabilities	2,856	393	475	409	104	137	170	33	2,033	6,610
Subordinated notes	-	-	-	-	-	-	-	1,465	-	1,465
Total equity	-	-	-	-	-	-	-	-	29,418	29,418
Total liabilities and equity	$ 38,956	$ 12,185	$ 11,874	$ 17,229	$ 8,831	$ 26,686	$ 39,895	$ 32,397	$ 171,834	$ 359,887
Off-balance sheet commitments										
Credit commitments[5]	$ 1,243	$ 165	$ 436	$ 1,158	$ 662	$ 3,157	$ 7,717	$ 234	$ 105,507	$ 120,279
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,859	1,859
Documentary letters of credit	1	3	8	5	1	1	-	-	-	19
Guarantees and standby letters of credit	77	273	183	266	182	32	22	8	8	1,051
Credit default swaps	-	-	-	-	-	-	5	683	-	688

See page 53 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 2019

(in millions of dollars)	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	$ 3,263	$ 428	$ 9	$ -	$ -	$ -	$ -	$ -	$ 9	$ 3,709
Securities										
Securities at fair value through profit or loss[1]	18	442	1,068	296	1,014	1,650	6,395	19,452	4,833	35,168
Securities at fair value through other comprehensive income[1]	353	574	543	516	215	4,617	13,035	2,996	60	22,909
Securities at amortized cost	567	468	263	166	113	1	4	34	-	1,616
Securities borrowed or purchased under reverse repurchase agreements	9,750	282	-	-	-	-	-	-	-	10,032
Loans										
Residential mortgages[2]	2,817	3,587	7,386	7,355	7,485	23,590	66,086	1,933	6,518	126,757
Consumer, credit card and other personal loans[2]	47	59	156	216	319	1,457	6,035	7,865	10,868	27,022
Business and government[2]	12,031	4,081	4,786	4,843	5,063	3,756	6,796	2,712	5,920	49,988
Allowance for credit losses	-	-	-	-	-	-	-	-	(685)	(685)
Segregated fund net assets	-	-	-	-	-	-	-	-	17,026	17,026
Clients' liability under acceptances	368	12	-	-	-	-	-	-	-	380
Premiums receivable	192	73	15	3	-	-	-	-	2,403	2,686
Derivative financial instruments	125	134	247	160	294	893	2,176	217	-	4,246
Amounts receivable from clients, brokers and financial institutions	2,142	3	-	-	-	-	-	-	84	2,229
Reinsurance assets	37	70	81	70	65	174	381	1,002	121	2,001
Right-of-use assets	-	-	-	-	-	-	-	-	566	566
Investment property	-	-	-	-	-	-	-	-	957	957
Property, plant and equipment	-	-	-	-	-	-	-	-	1,471	1,471
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	381	381
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,034	1,034
Deferred tax assets	-	-	-	-	-	-	-	-	1,292	1,292
Other assets	608	69	73	10	12	25	56	4	1,233	2,090
Total assets	$ 32,318	$ 10,282	$ 14,627	$ 13,635	$ 14,580	$ 36,163	$100,964	$ 36,215	$ 54,212	$ 312,996

See page 53 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 2019

(in millions of dollars)	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]	$ 3,397	$ 3,645	$ 7,733	$ 4,669	$ 5,960	$ 12,724	$ 16,926	$ 381	$ 56,230	$111,665
Business and government[3]	8,728	6,056	4,335	3,791	5,604	4,034	14,179	3,448	31,381	81,556
Deposit-taking institutions[3]	99	-	6	13	9	20	22	-	528	697
Acceptances	368	12	-	-	-	-	-	-	-	380
Commitments related to securities sold short[4]	495	201	171	9	7	196	1,866	7,668	2	10,615
Commitments related to securities lent or sold under repurchase agreements	10,562	-	-	-	-	-	-	-	-	10,562
Derivative financial instruments	152	192	292	188	228	978	2,115	133	-	4,278
Amounts payable to clients, brokers and financial institutions	2,695	-	-	-	-	-	-	-	2,857	5,552
Lease liabilities	6	10	15	14	15	56	162	338	8	624
Insurance contract liabilities	440	788	975	852	793	1,921	4,484	18,518	2,824	31,595
Segregated fund net liabilities	-	-	-	-	-	-	-	-	17,002	17,002
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	3,068	3,068
Deferred tax liabilities	-	-	-	-	-	-	-	-	281	281
Other liabilities	2,546	569	653	191	67	129	232	46	1,861	6,294
Subordinated notes	-	-	899	-	-	-	-	499	-	1,398
Total equity	-	-	-	-	-	-	-	-	27,429	27,429
Total liabilities and equity	$ 29,488	$ 11,473	$ 15,079	$ 9,727	$ 12,683	$ 20,058	$ 39,986	$ 31,031	$143,471	$312,996
Off-balance sheet commitments										
Credit commitments[5]	$ 966	$ 50	$ 395	$ 336	$ 549	$ 3,566	$ 7,977	$ 513	$ 99,049	$113,401
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,985	1,985
Documentary letters of credit	3	6	5	1	2	6	-	-	-	23
Guarantees and standby letters of credit	78	184	163	288	205	37	21	40	6	1,022
Credit default swaps	-	-	-	-	-	-	195	-	-	195

(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 after 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.

ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

The tables below provide details about more complex financial instruments that carry a higher risk.

Asset-backed securities

(in millions of dollars)	As at September 30, 2020		As at December 31, 2019	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities[1]	**$ 90**	**$ 90**	$ 135	$ 135

(1) None of the securities held is directly backed by subprime residential mortgage loans. These securities are presented under "Securities at fair value through profit or loss" and "Securities at fair value through other comprehensive income" on the Combined Balance Sheets.

Leveraged finance loans and subprime loans

(in millions of dollars)	As at September 30, 2020	As at December 31, 2019
Leveraged finance loans[1]	**$ 337**	$ 370
Alt-A mortgage loans[2]	**13**	15
Subprime residential mortgage loans[3]	**4**	4

(1) Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
(2) Alt-A mortgage loans are defined as loans to borrowers with non-standard income documentation. These loans are presented on the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.
(3) Subprime residential mortgage loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded on the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the interim period ended September 30, 2020, Desjardins Group did not make any changes to its policies, procedures and other processes with regard to internal control that had materially affected, or may materially affect, its internal control over financial reporting. The parties involved and their responsibilities regarding such internal control are described on pages 95 and 96 of the 2019 annual MD&A.

RELATED PARTY DISCLOSURES

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

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

Desjardins Group has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's length transactions and in compliance with the legislative framework for its various components. These policies and procedures have not changed significantly since December 31, 2019.

Additional information on related party transactions is provided in Note 32, "Related party disclosures", to the Annual Combined Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Group is essential to understanding the Annual and Interim Combined Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements on pages 117 to 135 of the 2019 Annual Report.

Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 96 to 102 of the 2019 annual MD&A. For the nine-month period ended September 30, 2020, these significant accounting policies are the same as at December 31, 2019. However, the COVID-19 pandemic situation has resulted in new sources of uncertainty affecting the judgments as well as the estimates and assumptions made by management in applying these accounting policies for the nine-month period ended September 30, 2020. This concerns in particular the impairment of securities designated for the overlay approach, the loss allowance for expected credit losses and the derecognition of financial assets.

Impairment of securities designated for the overlay approach

Securities designated for the overlay approach were examined as at the reporting date to determine whether there was any objective evidence that they were impaired, and Desjardins Group did not record any impairment losses.

Loss allowance for expected credit losses

For more information about the significant judgments made to estimate the loss allowance for expected credit losses, see Note 5, “Loans and allowance for credit losses” to the Interim Combined Financial Statements.

Derecognition of financial assets

Participation in the Government of Canada’s Canada Emergency Business Account (CEBA) and the Business Credit Availability Program (BCAP) was assessed to determine if the derecognition criteria for financial assets had been met. For more information, see Note 5, “Loans and allowance for credit losses” to the Interim Combined Financial Statements.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2019 are described in Note 2, “Basis of presentation and significant accounting policies”, to Desjardins Group's Annual Combined Financial Statements, on page 136 of the 2019 Annual Report. Since then, the IASB has issued the amendments indicated below.

IFRS 17, “Insurance Contracts”

In June 2020, the IASB issued amendments to IFRS 17, including the two-year deferral of the initial effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. Desjardins Group is currently assessing the impact of adopting the amendments to be applied to annual reporting periods beginning on or after January 1, 2023.

IFRS 9, “Financial Instruments”, IAS 39, “Financial Instruments: Recognition and Measurement”, and IFRS 7, “Financial Instruments: Disclosures”

In August 2020, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in connection with Phase 2 of its interest rate benchmark reform. The amendments focus on the impact made on financial statements by the replacement of an interest rate benchmark.

The IASB amended IFRS 9 to add a practical expedient allowing a change in contractual cash flows that is required by interest rate benchmark reform to be accounted for prospectively by revising the effective interest rate. The practical expedient applies only if certain conditions are met.

The IASB also amended IFRS 9 and IAS 39 to add a temporary exception for hedge accounting. The IASB therefore provides relief from applying current hedge accounting documentation requirements for changes to hedged items, hedging instruments or the hedged risk arising directly from interest rate benchmark reform. The amendments allow hedge accounting to continue when changes in the hedged item or the hedging instrument occur as a result of changes that are required by the reform.

IFRS 7 was also amended to include the requirement to disclose the nature and extent of risks relating to the reform, how the entity manages such risks, as well as the entity’s progress in completing the transition to alternative benchmark rates and how the entity is managing the transition. Desjardins Group is currently assessing the impact of adopting these amendments, which will apply to annual periods beginning on or after January 1, 2021. Earlier application is permitted.

COMBINED FINANCIAL STATEMENTS

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Combined Balance Sheets

(unaudited)

(in millions of Canadian dollars)	Notes	As at September 30, 2020	As at December 31, 2019
ASSETS			
Cash and deposits with financial institutions		**$ 8,844**	$ 3,709
Securities			
Securities at fair value through profit or loss		**34,235**	35,168
Securities at fair value through other comprehensive income		**54,743**	22,909
Securities at amortized cost		**275**	1,616
		89,253	59,693
Securities borrowed or purchased under reverse repurchase agreements		**9,706**	10,032
Loans	5		
Residential mortgages		**134,105**	126,757
Consumer, credit card and other personal loans		**25,828**	27,022
Business and government		**51,046**	49,988
		210,979	203,767
Allowance for credit losses	5	**(1,048)**	(685)
		209,931	203,082
Segregated fund net assets		**18,032**	17,026
Other assets			
Clients' liability under acceptances		**-**	380
Premiums receivable		**2,870**	2,686
Derivative financial instruments		**5,846**	4,246
Amounts receivable from clients, brokers and financial institutions		**4,597**	2,229
Reinsurance assets		**1,989**	2,001
Right-of-use assets		**561**	566
Investment property		**937**	957
Property, plant and equipment		**1,487**	1,471
Goodwill		**156**	121
Intangible assets		**425**	381
Investments in companies accounted for using the equity method		**1,159**	1,034
Deferred tax assets		**1,178**	1,292
Other		**2,916**	2,090
		24,121	19,454
TOTAL ASSETS		**$ 359,887**	$ 312,996
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	7		
Individuals		**$ 124,541**	$ 111,665
Business and government		**100,304**	81,556
Deposit-taking institutions		**975**	697
		225,820	193,918
Other liabilities			
Acceptances		**-**	380
Commitments related to securities sold short		**8,846**	10,615
Commitments related to securities lent or sold under repurchase agreements		**17,673**	10,562
Derivative financial instruments		**4,095**	4,278
Amounts payable to clients, brokers and financial institutions		**8,893**	5,552
Lease liabilities		**626**	624
Insurance contract liabilities		**34,760**	31,595
Segregated fund net liabilities		**18,025**	17,002
Net defined benefit plan liabilities		**3,281**	3,068
Deferred tax liabilities		**375**	281
Other		**6,610**	6,294
		103,184	90,251
Subordinated notes	8	**1,465**	1,398
TOTAL LIABILITIES		**330,469**	285,567
EQUITY			
Capital stock		**5,029**	5,134
Undistributed surplus earnings		**1,841**	2,352
Accumulated other comprehensive income	9	**1,183**	211
Reserves		**20,661**	18,959
Equity – Group's share		**28,714**	26,656
Non-controlling interests		**704**	773
TOTAL EQUITY		**29,418**	27,429
TOTAL LIABILITIES AND EQUITY		**$ 359,887**	$ 312,996

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

Combined Statements of Income

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended September 30 2020	2019	For the nine-month periods ended September 30 2020	2019
INTEREST INCOME					
Loans		**$ 1,804**	$ 2,014	**$ 5,519**	$ 5,795
Securities		**160**	98	**429**	313
		1,964	2,112	**5,948**	6,108
INTEREST EXPENSE					
Deposits		**431**	665	**1,570**	1,949
Subordinated notes		**16**	18	**44**	54
Other		**67**	57	**178**	170
		514	740	**1,792**	2,173
NET INTEREST INCOME	11	**1,450**	1,372	**4,156**	3,935
NET PREMIUMS		**2,534**	2,326	**7,294**	6,885
OTHER INCOME					
Deposit and payment service charges		**96**	116	**284**	322
Lending fees and credit card service revenues		**126**	193	**463**	589
Brokerage and investment fund services		**235**	223	**711**	660
Management and custodial service fees		**152**	146	**449**	427
Net investment income	11	**316**	605	**2,499**	3,169
Overlay approach adjustment for insurance operations financial assets		**(143)**	(13)	**70**	(170)
Foreign exchange income		**22**	11	**82**	52
Other		**25**	7	**122**	63
		829	1,288	**4,680**	5,112
TOTAL INCOME		**4,813**	4,986	**16,130**	15,932
PROVISION FOR CREDIT LOSSES	5	**99**	154	**694**	252
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**1,753**	2,258	**7,451**	7,737
NON-INTEREST EXPENSE					
Salaries and fringe benefits		**910**	852	**2,829**	2,697
Premises, equipment and furniture, including depreciation		**230**	189	**645**	575
Service agreements and outsourcing		**53**	88	**179**	267
Communications		**58**	59	**180**	198
Other		**734**	661	**2,154**	2,084
		1,985	1,849	**5,987**	5,821
OPERATING SURPLUS EARNINGS		**976**	725	**1,998**	2,122
Income taxes on surplus earnings		**247**	155	**455**	459
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS[1]		**729**	570	**1,543**	1,663
Member dividends		**80**	80	**237**	237
Tax recovery on member dividends		**(20)**	(20)	**(62)**	(62)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		**$ 669**	$ 510	**$ 1,368**	$ 1,488
of which:					
Group's share		**$ 648**	$ 499	**$ 1,327**	$ 1,462
Non-controlling interests' share		**21**	11	**41**	26

(1) The Group's share of "Surplus earnings before member dividends" is presented in Note 12, "Segmented information".

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

Combined Statements of Comprehensive Income

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2020	2019	**2020**	2019
Net surplus earnings for the period after member dividends	**$ 669**	$ 510	**$ 1,368**	$ 1,488
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 liabilities	**(150)**	59	**(120)**	(367)
Share of associates and joint ventures accounted for using the equity method	**(1)**	-	**(1)**	(2)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**2**	-	**2**	-
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**(1)**	-	**(2)**	-
	(150)	59	**(121)**	(369)
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 gains (losses)	**97**	(3)	**706**	272
Provision for credit losses recognized in profit or loss	**7**	1	**20**	1
Reclassification of net gains to the Combined Statements of Income	**(39)**	(20)	**(230)**	(58)
	65	(22)	**496**	215
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	**114**	7	**(101)**	155
Reclassification of net (gains) losses to the Combined Statements of Income	**(4)**	2	**44**	(18)
	110	9	**(57)**	137
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(23)**	(32)	**547**	86
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(8)**	(4)	**(13)**	(20)
	(31)	(36)	**534**	66
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**-**	2	**1**	-
	144	(47)	**974**	418
Total other comprehensive income, net of income taxes	**(6)**	12	**853**	49
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 663**	$ 522	**$ 2,221**	$ 1,537
of which:				
Group's share	**$ 636**	$ 510	**$ 2,178**	$ 1,506
Non-controlling interests' share	**27**	12	**43**	31

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

Combined Statements of Comprehensive Income *(continued)*

(unaudited)

Income taxes on other comprehensive income

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

(in millions of Canadian dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2020	2019	**2020**	2019
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	**$ (54)**	$ 22	**$ (43)**	$ (131)
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	**(1)**	-	**(1)**	-
	(54)	22	**(45)**	(131)
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 gains (losses)	**34**	-	**251**	95
Provision for credit losses recognized in profit or loss	**2**	-	**7**	-
Reclassification of net gains to the Combined Statements of Income	**(13)**	(8)	**(83)**	(21)
	23	(8)	**175**	74
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	**33**	3	**(31)**	39
Reclassification of net (gains) losses to the Combined Statements of Income	**-**	1	**18**	(6)
	33	4	**(13)**	33
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(8)**	(16)	**195**	24
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(2)**	(2)	**(4)**	(1)
	(10)	(18)	**191**	23
	46	(22)	**353**	130
Total income tax expense (recovery)	**$ (8)**	$ -	**$ 308**	$ (1)

Combined Statements of Changes in Equity

(unaudited)

For the nine-month periods ended September 30

(in millions of Canadian dollars)	Capital				Reserves						
	Capital stock	Share capital	Undistributed surplus earnings	Accumulated other comprehensive income (Note 9)	Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves	Equity - Group's share	Non-controlling interests	Total equity
BALANCE AS AT DECEMBER 31, 2019	**$ 5,134**	**$ -**	**$ 2,352**	**$ 211**	**$ 796**	**$ 978**	**$ 17,185**	**$ 18,959**	**$ 26,656**	**$ 773**	**$ 27,429**
Net surplus earnings for the period after member dividends	**-**	**-**	**1,327**	**-**	**-**	**-**	**-**	**-**	**1,327**	**41**	**1,368**
Other comprehensive income for the period	**-**	**-**	**(121)**	**972**	**-**	**-**	**-**	**-**	**851**	**2**	**853**
Comprehensive income for the period	**-**	**-**	**1,206**	**972**	**-**	**-**	**-**	**-**	**2,178**	**43**	**2,221**
Net change in capital stock	**(105)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(105)**	**-**	**(105)**
Net buy-out of non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(93)**	**(93)**
Loss on dilution of non-controlling interest	**-**	**-**	**(14)**	**-**	**-**	**-**	**-**	**-**	**(14)**	**-**	**(14)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19)**	**(19)**
Transfer from undistributed surplus earnings (to reserves)	**-**	**-**	**(1,702)**	**-**	**-**	**248**	**1,454**	**1,702**	**-**	**-**	**-**
Other	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
BALANCE AS AT SEPTEMBER 30, 2020	**$ 5,029**	**$ -**	**$ 1,841**	**$ 1,183**	**$ 796**	**$ 1,226**	**$ 18,639**	**$ 20,661**	**$ 28,714**	**$ 704**	**$ 29,418**
BALANCE AS AT DECEMBER 31, 2018	$ 5,350	$ 5	$ 3,649	$ (23)	$ 955	$ 270	$ 14,695	$ 15,920	$ 24,901	$ 748	$ 25,649
Net surplus earnings for the period after member dividends	-	-	1,462	-	-	-	-	-	1,462	26	1,488
Other comprehensive income for the period	-	-	(365)	409	-	-	-	-	44	5	49
Comprehensive income for the period	-	-	1,097	409	-	-	-	-	1,506	31	1,537
Issuance of F capital shares	105	-	-	-	-	-	-	-	105	-	105
Other net change in capital stock	(277)	-	-	-	-	-	-	-	(277)	-	(277)
Net change in share capital	-	(1)	-	-	-	-	-	-	(1)	7	6
Dividends	-	-	-	-	-	-	-	-	-	(27)	(27)
Transfer from undistributed surplus earnings (to reserves)	-	-	(2,623)	-	(3)	804	1,822	2,623	-	-	-
Other	-	-	(2)	-	-	-	(5)	(5)	(7)	2	(5)
BALANCE AS AT SEPTEMBER 30, 2019	$ 5,178	$ 4	$ 2,121	$ 386	$ 952	$ 1,074	$ 16,512	$ 18,538	$ 26,227	$ 761	$ 26,988

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

Combined Statements of Cash Flows

(unaudited)

(in millions of Canadian dollars)	For the nine-month periods ended September 30 2020	2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 1,998**	$ 2,122
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment, and investment property, and amortization of intangible assets	**266**	261
Net change in insurance contract liabilities	**3,165**	3,110
Provision for credit losses	**694**	252
Net realized gains on securities classified as at fair value through other comprehensive income	**(315)**	(75)
Net gains on disposal of investment property	**(102)**	-
Overlay approach adjustment for insurance operations financial assets	**(70)**	170
Other	**142**	26
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**933**	(924)
Securities borrowed or purchased under reverse repurchase agreements	**326**	(804)
Loans	**(7,543)**	(9,533)
Derivative financial instruments, net amount	**(1,222)**	464
Net amounts receivable from and payable to clients, brokers and financial institutions	**973**	1,015
Deposits	**31,902**	9,662
Commitments related to securities sold short	**(1,769)**	432
Commitments related to securities lent or sold under repurchase agreements	**7,111**	(4,135)
Other	**(645)**	(623)
Payment of the contingent consideration	**(206)**	(209)
Income taxes paid on surplus earnings	**(366)**	(408)
Payment of member dividends	**-**	(271)
	35,272	532
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	**997**	-
Repayment of subordinated notes	**(899)**	-
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	**(31)**	14
Repayment of lease liabilities	**(41)**	(28)
Issuance of F capital shares	**-**	105
Other net change in capital stock	**(105)**	(277)
Remuneration on capital stock	**(210)**	-
Net buy-out of non-controlling interest	**(107)**	-
Other changes of share capital	**-**	6
Dividends paid	**(19)**	(27)
	(415)	(207)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(64,607)**	(47,827)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**19,877**	20,345
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**15,183**	27,394
Business acquisition, net of cash and cash equivalents acquired	**(56)**	-
Acquisitions of property, plant and equipment, intangible assets and investment property	**(246)**	(245)
Proceeds from disposal of property, plant and equipment, intangible assets and investment property	**129**	4
Payment of the contingent consideration recognized at acquisition date	**(2)**	(35)
	(29,722)	(364)
Net increase (decrease) in cash and cash equivalents	**5,135**	(39)
Cash and cash equivalents at beginning of period	**3,709**	3,384
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 8,844**	$ 3,345
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 1,950**	$ 2,138
Interest and dividends received	**6,253**	6,424

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

NOTES TO THE CONDENSED INTERIM COMBINED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – INFORMATION ON DESJARDINS GROUP

Nature of operations

Desjardins Group is made up of the Desjardins caisses in Québec, the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, Caisse Desjardins Ontario Credit Union Inc. (CDO) and the *Fonds de sécurité Desjardins*. CDO was created on January 1, 2020 from the amalgamation of the *Fédération des caisses populaires de l'Ontario* and its member caisses. A number of the subsidiaries are active across Canada. The address of its head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

Basis of presentation of the Combined Financial Statements

As an integrated financial services group, Desjardins Group is a complete economic entity. These unaudited Condensed Interim Combined Financial Statements (the Interim 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 Interim 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 caisses, the Federation and CDO.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of Compliance

Pursuant to the *Act Respecting Financial Services Cooperatives*, these Interim 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), more specifically in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", 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 Interim Combined Financial Statements for the current period. These reclassifications had no impact on Desjardins Group's profit or loss or total assets and liabilities.

These Interim Combined Financial Statements should be read in conjunction with the audited Annual Combined Financial Statements (the Annual Combined Financial Statements) for the year ended December 31, 2019, and the shaded areas of section 4.0, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Combined Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements.

These Interim Combined Financial Statements were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on November 13, 2020.

Presentation and functional currency

These Interim 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 Interim Combined Financial Statements are in millions of dollars, unless otherwise stated.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Significant event

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. On March 13, 2020, the Government of Québec declared a health emergency throughout the Québec territory. The Government of Canada has introduced various protection measures since the beginning of 2020. This situation and the measures implemented have significant impacts on global, national, provincial and local economies. Desjardins Group has put in place relief measures for personal and business members and clients who are having trouble meeting their financial obligations.

The COVID-19 pandemic created new sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Interim Combined Financial Statements. Desjardins Group closely monitors the development of the pandemic and its impact on its profit and loss and financial position:

- Securities designated for the overlay approach were examined at the reporting date to determine whether there was any objective evidence that they were impaired, and Desjardins Group did not record any impairment losses.
- For more information on significant judgments made to estimate the loss allowance for expected credit losses, see Note 5, “Loans and allowance for credit losses”.
- The participations in the Canada Emergency Business Account (CEBA) and Business Credit Availability Program (BCAP) of the Government of Canada was assessed to determine whether the criteria for financial asset derecognition were met. For more information, see Note 5, “Loans and allowance for credit losses”.
- Travel restrictions by the federal government due to the pandemic had an impact on current and expected volumes of travel insurance inquiries and claims, which gave rise to an increase in the provision.

FUTURE ACCOUNTING CHANGES

IFRS 17, “Insurance Contracts”

In June 2020, the IASB issued amendments to IFRS 17, including a two-year deferral of the initial application of IFRS 17 to the years beginning on or after January 1, 2023. Desjardins Group is currently assessing the impact of adopting the amendments that will apply to the years beginning on January 1, 2023.

For more details on other accounting standards issued by the IASB, but not yet effective as at December 31, 2019, see Note 2, “Basis of presentation and significant accounting policies” to the Annual Combined Financial Statements.

IFRS 9, “Financial Instruments”, IAS 39, “Financial Instruments: Recognition and Measurement” and IFRS 7, “Financial Instruments: Disclosures”

In August 2020, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in connection with Phase 2 of its interest rate benchmark reform project. The amendments focus on the impact on the financial statements of the replacement of an interest rate benchmark.

The IASB amended IFRS 9 to add a practical expedient allowing an entity to account for a change in contractual cash flows that is required by interest rate benchmark reform by revising the effective interest rate. The practical expedient applies only if certain conditions are met.

The IASB also amended IFRS 9 and IAS 39 to add a temporary exception for hedge accounting. The IASB therefore provides relief from applying the current hedge accounting documentation requirements with respect to changes to hedged items, hedging instruments or hedged risk resulting directly from interest rate benchmark reform. The amendments allow continuing hedge accounting when changes to the hedged item or the hedging instrument occur as a result of changes that are required by the reform.

IFRS 7 was also amended to include the requirement to disclose the nature and extent of risks related to the reform and how the entity manages those risks as well as the entity’s progress in completing the transition to alternative benchmark rates and how the entity is managing the transition. Desjardins Group is currently assessing the impact of adopting these amendments, which will apply to annual periods beginning on or after January 1, 2021. Earlier application is permitted.

NOTE 3 – 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 September 30, 2020	**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	$ -	$ 314	$ 647	$ -	$ 7,883	$ 8,844
Securities	13,318	20,917	54,679	64	275	89,253
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	9,706	9,706
Loans	-	-	-	-	209,931	209,931
Other financial assets						
Premiums receivable	-	-	-	-	2,870	2,870
Derivative financial instruments[3]	5,846	-	-	-	-	5,846
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	4,597	4,597
Other	4	-	-	-	1,929	1,933
Total financial assets	$ 19,168	$ 21,231	$ 55,326	$ 64	$ 237,191	$ 332,980
Financial liabilities						
Deposits[4]	$ -	$ 186	$ -	$ -	$ 225,634	$ 225,820
Other financial liabilities						
Commitments related to securities sold short	8,846	-	-	-	-	8,846
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	17,673	17,673
Derivative financial instruments[3]	4,095	-	-	-	-	4,095
Amounts payable to clients, brokers and financial institutions	-	-	-	-	8,893	8,893
Other	144	-	-	-	3,366	3,510
Subordinated notes	-	-	-	-	1,465	1,465
Total financial liabilities	$ 13,085	$ 186	$ -	$ -	$ 257,031	$ 270,302

(1) An amount of $2,871 million corresponds to financial assets designated for the overlay approach.

(2) As at September 30, 2020, the allowance for credit losses on securities at “Amortized cost” is insignificant, and the allowance for credit losses on securities “Classified as at fair value through other comprehensive income” totalled $30 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, “Loans and allowance for credit losses”. The loss allowance for expected credit losses on securities “Classified as at fair value through other comprehensive income” is recognized under “Provision for credit losses recognized in profit or loss” in the Combined Statements of Comprehensive Income and “Provision for credit losses” in the Combined Statements of Income.

(3) Include derivative financial instruments designated as hedging instruments amounting to $1,609 million in assets and $418 million in liabilities.

(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 could differ from the fair value of such deposits as at the reporting date.

NOTE 3 – 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, 2019	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	$ -	$ 273	$ 1,395	$ -	$ 2,041	$ 3,709
Securities	16,713	18,455	22,850	59	1,616	59,693
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	10,032	10,032
Loans	-	-	-	-	203,082	203,082
Other financial assets						
Clients' liability under acceptances	-	-	-	-	380	380
Premiums receivable	-	-	-	-	2,686	2,686
Derivative financial instruments[3]	4,246	-	-	-	-	4,246
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	2,229	2,229
Other	-	-	-	-	1,364	1,364
Total financial assets	$ 20,959	$ 18,728	$ 24,245	$ 59	$ 223,430	$ 287,421
Financial liabilities						
Deposits[4]	$ -	$ 84	$ -	$ -	$ 193,834	$ 193,918
Other financial liabilities						
Acceptances	-	-	-	-	380	380
Commitments related to securities sold short	10,615	-	-	-	-	10,615
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	10,562	10,562
Derivative financial instruments[3]	4,278	-	-	-	-	4,278
Amounts payable to clients, brokers and financial institutions	-	-	-	-	5,552	5,552
Other	268	-	-	-	3,146	3,414
Subordinated notes	-	-	-	-	1,398	1,398
Total financial liabilities	$ 15,161	$ 84	$ -	$ -	$ 214,872	$ 230,117

[1] An amount of $2,976 million corresponds to financial assets designated for the overlay approach.

[2] As at December 31, 2019, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $3 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".

[3] Include derivative financial instruments designated as hedging instruments amounting to $315 million in assets and $428 million in liabilities.

[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 could differ from the fair value of such deposits as at the reporting date.

During the nine-month period ended September 30, 2020 and the year ended December 31, 2019, there were no material reclassifications of financial instruments.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

For a description of the valuation techniques and data used to determine the fair value of the main financial instruments, refer to Note 2, “Basis of presentation and significant accounting policies”, to the Annual Combined Financial Statements. No significant changes were made to our fair value valuation techniques during the quarter. Desjardins Group has implemented controls and procedures to ensure that financial instruments are appropriately and reliably measured.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of certain financial instruments measured at amortized cost does not reasonably approximate fair value. These financial instruments are presented in the following table.

	As at September 30, 2020		As at December 31, 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Securities	**$ 275**	**$ 276**	$ 1,616	$ 1,617
Loans	**209,931**	**212,831**	203,082	203,174
Financial liabilities				
Deposits	**225,634**	**227,012**	193,834	193,795
Subordinated notes	**1,465**	**1,561**	1,398	1,433

FAIR VALUE HIERARCHY

Fair value measurement is determined using a three-level fair value hierarchy. Refer to Note 4, “Fair value of financial instruments”, to the Annual Combined Financial Statements, which contains a description of these three levels.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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 September 30, 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 51	$ 263	$ -	$ 314
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,147	-	-	5,147
Provincial governmental entities and municipal corporations in Canada	17,209	759	-	17,968
School or public corporations in Canada	16	92	-	108
Foreign public administrations	395	-	-	395
Other securities				
Financial institutions	-	1,265	10	1,275
Other issuers	19	3,992	765	4,776
Equity securities	3,604	62	900	4,566
	26,441	6,433	1,675	34,549
Derivative financial instruments				
Interest rate contracts	-	2,802	-	2,802
Foreign exchange contracts	-	801	-	801
Other contracts	-	2,243	-	2,243
	-	5,846	-	5,846
Other assets	-	4	-	4
Total financial assets at fair value through profit or loss	26,441	12,283	1,675	40,399
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	33	614	-	647
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,829	5,414	-	14,243
Provincial governmental entities and municipal corporations in Canada	30,240	2,960	-	33,200
School or public corporations in Canada	-	88	-	88
Foreign public administrations	12	-	-	12
Other securities				
Financial institutions	5	6,289	-	6,294
Other issuers	13	760	69	842
Equity securities	-	2	62	64
Total financial assets at fair value through other comprehensive income	39,132	16,127	131	55,390
Financial instruments of segregated funds	6,765	11,158	121	18,044
Total financial assets	$ 72,338	$ 39,568	$ 1,927	$ 113,833
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ -	$ 186	$ -	$ 186
Other liabilities				
Commitments related to securities sold short	8,187	659	-	8,846
Other	-	-	144	144
	8,187	845	144	9,176
Derivative financial instruments				
Interest rate contracts	-	1,703	-	1,703
Foreign exchange contracts	-	278	-	278
Other contracts	-	2,114	-	2,114
	-	4,095	-	4,095
Total financial liabilities	$ 8,187	$ 4,940	$ 144	$ 13,271

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

As at December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 9	$ 264	$ -	$ 273
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,487	-	-	8,487
Provincial governmental entities and municipal corporations in Canada	15,680	785	-	16,465
School or public corporations in Canada	15	89	-	104
Foreign public administrations	133	-	-	133
Other securities				
Financial institutions	17	810	55	882
Other issuers	2	3,494	771	4,267
Equity securities	3,447	589	794	4,830
	27,790	6,031	1,620	35,441
Derivative financial instruments				
Interest rate contracts	-	966	-	966
Foreign exchange contracts	-	286	-	286
Other contracts	-	2,994	-	2,994
	-	4,246	-	4,246
Total financial assets at fair value through profit or loss	27,790	10,277	1,620	39,687
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	9	1,386	-	1,395
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,812	3,466	-	10,278
Provincial governmental entities and municipal corporations in Canada	9,036	1,278	-	10,314
Foreign public administrations	11	-	-	11
Other securities				
Financial institutions	5	1,655	-	1,660
Other issuers	-	517	70	587
Equity securities	-	2	57	59
Total financial assets at fair value through other comprehensive income	15,873	8,304	127	24,304
Financial instruments of segregated funds	6,588	10,351	81	17,020
Total financial assets	$ 50,251	$ 28,932	$ 1,828	$ 81,011
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ -	$ 84	$ -	$ 84
Other liabilities				
Commitments related to securities sold short	10,193	422	-	10,615
Other	-	-	268	268
	10,193	506	268	10,967
Derivative financial instruments				
Interest rate contracts	-	847	-	847
Foreign exchange contracts	-	528	-	528
Other contracts	-	2,903	-	2,903
	-	4,278	-	4,278
Total financial liabilities	$ 10,193	$ 4,784	$ 268	$ 15,245

During the nine-month period ended September 30, 2020 and the year ended December 31, 2019, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

FAIR VALUE OF 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. During the nine-month period ended September 30, 2020, no significant changes were made to the key controls and procedures as well as the valuation techniques. Some changes were made to input value ranges used to determine fair value, but they did not result in material changes to the fair value of financial instruments categorized within Level 3. For a description of the valuation process for financial instruments categorized within Level 3, refer to Note 4, “Fair value of financial instruments”, to the Annual Combined Financial Statements.

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.

NOTE 4 – 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 nine-month period ended September 30, 2020	Balance at beginning of period	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 period
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other securities							
Financial institutions							
Mortgage bonds	$ 55	$ -	$ -	$ -	$ -	$ (45)	$ 10
Other issuers							
Hedge funds	2	2	(1)	-	-	-	3
Asset-backed term notes	4	-	-	-	-	(1)	3
Mortgage bonds	710	-	22	-	-	(34)	698
Other debt securities	55	-	-	-	7	(1)	61
Equity securities	794	(2)	22	-	96	(10)	900
Total financial assets at fair value through profit or loss	1,620	-	43	-	103	(91)	1,675
Financial assets at fair value through other comprehensive income							
Securities							
Other securities							
Other issuers							
Mortgage bonds	70	-	-	1	-	(2)	69
Equity securities	57	-	-	1	4	-	62
Total financial assets at fair value through other comprehensive income	127	-	-	2	4	(2)	131
Financial instruments of segregated funds	81	-	-	-	45	(5)	121
Total financial assets	$ 1,828	$ -	$ 43	$ 2	$ 152	$ (98)	$ 1,927
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	$ 268	$ -	$ 84	$ -	$ -	$ (208)	$ 144
Total financial liabilities	$ 268	$ -	$ 84	$ -	$ -	$ (208)	$ 144

[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”.
[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”.
[3] Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized gains (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 4 – 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 nine-month period ended September 30, 2019	Balance at beginning of period	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 period
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other securities							
Financial institutions							
Mortgage bonds	$ 56	$ -	$ -	$ -	$ -	$ -	$ 56
Other issuers							
Hedge funds	1	-	1	-	-	-	2
Asset-backed term notes	5	-	-	-	-	(1)	4
Mortgage bonds	736	-	15	-	-	(29)	722
Other debt securities	-	-	(2)	-	53	-	51
Equity securities	698	(4)	(23)	-	149	(73)	747
Other assets	13	-	-	-	-	(13)	-
Total financial assets at fair value through profit or loss	1,509	(4)	(9)	-	202	(116)	1,582
Financial assets at fair value through other comprehensive income							
Securities							
Other securities							
Other issuers							
Mortgage bonds	89	-	-	1	-	(2)	88
Corporate bonds	8	-	-	-	-	(8)	-
Total financial assets at fair value through other comprehensive income	97	-	-	1	-	(10)	88
Financial instruments of segregated funds	72	-	3	-	5	-	80
Total financial assets	$ 1,678	$ (4)	$ (6)	$ 1	$ 207	$ (126)	$ 1,750
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	$ 319	$ -	$ 128	$ -	$ -	$ (244)	$ 203
Total financial liabilities	$ 319	$ -	$ 128	$ -	$ -	$ (244)	$ 203

[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”.
[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”.
[3] Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized gains (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 – 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 a loss allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. Loans and off-balance sheet items are classified based on their credit quality using their 12-month probability of default (PD) adjusted to take into consideration relevant forward-looking information over their lifetime. This is the PD used to determine whether credit risk has significantly increased since initial recognition or identify financial instruments in regulatory default. For more information on the classification of loans and off-balance sheet items based on credit quality, see the table presenting PD tranches in relation with risk levels for loans and off-balance sheet items in Note 7, "Loans and allowance for credit losses", to the Annual Combined Financial Statements.

Loans

	Non-credit impaired		Credit-impaired	
As at September 30, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 577	$ -	$ -	$ 577
Very low	42,670	1	-	42,671
Low	48,416	6,599	-	55,015
Moderate	10,878	17,723	-	28,601
High	1,185	5,494	-	6,679
Default	-	196	366	562
Total gross residential mortgages	$ 103,726	$ 30,013	$ 366	$ 134,105
Allowance for credit losses	(57)	(125)	(26)	(208)
Total net residential mortgages	$ 103,669	$ 29,888	$ 340	$ 133,897
Consumer, credit card and other personal loans				
Excellent	$ 2,206	$ -	$ -	$ 2,206
Very low	4,886	-	-	4,886
Low	9,053	406	-	9,459
Moderate	5,668	1,671	-	7,339
High	33	1,603	-	1,636
Default	-	60	242	302
Total gross consumer, credit card and other personal loans	$ 21,846	$ 3,740	$ 242	$ 25,828
Allowance for credit losses	(109)	(205)	(148)	(462)
Total net consumer, credit card and other personal loans	$ 21,737	$ 3,535	$ 94	$ 25,366
Business and government loans				
Acceptable risk:				
Investment grade	$ 9,143	$ 36	$ -	$ 9,179
Other than investment grade	22,330	7,768	-	30,098
Under watch	3,630	7,287	-	10,917
Default	-	120	732	852
Total gross business and government loans	$ 35,103	$ 15,211	$ 732	$ 51,046
Allowance for credit losses	(58)	(128)	(192)	(378)
Total net business and government loans	$ 35,045	$ 15,083	$ 540	$ 50,668

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

Loans *(continued)*

	Non-credit impaired		Credit-impaired	
As at December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 28,378	$ 1	$ -	$ 28,379
Very low	35,626	2	-	35,628
Low	54,399	736	-	55,135
Moderate	2,899	2,917	-	5,816
High	150	1,107	-	1,257
Default	-	216	326	542
Total gross residential mortgages	$ 121,452	$ 4,979	$ 326	$ 126,757
Allowance for credit losses	(27)	(26)	(24)	(77)
Total net residential mortgages	$ 121,425	$ 4,953	$ 302	$ 126,680
Consumer, credit card and other personal loans				
Excellent	$ 3,516	$ -	$ -	$ 3,516
Very low	5,208	-	-	5,208
Low	10,475	143	-	10,618
Moderate	3,791	1,658	-	5,449
High	23	1,872	-	1,895
Default	-	60	276	336
Total gross consumer, credit card and other personal loans	$ 23,013	$ 3,733	$ 276	$ 27,022
Allowance for credit losses	(111)	(199)	(143)	(453)
Total net consumer, credit card and other personal loans	$ 22,902	$ 3,534	$ 133	$ 26,569
Business and government loans[1]				
Acceptable risk:				
Investment grade	$ 13,012	$ 36	$ -	$ 13,048
Other than investment grade	31,319	1,805	-	33,124
Under watch	1,216	2,280	-	3,496
Default	-	160	540	700
Total gross business and government loans	$ 45,547	$ 4,281	$ 540	$ 50,368
Allowance for credit losses	(31)	(20)	(104)	(155)
Total net business and government loans	$ 45,516	$ 4,261	$ 436	$ 50,213

[1] Include clients' liability under acceptances.

NOTE 5 – 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 September 30, 2020	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	**$ 18,398**	**$ 5**	**$ -**	**$ 18,403**
Very low	**35,194**	**4**	**-**	**35,198**
Low	**18,887**	**97**	**-**	**18,984**
Moderate	**4,863**	**2,720**	**-**	**7,583**
High	**142**	**1,150**	**-**	**1,292**
Default	**-**	**-**	**90**	**90**
Total gross off-balance sheet items	**$ 77,484**	**$ 3,976**	**$ 90**	**$ 81,550**
Allowance for credit losses	**(36)**	**(13)**	**-**	**(49)**
Total net off-balance sheet items	**$ 77,448**	**$ 3,963**	**$ 90**	**$ 81,501**
Business and government				
Acceptable risk:				
Investment grade	**$ 19,439**	**$ 12**	**$ -**	**$ 19,451**
Other than investment grade	**14,254**	**2,768**	**-**	**17,022**
Under watch	**704**	**2,430**	**-**	**3,134**
Default	**-**	**11**	**181**	**192**
Total gross off-balance sheet items	**$ 34,397**	**$ 5,221**	**$ 181**	**$ 39,799**
Allowance for credit losses	**(7)**	**(4)**	**-**	**(11)**
Total net off-balance sheet items	**$ 34,390**	**$ 5,217**	**$ 181**	**$ 39,788**

(1) Loan commitments for which Desjardins Group estimates a loss allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates a loss allowance for expected credit losses comprise guarantees and standby letters of credit.

As at December 31, 2019	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	$ 30,432	$ 3	$ -	$ 30,435
Very low	27,150	2	-	27,152
Low	13,435	19	-	13,454
Moderate	4,027	1,454	-	5,481
High	23	788	-	811
Default	-	1	78	79
Total gross off-balance sheet items	$ 75,067	$ 2,267	$ 78	$ 77,412
Allowance for credit losses	(28)	(4)	-	(32)
Total net off-balance sheet items	$ 75,039	$ 2,263	$ 78	$ 77,380
Business and government				
Acceptable risk:				
Investment grade	$ 20,860	$ 27	$ -	$ 20,887
Other than investment grade	14,895	431	-	15,326
Under watch	217	495	-	712
Default	-	12	97	109
Total gross off-balance sheet items	$ 35,972	$ 965	$ 97	$ 37,034
Allowance for credit losses	(6)	-	-	(6)
Total net off-balance sheet items	$ 35,966	$ 965	$ 97	$ 37,028

(1) Loan commitments for which Desjardins Group estimates a loss allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates a loss allowance for expected credit losses comprise guarantees and standby letters of credit.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES

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

	Non-credit impaired		Credit-impaired	Allowance for
For the nine-month period ended September 30, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**credit losses**
Residential mortgages				
Balance at beginning of period	**$ 27**	**$ 26**	**$ 24**	**$ 77**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**28**	**(27)**	**(1)**	**-**
Stage 2	**(22)**	**29**	**(7)**	**-**
Stage 3	**-**	**(3)**	**3**	**-**
Net remeasurement due to transfers[2]	**(10)**	**24**	**12**	**26**
Changes in model inputs[3]	**10**	**79**	**(2)**	**87**
New originations or acquisitions[4]	**28**	**13**	**-**	**41**
Derecognition and maturities[5]	**(5)**	**(10)**	**(6)**	**(21)**
Net drawdowns (repayments)[6]	**1**	**(5)**	**1**	**(3)**
Other	**-**	**(1)**	**1**	**-**
	30	**99**	**1**	**130**
Write-offs and recoveries	**-**	**-**	**1**	**1**
Balance at end of period	**$ 57**	**$ 125**	**$ 26**	**$ 208**
Consumer, credit card and other personal loans[7]				
Balance at beginning of period	**$ 145**	**$ 203**	**$ 143**	**$ 491**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**215**	**(201)**	**(14)**	**-**
Stage 2	**(55)**	**116**	**(61)**	**-**
Stage 3	**(1)**	**(33)**	**34**	**-**
Net remeasurement due to transfers[2]	**(24)**	**27**	**197**	**200**
Changes in model inputs[3]	**(149)**	**125**	**201**	**177**
New originations or acquisitions[4]	**46**	**29**	**-**	**75**
Derecognition and maturities[5]	**(16)**	**(28)**	**(83)**	**(127)**
Net drawdowns (repayments)[6]	**(9)**	**(15)**	**(10)**	**(34)**
Other	**-**	**(1)**	**1**	**-**
	7	**19**	**265**	**291**
Write-offs and recoveries	**-**	**-**	**(260)**	**(260)**
Balance at end of period	**$ 152**	**$ 222**	**$ 148**	**$ 522**
Business and government				
Balance at beginning of period	**$ 31**	**$ 20**	**$ 104**	**$ 155**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**20**	**(19)**	**(1)**	**-**
Stage 2	**(33)**	**39**	**(6)**	**-**
Stage 3	**(1)**	**(7)**	**8**	**-**
Net remeasurement due to transfers[2]	**(4)**	**18**	**87**	**101**
Changes in model inputs[3]	**8**	**69**	**32**	**109**
New originations or acquisitions[4]	**37**	**17**	**-**	**54**
Derecognition and maturities[5]	**(7)**	**(12)**	**(20)**	**(39)**
Net drawdowns (repayments)[6]	**7**	**3**	**16**	**26**
Other	**-**	**-**	**(5)**	**(5)**
	27	**108**	**111**	**246**
Write-offs and recoveries	**-**	**-**	**(23)**	**(23)**
Balance at end of period	**$ 58**	**$ 128**	**$ 192**	**$ 378**
Total balances at end of period	**$ 267**	**$ 475**	**$ 366**	**$ 1,108**
Composed of:				
Loans	**$ 224**	**$ 458**	**$ 366**	**$ 1,048**
Off-balance sheet items[8]	**43**	**17**	**-**	**60**

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
(4) Represent the increase in the allowance for new originations or acquisitions during the period, 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) For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet items categories are not material.
(8) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES *(continued)*

For the nine-month period ended September 30, 2019	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Allowance for credit losses
Residential mortgages				
Balance at beginning of period	$ 27	$ 26	$ 25	$ 78
Provision for credit losses				
Transfers to[1]:				
Stage 1	20	(17)	(3)	-
Stage 2	(3)	9	(6)	-
Stage 3	-	(2)	2	-
Net remeasurement due to transfers[2]	(8)	4	16	12
Changes in model inputs[3]	(15)	9	15	9
New originations or acquisitions[4]	9	5	-	14
Derecognition and maturities[5]	(3)	(6)	(25)	(34)
Net drawdowns (repayments)[6]	-	(1)	-	(1)
Other	-	-	-	-
	-	1	(1)	-
Write-offs and recoveries	-	-	1	1
Balance at end of period	$ 27	$ 27	$ 25	$ 79
Consumer, credit card and other personal loans[7]				
Balance at beginning of period	$ 142	$ 275	$ 122	$ 539
Provision for credit losses				
Transfers to[1]:				
Stage 1	194	(180)	(14)	-
Stage 2	(43)	77	(34)	-
Stage 3	(1)	(28)	29	-
Net remeasurement due to transfers[2]	(54)	34	162	142
Changes in model inputs[3]	(129)	55	180	106
New originations or acquisitions[4]	58	61	-	119
Derecognition and maturities[5]	(26)	(59)	(45)	(130)
Net drawdowns (repayments)[6]	(3)	(21)	4	(20)
Other	-	-	-	-
	(4)	(61)	282	217
Write-offs and recoveries	-	-	(268)	(268)
Balance at end of period	$ 138	$ 214	$ 136	$ 488
Business and government				
Balance at beginning of period	$ 31	$ 36	$ 77	$ 144
Provision for credit losses				
Transfers to[1]:				
Stage 1	15	(13)	(2)	-
Stage 2	(4)	8	(4)	-
Stage 3	-	(3)	3	-
Net remeasurement due to transfers[2]	(7)	6	30	29
Changes in model inputs[3]	(17)	(10)	24	(3)
New originations or acquisitions[4]	21	6	-	27
Derecognition and maturities[5]	(7)	(6)	(29)	(42)
Net drawdowns (repayments)[6]	3	-	5	8
Other	-	-	16	16
	4	(12)	43	35
Write-offs and recoveries	-	-	(17)	(17)
Balance at end of period	$ 35	$ 24	$ 103	$ 162
Total balances at end of period	$ 200	$ 265	$ 264	$ 729
Composed of:				
Loans	$ 170	$ 259	$ 264	$ 693
Off-balance sheet items[8]	30	6	-	36

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
(4) Represent the increase in the allowance for new originations or acquisitions during the period, 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) For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet items categories are not material.
(8) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS

Estimating the loss 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 development of the COVID-19 pandemic and its future resolution give rise to uncertainty. Management therefore had to make particularly complex judgments to estimate the loss allowance for expected credit losses in the current situation, which increases the risk of adjustments in future periods.

The main sources of uncertainty regarding the pandemic that required management to make significant judgments to estimate the loss allowance for expected credit losses as at September 30, 2020 relate to, but are not limited to, the assessment of the impact of the situation on the risk of default by borrowers and the determination of significant increases in credit risk, as well as the determination of the macroeconomic variables used to calculate the allowance.

Significant judgments had to be made to estimate the negative impact of the unprecedented current situation on the risk of default by the different types of borrowers and, consequently, on the determination of significant increases in credit risk and the measurement of the allowance. Among other things, management applied expert credit judgment to consider the effect of government support measures, which reached an unprecedented level and have constantly evolved since the outset of the pandemic, as well as the temporary effect of payment deferral programs offered by financial institutions. With respect to the use of the payment deferral program that it offers its members and clients, Desjardins Group considered that it was not, taken individually. an indication of an increase in the risk of default over the life of the financial instrument. Accordingly, the use of such program was not considered to be, on its own, a sufficient criterion for concluding to a significant increase in credit risk and transferring a financial instrument to Stage 2 of the impairment model. Furthermore, the use of such program does not result in additional days past due.

Desjardins Group uses three macroeconomic scenarios to calculate the loss 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 major uncertainty resulting from the COVID-19 pandemic makes it significantly more complex to determine reasonable and supportable assumptions concerning the change in macroeconomic variables for the various scenarios and the related probability of occurrence. This uncertainty, which relates in particular to the duration and magnitude of the impact of the COVID-19 pandemic on the various macroeconomic variables used in the models as well as to the positive effect of support measures by central banks and governments, required management to make significant judgments to revise the assumptions concerning forward-looking information. Considering the atypical nature of the current economic crisis, management applied expert credit judgment as to the degree of correlation between input data related to forward-looking indicators and expected credit losses.

The macroeconomic scenarios selected for calculating the loss allowance for expected credit losses include the value ranges over the projection horizon for the most significant variables for credit risk parameters presented in the following tables:

	Base scenario		Upside scenario		Downside scenario	
As at September 30, 2020	**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)	**3.0%**	**1.7%**	**6.8%**	**2.2%**	**(0.8)%**	**2.0%**
Unemployment rate (average)	**8.5%**	**6.7%**	**6.9%**	**4.9%**	**10.1%**	**7.3%**
Consumer Price Index (annualized change)	**1.8%**	**1.9%**	**3.8%**	**2.2%**	**(0.7)%**	**1.2%**
Housing prices (annualized change)	**0.5%**	**1.9%**	**6.7%**	**2.8%**	**(7.7)%**	**2.3%**
Corporate credit spread[2] (average)	**135 bp**	**123 bp**	**103 bp**	**88 bp**	**168 bp**	**146 bp**
S&P/TSX stock index[2] (annualized change)	**11.7%**	**7.3%**	**21.3%**	**8.0%**	**(4.5)%**	**6.7%**

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

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

As at December 31, 2019	Base scenario		Upside scenario		Downside scenario	
	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)	1.3%	1.5%	2.3%	1.9%	(1.0)%	1.3%
Unemployment rate (average)	4.5%	4.5%	4.1%	3.5%	6.1%	7.1%
Consumer Price Index (annualized change)	1.9%	1.7%	3.8%	2.6%	(1.9)%	1.5%
Housing prices (annualized change)	1.5%	0.7%	6.3%	1.9%	(5.8)%	(0.4)%
Corporate credit spread[2] (average)	124 bp	125 bp	94 bp	87 bp	173 bp	157 bp
S&P/TSX stock index[2] (annualized change)	4.7%	2.9%	9.9%	7.6%	(25.8)%	8.6%

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

During the first two quarters of 2020, economic activity experienced a steep drop that resulted in increases in the allowance for credit losses. In the third quarter of 2020, it bounced back strongly, benefiting from the reopening of many businesses after the spring confinement.

The base scenario forecasts more moderate economic growth for the coming quarters. Under this scenario, the introduction of new health measures would penalize mainly the fourth quarter of 2020, for which real GDP growth would be around 1% on an annualized basis, compared to a growth of approximately 57% for the third quarter. After a significant decrease during the summer, the unemployment rate would increase again in fall 2020 as a result of new business closures. However, this scenario forecasts that the economy should gradually recover by December 2020 and the unemployment rate should quickly revert to a downward trend. In addition, the housing market would remain quite strong and there would therefore not be any major correction in house prices.

In the downside scenario, the economic recovery would be slower than in the base scenario. Real GDP would contract by about 10% on an annualized basis in the fourth quarter of 2020 as a result of new health restrictions being introduced or already existing restrictions being maintained for a longer period. It would continue to decrease in the first quarter of 2021 and then start growing again in the second quarter of 2021. The economic setback in the fourth quarter of 2020 would be accompanied by an unemployment rate going back to over 11%. With respect to the housing market, this scenario expects a decrease of approximately 10% in house prices.

The upside scenario essentially assumes that the economic recovery will be faster than in the base scenario and would occur as early as in the fourth quarter of 2020 as recent health restrictions would not be applied for a long period. It foresees that the unemployment rate would continue to improve and decrease to approximately 5% by the end of 2022 and that the increase in house prices would remain quite strong in the coming years.

The development of the economic outlook after September 30, 2020 will be considered in estimating the loss allowance for expected credit losses in future periods.

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

Scenarios

The amount of the loss 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 September 30, 2020	As at December 31, 2019
Under IFRS 9	**$ 742**	$ 452
Weighting of 100% assigned to the scenario:		
Base	**$ 617**	$ 444
Upside	**562**	418
Downside	**1,147**	486

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

SENSITIVITY ANALYSIS OF THE ALLOWANCE FOR CREDIT LOSSES ON NON-CREDIT IMPAIRED LOANS *(continued)*

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 September 30, 2020	As at December 31, 2019
Under IFRS 9	**$ 742**	$ 452
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 648**	$ 429

DERECOGNITION OF FINANCIAL ASSETS

Since the second quarter, Desjardins Group has participated in the Canada Emergency Business Account (CEBA) federal program, implemented in collaboration with Export Development Canada (EDC). Under this program, we grant loans that are funded by the government. We have determined that these loans qualified for derecognition as all cash flows are remitted to EDC and, in addition, substantially all the risks and rewards of ownership of the loans have been transferred. Desjardins Group has a continued involvement with these derecognized loans as it services them. As at September 30, 2020, loans totalling $2.8 billion have been granted to Desjardins Group's members and clients under the CEBA program.

In addition, Desjardins Group collaborates in the Business Development Bank of Canada (BDC) Co-Lending Program implemented through the Business Credit Availability Program (BCAP), under which Desjardins Group grants term loans. BDC and Desjardins Group entered into a joint facility under which BDC acquires automatically an 80% participation in term loans granted to eligible Desjardins Group members and clients. The participation in loans that is funded by BDC is derecognized from the Combined Balanced Sheets as the risks and rewards, including all interest and credit losses, are transferred to BDC. Desjardins Group has a continued involvement with these derecognized loans as it services them. As at September 30, 2020, loans totalling $35 million had been granted to Desjardins Group's members and clients under this program BDC, of which $7 million remains recognized in the Combined Balance Sheet of Desjardins Group's.

NOTE 6 – INTERESTS IN OTHER ENTITIES

COVERED BONDS

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. 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 issues. 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. As a result of the COVID-19 pandemic, the Bank of Canada has temporarily expanded the list of eligible collateral for its term repo operations program, which now includes "own-name" covered bonds issued by Desjardins Group (self-held). The assets, totalling $12,494 million as at September 30, 2020 ($6,567 million as at December 31, 2019) are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to $6,797 million as at September 30, 2020 ($5,654 million as at December 31, 2019), are presented under "Deposits – Business and government" in the Combined Balance Sheets.

NOTE 7 – 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 1 day to 10 years and mature on a predetermined date.

The following table presents the breakdown of deposits.

	As at September 30, 2020				As at December 31, 2019			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	**$ 61,772**	**$ 4,707**	**$ 58,062**	**$ 124,541**	$ 52,374	$ 3,787	$ 55,504	$ 111,665
Business and government	**44,144**	**511**	**55,649**	**100,304**	30,947	427	50,182	81,556
Deposit-taking institutions	**735**	**-**	**240**	**975**	528	-	169	697
	$ 106,651	**$ 5,218**	**$ 113,951**	**$ 225,820**	$ 83,849	$ 4,214	$ 105,855	$ 193,918

NOTE 8 – SUBORDINATED NOTES

On May 26, 2020, the Federation issued subordinated notes qualifying as Non-Viability Contingent Capital (NVCC) amounting to $1 billion, less issuance fees of $3 million. The notes bear interest at an annual fixed rate of 2.856% until May 26, 2025 and, afterwards, at an interest rate equal to the 3-month bankers' acceptance rate plus 2.11% until their maturity on May 26, 2030. These notes are redeemable at the option of the issuer on or after May 26, 2025, subject to conditions and prior approval by the regulatory authority. In addition, these notes are automatically and immediately convertible into Class Z-Contingent capital shares of the Federation upon the occurrence of a trigger event, as defined in the regulations governing capital.

NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at September 30, 2020		As at December 31, 2019	
	Group's share	**Non-controlling interests' share**	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains on debt securities classified as at fair value through other comprehensive income[1]	**$ 603**	**$ 6**	$ 112	$ 1
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	**78**	**3**	132	6
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**500**	**-**	(34)	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**2**	**-**	1	-
Accumulated other comprehensive income	**$ 1,183**	**$ 9**	$ 211	$ 7

(1) Take into account an allowance for credit losses of $30 million as at September 30, 2020 ($3 million as at December 31, 2019) on securities classified as at fair value through other comprehensive income.

NOTE 10 – CAPITAL MANAGEMENT

The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained for the following reasons: to have flexibility for its development, to maintain favourable credit ratings and to maintain the confidence of depositors and financial markets.

Desjardins Group's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF and the applicable relief measures implemented by the AMF in response to the COVID-19 pandemic.

As it was designated by the AMF as a domestic systemically important financial institution, Desjardins Group is subject to an additional capital surcharge of 1.0% and must maintain a minimum Tier 1A capital ratio of 8.0%. In addition, its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. In addition, Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3.5%.

As at September 30, 2020, Desjardins Group was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

The following table presents Desjardins Group's regulatory capital balances, risk-weighted assets and capital ratios.

(in millions of dollars and as a percentage)	As at September 30, 2020	As at December 31, 2019
Capital		
Tier 1A capital	**$ 25,860**	$ 24,549
Tier 1 capital	**25,860**	24,549
Total capital[1]	**26,616**	24,549
Risk-weighted assets		
Credit risk	**104,688**	94,799
Market risk	**2,453**	3,095
Operational risk	**13,462**	13,021
Total risk-weighted assets before RWA floor	**120,603**	110,915
RWA floor[2]	**-**	2,946
Total risk-weighted assets	**$ 120,603**	$ 113,861
Ratios and leverage ratio exposure		
Tier 1A capital	**21.4%**	21.6%
Tier 1 capital	**21.4**	21.6
Total capital[1]	**22.1**	21.6
Leverage	**8.3**	8.8
Leverage ratio exposure	**$ 310,505**	$ 280,322

[1] During the second quarter of 2020, the Federation issued subordinated notes qualifying as Non-Viability Contingent Capital and considered as Tier 2 capital securities. For more information, see Note 8, "Subordinated notes".
[2] In accordance with the guideline as updated during the first quarter of 2019, the RWA floor is defined using the Standardized Approaches set out in that guideline.

NOTE 11 – NET INTEREST INCOME AND NET INVESTMENT INCOME

NET INTEREST INCOME

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

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2020	2019	**2020**	2019
Interest income on financial assets				
At amortized cost	**$ 1,811**	$ 2,019	**$ 5,544**	$ 5,820
At fair value through other comprehensive income	**153**	87	**403**	270
At fair value through profit or loss	**-**	6	**1**	18
	1,964	2,112	**5,948**	6,108
Interest expense on financial liabilities				
At amortized cost	**514**	740	**1,792**	2,173
	$ 1,450	$ 1,372	**$ 4,156**	$ 3,935

NET INVESTMENT INCOME

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

For the three-month periods ended September 30	**2020**			2019		
	Interest income and expense	**Fair value gains (losses) and other**	**Total**	Interest income and expense	Fair value gains (losses) and other	Total
Net investment income on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 111**	**$ 122**	**$ 233**	$ 49	$ 36	$ 85
Designated as at fair value through profit or loss	**132**	**(164)**	**(32)**	136	270	406
Classified as at fair value through other comprehensive income	**24**	**53**	**77**	36	25	61
At amortized cost and other	**31**	**7**	**38**	34	19	53
	$ 298	**$ 18**	**$ 316**	$ 255	$ 350	$ 605

For the nine-month periods ended September 30	**2020**			2019		
	Interest income and expense	**Fair value gains (losses) and other**	**Total**	Interest income and expense	Fair value gains (losses) and other	Total
Net investment income on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 233**	**$ (50)**	**$ 183**	$ 168	$ 514	$ 682
Designated as at fair value through profit or loss	**386**	**1,308**	**1,694**	400	1,765	2,165
Classified as at fair value through other comprehensive income	**85**	**315**	**400**	106	75	181
At amortized cost and other	**93**	**129**	**222**	100	41	141
	$ 797	**$ 1,702**	**$ 2,499**	$ 774	$ 2,395	$ 3,169

NOTE 12 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

During the first quarter of 2020, some changes were made to business segments to reflect management's decisions on how each segment is managed. Certain Desjardins Securities activities that were previously presented in the Wealth Management and Life and Health Insurance segment are now presented in the Personal and Business Services segment. Certain Desjardins Trust activities that were previously presented in the Personal and Business Services segment are now presented in the Wealth Management and Life and Health Insurance segment. Comparative figures were restated to reflect these reclassifications.

The following table provides a summary of Desjardins Group's financial results by business segment.

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
For the three-month periods ended September 30	**2020**	2019	**2020**	2019	**2020**	2019	**2020[2]**	2019	**2020**	2019
Net interest income	**$ 1,254**	$ 1,273	**$ 1**	$ 2	**$ -**	$ -	**$ 195**	$ 97	**$ 1,450**	$ 1,372
Net premiums	**-**	-	**1,167**	1,115	**1,436**	1,279	**(69)**	(68)	**2,534**	2,326
Other income	**648**	606	**413**	852	**11**	(12)	**(243)**	(158)	**829**	1,288
Total income	**1,902**	1,879	**1,581**	1,969	**1,447**	1,267	**(117)**	(129)	**4,813**	4,986
Provision for credit losses	**90**	154	**(1)**	1	**-**	-	**10**	(1)	**99**	154
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**885**	1,331	**880**	925	**(12)**	2	**1,753**	2,258
Non-interest expense	**1,173**	1,152	**518**	515	**362**	299	**(68)**	(117)	**1,985**	1,849
Operating surplus earnings	**639**	573	**179**	122	**205**	43	**(47)**	(13)	**976**	725
Income taxes on surplus earnings	**171**	152	**39**	22	**50**	9	**(13)**	(28)	**247**	155
Surplus earnings before member dividends[1]	**468**	421	**140**	100	**155**	34	**(34)**	15	**729**	570
Member dividends, net of income tax recovery	**60**	60	**-**	-	**-**	-	**-**	-	**60**	60
Net surplus earnings for the period after member dividends	**$ 408**	$ 361	**$ 140**	$ 100	**$ 155**	$ 34	**$ (34)**	$ 15	**$ 669**	$ 510
of which:										
Group's share	**$ 408**	$ 361	**$ 140**	$ 100	**$ 134**	$ 23	**$ (34)**	$ 15	**$ 648**	$ 499
Non-controlling interests' share	**-**	-	**-**	-	**21**	11	**-**	-	**21**	11

(1) For the three-month periods ended September 30, 2020 and 2019, the Group's share of "Surplus earnings before member dividends" was respectively $468 million and $421 million for the Personal and Business Services segment, $140 million and $100 million for the Wealth Management and Life and Health Insurance segment, $134 million and $23 million for the Property and Casualty Insurance segment and $(34) million and $15 million for the Other category.

(2) Since the third quarter of 2020, the Other category also includes the real estate agency operations of 9059-2114 Québec inc., which manages two brands, DuProprio and Purplebricks Canada.

NOTE 12 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT *(continued)*

For the nine-month periods ended September 30	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2020	2019	**2020**	2019	**2020**	2019	**2020[2]**	2019	**2020**	2019
Net interest income	**$ 3,688**	$ 3,591	**$ 7**	$ 8	**$ -**	$ -	**$ 461**	$ 336	**$ 4,156**	$ 3,935
Net premiums	**-**	-	**3,471**	3,397	**4,028**	3,685	**(205)**	(197)	**7,294**	6,885
Other income	**1,946**	1,901	**3,049**	3,536	**253**	148	**(568)**	(473)	**4,680**	5,112
Total income	**5,634**	5,492	**6,527**	6,941	**4,281**	3,833	**(312)**	(334)	**16,130**	15,932
Provision for credit losses	**671**	251	**2**	1	**-**	-	**21**	-	**694**	252
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**4,516**	4,909	**2,948**	2,831	**(13)**	(3)	**7,451**	7,737
Non-interest expense	**3,595**	3,584	**1,561**	1,524	**1,015**	909	**(184)**	(196)	**5,987**	5,821
Operating surplus earnings	**1,368**	1,657	**448**	507	**318**	93	**(136)**	(135)	**1,998**	2,122
Income taxes on surplus earnings	**350**	430	**88**	95	**74**	17	**(57)**	(83)	**455**	459
Surplus earnings before member dividends[1]	**1,018**	1,227	**360**	412	**244**	76	**(79)**	(52)	**1,543**	1,663
Member dividends, net of income tax recovery	**175**	175	**-**	-	**-**	-	**-**	-	**175**	175
Net surplus earnings for the period after member dividends	**$ 843**	$ 1,052	**$ 360**	$ 412	**$ 244**	$ 76	**$ (79)**	$ (52)	**$ 1,368**	$ 1,488
of which:										
Group's share	**$ 843**	$ 1,052	**$ 360**	$ 412	**$ 203**	$ 50	**$ (79)**	$ (52)	**$ 1,327**	$ 1,462
Non-controlling interests' share	**-**	-	**-**	-	**41**	26	**-**	-	**41**	26

(1) For the nine-month periods ended September 30, 2020 and 2019, the Group's share of "Surplus earnings before member dividends" was respectively $1,018 million and $1,227 million for the Personal and Business Services segment, $360 million and $412 million for the Wealth Management and Life and Health Insurance segment, $203 million and $50 million for the Property and Casualty Insurance segment and $(79) million and $(52) million for the Other category.

(2) Since the third quarter of 2020, the Other category also includes the real estate agency operations of 9059-2114 Québec inc., which manages two brands, DuProprio and Purplebricks Canada.

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at September 30, 2020	**$ 271,248**	**$ 50,310**	**$ 15,141**	**$ 23,188**	**$ 359,887**
As at December 31, 2019	$ 245,118	$ 48,072	$ 13,860	$ 5,946	$ 312,996

GENERAL INFORMATION

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