Desjardins Group 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 February 23, 2022, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the year ended December 31, 2021, in comparison to previous fiscal years. 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). Unlike the Federation, Desjardins Group is not a reporting issuer, on a combined basis, under this or any other applicable securities regulations. Pursuant to Decision No. 2021-FS-0091 of the *Autorité des marchés financiers* (AMF) dated April 23, 2021, the Combined Financial Statements and MD&As of Desjardins Group will henceforth be filed by the Federation in place of the Consolidated Financial Statements and MD&As of the Federation, in order to meet the financial disclosure obligations of the Federation, as a reporting issuer, under *Regulation 51-102 respecting Continuous Disclosure Obligations* of the CSA, and the Federation will maintain controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group in compliance with Regulation 52-109. Since April 23, 2021, and pursuant to the AMF and CSA decision, the Federation has used the financial statements and MD&As of Desjardins Group for all relevant purposes under the applicable securities regulations. Information on the controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group may be found in Section 5.0, "Additional information", of this MD&A.

The MD&A should be read in conjunction with Desjardins Group's Combined Financial Statements, including the Notes thereto, as at December 31, 2021.

Additional information about Desjardins Group is available on the SEDAR website at www.sedar.com (under the Desjardins Capital Inc. profile for the years ended prior to December 31, 2021 and, since first quarter of 2021, under the *Fédération des caisses Desjardins du Québec* profile). The Annual Information Form of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can be found on SEDAR as well. More 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 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). Desjardins Group amended certain accounting policies following the adoption of Phase 2 amendments to IFRS 9, "Financial Instruments", IAS 39, "Financial Instruments: Recognition and Measurement" and IFRS 7, "Financial Instruments: Disclosures" on January 1, 2021. These amendments supplement the amendments adopted on January 1, 2020 arising from Phase 1 of the interest rate benchmark reform. For more information about the accounting policies used and the changes in accounting policies, see Note 2, "Significant accounting policies", to the 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 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, particularly in Québec, Canada and the United States. 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.

The 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 financial markets, as well as the outlook for the Québec, Canadian, U.S. and global economies, and the possible impact of the COVID-19 pandemic on its operations, its results and its financial position, as well as on economic conditions and financial markets. Such forward-looking statements are typically identified by words or phrases such as "target", "objective", "believe", "expect", "count on", "anticipate", "intend", "estimate", "plan", "forecast", "aim", "propose", "should" 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. Desjardins Group cautions readers against placing undue reliance on forward-looking statements since 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 assumptions, predictions, forecasts or other forward-looking statements in this MD&A. It is also possible that these assumptions, predictions, forecasts or other forward-looking statements, as well as Desjardins Group's objectives and priorities, may not materialize or may prove to be inaccurate and that actual results differ materially. Furthermore, the uncertainty created by the COVID-19 pandemic has greatly increased this risk by adding to the difficulty of making assumptions, predictions, forecasts or other forward-looking statements compared to previous periods.

The factors that may affect the accuracy of the forward-looking statements in the MD&A include those discussed in Section 4.0, "Risk management" and under "COVID-19 pandemic" in Section 1.3, "Significant events", of this MD&A and, in particular, credit, market, liquidity, operational, insurance, strategic and reputation risk, as well as the risk related to pension plans, environmental or social risk, and legal and regulatory risk.

Such factors also include those related to the COVID-19 pandemic, security breaches, government, corporate and household indebtedness, technological advancement and regulatory developments, interest rate fluctuations, climate change, and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; monetary policies; 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; credit ratings and reliance on third parties. Other factors include interest rate benchmark reform, changes in 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, or any other similar disease affecting the local, national or global economy, as well as 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", and under "COVID-19 pandemic" in Section 1.3, "Significant events", of this MD&A.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an effect on Desjardins Group's results. Additional information about these and other factors is found in Section 4.0, "Risk management", of this 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 these 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 forward-looking 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 MD&A are described in Section 1.5, "Economic environment and outlook" of this MD&A. These assumptions may also be updated in the "Economic environment and outlook" section of the quarterly MD&As. Readers are cautioned to consider the foregoing factors when reading this section. When relying on forward-looking statements to make decisions about Desjardins Group, they should carefully consider these factors, as well as other uncertainties and contingencies. 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 the evolution of the COVID-19 pandemic and its impact on the global economy and financial market conditions, as well as on the business operations, financial results and financial position of Desjardins Group, there is greater uncertainty associated with our economic assumptions compared with periods prior to the onset of the pandemic as these assumptions are based on uncertain future developments and it is difficult to predict 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 financial position 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 forward-looking 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.

NON-GAAP AND OTHER FINANCIAL MEASURES

To measure its performance, Desjardins Group uses different GAAP (IFRS) financial measures and various financial measures, some of which are Non-GAAP financial measures. *Regulation 52-112 respecting Non-GAAP and Other Financial Measures Disclosure* (Regulation 52-112) provides guidance to issuers disclosing specified financial measures, including those used by Desjardins Group below:

- Non-GAAP financial measures
- Non-GAAP ratios
- Supplementary financial measures

Non-GAAP measures

Non-GAAP financial measures used by Desjardins Group, and which do not have a standardized definition, 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 financial measures useful in analyzing Desjardins Group's overall performance or financial position. They are defined as follows:

Adjusted surplus earnings of Desjardins Group before member dividends

The concept of adjusted surplus earnings is used to exclude specific items in order to present financial performance based on operating activities, making it easier to compare results from one year to another. These specific items, such as acquisitions and disposals, are unrelated to operating activities.

Desjardins Group's surplus earnings before member dividends were adjusted to exclude the following specific item: the gain, net of income taxes, related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand to Global Payments, completed on December 31, 2019.

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

Table 1 – Adjusted surplus earnings of Desjardins Group before member dividends
For the years ended December 31

(in millions of dollars)	2021	2020	2019
Presentation of surplus earnings before member dividends in the Combined Financial Statements	**$ 2,942**	$ 2,419	$ 2,598
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	**—**	—	(309)
Presentation of the adjusted surplus earnings before member dividends	**$ 2,942**	$ 2,419	$ 2,289

Adjusted surplus earnings before member dividends – Personal and Business Services segment

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

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

Table 2 – Adjusted surplus earnings before member dividends – Personal and Business Services segment
For the years ended December 31

(in millions of dollars)	2021	2020	2019
Presentation of surplus earnings before member dividends of the Personal and Business Services segment in the Combined Financial Statements	**$ 1,459**	$ 1,314	$ 1,913
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	**—**	—	(309)
Presentation of the adjusted surplus earnings before member dividends of the Personal and Business Services segment	**$ 1,459**	$ 1,314	$ 1,604

Giving back to members and the community

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. The amounts returned to members and the community are in the form of member dividends, sponsorships, donations and bursaries, as well as payments under the Desjardins Member Advantages program.

More detailed information about the amount returned to members and the community may be found in Table 8, "Financial highlights", in this MD&A.

Income

Operating income

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

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

Investment income

Investment income comprises 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.

Table 3 – Correspondence of total income between the MD&A and the Combined Financial Statements

For the years ended December 31

(in millions of dollars)	2021	2020	2019
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 5,786**	$ 5,640	$ 5,296
Net premiums	**11,278**	9,920	9,412
Other income			
Deposit and payment service charges	**424**	388	431
Lending fees and credit card service revenues	**735**	628	774
Brokerage and investment fund services	**1,108**	954	886
Management and custodial service fees	**732**	617	582
Net investment income[1]	**319**	3,116	3,087
Overlay approach adjustment for insurance operations financial assets	**(404)**	(42)	(192)
Foreign exchange income	**121**	103	64
Other	**221**	149	417
Total income[2]	**$ 20,320**	$ 21,473	$ 20,757
Presentation of income in the MD&A			
Net interest income	**$ 5,786**	$ 5,640	$ 5,296
Net premiums	**11,278**	9,920	9,412
Other operating income			
Deposit and payment service charges	**424**	388	431
Lending fees and credit card service revenues	**735**	628	774
Brokerage and investment fund services	**1,108**	954	886
Management and custodial service fees	**732**	617	582
Foreign exchange income	**121**	103	64
Other	**221**	149	417
Operating income	**20,405**	18,399	17,862
Investment income (loss)			
Net investment income[1]	**319**	3,116	3,087
Overlay approach adjustment for insurance operations financial assets	**(404)**	(42)	(192)
Investment income (loss)	**(85)**	3,074	2,895
Total income[2]	**$ 20,320**	$ 21,473	$ 20,757

(1) The breakdown of this line item is presented in Note 26, “Net interest income and net investment income”, to the Combined Financial Statements.

(2) In order to take into account the life and health insurance and P&C insurance subsidiaries’ matching activities, the change in this line item must be analyzed together with “Claims, benefits, annuities and changes in insurance contract liabilities” in the Combined Statements of Income.

Non-GAAP ratio

Non-GAAP ratios that are used by Desjardins Group and do not have a standardized definition, are not directly comparable to similar measures used by other companies, and may not be directly comparable to any GAPP measures. Regulation 52-112 states, among other things, that any ratio which has at least one non-GAAP financial measure meets the definition of a non-GAAP ratio. Some non-GAAP ratios are adjusted for specific items that are unrelated to operating activities, such as acquisitions and disposals, making it easier to compare these ratios from one year to another. Non-GAAP financial measures can be useful to investors in analyzing Desjardins Group’s financial position or performance, and they are defined as follows:

Growth in operating income and growth differential between operating income and non-interest expense

Growth in operating income is used to measure growth in Desjardins Group’s operations.

The growth differential between operating income and non-interest expense is used to measure sustainability and profitability. It is the difference between the growth rate for operating income and for non-interest expense.

The following table presents growth in operating income and adjusted operating income, as well as the growth differential between operating income and non-interest expense and between adjusted operating income and non-interest expense.

Desjardins Group’s operating income is adjusted to exclude the following specific item: the gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand to Global Payments, completed on December 31, 2019.

Table 4 – Growth in operating income and growth differential between operating income and non-interest expense

For the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019
Operating income	**$ 20,405**	$ 18,399	$ 17,862
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand[1]	**—**	—	(349)
Adjusted operating income	**$ 20,405**	$ 18,399	$ 17,513
Growth in operating income	**10.9 %**	3.0 %	7.7 %
Growth in adjusted operating income	**10.9 %**	5.1 %	6.5 %
Non-interest expense	**$ 9,566**	$ 8,297	$ 8,032
Growth in non-interest expense	**15.3 %**	3.3 %	7.0 %
Growth differential between operating income and non-interest expense	**(4.4) %**	(0.3) %	0.7 %
Growth differential between adjusted operating income and non-interest expense	**(4.4) %**	1.8 %	(0.5) %

(1) Amounts before income taxes.

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. The lower the ratio, the higher the productivity. Total income excluding claims is a non-GAAP financial measure. It is used to exclude volatility from the investment results of life and health insurance and P&C insurance operations where a very large proportion of the investments is recognized at fair value through profit or loss and is reflected by a similar change in actuarial liabilities included in “Claims, benefits, annuities and changes in insurance contract liabilities” in the Combined Statements of Income.

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

Table 5 – Productivity index

For the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019
Non-interest expense	**$ 9,566**	$ 8,297	$ 8,032
Total income	**20,320**	21,473	20,757
Claims, benefits, annuities and changes in insurance contract liabilities	**(6,883)**	(9,233)	(9,111)
Total income excluding claims	**$ 13,437**	$ 12,240	$ 11,646
Productivity index	**71.2 %**	67.8 %	69.0 %
Adjusted productivity index[1]	**71.2 %**	67.8 %	71.1 %

(1) In order to calculate the “Adjusted productivity index”, total income excluding claims is adjusted to exclude the gain of $349 million related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand to Global Payments, completed on December 31, 2019.

Net interest margin

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

Average interest-bearing assets and average interest-bearing liabilities are non-GAAP financial measures that reflect Desjardins Group’s financial position and are equal to the average of month-end balances for the year. Average interest-bearing assets include securities, cash and deposits with financial institutions, as well as loans. Average interest-bearing liabilities include deposits, subordinated notes and other interest-bearing liabilities. Average interest-bearing assets and liabilities exclude insurance assets and liabilities as well as all other assets and liabilities not generating net interest income.

Table 10, “Net interest income on average assets and liabilities”, of this MD&A provides more detailed information on net interest margin, average interest-bearing assets and average interest-bearing liabilities.

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 shows return on equity and adjusted return on equity, as presented in the MD&A.

Table 6 – Return on equity
For the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019
Surplus earnings before member dividends	**$ 2,942**	$ 2,419	$ 2,598
Non-controlling interests' share	**(143)**	(84)	(46)
Group's share before member dividends	**$ 2,799**	$ 2,335	$ 2,552
Average equity before non-controlling interests' share	**$ 31,518**	$ 28,247	$ 25,787
Return on equity[1]	**8.9 %**	8.3 %	9.9 %
Adjusted return on equity[2]	**9.1 %**	8.5 %	8.8 %

(1) Return on equity is considered a supplementary financial measure.
(2) In order to calculate the adjusted return on equity, average equity before non-controlling interests' share is adjusted to exclude the gain of $309 million, net of income taxes, related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand to Global Payments, completed on December 31, 2019.

Loss ratio – Expense ratio – Combined ratio

These ratios are used to measure and analyze the performance of the Property and Casualty Insurance segment's operations, and more specifically:
- Loss ratio: Used as a measure of business quality.
- Expense ratio: Used as a measure of the effectiveness of non-interest expense management.
- Combined ratio: Used as a measure of business profitability excluding the impact of investment income.

The loss ratio is equal to incurred claims, net of reinsurance, expressed as a percentage of net premiums, 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. Claims expenses, net of reinsurance and excluding the market yield adjustment, are a non-GAAP financial measure. This measure is used to eliminate volatility due to economic conditions related to the impact of fluctuations in discount rates on provisions for claims and adjustment expenses, which are partially offset by an investment matching strategy.

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 non-interest expense excluding certain items, expressed as a percentage of net premiums. Non-interest expense excluding certain items is a non-GAAP financial measure, and is used to eliminate expenses related to the income excluded from the calculation of the ratio.

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 for the Property and Casualty Insurance segment.

Table 7 – Loss ratio - Expense ratio - Combined ratio
For the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019
Net premiums	**$ 5,909**	$ 5,484	$ 4,988
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 2,792**	$ 3,689	$ 3,665
Market yield adjustment (MYA)	**171**	(257)	(86)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 2,963**	$ 3,432	$ 3,579
Loss ratio	**50.1 %**	62.6 %	71.7 %
Non-interest expense	**$ 1,460**	$ 1,303	$ 1,245
Other expenses excluded from the expense ratio[1]	**(19)**	(9)	(10)
Non-interest expense excluding certain items	**$ 1,441**	$ 1,294	$ 1,235
Expense ratio	**24.4 %**	23.6 %	24.8 %
Combined ratio	**74.5 %**	86.2 %	96.5 %

(1) Due mainly to investment management expenses.

Supplementary financial measures

In accordance with Regulation 52-112, supplementary financial measures are used to depict historical or expected future financial performance, financial position or cash flow. In addition, these measures are not disclosed in the financial statements. Desjardins Group uses certain supplementary financial measures, and their composition is presented in the Glossary on pages 117 to 124.

REGULATORY ENVIRONMENT

Regulatory environment

The *Act respecting financial services cooperatives* and other applicable legislation

Desjardins Group's operations are governed in particular by the *Act respecting financial services cooperatives* (AFSC) and the *Insurers Act*. The Minister of Finance of Quebec is responsible for the application of the AFSC and the AMF is responsible for its administration. The AMF is the main government agency that oversees and monitors deposit-taking institutions (other than banks) and insurance companies that do business in Québec and are governed by Québec law, including the caisses and the Federation and its insurance subsidiaries. Other federal and provincial regulations, in addition to those of regulators, may also govern some operations of Desjardins Group entities, such as the Office of the Superintendent of Financial Institutions (OSFI) related to property and casualty insurance, and custodial and trust services.

The AFSC prescribes, among other things, the rules for organizing a network of financial services cooperatives and a financial group, and the rules for issuing capital shares and investment shares. The AFSC also includes a chapter concerning the *Groupe coopératif Desjardins* (the Cooperative Group), which comprises the Desjardins caisses in Québec, the Federation and the *Fonds de sécurité Desjardins,* and specifies the financial solidarity mechanisms within the Cooperative Group. Under the AFSC, the Federation's mission includes, in particular, to provide Desjardins Group's risk management and see to the financial health of the Cooperative Group and its sustainability. To this end, the Federation and the *Fonds de sécurité Desjardins* have special powers of supervision and intervention regarding the protection of creditors, including depositors. As well, the Federation may, in accordance with its mission and when it considers that the financial position of the Cooperative Group so warrants, give written instructions to any caisse or order it to adopt and apply a recovery plan. Apart from the annual assessments required from the caisses, set by resolution of the Federation's Board of Directors under the AFSC and its internal By-laws, the Federation may set, under the AFSC and by resolution of its Board of Directors, the assessments it considers necessary for the pursuit of its missions.

For its part, the *Fonds de sécurité Desjardins* is required, in particular, to ensure the distribution of capital and other assets among the components of the Cooperative Group so that each one can perform its obligations to its depositors and other creditors in full, correctly and without delay. Under the AFSC, it is empowered, in particular, to set and collect assessments from the entities of the Cooperative Group. The *Fonds de sécurité Desjardins* requests and collects assessments from the Québec caisses every year. It is also required to intervene with a component of the Cooperative Group each time it appears necessary to do so in order to protect the component's creditors. The *Fonds de sécurité Desjardins* may, in such circumstances, order the sale of any part of the business of a caisse, order the amalgamation or dissolution of caisses or establish a legal entity to facilitate the liquidation of a caisse's bad assets. Furthermore, the *Fonds de sécurité Desjardins* mutualizes the cost of its interventions among the components belonging to the Cooperative Group. In addition, if it considers that its financial resources are inadequate to carry out its mission, it may set a special assessment and require any component of the Cooperative Group to pay it.

The AFSC also provides that all the Québec caisses, the Federation and the *Fonds de sécurité Desjardins* may be amalgamated into a single legal entity to be wound up, as these entities cannot be wound up in any other manner. As a result, in the event of liquidation, the Cooperative Group's capital and assets in their entirety (and, indirectly, of Desjardins Group) are available to satisfy all the Cooperative Group's debt.

Under the AFSC, the directors and officers of a financial services cooperative that is part of the Cooperative Group, are duty-bound toward these cooperatives and the *Fonds de sécurité Desjardins*, in the performance of their functions, to act with prudence and diligence, as well as with honesty and loyalty and in the interest of the Cooperative Group, and not only in the interest of the cooperative. When the cooperative's interest is not that same as that of the Cooperative Group, they must promote the interest of the latter. In determining whether something is in the Cooperative Group's interest, the Cooperative Group must be considered to be a single legal person comprising the cooperatives (including the Federation and the Québec caisses) and the *Fonds de sécurité Desjardins* that is included in this group, even though the group is not a legal person.

The assessment powers of the Federation and the *Fonds de sécurité Desjardins*, combined with the primacy of the Cooperative Group's interest and the universal amalgamation/winding-up operation, as described above, are the fundamental principles of financial solidarity mechanisms, which constitute one of the foundations of Desjardins Group and the Cooperative Group.

The *Deposit Institutions and Deposit Protection Act* also provides for recovery and resolution mechanisms in the event of failure of deposit-taking institutions that are part of the Cooperative Group. For more details, see "Internal recapitalization (bail-in) regime and total loss absorbing capacity" below.

Regulatory capital requirements

Desjardins Group is subject to the capital regulatory requirements issued by the AMF. For further details, see Section 3.2, "Capital management", of this MD&A.

It should be mentioned that in June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI), which subjects Desjardins Group to higher capital requirements and enhanced disclosure requirements, among other things, as instructed by the AMF.

Regulatory governance requirements

As mentioned on page 1, Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, as prescribed by the CSA. Desjardins Group's financial and corporate governance are discussed on page 104 of this MD&A and in the "Corporate governance" section of the 2021 Desjardins Group Annual Report.

Risk management information

Desjardins Group globally incorporates the recommendations issued by the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board contained in the document “Enhancing the Risk Disclosures of Banks”, into its risk management disclosure framework. Desjardins Group also continues to adapt its disclosure to comply with the principles of risk data aggregation and risk reporting (RDARR), which will strengthen governance as well as risk data aggregation and risk reporting capabilities. Furthermore, Desjardins Group developed a living will, detailing the actions it will take to restore its financial position in the event of a crisis.

Internal recapitalization (bail-in) regime and total loss absorbing capacity

The *Deposit Institutions and Deposit Protection Act* and its regulations, as well as certain other laws, regulations and guidelines, collectively provide for a resolution process and internal recapitalization (bail-in) regime for domestic systemically important financial institutions belonging to a Cooperative Group. The objective of resolution operations, including the bail-in regime, is to ensure the sustainability of the operations of deposit institutions belonging to a cooperative group despite their failure, without resorting to public funds, and to have holders of contributed capital securities and creditors absorb losses, thereby minimizing taxpayer exposure to the losses.

Among other resolution operations, the AMF may (i) amalgamate the Cooperative Group and have it continued as one Québec savings company, (ii) establish a bridge institution in order to have it assume the liabilities, in relation to deposits of money, of deposit institutions belonging to the Cooperative Group, (iii) establish an asset management company with a view to transferring any part of the assets or liabilities of a legal entity belonging to the Cooperative Group to such asset management company, except liabilities in relation to deposits of money, and/or (iv) transfer the assets and liabilities of a legal entity belonging to the Cooperative Group to any acquirer.

In addition, in the event any deposit institution belonging to the Cooperative Group becomes non-viable, the AMF may convert any part of the capital shares issued by the deposit institutions belonging to the Cooperative Group (such as Class F capital shares) and/or of certain other debt securities prescribed by regulation issued by the Federation into contributed capital securities of the Federation, of a deposit institution belonging to the Cooperative Group, or of another legal entity constituted for such purpose or resulting from the resolution process of the Cooperative Group. Covered bonds, certain derivatives and structured notes, senior unsubordinated debt instruments that (i) have a maturity of less than 400 days (including explicit or embedded extension options) or (ii) are not assigned an international securities identification number (ISIN) or other similar designation for the purposes of trading and settlement, and subordinated notes that are non-viability contingent capital instruments are all excluded from the application of the bail-in regime. Holders of converted capital shares or debt instruments may be eligible for indemnification, as set forth under applicable regulations.

The AMF released, on March 21, 2019, the *Notice relating to the bail-in power set out in the second paragraph of section 40.50 of the Deposit Insurance Act*, which specifies the AMF’s current intention with respect to the application of the bail-in regime. In this context, the AMF plans to convert negotiable and transferable unsecured debt into capital shares of the Federation in accordance with the conversion measures set out in the regulations. The AMF would then carry out an amalgamation/continuance operation, the purpose of which would be to amalgamate the entities belonging to the Cooperative Group and have them continued as one Québec savings company. This operation would result in the capital shares issued by the amalgamating entities being converted into common shares of the savings company.

The bail-in regime applicable to Desjardins is substantially similar to the Canadian federal regime to which Canadian banks are subject. In addition, the bail-in regime is not retroactive in respect of debt instruments and does not apply to any debt instruments issued prior to March 31, 2019. The bail-in regime could adversely affect the Federation’s cost of funding.

Furthermore, the AMF's *Total Loss Absorbing Capacity Guideline* (the TLAC Guideline) applies to and establishes standards for Desjardins Group. Under the TLAC Guideline, beginning 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 prescribed criteria or regulatory capital instruments to support its recapitalization in the event of a failure. Additional information can be found in Section 3.2, “Capital management”, on page 54.

U.S. regulations

Desjardins Bank, National Association, a wholly owned subsidiary of Desjardins FSB Holdings, Inc., is authorized to carry on banking operations as a national banking organization under the charter issued to it by the Office of the Comptroller of the Currency of the United States (OCC), an independent office of the United States Department of the Treasury and the regulator that oversees it. Desjardins FSB Holdings, Inc., as a bank holding company and wholly owned subsidiary of the Federation, is subject to the supervisory and regulatory authority of the Federal Reserve Bank of Atlanta. The Federation also operates a branch in Florida, namely Desjardins Florida Branch (DFLB), that has been given the status of a Limited Federal Branch of a Foreign Banking Organization by the OCC. DFLB is subject to regulation by the International Banking Supervision division of the OCC’s Large Banks Supervision department. Desjardins Group is governed by the U.S. *Bank Holding Company Act,* as amended by the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act), and the U.S. Federal Reserve regulations. On October 22, 2015, the Board of Governors of the U.S. Federal Reserve System determined that Desjardins Group could be treated as a Financial Holding Company (FHC).

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. Further information on regulatory capital developments is provided in Section 3.2, “Capital management”.

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. These amendments came into force in three phases, on July 10, 2019, June 1, 2020 and on June 1, 2021. In February 2020, the Department of Finance Canada published new proposed regulatory changes, which were commented by Desjardins. The final publication of these regulatory changes on June 10, 2020 had to do in particular with ongoing monitoring of business relationships. Following the publication of the regulatory changes, a project was implemented to make the changes required by the amended regulation to Desjardins Group's business line systems, processes and procedures.

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

On July 23, 2021, the Canada Revenue Agency (CRA) issued a preliminary version of FATCA and CRS guidance to Canadian financial institutions in order to obtain their comments. Roundtable discussions in which Desjardins is participating with industry members are being held in order to submit comments and questions to the CRA with a view to adopting a final version in the coming months. No date has been released yet regarding the effective date of these latest updates. Desjardins Group continues to monitor developments in the file and to analyze the potential impact on its operations.

Financial reforms in the U.S.

U.S. reform initiatives pertaining to financial regulation affect non-U.S. financial institutions operating in the United States, including Desjardins Group. Since the passage of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the finalization of the Volcker rule, Desjardins Group has been able to put in place the necessary elements and interpretations to be applied to its relevant entities. Consequently, the final changes to the Volcker rule, whose objective is to prohibit banking entities from engaging in proprietary trading and to limit their investing in or sponsoring of hedge funds and private equity funds, complete the existing tools and reinforce the work already done. With regard to the final changes to the restrictions on the control framework and the concept of control pursuant to the *Bank Holding Company Act* (BHCA), Desjardins Group has been working on revising the BHCA frameworks, which will soon be adopted by the authorities and made available to the entities affected by these regulations.

Protection of data confidentiality and security

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. More than a year after Bill 64, *An Act to modernize legislative provisions respecting the protection of personal information,* was tabled, it was passed by the National Assembly and assented to in September 2021. The provisions of Bill 64 will come into force by being phased in over a three-year period. Desjardins Group is already in action implementing the requested changes within the prescribed time period.

Pillar 3 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 Pillar 3 requirements aim to enhance comparability with other 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. On January 1, 2020, the Pillar 3 financial disclosure requirements were included by the AMF in a separate document entitled *Pillar 3 Disclosure Requirements Guideline*, which features new requirements that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. In November 2021, the AMF launched a public consultation for an update of the *Pillar 3 Disclosure Requirements Guideline*. The update, effective January 1, 2022, clarifies the implementation of the provisions that will apply by January 1, 2024 and incorporates new requirements that address, in particular, risk-weighted asset modelling, encumbered assets and compensation. As at December 31, 2021, Desjardins Group met the disclosure threshold of the systemic risk indicator table. The table, which aims to present an assessment of Desjardins's relative size within the global financial system, will be issued annually, starting in the first quarter of 2022.

Report on Ontario's auto insurance system

Since the government introduced "Putting Drivers First", its 2019 plan for the auto insurance system, some progress has been made on its commitments related to increased competition, choice and innovation for insurance consumers. However, the changes that would address the existing cost pressures in the system have not yet been implemented. The Financial Services Regulatory Authority of Ontario (FSRA) has created a Technical Advisory Committee for Transforming Auto Insurance Rate Regulation. FSRA is currently conducting a review of the Take-All-Comers requirements and has partnered with the Registered Insurance Brokers of Ontario to explore the current practices and introduce recommendations to further protect auto insurance consumers. Desjardins and other stakeholders are actively working with the government to ensure a better auto insurance system for Ontario drivers.

Amalgamation of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (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 securities industry, in light of the evolution of the financial services industry. On August 3, 2021, the CSA issued a Position Paper confirming the establishment of a New SRO and the consolidation of the two existing investor protection funds into a single protection fund which will be independent from the New SRO. This Position Paper also outlines the regulatory framework for the New SRO. The CSA working group is currently reviewing the comments received and, is continuing to work on implementing the New SRO. Desjardins Group continues to analyze the potential impact of the New SRO regulatory framework 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. On July 15, 2021, the CSA announced the adoption of additional requirements to enhance the protection of elderly and vulnerable customers in relation to issues of financial abuse and diminished mental capacity. The effective date was scheduled for December 31, 2021. Desjardins Group has rolled out projects to review its processes and procedures in order to comply with regulatory requirements within the prescribed timeframe.

Interest rate benchmark reform

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. Its objective is to improve benchmark indices by making sure they comply with robust international standards. The gradual withdrawal of certain interest rate benchmarks, began on May 17, 2021, with the discontinuation of six-month and 12-month CDOR. In addition, on March 5, 2021, rate administrators announced that the publication of LIBOR would officially cease after December 31, 2021 for all currencies except certain USD LIBOR settings, which will not cease publication until after June 30, 2023. Subsequently, on July 29, 2021, USD LIBOR rate administrators officially recommended the use of the Secured Overnight Financing Rate (SOFR) for loans, which concludes the final phase of the transition plan that was initiated to promote the use of SOFRs. On December 16, 2021, the Canadian Alternative Reference Rate (CARR) working group published a White Paper recommending that CDOR’s publication be ceased after June 30, 2024. However, the decision to cease CDOR ultimately lies with the administrator of CDOR. Consequently, CARR’s recommendations do not constitute an official statement that CDOR has ceased. Desjardins Group has set up a task force on interest rate benchmark reform internally to ensure a seamless transition from benchmark interest rates to risk-free rates, and is closely monitoring the preparation of the schedule for withdrawing certain benchmark interest rates.

Guideline on Information and Communications Technology Risk Management

In February 2020, the AMF issued the final version of the *Guideline on Information and Communications Technology Risk Management* (ICT) applicable, in particular, to insurers and financial services cooperatives. After filing the assessment of compliance with the ICT filed in February 2021 with the AMF, Desjardins has been pursuing its work to comply with this Guideline.

Bill 96, An Act respecting French, the official and common language of Québec

On May 13, 2021, the Québec government tabled Bill 96, *An Act respecting French, the official and common language of Québec,* and published proposed amendments to the *Charter of the French Language*, which make it more demanding with more severe sanctions. The objectives are, in particular, to strengthen the presence and use of French in Québec, to implement a new *Charter of the French Language*, and to affirm that French is the only official language of Québec. The main themes addressed are the francization committee, labour and employment law, contracts and consumer law, signage, remedial measures and sanctions. Desjardins Group continues to monitor developments in this file and to analyze the potential impact on its operations.

Minimum qualifying rate for mortgages

On May 20, 2021, the AMF and the federal government announced changes to the minimum qualifying rate for mortgages for the purposes of borrower qualifications. Since June 1, 2021, the minimum qualifying rate for conventional and insured mortgages by a recognized guarantor has been the higher of the mortgage contractual rate plus 2%, or 5.25% as a minimum floor. This qualifying rate will be reviewed periodically to ensure that it remains appropriate for the risks in the environment.

Regulation 52-112 respecting non-GAAP and Other Financial Measures Disclosure

On May 27, 2021, the CSA issued *Regulation 52-112 respecting Non-GAAP and Other Financial Measures Disclosure* (Regulation 52-112). It includes most of the disclosure requirements stated in the previous CSA Staff Notice *52-306, Non-GAAP Financial Measures*, dating from January 2016. Regulation 52-112 provides guidance to issuers disclosing specified financial measures, including non-GAAP measures, and certain requirements are clarified and explained more fully than in the preceding notice. The aim of Regulation 52-112 is to improve the quality of information provided to investors through standardization and transparency, and thereby help them to better assess the various specified financial measures used by companies. Regulation 52-112 requirements became effective on October 15, 2021 and apply to Desjardins Group’s disclosure documents dated December 31, 2021. On December 2, 2021, the AMF issued an exemption explaining that the requirements of Regulation 52-112 do not apply to financial measures calculated under a guideline issued by the AMF and the OSFI.

Bill 3, *An Act to amend various legislative provisions mainly with respect to the financial sector*

On December 8, 2021, Bill 3, *An Act to amend various legislative provisions mainly with respect to the financial sector* (Bill 3), was assented to and came into force. Bill 3 amends, in particular, the *Deposit Institutions and Deposit Protection Act* in order to remove the AMF’s write-off and cancellation powers from the internal recapitalization (bail-in) power. As a result, the AMF’s power to write off any part of the negotiable and transferable unsecured debts and to cancel any portion of the capital shares issued by the Federation, has been withdrawn. Bill 3 also amends the *Act respecting financial services cooperatives* to provide relief for financial disclosure obligations for certain components of the Cooperative Group.

Regulators' strong interest in environmental, social and governance (ESG) factors

Regulators paid significant attention to the issue of climate change in Canada in 2021, with several consultations and surveys on climate change risk management and disclosure conducted by the OSFI, the AMF and the CSA. In particular, the CSA launched a consultation process on its proposed National Instrument *51-107 Climate Change Disclosure* and related Companion Policy which closed on January 17, 2022. The Bank of Canada and the OSFI also conducted a pilot project on climate change risk scenarios. Internationally, the IFRS Foundation has established the International Sustainability Standards Board (ISSB) and published two prototype standards for sustainable development and climate disclosure requirements. This context suggests that climate change consideration and disclosure requirements will be strengthened in the future. Desjardins Group continues to closely monitor developments in this file. Desjardins also ensures that it follows best practices in ESG integration, monitoring and disclosure. This disclosure is reflected in the annual Social and Cooperative Responsibility report, which is aligned with the standards of the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The key elements of disclosure related to the TCFD recommendations are summarized under "Environmental or social risk" of Section 4.0, "Risk management" and detailed in the dedicated report "Climate action at Desjardins – 2021 TCFD report on Climate change-related risks and opportunities".

1.0 Desjardins Group

1.1 Profile and structure

WHO WE ARE

Desjardins Group is the largest financial cooperative group in North America, with assets of $397.1 billion. As at December 31, 2021, the organization brought together 214 caisses in Québec and 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, and Desjardins Florida Branch.

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 more than 53,700 employees and the commitment of over 2,500 directors in the caisse network.

The Federation is a cooperative entity that is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group and acts as a financial agent on Canadian and foreign financial markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services. It acts as a monitoring and control organization for the caisses and its mission includes risk management and capital management for Desjardins Group, as well as ensuring the financial soundness and sustainability of the Desjardins Cooperative Group (comprised of the Desjardins caisse network in Québec, the Federation and the *Fonds de sécurité Desjardins*), pursuant to the AFSC. The Federation is, among other things, the treasurer and official representative of Desjardins Group with the Bank of Canada and the Canadian banking system. The Federation also has the right to participate in the Visa Inc. and MasterCard Inc. payment systems in Canada on behalf of Desjardins Group. In addition, it manages majority interests in joint-stock companies through holding companies.

The AFSC provides that the entities comprising the Desjardins Cooperative Group may be amalgamated into a single legal entity to be wound up, as these entities cannot be wound up in any other manner. It should be mentioned that Caisse Desjardins Ontario Credit Union Inc. is excluded from this amalgamation-liquidation provided for in the Act.

Summary additional information on the entities that are not part of the Desjardins Cooperative Group or the subsidiaries of the entities that comprise it, but are included in Desjardins Group's financial statements may be found under Section 5.5, "Additional information required pursuant to the AMF's Decision No. 2021-FS-0091".

WHAT MAKES US DIFFERENT

Desjardins Group takes pride in its cooperative nature, because it provides the necessary leverage to always work in the interests of members and clients. The resulting mission and values are the driving force for its directors, managers and employees. They are echoed in its orientations, and help Desjardins Group achieve its vision of sustainable prosperity within the communities it serves. Since the first caisse was founded in 1900 in Lévis, Desjardins Group has always been a key player in financial education, and it believes that the cooperative business model is more relevant now than ever in a greatly changing world.

Desjardins Group continues to make progress in acting on its commitments and taking concrete measures to integrate environmental, social and governance (ESG) factors into its business model as well as to combat and adapt to climate change. It does this, in particular, through financial education and solidarity-based finance, as well as by offering products and services that meet all the financial needs of members and clients.

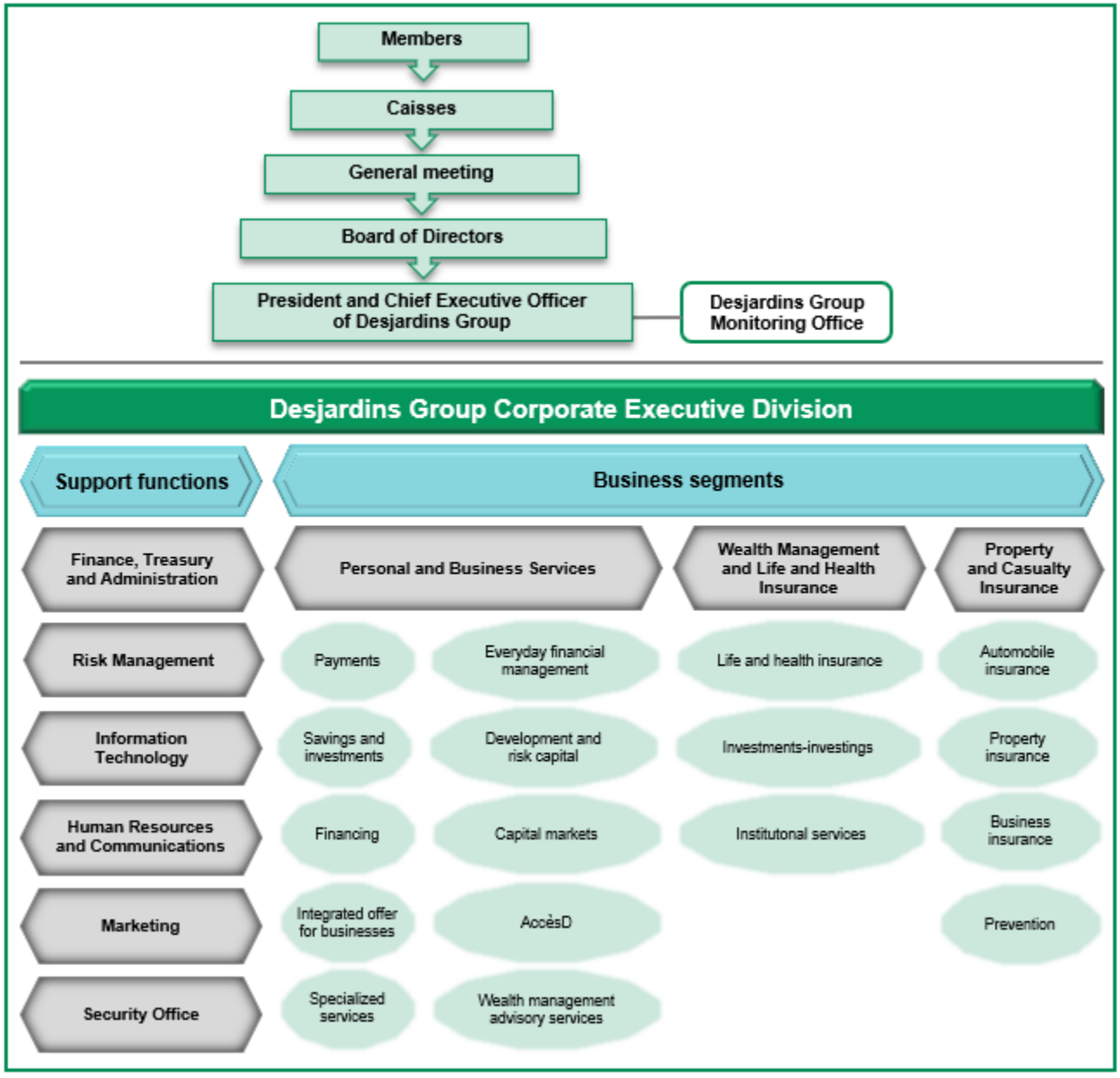
Desjardins Group's goal is to be everyone's #1 choice. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best meet members' increasingly diverse needs, Desjardins Group pays special attention to the caisse network and its range of service delivery methods. This process is also part of Desjardins Group's continued commitment to the vitality of cooperation at the caisse level in terms of democratic life, representation, education and training, cooperation with other cooperatives and support for community development.

Another hallmark of Desjardins Group is its modern, grassroots-level democratic governance, based on the active participation of directors elected by caisse members. This participation is expressed in working together and in terms of governance. Bodies that address local issues are active in various areas where the caisses are present, and the *Forum de concertation Mouvement* serves a similar purpose at the caisse network level. In terms of governance, the caisses' elected officers participate at the annual general meeting, at orientation congresses and on the Board of Directors of the Federation and its subsidiaries and its various commissions.

STRUCTURE OF DESJARDINS GROUP

Desjardins Group's structure has been designed to take into account the needs of its members and clients, as well as the markets in which it operates. The caisse network in Québec and the Caisse Desjardins Ontario Credit Union Inc. have the support of three main business segments (Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance), which enhances their ability to build on their products and services.

Additional information on the business segments, particularly their profile, operations, 2021 achievements, the industry in which they operate, and their strategies and priorities for 2022 may be found in Section 2.2, "Analysis of business segment results".



1.2 Financial highlights

Table 8 – Financial highlights
As at and for the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019
Results			
Net interest income	**$ 5,786**	$ 5,640	$ 5,296
Net premium	**11,278**	9,920	9,412
Other operating income[1]	**3,341**	2,839	3,154
Operating income[1]	**20,405**	18,399	17,862
Investment income (loss)[1]	**(85)**	3,074	2,895
Total income	**20,320**	21,473	20,757
Provision for credit losses	**69**	863	365
Claims, benefits, annuities and changes in insurance contract liabilities	**6,883**	9,233	9,111
Non-interest expense	**9,566**	8,297	8,032
Income taxes on surplus earnings	**860**	661	651
Surplus earnings before member dividends	**$ 2,942**	$ 2,419	$ 2,598
Adjusted surplus earnings before member dividends[1]	**$ 2,942**	$ 2,419	$ 2,289
Contribution to combined surplus earnings by business segment[2]			
Personal and Business Services	**$ 1,459**	$ 1,314	$ 1,913
Wealth Management and Life and Health Insurance	**463**	609	697
Property and Casualty Insurance	**1,197**	622	187
Other	**(177)**	(126)	(199)
	$ 2,942	$ 2,419	$ 2,598
Amount returned to members and the community[1]			
Member dividends	**$ 387**	$ 330	$ 317
Sponsorships, donations and bursaries[3]	**110**	72	87
Desjardins Member Advantages program	**17**	43	41
	$ 514	$ 445	$ 445
Indicators			
Net interest margin[4]	**2.06 %**	2.38 %	2.47 %
Return on equity[5]	**8.9**	8.3	9.9
Adjusted return on equity[4]	**9.1**	8.5	8.8
Productivity index[4]	**71.2**	67.8	69.0
Adjusted productivity index[4]	**71.2**	67.8	71.1
Credit loss provisioning rate[5]	**0.03**	0.41	0.18
Gross credit-impaired loans/gross loans and acceptances[5]	**0.47**	0.62	0.56
Liquidity coverage ratio[6]	**140**	157	130
Net stable funding ratio[6]	**129**	N/A	N/A
On-balance sheet and off-balance sheet			
Assets	**$ 397,085**	$ 362,035	$ 312,996
Net loans and acceptances	**230,779**	211,749	203,462
Deposits	**238,355**	225,236	193,918
Equity	**33,526**	30,263	27,429
Assets under administration[5]	**482,911**	458,177	437,000
Assets under management[5]	**91,258**	77,474	67,553
Capital measures[7]			
Tier 1A capital ratio	**21.1 %**	21.9 %	21.6 %
Tier 1 capital ratio	**21.1**	21.9	21.6
Total capital ratio	**22.1**	22.6	21.6
Leverage ratio	**8.5**	8.5	8.8
Risk-weighted assets	**$ 134,518**	$ 120,101	$ 113,861
Other information			
Number of employees	**53,783**	48,930	47,849

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.
(2) The breakdown by line item is presented in Note 31, “Segmented information”, to the Combined Financial Statements.
(3) Including $41 million from the caisses’ Community Development Fund ($35 million in 2020).
(4) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 4 to 8.
(5) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.
(6) In accordance with the *Liquidity Adequacy Guideline* issued by the AMF. See Section 4.0, “Risk management” ».
(7) In accordance with the *Adequacy of Capital Base Guideline* for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2 “Capital management”.

2021 Desjardins Group highlights

Surplus earnings before member dividends	Net loans and acceptances outstanding	Assets under management	Gross written premiums[1] - Life and Health Insurance	Gross written premiums[1] - P&C Insurance	Tier 1A capital ratio	Member dividends
$2,942 million + 21.6%	$230.8 billion + 9.0%	$91.3 billion + 17.8%	$5.9 billion + 20.2%	$6.1 billion + 5.7%	21.1%	$387 million + 17.3%

Comparison of 2021 to 2020

- Surplus earnings before member dividends of $2,942 million, up $523 million, or 21.6%.
- Operating income[2] of $20,405 million, up $2,006 million, or 10.9%.
  - Net premiums of $11,278 million, up $1,358 million, or 13.7%, due in particular to business growth and the impact of $155 million in automobile insurance premium refunds granted in 2020 to members and clients as a relief measure to support them during the COVID-19 pandemic.
  - Net interest income of $5,786 million, up $146 million, or 2.6%.
  - Other operating income[2] of $3,341 million, up $502 million, or 17.7%, due particularly to income related to growth in assets under management and higher business volumes in Desjardins Card Services payment activities.
- Provision for credit losses of $69 million, down $794 million, compared to 2020.
- More favourable developments in prior year claims than in 2020, mainly in automobile insurance.
- Overall unfavourable impact of revisions of actuarial assumptions from life and health insurance activities in the normal course of business.
- Non-interest expense of $9,566 million, up $1,269 million, mainly due to the larger amounts invested in Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, information protection, security and improving business processes.
- Amount returned to members and the community[2] totalled $514 million, compared to $445 million for 2020.

Other highlights

- Tier 1A capital ratio of 21.1%, compared to 21.9% as at December 31, 2020.
- Total capital ratio of 22.1%, compared to 22.6% as at December 31, 2020.
- Growth of 9.7% in total assets since December 31, 2020, to stand at $397.1 billion as at December 31, 2021.
- Growth of 17.8% in assets under management in 2021 to total $91.3 billion as at December 31, 2021.
- Issue of US$750 million, on October 14, 2021, under its legislative covered bond program.
- In December 2021, following an update of their methodology, the S&P confirmed the ratings of the instruments issued by the Federation, while maintaining a stable outlook.
- In January 2022, Fitch confirmed the ratings of the instruments issued by the Federation, while maintaining a stable outlook.
- Issue of $750 million euros, on February 8, 2022, under its legislative covered bond program.

EAG highlights

- In response to its members' and clients' rising expectations, Desjardins Group announced an ambitious action plan that will enable it to achieve a net zero emissions balance sheet by 2040 across its extended operations and equity financing and investing activities in three key carbon-intensive sectors: energy, transportation and real estate.
- Desjardins is the first Canadian financial institution to join the *Business Ambition for 1.5 °C* coalition, an alliance headed by the United Nations. In joining, Desjardins undertakes to base its greenhouse gas reduction targets on the scientific database and have them independently validated.
- In September 2021, Desjardins Group completed an inaugural offering of sustainable bonds totalling $500 million. This first issue is part of a broader program that should lead it to tap the sustainable bond markets several times over the next few years. The net proceeds of this issue will be used for financing or refinancing of loans, investments and internal or external projects that meet the highest international standards in terms of environmental and social criteria, and whose governance framework has received the highest score form the independent agency Moody's ESG Solutions.
- Desjardins is a founding signatory of the Canadian Investor Statement on Climate Change. Coordinated by Canada's Responsible Investment Association, this statement discloses the commitment of Canadian financial institutions to contribute to the fight against climate change through their responsible investment practices.
- Desjardins was ranked 5th out of 31 leading global financial institutions with property and casualty insurance operations in the first edition of the Insuring Disaster report by ShareAction. Transparency, governance and the consideration of climate change, human rights and biodiversity in both asset management and underwriting activities were analyzed.

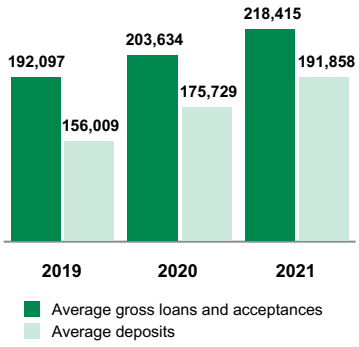
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(1) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.
(2) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

2021 segment highlights

Personal and Business services

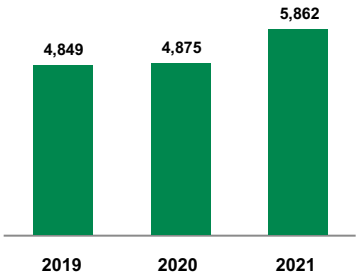
Average gross loans and acceptances and average deposits[1]
(in millions of dollars)



- Québec's leader in residential mortgages and a leading player in consumer loans, with estimated market shares of 38% and 26%, respectively.
- 4th largest credit card issuer in Canada (based on 2020 outstandings and purchase volumes).
- No. 5 in Canada for active credit card accounts (based on 2020 data).
- Leader in farm credit in Québec, with a market share of 44%.
- Major player in Québec in the commercial and industrial niche, with an estimated market share of 24%.
- Leader in personal savings in Québec, particularly in on-balance sheet savings products, with an estimated market share of 42%.
- Surplus earnings before member dividends totalled $1,459 million, up 11.0% compared to 2020, due to the lower provision for credit losses and the increase in net interest income partially offset by the larger non-interest expense, mainly as a result of the higher amounts invested in Desjardins-wide strategic projects.
- Growth of $14.8 billion, or 7.3%, compared to 2020, in the average outstandings for the entire loans and acceptances portfolio.

Wealth Management and Life and Health insurance

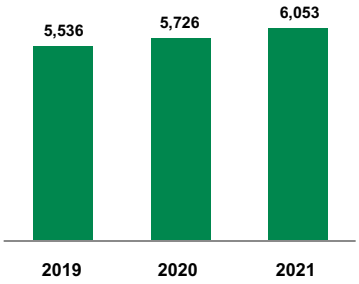
Gross written premiums[1]
(in millions of dollars)



- No. 5 life and health insurer in Canada and No. 3 in Québec (based on gross written premiums in 2020).
- No. 1 in Canada and in Québec for market-linked guaranteed investments (based on 2020 assets under management).
- 2nd place in the Responsible Investment Association Leadership Awards in the Market Education category.
- Acquisition of the investment firm Hexavest Inc.'s assets to enhance Desjardins's expertise in asset management.
- Net record sales of $3.9 billion for mutual funds.
- Gross record sales of $1.0 billion in annuities paid.
- Net surplus earnings of $463 million, down 24.0% compared to 2020, mainly due to the unfavourable effect of revisions of actuarial assumptions, as well as lower gains on the disposal of securities and real estate investments compared to 2020, partially offset by the effect of travel insurance claims and provision in 2020 and by the favourable market impact on guaranteed investment funds.
- Record group insurance sales, bringing administered premiums to more than $3.1 billion.
- Gross written premiums of $ 5.9 billion, for an increase of 20.2% compared to 2020.

Property and Casualty Insurance

Gross written premiums[1]
(in millions of dollars)



- No. 2 casualty insurer in Canada and Québec, and No.3 in Ontario (based on gross direct premiums written in 2020).
- Gross written premiums grew by $327 million, or 5.7%, compared to 2020, exceeding the $6 billion mark for the first time to total $6.1 billion in 2021.
- Underwriting profits for the 29th consecutive year.
- Launch of new version of Ajusto (telematics program providing personalized feedback on driving).
- Net surplus earnings of $1,197 million, up $575 million compared to 2020, mainly due to a decrease in the cost of claims and an increase in net premiums, including the effect of $155 million in auto insurance premium refunds granted to members and clients as a relief measure to support them during the COVID-19 pandemic in 2020.
- Improvement in the loss ratio,[2] which was 50.1% in 2021, compared to 62.6% in 2020.

(1) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.
(2) For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 4 to 8.

1.3 Significant events

Entry into service of a new executive vice-presidency

On February 24, 2022, a new Operations Executive Division came into service, the incumbent of which is Di-Thai Hua, formerly vice-president Accès Desjardins. This Executive Division brings together more than 4,700 employees and managers, and is responsible for mainly carrying out Desjardins Group operations, whether banking, procurement, real estate or administrative services, as well as accounting operations of the Federation. Mr. Hua was thus appointed executive vice-president Operations and has served on the Desjardins Group Management Committee since February 24, 2022.

In the wake of these changes, the Finance, Treasury and Administration Executive Division changed its name to the Finance Executive Division to reflect the redefined scope of its activities, which now focus on finance, treasury, economic research and pension plan of Desjardins Group.

Privacy breach

On December 16, 2021, Desjardins Group announced that a settlement agreement had been reached with plaintiffs in the class action suit filed in relation to the privacy breach announced in June 2019. The settlement agreement, which is subject to approval by the Québec Superior Court, provides that up to $201 million will be paid in the form of individual payments to eligible individuals who file a claim once the agreement has been approved by the Court. The Combined Financial Statements as at December 31, 2021 reflect the financial impact of this settlement.

On February 7, 2022, a Québec Superior Court judgment authorized an application for pre-approval of the agreement. There are still several steps that could take several months before the settlement agreement is approved and the claim process can possibly begin.

Acquisition of the investment firm Hexavest Inc.'s assets

On September 1, 2021, Desjardins Group, through Desjardins Global Asset Management Inc., a wholly-owned indirect subsidiary of the Federation, acquired the assets of the investment firm Hexavest Inc., which serves a primarily institutional clientele located mostly in Canada and also internationally. The results of the acquired operations are accounted for under the Wealth Management and Life and Health Insurance segment.

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. Since March 2020, the Canadian government has introduced various protection measures, and 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, event cancellations and the imposing of a curfew. Following recommendations by government authorities concerning the spread of COVID-19, Desjardins Group implemented a number of protection and relief measures as of March 2020, for its members and clients, both individuals and businesses, as well as its employees.

Since the start of the pandemic, various restrictions, varying in severity from one province and region to another, have been imposed, eased and then reintroduced by governments depending on trends in the spread of COVID-19. In June 2021, in response to the steady drop in the number of positive COVID-19 cases and the smooth rollout of the vaccination campaign, governments eased restrictions and initiated the first phase of their reopening plans, but then tightened them at the end of 2021 with the arrival of the Omicron variant. Since September 2021, some provinces, including Québec and Ontario, have made it mandatory to provide proof of vaccination in order to enter certain non-essential establishments open to the general public. In February 2022, a deconfinement plan and the gradual withdrawal of certain health measures were announced by various province. Desjardins continues to make the health and safety of its members, clients and employees its top priority.

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 the COVID-19 pandemic. The main relief measures, in effect since March 16, 2020, have evolved in order to offer solutions at all times for members and clients in financial difficulty, by providing solutions tailored to their needs. The solutions available to individual members and clients include, in particular, payment relief for all their financing products.

In addition, in 2020, since the extended lockdown period and travel restrictions had led to a significant reduction in automobile insurance claims, Desjardins Group's property and casualty insurance subsidiaries granted automobile insurance premium refunds of $155 million to more than 2.1 million eligible individual and business insured clients.

The table below presents, as at December 31, 2021, Desjardins members' and clients' use of the main relief measures since the start of the pandemic.

Products			
Financing	**Number of requests**	**Total loans - relief granted**	**Loan balance as at December 31, 2021**
Residential mortgages and consumer loans	**181,528**	**$20.1 billion**	**$2.3 billion**
Credit card and other personal loans	**168,416**	**$1.7 billion**	**$4 million**
Business loans	**35,673**	**$17.3 billion**	**$0.8 billion**
Insurance	**Number**	**Value of refund**	
Automobile insurance premium refund in 2020	**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 granted loans of up to $60,000 interest-free until December 31, 2023 (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. Members and clients were able to take advantage of this program until June 30, 2021. At the end of the CEBA program, 149,100 loans for a total of $5.0 billion had been granted to Desjardins Group members and clients under the program.

- Business Development Bank of Canada (BDC) Co-Lending Program:
  - Under this program, set up through the Business Credit Availability Program (BCAP), Desjardins Group granted term loans for which the maximum amount was calculated based on sales, with conditions tailored to the business' needs, for up to $6.25 million ($18.75 million per borrower group). BDC and Desjardins Group entered into a joint facility under which BDC automatically acquired an 80% interest in term loans granted to eligible Desjardins Group members and clients. Members and clients could take advantage of this program until December 31, 2021. At the end of the program, 146 loans for a total of $90 million had been granted to Desjardins Group members and clients under this joint facility program.

- BDC Highly Affected Sectors Credit Availability Program (HASCAP) Guarantee:
  - Under the HASCAP, the BDC provides a guarantee for 100% of a financial institution's residual loss for term loans to businesses in sectors highly affected by the pandemic. The loans were for amounts ranging from $25,000 to $1 million (up to a maximum of $6.25 million for an enterprise operating several business sites, as defined under the program). Members and clients can take advantage of this program until March 31, 2022. As at December 31, 2021, 200 loans for a total of $42 million had been granted to Desjardins Group members and clients.

- 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). Members and clients were able to take advantage of this program until December 31, 2021. At the end of the program, 140 loans totalling $88 million had been granted to Desjardins Group's members and clients.

- 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 of $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. Applications for financial assistance under this program may be submitted no later than four weeks after the public health emergency has been lifted. As at December 31, 2021, 213 loans totalling $77 million had been granted to Desjardins Group members and clients since the start of 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. For an update on the measures put in place by Desjardins Group in this regard, please see Section 3.2, "Capital management", of this MD&A.

In addition, the Canadian government had set up programs in 2020 for extraordinary liquidity facilities to facilitate access to financing for financial institutions. With the stabilization of market conditions, the majority of the programs ended in 2021.

Impact of the pandemic

As mentioned in Section 1.5, "Economic environment and outlook", of this MD&A, the spread of 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 on financial markets. Should the COVID-19 pandemic be prolonged or should subsequent waves of the pandemic occur, or should other variants or diseases appear with similar effects, the adverse impact on the global economy could be exacerbated and lead to declines on financial markets. The impact of the COVID-19 pandemic could have a negative impact 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 Desjardins's operations 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 wave in Québec and the rest of Canada, long-term vaccine efficiency as well as the possibility of subsequent waves or the emergence of new variants that could shut down certain sectors of the economy, or result in additional closures or a tightening of confinement measures by government authorities.

Desjardins Group is continuing to closely monitor the potential effects and consequences of the COVID-19 pandemic. The pandemic has had and will continue to have repercussions on the risks to which Desjardins Group is exposed in the normal course of its operations, as well as on the principal emerging risks and other risks. For details about the impact of the pandemic on risks, see Section 4.0, "Risk management", of this MD&A.

Desjardins Group published its medium-term financial objectives in Section 1.4, "Strategic orientations and financial objectives", of this MD&A. The context of high uncertainty due to the COVID-19 pandemic may continue to affect the global economy and markets and Desjardins Group's business, results and financial position in 2022. The key indicators for the medium term presented in Section 1.4, "Strategic orientations and financial objectives", of this MD&A do not take into account the impact that the COVID-19 pandemic or other unusual events could have on Desjardins's ability to achieve its medium-term financial objectives.

1.4 Strategic orientations and financial objectives

STRATEGIC ORIENTATIONS AND FOUNDATIONS

Fiscal 2021 was the first year of the 2021-2024 Strategic Plan. To achieve Desjardins's goal of being everyone's #1 choice, the organization continues to work on implementing the following seven strategic directions for the 2022-2024 period:

- Continue implementing the culture change.
- Enhance proficiency in our operations.
- Affirm our commitment to security.
- Make a member-client shift a reality.
- Capitalize more on our integrated offer in Québec.
- Grow beyond our present footprint.
- Modernize our systems.

Three foundations support the strategic orientations to ensure that Desjardins Group has a solid base:

- Ensure human and organization transformation in the digital age.
- Assume strong socio-economic leadership.
- Anchor our business practices in data and analytics.

These strategic orientations and foundations contribute to depicting Desjardins Group as a simple, human, modern and efficient cooperative for its members and clients, as well as its directors, managers and employees.

FINANCIAL OBJECTIVES

Desjardins Group sets medium-term financial objectives that provide it with the means of realizing its ambitions for members and clients by seeking new ways to give back more to the community, ensure its sustainability and support its growth.

This section shows the follow-up on the results obtained for the objectives stated in 2021. Future performance will be measured using key indicators aligned with Desjardins's new ambitions according to the strategic orientations and foundations of the 2021-2024 Strategic Plan. Desjardins Group, through its members and clients, enriches the lives of people and communities in order to be everyone's #1 choice. Creating wealth and redistributing it to its members and their communities, constantly working in the best interests of members and clients, involves Desjardins Group's financial performance, as well as other factors, including its commitment to security.

In addition to the excellent loan portfolio growth, it should be remembered that Desjardins Group's 2021 results were enhanced by exceptional conditions, including the lower loss experience for the Property and Casualty Insurance segment due to the favourable developments in prior-year claims essentially in automobile insurance. It also should be noted that the provision for credit losses decreased considerably because of the improved economic outlook compared to 2020. Therefore it should be remembered that the key indicators for the medium term presented below do not take into account the repercussions that the COVID-19 pandemic or other unusual events could have on Desjardins Group's ability to achieve them.

In relation to its strategic directions, Desjardins Group expects to continue to commit substantial amounts throughout 2022 for its investments. These investments will continue to be made in particular in innovative technology platforms, information protection, security and improvement of business processes. These initiatives will enable Desjardins Group to enhance the member and client experience, improve its productivity, and ensure the implementation of best practices in information security.

This decision to invest in enhancing security and modernizing its systems and processes is in line with Desjardins's objective to be a leader in information security. Its high level of capitalization and its solid financial results will enable it to achieve its goals and will support its major investment projects. The year 2022 is a pivotal year, midway through its Strategic Plan, and in such a context, the costs associated with these investment projects can be expected to continue to grow. However, Desjardins Group aims to achieve more moderate costs by the end of its strategic planning period in 2024. These strategic choices as well as the uncertainty of the COVID-19 pandemic could however affect Desjardins Group's surplus earnings in 2022, which could decline compared to 2021.

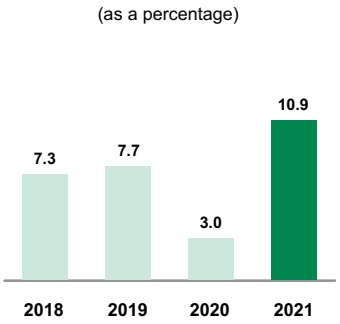
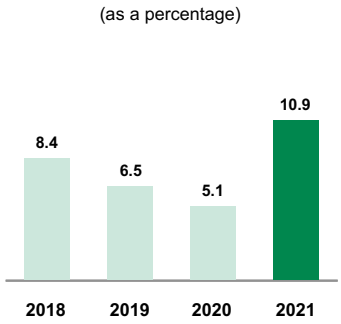
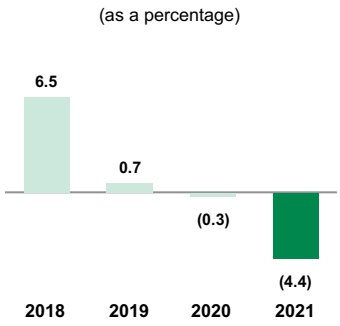
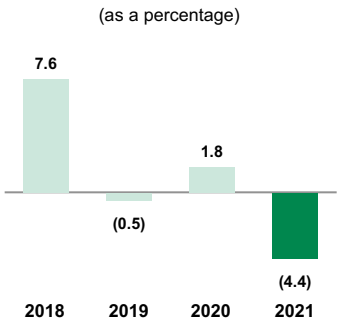
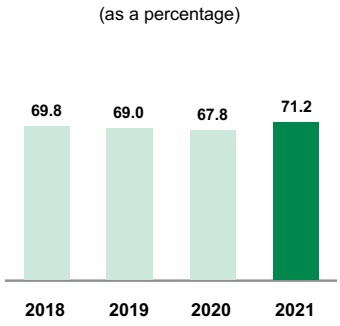
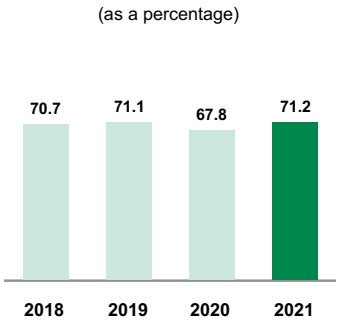
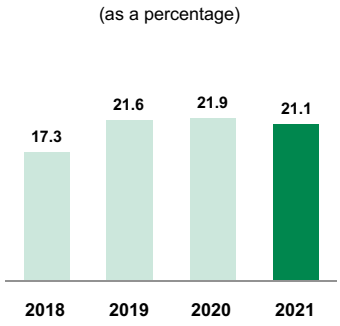
The following table presents the medium-term financial objectives for the 2021-2024 Strategic Plan, as well as the results achieved in 2021 for each of the indicators.

Key indicators	Medium-term objectives	2021 adjusted results
Annual growth in operating income[1]	**5% to 8%**	**10.9%**
Growth differential between operating income and non-interest expense[1]	**0%**	**(4.4)%**
Productivity index[1]	**75%**	**71.2%**
Tier 1A capital radio[2]	**15%**	**21.1%**
Return on equity[1][3]	**8%**	**9.1%**

Footnotes to this table are presented on page 22.

Overall performance in 2021

Desjardins Group's growth in recent years has been very positive overall. Surplus earning before member dividends grew 21.6% in 2021. Desjardins Group is in excellent financial health and continues to participate actively in the reopening of society and the economy, in particular by renewing its significant support for members and the community.

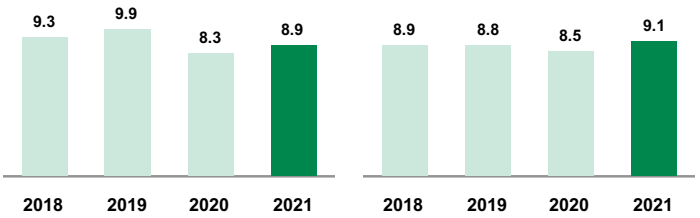
Key indicators	Trend[4]	Adjusted trend[4]
Growth in operating income[1]: A measure of growth in Desjardins Group's operations. **Results achieved in 2021:** Growth and adjusted growth were 10.9% in both cases, exceeding the target by 5% to 8%.		
Growth differential between operating income and non-interest expense[1]: A measure of sustainability and profitability. **Results achieved in 2021:** The growth differential and the adjusted growth differential were (4.4%) in the both cases, which are below the 0% target mainly because of the larger amounts invested in strategic projects.		
Productivity index[1]: A measure of efficiency. **Results achieved in 2021:** The index and the adjusted index were 71.2% in both cases and in line with a target productivity index of under 75%.		
Tier 1A capital ratio[2]: A measure of Desjardins Group's financial strength. **Results achieved in 2021:** As at December 31, 2021, this ratio was 21.1%, above the 15% target.		

Footnotes to this table are presented on page 22.

Key indicators	Trend[4]	Adjusted trend[4]

Return on equity:
A measure of profitability resulting in value creation for members and clients.

Results achieved in 2021:
This indicator[3] and the adjusted indicator[1] were 8.9% and 9.1%, respectively, which means the objective is to achieve more than 8%.



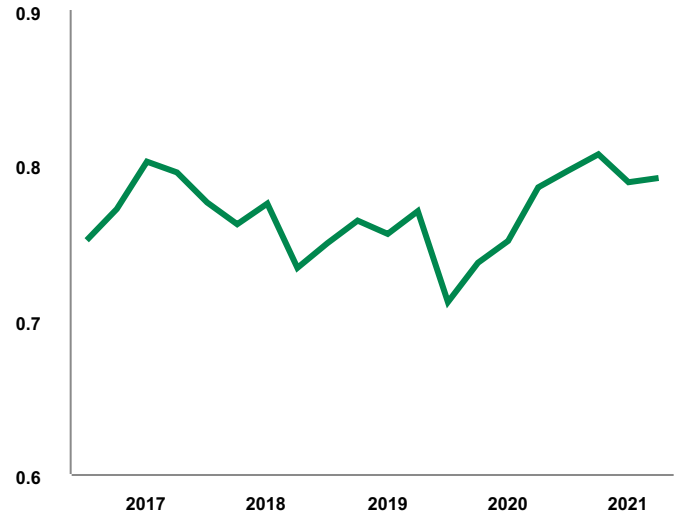
(1) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 4 to 8.
(2) In accordance with the *Adequacy of Capital Base Guideline* for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, “Capital management”.
(3) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.
(4) The information for 2018 was based on the standards in effect before the adoption by Desjardins Group of IFRS 16, “Leases”, on January 1, 2019, on a retrospective basis without restatement of comparative periods.

FINANCIAL OUTLOOK

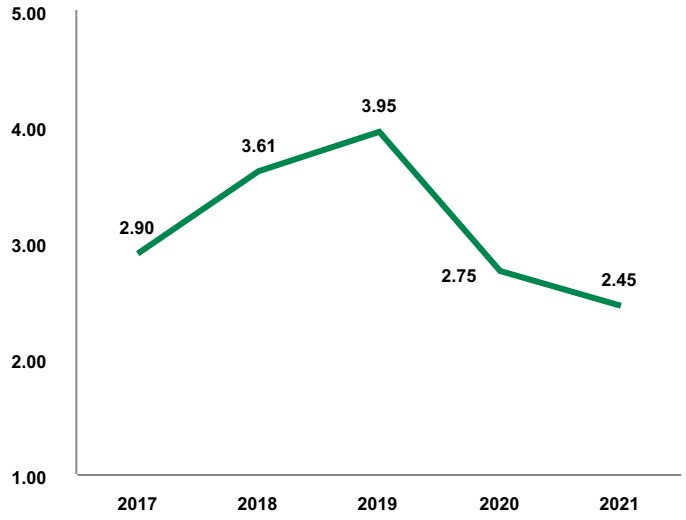
Desjardins Group will continue fiscal 2022 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry. There is still some uncertainty about the full impact of COVID-19 on Desjardins Group’s operations and results, and the economy will be down slightly, compared to 2021, when Canada’s real GDP grew by 4.7%. Stiff competition in the banking industry will place sustained pressure on net interest income. North American key interest rates should remain low, and a gradual recovery began in March 2022. The abundance of liquidity and the low interest rate environment despite expected rate increases could continue to support the value of all financial assets. Rigorous cost control and strict capital management will enable Desjardins Group to make significant investments for the benefit of members and communities in order to adopt innovative concepts to enhance service delivery and ensure information security, including privacy protection, with the constant aim of being everyone’s #1 choice and making it even easier to do business with Desjardins.

1.5 Economic environment and outlook

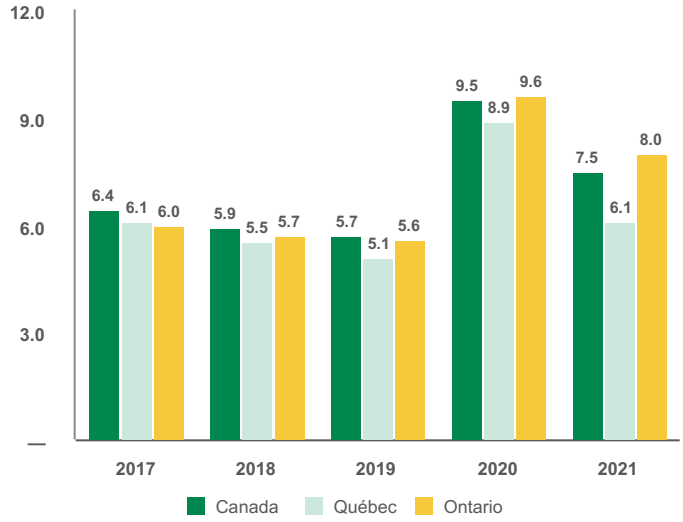
Changes in the Canadian dollar vs. the U.S. dollar (at quarter end)
(in U.S. dollars / Canadian dollars)



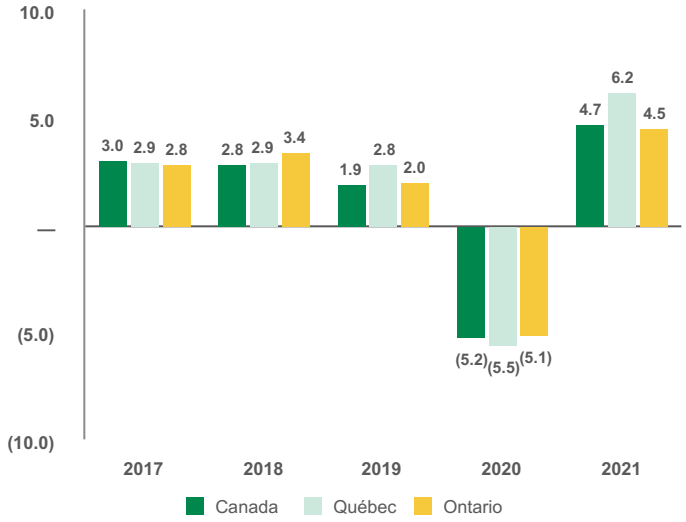
Changes in the prime rate (annual average)
(as a percentage)



Changes in the unemployment rate (annual average)
(as a percentage)



Annual growth in GDP
(as a percentage)



Global economy

The global economy is recovering from the successive waves of COVID-19 that have affected economic conditions since the winter of 2020. In 2021, real GDP levels in several countries, such as China and the United States, surpassed pre-pandemic levels. Vaccination campaigns have reopened large swaths of the economy, particularly in services, which have accelerated growth. However, the Omicron wave at the end of the year brought further disruptions. In 2021, the economy was also marked by supply-side issues and labour shortages that were also consequences of the pandemic. The cost of international transportation of goods, raw materials, energy and many goods increased considerably, especially beginning in the spring of 2021. Prices to the consumer also rose at an accelerating pace in most countries. Real GDP is estimated to have grown by 5.2% in the eurozone in 2021, including increases of 2.7% in Germany and 7.0% in France. In the UK, the increase is estimated at 7.5%. Economic growth in China is showing signs of slower growth after the surge in activity that followed the first wave, but it is still expected to post 8.1% growth for 2021.

The economies of most countries are expected to grow somewhat slower in 2022 as the Omicron wave affects economic activity at the start of the year, after which it will return to a more normal pace. Economies will also continue to be affected by supply and cost problems, which should linger for part of the year. Following a 3.4% decline in 2020, global real GDP is expected to have grown 6.1% in 2021 and should expand another 3.8% in 2022.

Stock markets continued to post strong growth in 2021, benefiting from a strong recovery in both economic activity and profits. Very low interest rates and abundant liquidity also underpinned rising valuations for financial assets. However, growing concerns over inflation placed pressure on the bond markets and on central banks. As a result, the Bank of Canada ended its quantitative easing program last fall, and the U.S. Federal Reserve has begun reducing its asset purchases. North American key interest rates began to gradually rise in March 2022, and this should continue to put upward pressure on all interest rates.

United States

The U.S. economy performed well in the first half of 2021, since the COVID-19 waves were mitigated and the vaccination campaign got off to a good start. The easing and disappearance of key health measures, combined with major federal government assistance programs, resulted in annualized real GDP increases of 6.3% in the winter and 6.7% in the spring. Growth then slowed, however, as supply problems became more severe. This was particularly true in the automotive sector, where inventory shortages provoked a decline in sales. As a result, annualized real GDP growth was only 2.3% in the third quarter. The economy nevertheless rallied in the fourth quarter, surging 6.9%, driving real GDP growth to 3.1% above the pre-pandemic level. The labour market, however, did not perform as well when measured against the pre-pandemic situation, falling short of level set in February 2020 by over 2,500,000 workers, despite a record number of job openings. Inflation also surged in the U.S. The annual change in the consumer price index jumped from 1.4% at the beginning of 2021 to 7.0% in December, the highest rate recorded since 1982. This was mainly due to price increases in the energy and automotive sectors, but inflation also spread to several areas of goods and services.

Annual GDP growth is also expected to be slower in 2022. Since economic activity has surpassed its pre-pandemic level, much of the catching up is now complete. In addition, growth will be limited due to factors such as the withdrawal of federal government assistance programs, ongoing supply problems and rising inflation. In the wake of a 3.4% decline in 2020 and 5.7% growth in 2021, real GDP is expected to grow 3.3% in 2022.

Canada

In general, the Canadian economy continued to recover in 2021. The recovery did not go smoothly, though, as several challenges had to be overcome during the year. New health measures, introduced to counter a third wave of COVID-19 in the spring, combined with supply chain problems at certain companies to drive a decline in real GDP in the second quarter. However, several restrictive measures were then gradually relaxed due to the effectiveness of the vaccination campaign, allowing the economy to grow at a strong pace. New home construction and existing home sales reached all-time highs in March 2021, although they subsequently declined, largely due to a deterioration in affordability stemming from sharply higher prices. The unemployment rate continued to trend toward more normal levels during the year, falling from 8.8% in December 2020 to 6.0% in December 2021, or very close to its pre-pandemic level. In the final analysis, 2021 as a whole is expected to have produced a 4.7% increase in Canadian real GDP.

Real GDP should continue to grow throughout 2022 as the effects of the pandemic subside. For the year 2022, Canadian real GDP is expected to increase by approximately 3.8%. Accelerating growth in prices was also a concern in 2021, as supply and demand imbalances for many goods and services placed upward pressure on prices. The annual inflation rate is expected to decline gradually in 2022 as the effects of some temporary factors wear off.

Québec

Real GDP continued to recover following an unprecedented drop in 2020. As of March 2021, the Québec economy had completely recovered the lost ground, outpacing the country as a whole as well as several major industrialized countries. The province recovered quickly due to its broad-based industrial diversification and the significant weight of raw materials, which were in high demand during the global economic recovery. This was followed by positive impacts made by the successful vaccination campaign, a gradual lifting of health restrictions beginning in May 2021, and the introduction of the vaccine passport on September 1, 2021. Some of the sectors most affected by the pandemic, such as food and hospitality, have begun to recover, but this is far from complete. The unemployment rate continued to fall, reaching approximately 4.5% by the end of 2021. This matched the all-time low of 4.5% recorded in February 2020, just before the pandemic began, so labour shortages once again became a major issue. The job vacancy rate rose sharply and began to place upward pressure on wages. As elsewhere across North America, the inflation rate climbed in Québec, even exceeding 5.0% in the fall of 2021 for the fastest pace recorded since the early 1990s. In 2021, the average price of residential properties rose by more than 15% for a second consecutive year. However, high prices contributed to slower sales and new construction. Activity is expected to decline in 2022 as rising interest rates further erode affordability.

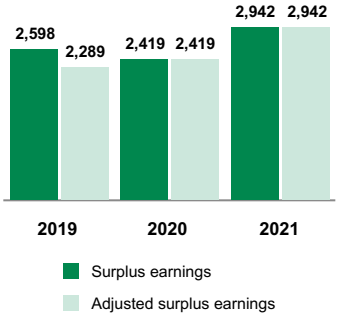
Although the Québec economy rallied strongly from the shock induced by the arrival of the pandemic, growth will be less sustained going forward. With the recovery now behind us, real GDP is expected to grow by approximately 2.0% in 2022, compared to over 6.0% in 2021. The uncertainties around the pandemic are nevertheless still present. Waves of new, more virulent or vaccine-resistant variants continue to pose a risk to the economy.

Changes in the markets in which Desjardins Group operates are described in the corresponding analyses in Section 2.2, “Analysis of business segment results”.

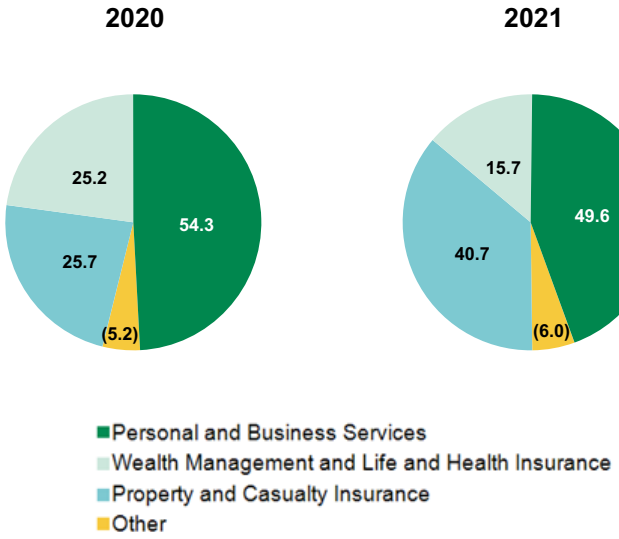
2.0 Review of financial results

2.1 Analysis of 2021 results

Surplus earnings before member dividends
(in millions of dollars)



Segment contributions to surplus earnings before member dividends
(as a percentage)



2021 Surplus earnings

For 2021, Desjardins Group reported surplus earnings before member dividends of $2,942 million, an increase of $523 million, or 21.6%, compared to 2020. This growth was mainly due to lower loss experience for the Property and Casualty Insurance segment, the decrease in the provision for credit losses and the growth in net interest income and other operating income.[1] This increase was mitigated by the higher non-interest expense primarily because of the larger amounts invested in Desjardins-wide strategic projects.

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 2021.

- A total of $514 million was returned to members and the community,[1] compared to $445 million for 2020.
  - Provision for member dividends of $387 million, a $57 million increase compared to 2020.
  - An amount of $110 million was given back in the form of sponsorships, donations and bursaries, compared to $72 million for the previous year, with $41 million in 2021 and $35 million in 2020 from the caisses' Community Development Fund.
  - Through the Desjardins Member Advantages program, $17 million was paid out, compared to $43 million in 2020.
- Commitments of $24 million made in 2021 under the GoodSpark Fund to support regional social and economic activities. Since 2017, Desjardins Group has made total commitments of $147 million.

Contribution of business segments to surplus earnings:

- Personal and Business Services: **Surplus earnings of $1,459 million,** up $145 million, or 11.0%, compared to 2020. This increase was essentially the result of the following:
  - Lower provision for credit losses in 2021 than in 2020, reflecting the deterioration in the economic outlook as a result of the COVID-19 pandemic.
  - Increase in net interest income and other operating income.[1]
  - Offset by higher non-interest expense, mainly because of the larger amounts invested in Desjardins-wide strategic projects.

- Wealth Management and Life and Health Insurance: **Surplus earnings of $463 million,** down $146 million, or 24.0%, mainly because of the following items:
  - Overall unfavourable effect from revisions of actuarial assumptions in the normal course of business.
  - Lower gains on disposal of securities and real estate investments than in 2020.

  This decrease was partially offset by the following:
  - Impact on the cost of claims in the provision and travel insurance claims in 2020, related to the COVID-19 pandemic.
  - The markets' positive impact on guaranteed investment funds while they had been unfavourably affected in 2020.
- Property and Casualty Insurance: **Surplus earnings of $1,197 million,** up $575 million compared to 2020, due to the following:
  - Decrease in cost of claims, in particular due to the favourable trend in prior-year claims essentially in automobile insurance.
  - Increase in net premiums, including the impact of $155 million in automobile insurance premium refunds granted to members and clients as a relief measure to support them during the COVID-19 pandemic in 2020.

- **Return on equity was 8.9 %,** compared to 8.3% for 2020.
- **Adjusted return on equity was 9.1%,** compared to 8.5% for 2020, mainly due to the increase in surplus earnings, as previously explained.

[1] For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

OPERATING INCOME

Table 9 – Operating income
For the years ended December 31

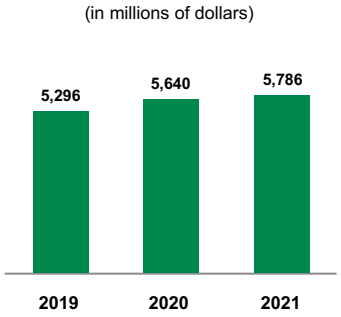
(in millions of dollars)	2021	2020	2019
Net interest income	**$ 5,786**	$ 5,640	$ 5,296
Net premiums	**11,278**	9,920	9,412
Other operating income[1] (see Table 12)	**3,341**	2,839	3,154
Total operating income[1]	**$ 20,405**	$ 18,399	$ 17,862

[1] For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.

Operating income rose to $20,405 million, an increase of $2,006 million, or 10.9%, compared to 2020.

Net interest income

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 affected by interest rate fluctuations, funding and matching strategies, as well as the composition of interest-bearing or non-interest-bearing financial instruments. For analysis purposes, Table 10 shows the changes in net interest income for the main asset and liability classes, while Table 11 details how net interest income was affected by changes in volume and interest rates for the different assets and liabilities.



Net interest income totalled $5,786 million, up $146 million, or 2.6%, as a result of the following items:
- Growth in average residential mortgages outstanding.
- Lower average cost of funds, resulting in lower interest expense, despite a higher volume of deposits.

This increase was partially offset by the following:
- Decrease in average consumer and credit card loan outstandings.
- Lower average return on loans due to decrease in interest rates.

- **Net interest margin of 2.06%** in 2021, as a percentage of average interest-bearing assets, down 32 basis points compared to 2020, mainly because of an increase in securities and liquidities generating a lower net interest margin, as well as a decrease in interest rates.

- **Interest income of $7,401 million,** down $365 million, or 4.7%, essentially due to the following:
  – A decrease in the average return on total interest-bearing assets, mainly loans, which reduced income by $1,350 million.
  – Offset by a $985 million increase in interest income related to growth in the average volume of total interest-bearing assets, mainly loans.

- **Interest expense of $1,615 million,** down $511 million, or 24.0%, primarily as a result of the following:
  – A decrease in the average cost of funds, mainly from deposits, reduced this expense by $841 million.
  – Offset by growth in the average volume of total interest-bearing liabilities, mainly from deposits, leading to a $330 million increase in interest expense.

Table 10 – Net interest income on average assets and liabilities

For the years ended December 31

(in millions of dollars and as a percentage)	2021 Average balance	2021 Interest	2021 Average rate	2020 Average balance	2020 Interest[1]	2020 Average rate	2019 Average balance	2019 Interest	2019 Average rate
Assets									
Interest-bearing assets[2]									
Securities, cash and deposits with financial institutions	**$ 62,646**	**$ 473**	**0.76 %**	$ 35,992	$ 488	1.36 %	$ 25,476	$ 412	1.62 %
Loans	**217,864**	**6,928**	**3.18**	200,652	7,278	3.63	189,016	7,709	4.08
Total interest-bearing assets	**280,510**	**7,401**	**2.64**	236,644	7,766	3.28	214,492	8,121	3.79
Other assets	**9,698**	**—**		8,422	—		7,076	—	
Total assets	**$ 290,208**	**$ 7,401**	**2.55 %**	$ 245,066	$ 7,766	3.17 %	$ 221,568	$ 8,121	3.67 %
Liabilities and equity									
Interest-bearing liabilities[2]									
Deposits	**$ 233,757**	**$ 1,508**	**0.65 %**	$ 202,888	$ 2,010	0.99 %	$ 185,377	$ 2,618	1.41 %
Subordinated notes	**2,058**	**65**	**3.16**	1,416	57	4.03	1,381	72	5.21
Other liabilities	**879**	**42**	**4.78**	916	59	6.44	1,242	135	10.87
Total interest-bearing liabilities	**236,694**	**1,615**	**0.68**	205,220	2,126	1.04	188,000	2,825	1.50
Other liabilities	**30,401**			18,966			14,407		
Equity	**23,113**			20,880			19,161		
Total liabilities and equity	**$ 290,208**	**$ 1,615**	**0.56 %**	$ 245,066	$ 2,126	0.87 %	$ 221,568	$ 2,825	1.28 %
Net interest income		**$ 5,786**			$ 5,640			$ 5,296	
Net interest margin[3]			**2.06 %**			2.38 %			2.47 %

(1) Data have been reclassified to conform to the current year's presentation.

(2) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.

(3) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 4 to 8.

Table 11 – Impact of changes in volumes and rates on net interest income

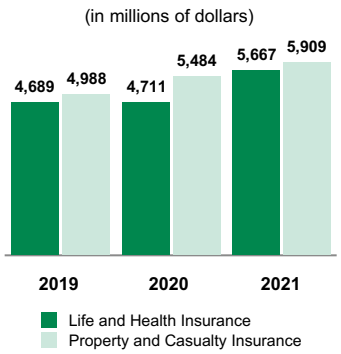
For the years ended December 31

(in millions of dollars and as a percentage)	2021/2020 Increase (decrease) Change in average volume	Change in average rate	Interest	Average volume	rate	2020/2019 Increase (decrease) Change in average volume	Change in average rate	Interest[1]	Average volume	Average rate
Assets										
Securities, cash and deposits with financial institutions	**$ 26,654**	**(0.60) %**	**$ (15)**	**$ 361**	**$ (376)**	$ 10,516	(0.26) %	$ 76	$ 170	$ (94)
Loans	**17,212**	**(0.45)**	**(350)**	**624**	**(974)**	11,636	(0.45)	(431)	475	(906)
Change in interest income			**(365)**	**985**	**(1,350)**			(355)	645	(1,000)
Liabilities										
Deposits	**30,869**	**(0.34)**	**(502)**	**306**	**(808)**	17,511	(0.42)	(608)	247	(855)
Subordinated notes	**642**	**(0.87)**	**8**	**26**	**(18)**	35	(1.18)	(15)	2	(17)
Other liabilities	**(37)**	**(1.66)**	**(17)**	**(2)**	**(15)**	(326)	(4.43)	(76)	(35)	(41)
Change in interest expense			**(511)**	**330**	**(841)**			(699)	214	(913)
Change in net interest income			**$ 146**	**$ 655**	**$ (509)**			$ 344	$ 431	$ (87)

(1) The data have been reclassified to conform to the current year's presentation.

Net premium[1]

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, **totalled $11,278 million,** up $1,358 million, or 13.7%, compared to 2020, due to items from the following segments:



Wealth Management and Life and Health Insurance

- **Net insurance and annuity premiums of $5,667 million,** up $956 million, or 20.3%, as a result of the following:
  - Increase of $786 million in premiums essentially from group annuities related in particular to business growth, which was reflected by a similar increase in actuarial liabilities included in "Claims, benefits, annuities and changes in insurance contract liabilities".
  - Increase of $143 million in group insurance premiums and of $27 million in individual insurance premiums.

Property and Casualty Insurance

- **Net premiums of $5,909 million,** up $425 million, or 7.7%, essentially as a result of the following:
  - Growth in the average premium, particularly in Property Insurance.
  - In second quarter of 2020, automobile insurance premium refunds of $155 million were granted to members and clients as a relief measure to support them during the COVID-19 pandemic.
  - Business growth.

[1] The difference between total results and the sum of business segment results is due to intersegment transactions.

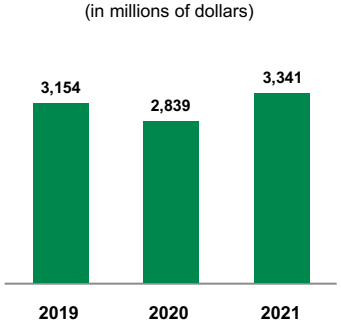
Other operating income

Table 12 – Other operating income
For the years ended December 31

(in millions of dollars)	2021	2020	2019
Deposit and payment service charges	**$ 424**	$ 388	$ 431
Lending fees and credit card service revenues	**735**	628	774
Brokerage and investment fund services	**1,108**	954	886
Management and custodial service fees	**732**	617	582
Foreign exchange income	**121**	103	64
Other	**221**	149	417
Total other operating income[1]	**$ 3,341**	$ 2,839	$ 3,154

[1] For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

Other operating income stood at $3,341 million, for an increase of $502 million, or 17.7%, compared to 2020, due to the following:

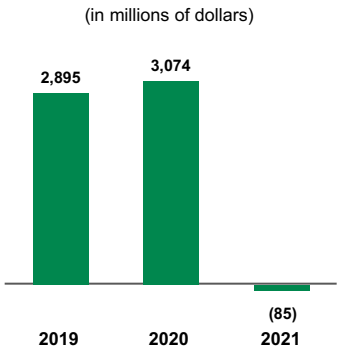


- **Deposit and payment service charges of $424 million**, up $36 million, or 9.3%. Relief measures were granted to members in 2020.
- **Lending fees and credit card service revenues of $735 million,** up $107 million, or 17.0%, because of an increase in business volumes from Desjardins Card Services payment activities.
- **Income from brokerage and investment fund services of $1,108 million,** up $154 million, or 16.1%. This increase was due to:
  - Increase in income from growth in assets under management for Wealth Management operations.
  - Higher income from securities brokerage activities because of the growth in assets under management.
- **Management and custodial service fees of $732 million,** up $115 million, or 18.6%, as a result of higher fees related to growth in assets under management.
- **Foreign exchange income and other operating income of $342 million,** up $90 million, or 35.7%, due to the following:
  - Income from DuProprio and FairSquare operations (Purplebricks Canada prior to December 1, 2021).
  - Income from the interest held in Aviso Wealth.
  - Offset by change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.

INVESTMENT INCOME[1]

Loss of $85 million, reported under Investment income (loss), compared to income of $3,074 million for 2020, essentially due to the following:

- Decrease 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 because of an increase in market interest rates versus a decrease in 2020.
  - You are reminded that this fluctuation in the fair value of bonds was offset by a change in the cost of claims due to matching.
- Decrease in the fair value of matched bonds in the Property and Casualty Insurance segment, contrary to an increase in 2020, primarily because of higher market interest rates in 2021 versus lower interest rates in 2020. It should be remembered that this fluctuation in the fair value of bonds was offset by the change in the cost of claims due to matching.
- Lower gains on the disposal of securities and real estate investments than in 2020.



TOTAL INCOME

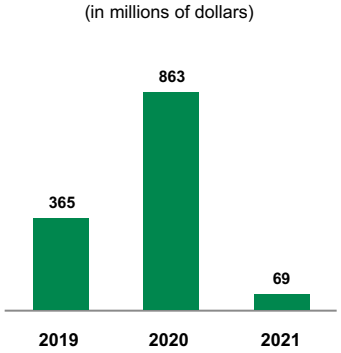
Total income, comprising net interest income, net premiums, other operating income and investment income, **amounted to $20,320 million**, for a decrease of $1,153 million, or 5.4%, compared to 2020. This decrease is reflected particularly by a similar change in actuarial liabilities included in "Claims, benefits, annuities and changes in insurance contract liabilities".

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $69 million, down $794 million compared to 2020. This decrease primarily reflects the improved macroeconomic outlook and credit quality of borrowers, while the 2020 decrease reflected the significant negative impact of the deteriorating economic outlook resulting from the COVID-19 pandemic. The provision for credit losses for 2021 also shows declining net write-offs compared to 2020, particularly in the credit card portfolio.

Desjardins Group continued to present a quality loan portfolio in 2021.

- The credit loss provisioning rate was 0.03% in 2021, compared to 0.41% for 2020. The decrease in this rate is due to the fact that the 2021 provision for credit losses was significantly lower than for 2020, which reflected the impact of the deteriorating economic outlook resulting from the COVID-19 pandemic.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.47%, compared to 0.62% as at December 31, 2020.



The following table shows the calculation of the credit loss provisioning rate.

Table 13 – Credit loss provisioning rate
For the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019
Provision for credit losses	**$ 69**	$ 863	$ 365
Average gross loans	**$ 222,138**	$ 208,482	$ 197,109
Average gross acceptances	**210**	200	212
Average gross loans and acceptances[1]	**$ 222,348**	$ 208,682	$ 197,321
Credit loss provisioning rate[1]	**0.03 %**	0.41 %	0.18 %

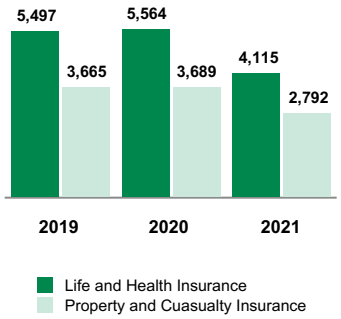
(1) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES[1]

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $6,883 million, down $2,350, or 25.5%, compared to 2020. This decrease, offset by a similar change under "Investment income (loss)", is explained by items from the following segments:

(in millions of dollars)



[1] The difference between total results and the sum of business segment results is due to intersegment transactions.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $4,115 million,** down $1,449 million, or 26.0%, essentially due to the following:
  - Decrease of $1,662 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, which is presented under "Investment income (loss)". This decrease was partially offset by the unfavourable effect of revisions of actuarial assumptions and by business growth.
  - Decrease related to the impact on the cost of claims in the provision and travel insurance claims in 2020, related to the COVID-19 pandemic.
  - Offset by an increase in benefits related to health care claims.

Property and Casualty Insurance segment

- **Cost of claims of $2,792 million,** down $897 million, or 24.3%, due to the following:
  - Loss ratio of 50.1%, compared to 62.6% in 2020.
    - Ratio of changes in prior year claims more favourable than in the corresponding year, namely (12.1%) compared to (5.3%), essentially in automobile insurance.
    - Lower current year loss ratio than in 2020, namely 60.8% compared to 65.4%, essentially in automobile insurance and property insurance.
    - Loss ratio related to catastrophes and major events, lower than in 2020, namely a ratio of 1.4%, compared to 2.5%. 2021 was marked by one catastrophe and one major event while 2020 was marked by one catastrophe and three major events.
  - Favourable impact of an increase in the discount rates used to measure the provision for claims, while there was a negative impact in 2020. It should be mentioned that this impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under "Investment income".
  - Offset by business growth leading to an increase in the cost of claims.

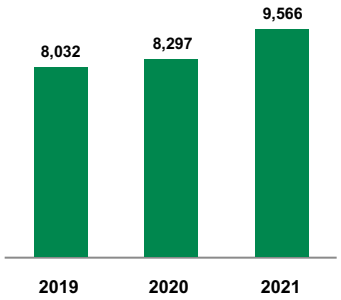
NON-INTEREST EXPENSE AND PRODUCTIVITY INDEX

Table 14 – Non-interest expense
For the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019
Salaries and fringe benefits			
Salaries	**$ 3,553**	$ 3,101	$ 2,970
Fringe benefits	**857**	777	676
	4,410	3,878	3,646
Premises, equipment and furniture, including depreciation	**939**	878	772
Service agreements and outsourcing	**257**	265	361
Communications	**306**	257	288
Other	**3,654**	3,019	2,965
Total non-interest expense	**$ 9,566**	$ 8,297	$ 8,032
Desjardins Group productivity index[1]	**71.2 %**	67.8 %	69.0 %
Desjardins Group adjusted productivity index[1]	**71.2**	67.8	71.1

[1] For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 4 to 8.

(in millions of dollars)



Non-interest expense totalled $9,566 million for 2021, up $1,269 million, or 15.3%, compared to 2020. This increase was essentially due to the following:
– Higher salaries due to growth in operations and indexing.
– Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, information protection, security and improving business processes.
– Growth in payment activities, including expenses related to the rewards program.

- **Salaries and fringe benefits of $4,410 million,** up $532 million, or 13.7%, compared to 2020, mainly because of higher salaries due to growth in operations, and strategic projects in digital transformation, security and indexing.
  – This expense item represented 46.1% of total non-interest expense, namely a percentage slightly lower than 46.7% in 2020.
  – The ratio of fringe benefits to total base compensation[(1)] was 24.1% in 2021, slightly down from 25.1% in 2020.

- **Expenses related to premises, equipment and furniture (including depreciation) of $939 million,** up $61 million, or 6.9%, compared to 2020, mainly due to the increase in investments, particularly in digital transformation and security.

- **Service agreements and outsourcing of $257 million,** down $8 million, or 3.0% compared to 2020.

- **Communication expenses of $306 million,** up $49 million, or 19.1%, compared to 2020, due to advertising.

- **Other expenses of $3,654 million,** up $635 million, or 21.0%, compared to 2020, essentially because of the following:
  – Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, information protection, security and improving business processes.
  – Growth in payment activities, including expenses related to the rewards program.

- **Productivity index at 71.2% for 2021,** compared to 67.8% for 2020, particularly because of the larger amounts invested in strategic projects.

INCOME TAXES ON SURPLUS EARNINGS AND INDIRECT TAXES

Desjardins Group is a cooperative financial group, and each of its entities that operates as a financial services cooperative—namely the caisses and the Fédération des caisses Desjardins du Québec—is considered a private and independent company for tax purposes, unlike the vast majority of other Canadian financial institutions, which are large public corporations. Desjardins entities that are not financial services cooperatives are subject to the large corporation tax regime.

- **Income taxes on surplus earnings before member dividends of $860 million,** an increase of $199 million compared to 2020.
  – Effective tax rate[(1)] of 22.6% for the year ended December 31, 2021, compared to 21.5% for 2020.

Note 28, “Income taxes on surplus earnings”, to the Combined Financial Statements presents, among other things, a reconciliation of the statutory tax rate and the effective tax rate, expressed in dollars.

Indirect taxes consist of property and business taxes, payroll and social security taxes, the goods and services tax, and sales taxes. Indirect taxes are included in non-interest expense. For 2021, Desjardins entities paid $1,641 million in indirect taxes, compared to $1,491 million in 2020.

(1) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

2.2 Analysis of business segment results

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.

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.

2.2.1 Personal and Business Services

PROFILE

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 is present on the financial services scene in Ontario as well.

Desjardins's offer includes everyday financial management, savings transactions, payment services, wealth management, financing, specialized services, access to capital markets, risk and 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 networks and specialized mobile teams, in person, by phone, online, via applications for mobile devices, and at ATMs.

SERVICES

- **Everyday financial management:**
  - Transaction services carried out at the caisse counter and at ATMs, requests for information and specialty services, such as purchasing foreign exchange, money orders, drafts and safety deposit boxes. These services are increasingly available on the Web and mobile devices.
- **Savings and investments:**
  - Products distributed by the caisses, the Desjardins Business centres and the Signature Service centres, as well as through complementary networks and specialized teams, such as investment funds (Desjardins Funds), market-linked guaranteed investments (MLGI), the guaranteed savings offer, the guaranteed investment fund offer, and annuity products.
- **Integrated business offer:**
  - Customized solutions to support businesses of all sizes in their expansion plans, whether on Québec, Canadian or international markets.
- **Financing:**
  - **Residential mortgages,** for the purchase of land, new or existing homes and for renovations.
  - **Consumer loans,** such as loans for the purchase of automobiles and durable goods, personal lines of credit, student loans and Accord D financing solutions.
  - **Commercial credit,** which makes it possible to offer financing in the commercial and industrial, agricultural and agri-food, and public and institutional sectors, as well as for commercial and multi-residential real estate.
- **Payment:**
  - Debit, credit and prepaid card payment services for individuals and businesses, electronic payment services, and both domestic and international funds transfers.
- ***AccèsD*:**
  - Desjardins Group products and services are available at anytime, anywhere in the world, by phone, online and via applications for mobile devices.
- **Wealth management advisory services:**
  - **Online brokerage:** High-performance tools that enable members and clients to trade and invest independently. Whether they are beginners or seasoned investors, the tools offer a rich and unique experience that will help them grow their portfolios.
  - **Signature Service:** A turnkey service to help high net worth clients move from saving to investing. It guides members with complex requirements in building their wealth.
  - **Private wealth management:** An integrated service that takes care of wealthy members and their families, down to the last detail. It meets sophisticated requirements by providing members with a trustworthy team they can count on.
  - **Securities:** Customized service that gives high net worth and wealthy members and clients a way to be involved in their financial decisions. It provides members and clients with a personalized offer for growing their wealth.
- **Capital markets:**
  - Meeting the financing needs of Canadian corporations, institutions and cooperatives, and providing advisory services for mergers and acquisitions, as well as intermediation and execution services on the stock and fixed income securities markets.
  - Carried out by seasoned sales and trading teams who are supported by a research team that is renowned in the industry for its excellence.

- **Risk and development capital (Desjardins Capital):**
  - Specializes in direct and indirect investment in small and medium-sized enterprises (SMEs) and cooperatives in every region of Québec.
  - Promotes, supports and encourages the sustainability of SMEs in Québec.
  - As manager of *Capital régional et coopératif Desjardins* (CRCD), *Desjardins Capital* encourages Quebecers to save.
  - Accompanies and provides customized solutions, strategic advice and value-added services for companies in various stages of start-up, growth or transfer.
- **Specialized services:**
  - International services, banking and cash management services, Desjardins employer solutions (payroll and human resources management, as well as group retirement savings), factoring, specialized financing for institutional clients, the franchise sector, health care and professional firms.

2021 ACHIEVEMENTS

- In the context of the COVID-19 pandemic, continuation of the **support of entrepreneur members** in their applications for financial assistance from the CEBA program, which had to be completed before June 30, 2021. Desjardins's expertise was also put to good use with the support and advice given to these entrepreneurs, non-stop, 7 days a week, virtually.
- In 2021, close to $4 million was granted to entrepreneurs in Québec and Ontario under the **Momentum Fund** with a $10 million budget. Non-repayable financial assistance of up to $10,000 has been granted to more than 1,000 businesses to help them carry out their growth and quality job creation projects, which are major levers for regional economic development. Since 2020, Desjardins Group has made total commitments of $7 million.
- The School Caisse program **"Money Novice to Savings Master"** is now available to all elementary school children in Québec and Ontario, regardless of whether or not their school is participating. It is now possible for any parent to register their child at the School Caisse directly online or at a caisse without having to go through their child's school.
- **Safety and fraud prevention tips:**
  - Educational content on various topics to promote member and client security: phishing prevention, good authentication practices, easy money scams and transactional best practices.
  - Highlighting of *AccèsD* functions making it possible to better protect yourself, such as two-step validation, credit card fraud alerts and the "Suspend and replace my credit card" function.
  - Launch of the "Sharpen your cyber reflexes" program to provide support to members and clients with the relevant information and tools.
  - Marketing of "In Charge of Your Life and Your Property" program, which is central to the offensive against elder financial abuse and aims to counter the financial exploitation of people in vulnerable situations.
- **Enhanced and simplified omnichannel experience:**
  - The number of our websites was reduced in 2021 to make the navigation and search experience simpler, faster and more engaging for members and customers.
  - *AccèsD* Online and mobile services overhauled to enhance self-service functions to make it easier for members and clients to manage their credit cards.
  - Virtual assistance on mobile devices offering advice, for example, on opening an emergency fund or choosing a package, allowing members and clients to be directed to the right solutions for their situation.
  - For a more secure and faster experience, callers to our customer relationship centres can be identified with their voiceprint.
  - Virtual and telephone appointments offered as part of remote service delivery to avoid multiple member trips during a pandemic.
  - Features were added to *AccèsD Affaires* for enhanced management to be done autonomously for Business clients.
- **Enhanced advice** for members in the context of overheated mortgages and rising building material prices.
- Creation of **Offensive F**, the aim of which is to increase the number of women on the boards of directors of partner businesses of Desjardins Capital.
- **Improvement of our offers and sector specializations:**
  - Developments in the offer intended for transferors and their successors in a business transfer project as well as the offer for businesses in the manufacturing sector.
  - Deployment of products, services and coaching processes to meet the specific needs of businesses in the technology and agricultural sectors.
- **Introduce young people to entrepreneurship and support the next generation:**
  - For the past 23 years, Desjardins has been associated with OSEntreprendre to spread the spirit of entrepreneurship among young people in primary and secondary schools, colleges and universities.
  - Partner of Adopt Inc., which is for all Québec entrepreneurs who have started their own business. For one year, they receive financial support, coaching and training.
  - Participation in the *Fonds coopératif d'aide à la relève agricole*, which allows young cooperative producers to receive financial support, professional support and skills development.
- **Modernization of the Canadian payments ecosystem:** The migration to Lynx, Canada's new high-value payment system, is the result of work with Payments Canada, the Bank of Canada, the Department of Finance Canada and the 17 member financial institutions of the Bank of Canada. With Lynx, Desjardins will remain a leading financial institution, while making payments easier, smarter, and safer for all members and clients.
- Acquisition by Interac of exclusive rights to **digital ID** services from Fintech SecureKey in Canada: As the co-owner of Interac with seven Canadian financial institutions, Desjardins contributed to this critical acquisition for the advancement of digital ID in Canada. Under the seven-year agreement, entered into on October 1, 2021, a 100% digital ID authentication experience will eventually be provided to current and future members and clients.
- **Nilson Report:** Desjardins stands out among the top 10 Canadian credit card issuers (based on 2020 data) with the highest growth in volumes (7.9%) and active accounts (3.9%). Desjardins is also third in Canada in terms of business volume for credit cards intended for the small business market.

INDUSTRY

- **Canadian market:**
  - In 2021, the Canadian financial industry comprised some 83 domestic and foreign banking institutions, as well as 438 savings and loan cooperatives, almost half of which belonged to Desjardins Group.
  - In the banking services industry, on-balance sheet and off-balance sheet personal savings outstanding was estimated at $5,924 billion as at December 31, 2021, for a year-over-year increase of 14.3%, compared to an 11.1% increase a year earlier. This acceleration is due to healthy returns on the financial markets, with a gain of 21.7% for the Canadian stock market's S&P/TSX index and a gain of 26.9% for the New York Stock Exchange's S&P 500. 2021 was also marked by very good performances in sales of off-balance sheet savings products (investment funds and assets in custody with securities brokers) after a year of strong personal savings accumulation on the balance sheet in 2020.
  - Outstanding volume of loans to individuals estimated at $2,491 billion as at December 31, 2021, a year-over-year increase of 7.8%, up from the 4.7% increase at year-end 2020. This strong growth was mostly due to the vigorous housing market, which is generating a strong demand for residential mortgages.
  - Business financing outstanding estimated at $924 billion as at December 31, 2021, a year-over-year increase of 7.6%, a strong rebound after posting sluggish growth of 2.1% at the end of 2020.

- **Québec market:**
  - On-balance sheet and off-balance sheet personal savings outstanding estimated at $1,138 billion as at December 31, 2021, a year-over-year increase of 15.4%, compared to an increase of 11.9% at year-end 2020 due to the same factors as mentioned for personal savings in the Canadian market.
  - Outstanding volume of loans to individuals estimated at $440 billion as at December 31, 2021, for a year-over-year increase of 7.5%, compared to a 4.0% increase recorded a year earlier.
  - Business financing outstanding estimated at $180 billion as at December 31, 2021, for a year-over-year increase of 10.3%, compared to a 0.2% decline observed at year-end 2020.
    - Agricultural loans, included in business financing, estimated at $22.5 billion as at December 31, 2021, a year-over-year increase of 9.4%, up from the 7.0% growth on the same date a year earlier.

- **Competition in Québec for financial services to individuals and businesses:**
  - Desjardins Group is a leader in many of the segments in which it operates.
  - A leader in residential mortgages, its market share was estimated at about 38% as at December 31, 2021, and it is a major player in consumer credit, with a market share of approximately 26% on the same date.
  - Desjardins Group is a leader in personal savings in Québec, especially in on-balance sheet personal savings products, with a market share of this industry estimated at approximately 42% as at December 31, 2021.
  - In commercial and industrial loans, Desjardins Group is also a major player in Québec, with an estimated market share of approximately 24% as at December 31, 2021.
  - Desjardins Group is a leader in agricultural financing, with a loan portfolio of close to $10.0 billion and an estimated market share of 44% as at December 31, 2021.
  - The major industry players are focusing primarily on client experience, access to services and proactive advice.
  - The fight for market share is therefore very fierce, since all players are adopting strategies aimed at intensifying business relations with their clients and getting to know them better.

Additional information about the economic environment can be found in Section 1.5, "Economic environment and outlook", of this MD&A.

2022 STRATEGIES AND PRIORITIES

The 2022 strategies and priorities of the Personal and Business Services segment are incorporated into Desjardins Group's strategic directions and are aimed at helping Desjardins to achieve its goal of being everyone's #1 choice, by working in the best interests of members and clients. The seven strategic directions of Desjardins Group, as presented in Section 1.4, "Strategic orientations and financial objectives", of this MD&A, are also the strategic directions of the Personal and Business Services segment.

The segment intends to enhance its leadership position in financing, savings and, through its distribution network, life and health and P&C insurance products. The segment will continue to work in the best interests of its members and clients, in particular, by giving members and clients a simple, omnichannel experience by leveraging mobile platforms and speeding up the segment's digital initiatives. The Personal and Business Services segment will also strengthen relationships with our customers by taking a life-event management approach and by making integrated offers.

Reaching objectives requires the commitment of every director, manager and employee, as well as a high-calibre, comprehensive and integrated offer that is innovative and easy to access, all in the best interests of members and clients.

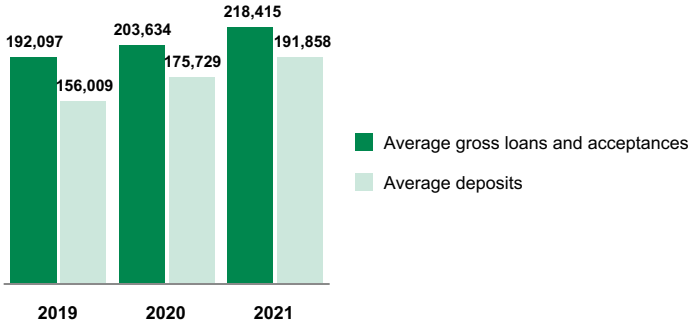
ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

Table 15 – Personal and Business Services – Segment results
For the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019
Net interest income	**$ 5,005**	$ 4,970	$ 4,859
Other operating income[1]	**2,684**	2,366	2,829
Operating income[1]	**7,689**	7,336	7,688
Investment income[1]	**241**	276	59
Total income	**7,930**	7,612	7,747
Provision for credit losses	**75**	867	368
Non-interest expense	**5,886**	4,987	4,869
Income taxes on surplus earnings	**510**	444	597
Surplus earnings before member dividends	**1,459**	1,314	1,913
Member dividends, net of tax recovery	**284**	245	232
Net surplus earnings for the year after member dividends	**$ 1,175**	$ 1,069	$ 1,681
Surplus earnings before member dividends	**1,459**	1,314	1,913
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand	**—**	—	(309)
Adjusted surplus earnings before member dividends[1]	**$ 1,459**	$ 1,314	$ 1,604
Indicators			
Average gross loans and acceptances[2]	**$ 218,415**	$ 203,634	$ 192,097
Average deposits[2]	**191,858**	175,729	156,009
Credit loss provisioning rate[2]	**0.03 %**	0.43 %	0.19 %
Gross credit-impaired loans/gross loans and acceptances ratio[2]	**0.47**	0.64	0.57

(1) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 4 to 8.
(2) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

Average gross loans and acceptances and average deposits
(in millions of dollars)



COMPARISON OF 2021 AND 2020 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $1,459 million,** up $145 million, or 11.0%, compared to 2020. This increase is essentially due to the following:
  - The lower provision for credit losses in 2021 compared to 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
  - Higher net interest income and other operating income[1].
  - Offset by an increase in non-interest expense mainly as a result of larger amounts invested in Desjardins-wide strategic projects.

- **Operating income[1] of $7,689 million,** up $353 million, or 4.8%.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.

- **Net interest income totalled $5,005 million,** up $35 million, or 0.7%, mainly because of:
  – Growth in average residential mortgages outstanding.
  – A decrease in the average cost of funds, resulting in lower interest expense despite an increase in deposit volume.
  This increase was partly offset by the following:
  – Drop in average consumer and credit card loans outstanding.
  – Decline in the average return on loans due to lower interest rates.

- **Other operating income[1] of $2,684 million,** up $318 million, or 13.4%, mainly due to the following:
  – Higher income from securities brokerage activities as a result of growth in assets under management.
  – Growth in business volumes from Desjardins Card Services payment activities.
  – Growth in sales by the caisse network of various Desjardins Group products designed by the subsidiaries, such as investment funds.
  – Higher income from deposit and payment service charges. Relief measures had been granted to members in 2020.

- **Investment income[1] of $241 million,** down $35 million, or 12.7%, basically as a result of the following:
  – Losses on the disposal of securities carried out in 2021 compared to gains in 2020.
  – Lower trading income as a result of developments on financial markets.
  – Offset by positive changes in activities related to derivative financial instruments.

- **Total income of $7,930 million,** up $318 million, or 4.2%.

- **Provision for credit losses of $75 million,** down $792 million compared to 2020. This decrease mainly reflects the improved macroeconomic outlook and borrowers' credit quality, whereas the 2020 decrease reflected the significant negative impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic. The provision for credit losses for 2021 also reflects decreases in net write-offs compared to 2020, especially in the credit card portfolio.

- **Non-interest expense of $5,886 million,** up $899 million, or 18.0%, essentially due to:
  – Increase in investments, particularly related to the digital shift and security.
  – Growth in activities aimed at enhancing the service offer to members and clients, including offers related to wealth management advisory services and *AccèsD* services.
  – Growth in payment activities, including expenses related to the rewards program.

2.2.2 Wealth Management and Life and Health Insurance

PROFILE

The Wealth Management and Life and Health Insurance segment combines different categories of service offers aimed at growing and protecting the assets of Desjardins Group members and clients. 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 investment solutions. It also includes asset management and trust services for institutional clients. This segment is a Canadian leader in responsible investing.

One of the greatest strengths of the Wealth Management and Life and Health Insurance segment is its vast and diversified Canada-wide distribution network, including:
- Desjardins caisse network.
- Desjardins agent network.
- Desjardins Financial Security Life Assurance Company partner networks.
- External insurance and investment solution networks.
- Actuarial consulting firms and brokers.

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

Since September 1, 2021, the Wealth Management and Life and Health Insurance segment also includes operations resulting from the acquisition of the assets of investment firm Hexavest Inc., which serves a primarily institutional clientele located mainly in Canada and also internationally.

[1] For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

SERVICES

- **Insurance for individuals:**
  - Includes products and services offered on an individual basis, or to businesses or groups by way of group plans.
  - These life and health insurance coverages provide peace of mind by reducing the financial impacts that could occur due to illness, disability, accident or death.

Wealth Management
- **Investments-investings:**
  - Includes various investment solutions for individuals and businesses, as well as group retirement savings service proposals for company employees or members of any other group.
  - The wide array of investment solutions offered, which includes market-linked guaranteed investments (MLGI), mutual funds, guaranteed investment funds, notes and exchange traded funds (ETF) with a number of responsible investment products, allow individuals and businesses to find the one best suited to their needs, whether for preparing for retirement, planning a trip or any other financial goal.
- **Institutional services:**
  - Services for institutional clients, namely pension funds, foundations, investment funds and insurers.
  - Asset management: Investment solutions are proposed by a group of investment experts to institutional clients in order to obtain competitive returns and an attractive risk-return trade-off for them.
  - Trust services: Services related to the custody and administration of securities on North American and international markets and fiduciary services for businesses.

2021 ACHIEVEMENTS

Supporting our members and clients: Our priority!
In the context of COVID-19, the segment offered advice and introduced relief measures so that members and clients, both individuals and businesses, could continue to look after their well-being and that of their families while staying on course with their financial objectives and their budget. Many of these measures were carried over, such as the psychotherapy offering and flexibility in submitting group insurance claims, and other measures were integrated into the regular offer, such as the enhanced financial education offering to members, clients and advisors.

Life and Health Insurance
- Several initiatives implemented favouring the **enhancement of the credit insurance offering** to meet the changing coverage needs of members and clients, including the beginning of a solution that will allow members and clients to purchase loan insurance online during their mortgage renewal.
- Implementing actions to increase the number of **real-time replies** to members and clients taking out **individual insurance.**
- The relationships we've built with employers and market intermediaries have contributed to a year of **record growth in group insurance**.
- Launching the **combined Omni app** that gives members and clients access to their group retirement savings plan and their group insurance plan, and also provides them with resources to take charge of their financial health and well-being.
- New **group insurance claims platform** where we can process more member and client health and dental claim applications in real time, among other things.

Wealth Management
- Acquiring the assets of investment firm Hexavest Inc. to **enhance Desjardins Group's expertise in asset management** and support the expansion of the service offering to a growing number of external institutional investors.
- Desjardins Global Asset Management Inc. signed the Net Zero Asset Managers Initiative (NZAMI), an international coalition of investors aiming for **carbon neutrality by 2050** that has about 236 signatories whose assets under management total US$57,500 billion.
- **Rolling out a virtual guide** that helps members and clients reach their group retirement savings objectives at every stage of their life.
- **Developing the investment solutions offering:**
  - Launching a unique new fund in Canada that provides access to private investments in infrastructure and integrates ESG considerations.
  - Launching an exchange-traded fund that mainly invests in low-carbon, emerging-market companies. This solution enhances the array of Desjardins RI exchange-traded funds that invest in a greener economy.
  - Launching guaranteed investments in responsible markets that promote e-transport, environmental and social commitment, as well as sound corporate governance.
- A number of initiatives, including the production of educational video clips and webinars, to **increase knowledge of responsible investing**, the benefits of this type of investing and the positive spin-offs on the environment and communities.
- **Several awards won and recognition gained,** all attesting to our commitment to developing high-return investing solutions for members and clients:
  - A record 18 FundGrade A+® 2021 awards from Fundata, which recognizes the best investment funds in Canada each year, eight of which were for responsible investing solutions.
  - The prestigious "Best House, Canada" (for the second year in a row) and "Deal of the Year, Americas" awards for the Zenitude Aggressive Guaranteed Portfolio awarded by Americas Structured Products & Derivatives Awards.
  - Second place in the "Market Education" category of the Responsible Investment Association's Leadership Awards.

INDUSTRY

The wealth management industry and the life and health insurance industry are complementary because their aim is to provide products and services that will increase the net worth of Canadian households and provide them with the coverage they need.

- **Canadian market:**
  - Wealth Management: At the end of 2020, financial assets of close to $5,556 billion were held by Canadian households in various investment solutions. Assets were up 11.8% in 2020, growing annually at 7.1% on a compound basis over the past 10 years. Stock markets continued to grow in 2021, fuelled by investor optimism and the investment of the savings accumulated in 2020.
  - Life and Health Insurance: Premium income totalled $123 billion in life and health insurance and in annuities in 2020, growing an average 3.5% per annum over the last five years. More than 29 million Canadians are financially protected, and $97 billion in benefits were paid out in 2020. Despite the COVID-19 crisis, the industry resumed growth in 2021 and the rise in bond rates at the beginning of the year was favourable for the industry as a whole.

- **Competition in Canada:**
  - Wealth Management: A division of all major banking groups, life and health insurance companies and investment funds. Competition is fierce, and players try to outdo one another in terms of ingenuity in order to win over clients and build their loyalty.
  - Life and Health Insurance: Based on 2020 statistics, there are more than 150 insurers doing business in Canada. Five insurers account for 77.6% of the market. Desjardins Financial Security Life Assurance Company ranks fifth in Canada, with gross written premiums of $4.9 billion in 2020.

- **Developments and expectations of members and clients:**
  - Members' and clients' expectations are constantly changing. They want easy, fast, holistic, digital, customized offers of products and services that are highly cost-efficient and focused on advisory services, education, protection, prevention and well-being. The industry is increasingly adjusting and positioning itself to meet these expectations.

2022 STRATEGIES AND PRIORITIES

The 2022 strategies and priorities of the Wealth Management and Life and Health Insurance segment form part of Desjardins Group's strategic directions that aim to help Desjardins Group to achieve its goal of being everyone's #1 choice. The seven strategic directions of Desjardins Group, as presented in Section 1.4, "Strategic orientations and financial objectives", of this MD&A, are also the strategic directions of the Wealth Management and Life and Health Insurance segment.

Just like the other Desjardins Group business segments, the Wealth Management and Life and Health Insurance segment will continue to work in the best interests of its members and clients, providing a simple and improved digital experience with enhanced, customized support based on their life and health insurance and wealth management needs.

In order to successfully carry out the combined actions of these priorities, this segment can rely on a team of employees and distribution partners who are determined to always better meet the needs of members and clients by providing exemplary and distinctive quality service.

ANALYSIS OF FINANCIAL RESULTS FOR THE WEALTH MANAGEMENT AND LIFE HEALTH INSURANCE SEGMENT

Table 16 – Wealth Management and Life and Health Insurance – segment results
For the years ended December 31

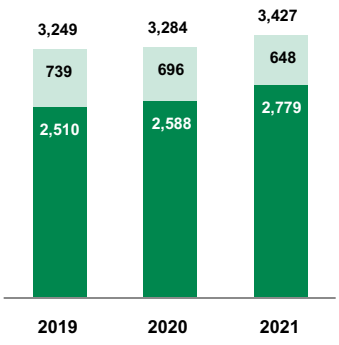
(in millions of dollars)	2021	2020	2019
Net interest income	$ —	$ 8	$ 9
Net premium	**5,667**	4,711	4,689
Other operating income[1]	**1,487**	1,286	1,256
Operating income[1]	**7,154**	6,005	5,954
Investment income (loss)[1]	**(55)**	2,404	2,434
Total income	**7,099**	8,409	8,388
Provision for credit losses	**—**	—	1
Claims, benefits, annuities and changes in insurance contract liabilities	**4,115**	5,564	5,497
Non-interest expense	**2,448**	2,100	2,052
Income taxes on surplus earnings	**73**	136	141
Net surplus earnings for the year	**$ 463**	$ 609	$ 697
Indicators			
Net sales of saving products[2]	**$ 8,552**	$ 3,704	$ 5,826
Insurance sales[2]	**506**	396	467
Net premiums	**5,667**	4,711	4,689
Group insurance premiums	**3,427**	3,284	3,249
Individual insurance premiums	**928**	901	893
Annuity premiums	**1,312**	526	547
Receipts related to segregated funds[2]	**4,338**	2,368	3,557

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.
(2) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

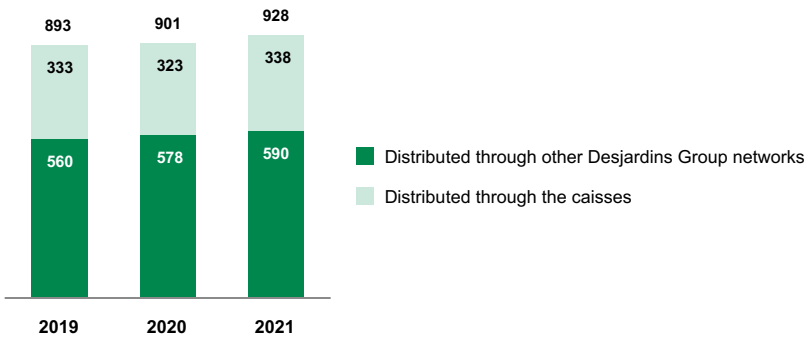
Table 17 – Claims, benefits, annuities and changes in insurance contract liabilities
For the years ended December 31

(in millions of dollars)	2021	2020	2019
Insurance and annuity benefits	**$ 3,461**	$ 3,158	$ 3,138
Change in actuarial liabilities	**560**	2,222	2,287
Policyholder dividends, experience refunds and other	**94**	184	72
Total	**$ 4,115**	$ 5,564	$ 5,497

Group insurance premiums by distribution network
(in millions of dollars)



Individual insurance premiums by distribution network
(in millions of dollars)



COMPARISON OF 2021 AND 2020 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $463 million,** down $146 million, or 24.0%, mainly on account of the following:
  - Overall unfavourable effect of revisions of actuarial assumptions in the normal course of business.
  - Smaller gains on disposal of securities and real estate investments than in 2020.

  This decrease was mitigated in part by the following:
  - Impact on the cost of claims in the provision and travel insurance claims in 2020, in connection with the COVID-19 pandemic.
  - Markets’ positive impact on guaranteed investment funds, whereas the funds had been unfavourably affected in 2020.

- **Operating income[1] of $7,154 million,** up $1,149 million, or 19.1%.

- **Net premiums of $5,667 million,** up $956 million, or 20.3%, due to the following:
  - Increase of $786 million essentially in group annuity premiums primarily in connection with business growth. This growth is reflected in a similar change in actuarial liabilities included under “Claims, benefits, annuities and changes in insurance contract liabilities”.
  - Increase of $143 million from group insurance and of $27 million from individual insurance.

- **Other operating income[1] of $1,487 million,** up $201 million, or 15.6%, mainly as a result of the growth in assets under management.

- **Loss of $55 million presented under “Investment income (loss)”[1],** compared to income of $2,404 million in 2020 primarily due to:
  - Decrease 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 as a result of higher market interest rates whereas they were lower in 2020.
    - It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.
  - Lower gains on the disposal of securities and real estate investments compared to 2020.

- **Total income of $7,099 million,** down $1,310 million, or 15.6%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $4,115 million**, down $1,449 million, or 26.0%, basically due to:
  - Decrease of $1,662 million in actuarial liabilities under “Insurance contract liabilities”, which included the effect of the decrease in the fair value of matched investments, presented under “Investment income (loss)”, offset in part by the unfavourable effect of revisions of actuarial assumptions and by business growth.
  - Decrease related to the impact on the cost of claims in the provision and travel insurance claims in 2020, in connection with the COVID-19 pandemic.
  - Offset by the increase in benefits under health insurance claim applications.

- **Non-interest expense of $2,448 million,** up $348 million, or 16.6%, mainly because of:
  - Increase in amounts invested for the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.
  - Higher administration costs to improve services for members and clients.
  - Higher expenses as a result of the growth in assets under management.

2.2.3 Property and Casualty Insurance

PROFILE

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

Desjardins General Insurance Group Inc., which has more than 3.5 million 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.

SERVICES

- **Automobile insurance,** including motorcycle and recreational vehicle insurance:
  - Offers insurance coverage tailored to clients’ specific needs and their vehicle features;
  - Also includes the necessary coverage to obtain financial compensation for bodily injury in provinces where such coverage is not provided by a public plan.
- **Property insurance:**
  - Offers owners, co-owners and tenants insurance coverage to protect their physical property, with all-risk insurance coverage and optional coverages for primary and secondary residences.
- **Business insurance:**
  - Covers the insurance requirements for commercial vehicles, commercial property and public liability for businesses;
  - Service is provided to the following sectors, among others: service firms, retailers and wholesalers, garages, general or specialized contractors, offices, health care professionals, commercial buildings, condominiums and apartment buildings.
- **Prevention:**
  - Provides advisory services as well as loss prevention services to members and clients to help them protect their assets and guard against disaster.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.

2021 ACHIEVEMENTS

- Continued modernization and enhancement of the member and client experience:
  - Continued efforts to develop and implement a number of relief measures aimed at **reducing the financial burden and providing sound advice** to our members and clients who have been affected by the COVID-19 pandemic.
  - Continuation of the **digital transformation**, in particular by:
    - Sending personalized messages to members and clients to increase the use of our **on-line services**.
    - Enhancing our **mobile offer** in a number of ways:
      - Continuing to focus on prevention in automobile insurance with the launch of the new version of our Ajusto program (telematics program with personalized feedback on driving habits), which offers a customized rate based on member and client driving habits, while promoting good driving habits through personalized advice in order to improve road safety.
      - Continuing to focus on prevention with Alert (a program to prevent damage caused by water or the risk of freezing in home insurance by using a detector placed close to a potential source of leaks) and Radar (an alert function that provides weather warnings so clients can take the necessary steps to prevent certain types of damage to their home, auto or other property).
      - Implementing new processes for simplifying and promoting the use of an imaging service for automobile claims.
- Continuation of the **program to modernize IT systems** with implementation of key milestones.
- Changes to our investment policy to formalize integration of ESG factors into our investment decisions, and adoption of a clear position in **responsible investing (RI)**.
- **Maintained our ranking as the second largest P&C insurer in Canada and Québec and the third largest in Ontario**, based on gross direct premiums written in 2020.

INDUSTRY

- **Canadian market:**
  - The P&C insurance industry offers insurance coverage for motor vehicles, personal and commercial property, and public liability.
  - A mature market, with an average annual premium growth rate of 7.6% over the past five years.
  - In 2020, direct premiums written on the Canadian market totalled $64.0 billion, up 8.7%, particularly as a result of high rates on the Canadian P&C insurance market, which was partially offset by a temporary slowdown in growth in automobile insurance due to changes in driving habits caused by the pandemic.
  - Individual insurance accounts for 60.3% of the market, and business insurance, for 39.7%.

- **State of the industry in 2021:**
  - The COVID-19 pandemic contributed to structural changes in society, in particular to changing driving habits, resulting in a decline in the frequency of auto insurance claims. However, over the last few months, there was a slight increase in frequency during the more restrictive periods of confinement.
  - After several years of significant repair cost increases due to the new technologies being put into motor vehicles, the change in the average cost of automobile claims stabilized in 2021. However, a semi-conductor chip shortage is affecting the entire automobile industry and could lead to a rise in repair costs and vehicle replacements. This shortage is already having a significant impact in the U. S. market.
  - The Desjardins Group P&C Insurance segment continues to be proactive with regard to these challenges and continues to implement its action plan in order to continue to better control business profitability.
  - According to the Insurance Bureau of Canada, the hailstorm and heavy precipitation in Calgary in the summer of 2021 cost insurers $247 million.
    - The Desjardins Group P&C Insurance segment processed more than 2,500 claims connected with this event. To support customers, the claims team reacted proactively by implementing the exceptional situation management procedure and sending appraisers from Québec and Ontario out to Alberta.

- **Industry trends:**
  - Insurers' proposals are being increasingly developed through digital channels.
  - The Canadian market has been continuing to develop quickly in recent years, driven by technological innovations, changes in expectations and consumer behaviour as well as the advent of new business models. Insurers are starting to position themselves in response to new trends such as *InsurTech* or the sharing economy.
  - Since the beginning of the COVID-19 pandemic, the Desjardins Group P&C Insurance segment has seen a sharp increase in telematics programs in the industry.
  - The impact of climate change is a major factor affecting the P&C insurance industry.
  - The Desjardins Group P&C Insurance segment is proactive vis-à-vis these new trends by, for instance, modernizing IT systems and working to speed up the digital shift.

2022 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's 2022 strategies and priorities fall within the scope of Desjardins Group's strategic directions, and aim to help Desjardins Group attain its goal of being everyone's #1 choice. The seven strategic directions of Desjardins Group, as presented in Section 1.4, "Strategic directions and financial objectives", of this MD&A, are also the strategic directions of the Property and Casualty Insurance segment.

The segment will continue to work in the best interests of its members and clients, in particular by providing them with a simple and improved digital experience. The segment is also going to continue working on prevention in the automobile insurance industry through its Ajusto program in order to reflect the new driving habits of members and clients and make our roads safer. It will also continue investing to improve its understanding of natural catastrophes and the impact of climate change, in an effort to develop programs and action plans for prevention as well as the protection of member and client assets. In addition, the P&C segment will continue to develop its competitive edge with a view to delivering strong, profitable growth. To do so, Desjardins will target growing its business lines, among other things, in order to diversify the segment's portfolio and better serve its members and clients. The segment will also continue to modernize its business systems (NeXT) to support its member- and client-centred developments, reduce operating risks and increase the agility of the organization.

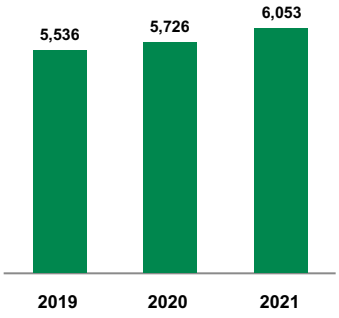
ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

Table 18 – Property and Casualty Insurance – Segment results
For the years ended December 31

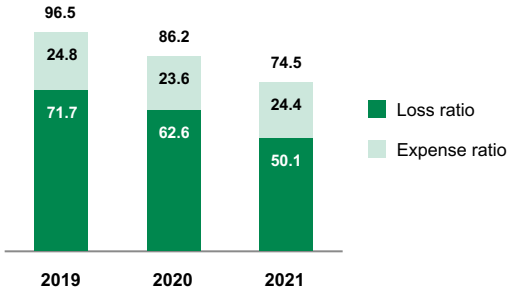
(in millions of dollars and as a percentage)	2021	2020	2019
Net premiums	**$ 5,909**	$ 5,484	$ 4,988
Other operating income (loss)[1]	**(178)**	(160)	(172)
Operating income[1]	**5,731**	5,324	4,816
Investment income[1]	**120**	497	341
Total income	**5,851**	5,821	5,157
Claims, benefits, annuities and changes in insurance contract liabilities	**2,792**	3,689	3,665
Non-interest expense	**1,460**	1,303	1,245
Income taxes on surplus earnings	**402**	207	60
Net surplus earnings for the year	**$ 1,197**	$ 622	$ 187
Of which:			
Group's share	**$ 1,055**	$ 538	$ 141
Non-controlling interests' share	**142**	84	46
Indicators			
Gross written premiuns[2]	**$ 6,053**	$ 5,726	$ 5,536
Loss radio[3]	**50.1 %**	62.6 %	71.7 %
Current year loss ratio[3]	**60.8**	65.4	79.9
Loss ratio related to catastrophes and major events[3]	**1.4**	2.5	2.3
Ratio of favourable changes in prior year claims[3]	**(12.1)**	(5.3)	(10.5)
Expense ratio[3]	**24.4**	23.6	24.8
Combined ratio[3]	**74.5**	86.2	96.5

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.
(2) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.
(3) For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 4 to 8.

Gross written premiums
(in millions of dollars)



Combined ratio
(as a percentage of net premiums)



COMPARISON OF 2021 AND 2020 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $1,197 million,** up $575 million compared to 2020, due to the following:
  - Lower cost of claims, particularly on account of the favourable change in prior year claims, chiefly in automobile insurance.
  - Increase in net premiums, including the impact of $155 million in automobile insurance premium refunds granted to members and clients as a relief measure to support them during the COVID-19 pandemic in 2020.

- **Operating income[(1)] of $5,731 million,** up $407 million, or 7.6%.

- **Net premiums of $5,909 million,** up $425 million, or 7.7%, essentially as a result of:
  - Growth in the average premium, particularly in property insurance.
  - In the second quarter of 2020, $155 million in automobile insurance premium refunds were granted to members and clients as a relief measure to support them during the COVID-19 pandemic.
  - Business growth.

- **Loss of $178 million, presented under "Other operating income (loss)"[(1)]**, compared to loss of $160 million in 2020, due to the change in investment funds that benefited groups having signed agreements under The Personal banner. It should be mentioned that this change was offset by the results of these groups.

- **Investment income[(1)] of $120 million,** down $377 million, essentially because of the decrease in the fair value of matched bonds compared to an increase in fair value in 2020, mainly on account of the higher market interest rates in 2021, whereas market interest rate had fallen in 2020. It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.

- **Total income of $5,851 million,** up $30 million, or 0.5%.

- **Cost of claims totalling $2,792 million,** down $897 million, or 24.3%, as a result of the following:
  - Loss ratio of 50.1%, compared to 62.6% in 2020.
    - More favourable ratio of changes in prior year claims than in 2020, i.e. (12.1%) vs. (5.3 %), mainly in automobile insurance.
    - Lower current year loss ratio compared to 2020: namely 60.8% vs. 65.4%, mainly in automobile insurance and in property insurance.
    - Lower loss ratio related to catastrophes and major events than in 2020, i.e. 1.4% vs. 2.5%. 2021 was marked by one catastrophe and one major event while 2020 was marked by one catastrophe and three major events.
  - Favourable impact of the increase in the discount rates used to measure the provision for claims, whereas an unfavourable impact had been recorded in 2020. It should be mentioned that this impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under "Investment Income".
  - Offset by business growth, resulting in an increase in the cost of claims.

- **Non-interest expense of $1,460 million,** up $157 million, or 12.0%, due primarily to the larger amounts invested for the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

2.2.4 Other category

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities and those related to 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 finances, administration, risk management, human resources, communications and marketing, as well as the Desjardins Group Security Office. It also includes the operations of Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Combined Financial Statements, intersegment balance eliminations are classified in this category.

Since the third quarter of 2020, the Other category has also included the real estate service operations of 9420-7404 Québec inc., which manages the two brands DuProprio and FairSquare (Purplebricks Canada prior to December 1, 2021).

Table 19 – Other category

For the years ended December 31

(in millions of dollars)	2021	2020	2019
Net interest income	**$ 781**	$ 662	$ 428
Net premiums	**(298)**	(275)	(265)
Other operating income (loss)[1]	**(652)**	(653)	(759)
Operating income (loss)[1]	**(169)**	(266)	(596)
Investment income (loss)[1]	**(391)**	(103)	61
Total income (loss)	**(560)**	(369)	(535)
Recovery of credit losses	**(6)**	(4)	(4)
Claims, benefits, annuities and changes in insurance contract liabilities	**(24)**	(20)	(51)
Non-interest expense	**(228)**	(93)	(134)
Income taxes on surplus earnings	**(125)**	(126)	(147)
Net deficit for the year	**$ (177)**	$ (126)	$ (199)

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

COMPARISON OF 2021 AND 2020 – CONTRIBUTION BY OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $177 million,** compared to a net deficit of $126 million in 2020.
  - In relation to treasury activities, market rate fluctuations as well as changes in hedging positions for matching activities had a favourable effect on net interest income which had been reduced as a result of a negative impact on investment income.
  - Non-interest expense included amounts invested for the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes, thereby enhancing the member and client experience, improving productivity and ensuring the implementation of best practices in security. 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, as well as payments under the Desjardins Member Advantages program.

2.3 Analysis of fourth quarter results and quarterly trends

Table 20 – Results for the previous eight quarters

(unaudited, in millions of dollars and as a percentage)	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	**$ 1,455**	$ 1,476	$ 1,452	$ 1,403	$ 1,455	$ 1,464	$ 1,368	$ 1,353
Net premiums	**3,201**	2,905	2,587	2,585	2,626	2,534	2,238	2,522
Other operating income[1]								
Deposit and payment service charges	**111**	109	105	99	104	96	83	105
Lending fees and credit card service revenues	**168**	198	182	187	165	126	141	196
Brokerage and investment fund services	**267**	283	285	273	243	235	235	241
Management and custodial service fees	**201**	185	177	169	168	152	147	150
Foreign exchange income	**29**	34	28	30	21	22	14	46
Other	**71**	60	53	37	48	14	58	29
Operating income[1]	**5,503**	5,250	4,869	4,783	4,830	4,643	4,284	4,642
Investment income (loss)[1]								
Net investment income (loss)	**956**	(90)	1,055	(1,602)	646	304	2,624	(458)
Overlay approach adjustment for insurance operations financial assets	**(88)**	(24)	(146)	(146)	(112)	(143)	(299)	512
Investment income (loss)[1]	**868**	(114)	909	(1,748)	534	161	2,325	54
Total income	**6,371**	5,136	5,778	3,035	5,364	4,804	6,609	4,696
Provision for (recovery of) credit losses	**16**	52	(3)	4	169	99	271	324
Claims, benefits, annuities and changes in insurance contract liabilities	**3,185**	1,713	2,191	(206)	1,781	1,775	3,606	2,071
Non-interest expense	**2,736**	2,288	2,377	2,165	2,332	1,954	2,012	1,999
Income taxes on surplus earnings	**41**	267	278	274	206	247	191	17
Surplus earnings before member dividends	**393**	816	935	798	876	729	529	285
Member dividends, net of tax recovery	**86**	66	66	66	70	60	58	57
Net surplus earnings for the period member dividends	**$ 307**	$ 750	$ 869	$ 732	$ 806	$ 669	$ 471	$ 228
Of which:								
Group's share	**267**	716	830	702	763	648	464	215
Non-controlling interests' share	**40**	34	39	30	43	21	7	13
Contribution to combined surplus earnings by business segment								
Personal and Business Services	**247**	401	397	414	364	445	315	190
Wealth Management and Life and Health Insurance	**(6)**	109	235	125	249	140	261	(41)
Property and Casualty Insurance	**330**	289	330	248	378	155	16	73
Other	**(178)**	17	(27)	11	(115)	(11)	(63)	63
	$ 393	$ 816	$ 935	$ 798	$ 876	$ 729	$ 529	$ 285
Total assets	**$ 397,085**	$ 390,641	$ 389,278	$ 376,981	$ 362,035	$ 359,887	$ 349,934	$ 326,919
Indicators								
Return on equity[2]	**4.3 %**	9.6 %	11.5 %	10.3 %	11.4 %	9.9 %	7.5 %	4.0 %
Tier 1A capital ratio[3]	**21.1**	21.2	21.4	22.1	21.9	21.4	21.8	22.2
Total capital ratio[3]	**22.1**	22.4	22.6	22.6	22.6	22.1	22.4	22.2

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.

(2) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

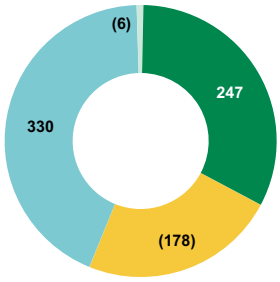
(3) In accordance with the *Adequacy of Capital Base Guideline* for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, “Capital management”.

FOURTH QUARTER COMBINED RESULTS

For the fourth quarter of 2021, Desjardins Group posted surplus earnings before member dividends of $393 million, down $483 million, or 55.1%, compared to the same period in 2020.

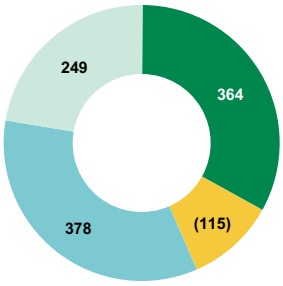
2021 surplus earnings before member dividends
(in millions of dollars)

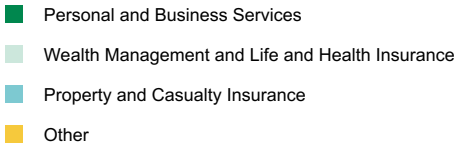
$393 million



2020 surplus earnings before member dividends
(in millions of dollars)

$876 million





Contribution of business segments to surplus earnings:

- Personal and Business Services: **Surplus earnings of $247 million,** down $117 million, or 32.1%, compared to the same period in 2020, as a result of:
  - Increase in non-interest expense due primarily to the larger amounts invested in Desjardins-wide strategic projects.
  - Offset by the lower provision for credit losses in the fourth quarter of 2021 than in the corresponding quarter of 2020, which reflected the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
- Wealth Management and Life and Health Insurance: **Deficit of $6 million** compared to surplus earnings of $249 million in the fourth quarter of 2020, due to:
  - Negative effect of revisions of actuarial assumptions in the normal course of business, whereas they had a positive impact on surplus earnings in 2020.
  - Higher level of expenses than in 2020, in particular administration expenses to enhance services to caisse members and clients.
- Property and Casualty Insurance: **Surplus earnings of $330 million,** down $48 million, or 12.7%, compared to the fourth quarter of 2020, due to:
  - Decrease in investment income.

  Offset partially by the following:
  - Increase in net premiums due to the higher average premium and to business growth.
  - Lower loss experience, due to more favourable developments in prior-year claims than in the fourth quarter of 2020, essentially in automobile insurance.

- **Return on equity of 4.3%,** compared to 11.4% for the fourth quarter of 2020, primarily due to the lower surplus earnings, as explained earlier.

- **Operating income[1] of $5,503 million,** up $673 million, or 13.9%.

- **Net interest income of $1,455 million,** i.e. the same amount as in the fourth quarter of 2020.

- **Net premiums of $3,201 million,** up $575 million, or 21.9%.
  - **Wealth Management and Life and Health Insurance segment:** Net insurance and annuity premiums of $1,766 million, up $526 million, or 42.4%, compared to the same period in 2020, as a result of:
    - Increase of $495 million in group annuity premiums related, in particular, to business growth. This growth is reflected in a similar change in actuarial liabilities included under “Claims, benefits, annuities and changes in insurance contract liabilities”.
    - Growth of $21 million in group insurance premiums and of $10 million in individual insurance premiums.

  - **Property and Casualty Insurance segment:** Net premiums of $1,513 million, up $57 million, or 3.9%, compared to the same period in 2020, due essentially to:
    - Growth in the average premium, mainly in property insurance.
    - Business growth.

- **Other operating income[1] of $847 million,** up $98 million, or 13.1%, mainly due to:
  - Higher income from growth in assets under management.
  - Change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.
  - Higher business volume from Desjardins Card Services payment activities.
  - Offset by a larger increase, than in the fourth quarter of 2020, in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm) and arising from the favourable developments in claims taken over.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.

- **Investment income[1] of $868 million,** up $334 million, or 62.5%, essentially as a result of:
  - Increase 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 as a result of a slight decrease in long-term market interest rates in the fourth quarter of 2021, whereas they were higher in the corresponding quarter of 2020.
    - It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.

  This was partially offset by the following:
  - Loss on the disposal of securities in 2021 compared to gains in 2020.
  - Decrease in activities related to derivative financial instruments.
  - Larger decrease in the fair value of matched bonds in the Property and Casualty Insurance segment compared to the corresponding quarter of 2020, mainly due to an increase in market interest rates during the fourth quarter of 2021that was higher than in the same quarter of 2020. It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.

- **Total income of $6,371 million,** up $1,007 million, or 18.8%.

- **Provision for credit losses of $16 million,** down $153 million, compared to the same period in 2020. The provision for credit losses for the fourth quarter of 2020 reflected the impact of the deterioration of the economic outlook and the anticipated effects on credit quality because of the COVID-19 pandemic. In addition, during the fourth quarter of 2021, the provision for credit losses reflected the decrease in net write-offs compared to the corresponding period of 2020.

  Desjardins Group continued to have a quality loan portfolio in 2021.
  - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.47%, compared to 0.62% as at December 31, 2020.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $3,185 million,** up $1,404 million, or 78.8%.
  - **Wealth Management and Life and Health Insurance segment:** Cost of claims totalling $2,527 million, up $1,479 million, compared to the same period in 2020, essentially as a result of:
    - Increase of $1,420 million in actuarial liabilities recognized under “Insurance contract liabilities”, which included the effect of an increase in the fair value of matched investments, presented under “Investment income (loss)”, as well as the negative effect of the revisions of actuarial assumptions and business growth.
    - Increase in benefits under health insurance claim applications.

  - **Property and Casualty Insurance segment:** Cost of claims totalling $661 million, down $80 million, or 10.8%, due to the following:
    - Loss ratio of 46.7% for the fourth quarter of 2021, compared to 50.8% for the corresponding quarter of 2020.
      - More favourable ratio of changes in prior year claims than in the same quarter of 2020, i.e. (12.4%) vs. (4.2%), mainly in automobile insurance.
      - Offset by the higher current year loss ratio compared to the same period of 2020: namely 57.5% vs. 53.5%, mainly in automobile insurance.
    - Favourable impact of the increase in the discount rates used to measure the provision for claims, whereas an unfavourable impact had been recorded in the fourth quarter of 2020. It should be mentioned that this impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under “Investment income”.
    - Offset by business growth, resulting in an increase in the cost of claims.

- **Non-interest expense of $2,736 million,** up $404 million, or 17.3%, compared to the fourth quarter of 2020 due to:
  - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.
  - Increase in salaries related to growth in operations and indexing.
  - Growth in payment activities, including expenses related to the rewards program.

- **Productivity index at 85.9% for the fourth quarter of 2021,** compared to 65.1% for the same period in 2020, due in particular to the larger amounts invested in strategic projects.

- **Income taxes on surplus earnings before member dividends of $41 million,** down $165 million compared to the corresponding period in 2020.
  - Effective tax rate[2] of 9.4% for the fourth quarter of 2021, down from 19.0% for the corresponding period of 2020, due primarily to the tax recovery on the higher remuneration of capital stock in the fourth quarter of 2021 compared to the fourth quarter of 2020.

QUARTERLY TRENDS

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. Since the beginning of 2020, the quarters have been affected by the public health crisis related to the COVID-19 pandemic, leading to significant fluctuations in quarterly results, compared to those normally recorded by Desjardins. The results of Desjardins Group’s most recent eight quarters were therefore affected by developments in the global, U.S., Canadian and Québec economies, with an expected rise of 4.7% and 6.2%, respectively, in Canadian and Québec real GDP in 2021, compared to a decline of 5.2% and 5.5% in 2020. Also, the past eight quarters were affected by a low Canadian key interest rate of 0.25% since the end of the first quarter of 2020. Lastly, changes in actuarial assumptions as well as loss experience and weather conditions may also cause significant variations from quarter to quarter. In 2021, one catastrophe and one major event were recorded, while 2020 saw one catastrophe and three major events.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.
(2) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

Combined surplus earnings

- Lower loss experience in auto insurance from the second quarter of 2020 to the third quarter of 2021, as well as in property insurance in the second and third quarters of 2021.
- More positive developments in prior-year claims in automobile insurance since the second quarter of 2021.
- Growth in net premiums over the past eight quarters, including the impact of the automobile insurance premium refunds of $155 million that were granted in the second quarter of 2020 to members and clients as a relief measure to support them during the COVID-19 pandemic.
- The COVID-19 pandemic financially affected the quarterly results of 2020. This included an increase in the provision for credit losses, due mainly to the significant deterioration in the economic outlook and the anticipated effects on credit quality, as well as higher payouts for travel insurance benefits.
- Increase in non-interest expense, due primarily to the higher amounts invested in Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.

Combined results

- **Operating income – Upward trend for 2021 quarters, compared to 2020 quarters.**
  - Higher net interest income, in particular due to:
    - Growth in average residential mortgages outstanding.
    - A decrease in the average cost of funds, resulting in lower interest expense despite a larger deposit volume.

    Offset in part by the following items:
    - A drop in average consumer and credit card loans outstanding.
    - A decrease in the average return on loans due to lower interest rates.
  - Growth in the average premium during the past eight quarters in property and casualty insurance.
  - Increase in premiums from group annuities, due in particular to business growth.
  - Growth in business volumes from Desjardins Card Services payment activities since the second quarter of 2021.
  - Increase in income from securities brokerage activities on account of growth in assets under management.
  - Increase in income from growth in assets under management.
  - In the third quarter of 2021, a smaller increase than in the same period of 2020 in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm arising from the favourable developments in claims taken over.

- **Investment income – Fluctuations mainly a result of market volatility leading to changes in the fair value of assets backing liabilities related to life and health insurance operations.** As a result of the matching strategy, these fluctuations were offset by a change in provisions, the effect of which was reflected in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

- **Provision for credit losses – 2021 quarters down compared to 2020 quarters.**
  - Improvement in the macroeconomic outlook and in borrowers' credit quality for all quarters in 2021, leading to declines in the low allowance for expected credit losses.
  - Net write-offs down compared to the 2020 quarters, especially in the credit card portfolio.
  - In 2020, the significant deterioration in the economic outlook as a result of the COVID-19 pandemic and the anticipated effects on credit quality led to large increases in the loss allowance for expected credit losses, mainly in the first and second quarters of 2020.
  - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, slightly down for the 2021 quarters compared to the 2020 quarters. Desjardins Group has continued to have a quality loan portfolio.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
  - Business growth leading to an increase in the cost of claims.
  - Expenses mainly affected by a change in the fair value of investments associated with life and health insurance activities and property and casualty insurance activities.
  - Unfavourable effect of revisions of actuarial assumptions in the normal course of business in the fourth quarter of 2021, whereas the second quarter of 2021 and the fourth quarter of 2020 had been favourably affected.
  - In connection with the COVID-19 pandemic, impact on the cost of claims in the provision and travel insurance claims based on recorded and expected volumes, affecting the claims experience of group insurance and direct insurance in 2020.
  - Expenses affected by the change in P&C Insurance loss ratios:
    - More positive developments in prior-year claims in automobile insurance since second quarter of 2021.
    - The third quarter of 2021 and the second quarter of 2020 were affected respectively by one catastrophe.
    - Fiscal 2021 was affected by one major event compared to three in fiscal 2020.
    - Lower loss experience in automobile insurance from the second quarter of 2020 until the third quarter of 2021, as well as in property insurance in the second and third quarters of 2021.

- **Non-interest expense – Up when 2021 and 2020 quarters are compared.**
  - Increase in salaries and fringe benefits related to growth in operations and indexing.
  - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.
  - Growth in payment activities, including expenses related to the rewards program.

Surplus earnings from business segments

- **Surplus earnings before member dividends in the Personal and Business Services segment – Upward trend since first quarter of 2021 despite the impact of the increase in non-interest expense in the third and fourth quarters of 2021.**
  - Increase in net interest income resulting mainly from the growth in average residential mortgages outstanding and the decrease in the average cost of funds, partially offset by the drop in average consumer and credit card loans outstanding and the decline in the average return on loans due to lower interest rates.
  - Decrease in the provision for credit losses in 2021 compared to 2020, reflecting the impact of the significant deterioration in the economic outlook because of the COVID-19 pandemic.
  - Increase in business volumes from Desjardins Card Services payment activities since second quarter of 2021.
  - Higher securities brokerage income on account of growth in assets under management.
  - Lower trading income since second quarter of 2021 due to developments on financial markets.
  - Increase in non-interest expense, due primarily to the larger amounts invested in Desjardins-wide strategic projects.
  - Higher expenses related to growth in operations aimed at enhancing the service offer to members and clients, including offers related to Wealth Management advisory services and *AccèsD* services.

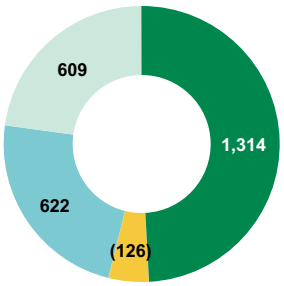
- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the previous eight quarters.**
  - In connection with the COVID-19 pandemic, effect of the travel insurance provisions recognized in first quarter of 2020, in spite of their revision in the second and third quarters of 2020, affecting the claims experience of group insurance and direct insurance in 2020.
  - Positive impact of markets on guaranteed investment funds in 2021, whereas they had been negatively impacted in first quarter of 2020, in spite of improvement in the results for the last three quarters of 2020.
  - Higher income from growth in assets under management.
  - Higher gains on the disposal of securities and real estate investments in 2020, mainly in the first quarter.
  - Lower surplus earnings in fourth quarter of 2021 primarily due to the unfavourable effect of revisions of actuarial assumptions in the normal course of business, whereas the second quarter of 2021 and the fourth quarter of 2020 had been favourably affected by such revisions.
  - Higher level of expenses in 2021 compared to 2020 quarters.

- **Net surplus earnings of the Property and Casualty Insurance segment - Up when 2021 and 2020 quarters are compared, except for fourth quarter of 2021.**
  - Growth in net premiums over the past eight quarters, including the impact of the automobile insurance premium refunds of $155 million granted in the second quarter of 2020 to members and clients as a relief measure to support them during the COVID-19 pandemic.
  - More positive developments in prior-year claims in automobile insurance since the second quarter of 2021.
  - The third quarter of 2021 and the second quarter of 2020 were affected respectively by one catastrophe, namely a hailstorm in Alberta in both cases.
  - Lower current-year claims in auto insurance from the second quarter of 2020 to the third quarter of 2021, as well as in property insurance in the second and third quarters of 2021.
  - Impact of investment income, excluding the change in the fair value of matched bonds:
    - Positive impact in first quarter of 2021 and in fourth quarter of 2020.
    - Negative impact in first quarter of 2020.

2.4 Comparison of 2020 and 2019

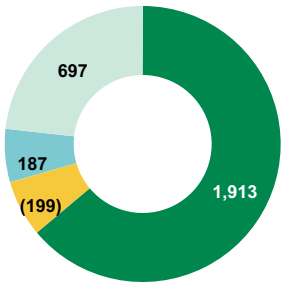
2020 surplus earnings before member dividends
(in millions of dollars)

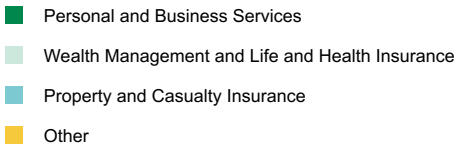
$2,419 million



2019 surplus earnings before member dividends
(in millions of dollars)

$2,598 million





For 2020, Desjardins Group posted surplus earnings before member dividends of $2,419 million, compared to $2,598 million for 2019. Surplus earnings adjusted[(1)] for the specific item were up $130 million compared to 2019. Return on equity was 8.3%, compared to 9.9% in 2019, while adjusted return on equity was 8.5%, compared to 8.8% in 2019.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.

Segment results

- **Personal and Business Services: Surplus earnings of $1,314 million in 2020,** down $599 million, and adjusted surplus earnings[(1)], down $290 million compared to 2019, essentially due to the following:
  - Increase in the provision for credit losses due mainly to the significant deterioration in the economic outlook and the anticipated effects on credit quality as a result of the COVID-19 pandemic.
  - Increase in investments, particularly in the digital shift and security.
  - Decrease in business volumes from payment and financing activities at Desjardins Card Services during the COVID-19 pandemic.

  This decrease was partially offset by:
  - Higher net interest income chiefly as a result of the lower average cost of funds, derived essentially from deposits, and growth in business volume.
  - Higher trading income.
  - Higher gains on the disposal of securities.
  - Growth in income from new capital market issues.

- **Wealth Management and Life and Health Insurance: Surplus earnings of $609 million in 2020,** down $88 million compared to 2019, essentially due to the following items partly connected to the COVID-19 pandemic:
  - Increase in the current and expected volume of claim applications for trip cancellations, leading to an increase of $43 million in payouts for travel insurance benefits.
  - Higher level of expenses than in 2019, particularly administration expenses to improve services to members and clients.
  - The markets' negative impact on guaranteed investment funds.
  - Less favourable effects than in 2019 from changes in actuarial assumptions in the normal course of business.
  - Offset by higher gains on the disposal of securities and real estate investments than in 2019.

- **Property and Casualty Insurance: Surplus earnings of $622 million in 2020,** up $435 million compared to 2019, due to:
  - Increase in net premiums, mitigated by the automobile 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 2019, due to the following items:
    - Lower loss experience in auto insurance, in particular because of changes in driving habits due to the COVID-19 pandemic.
    - Lower loss experience, in particular because of more favourable weather conditions.

Combined results

- **Operating income[(1)] of $18,399 million in 2020,** up $537 million compared to 2019.
  - Net interest income of $5,640 million in 2020, up $344 million compared to 2019, mainly because of growth in average loans outstanding, particularly residential mortgages, loans to medium-sized businesses and large corporations, and 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 also mitigated 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 lower interest rates on certain credit cards introduced to support members and clients during the COVID-19 pandemic.
  - Net premiums rose $508 million in 2020.
    - Wealth Management and Life and Health Insurance segment: Net insurance and annuity premiums up $22 million in 2020, due to the following:
      - Group insurance up $35 million, and individual insurance up $8 million.
      - Offset by a $21 million decrease mainly from individual annuities.
    - Property and Casualty Insurance: Net premiums up $496 million, because of:
      - Growth in the average premium due to higher rates, reflecting the trend in the Canadian property and casualty 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 the Canadian operations of State Farm.
      - Offset by the automobile insurance premium refunds of $155 million granted to members and clients as a relief measure to support them during the pandemic.
  - Other operating income[(1)] stood at $2,839 million, for a decrease of $315 million in 2020, essentially due to the following:
    - Gain related to Monetico in 2019.
    - 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 in 2020.
    - Change in investment funds that benefited groups having signed agreements under The Personal banner.

    This decrease was partly offset by the following:
    - The smaller increase than in 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations arising from the favourable developments in claims taken over.
    - Growth in income from assets under management.
    - Growth in income from new capital market issues.
    - Higher income from securities brokerage activities.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

- **Investment income[1] of $3,074 million in 2020,** up $179 million compared to 2019, due to the following:
  - Higher gains on the disposal of securities and real estate investments than in 2019.
  - Larger increase than in 2019 in the fair value of matched bonds in the Property and Casualty Insurance segment, chiefly because of a larger decrease in market interest rates in 2020 than in 2019. It should be remembered that this increase in bond value was partially offset by an increase in the cost of claims due to matching.

  This increase was partially offset by the following items:
  - Decrease 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 partly as a result of the COVID-19 pandemic.
    - It should be mentioned that this change in the fair value of bonds was offset by the change on the cost of claims due to matching.
  - Decrease in the fair value of derivative financial instruments due in particular to financial market volatility and credit spreads during 2020 as a result of the COVID-19 pandemic.

- **The provision for credit losses totalled $863 million in 2020,** up $498 million compared to 2019, mainly as a result of:
  - The significant deterioration in the economic outlook as a result of the COVID-19 pandemic, particularly the unemployment rate and the GDP growth rate, and the anticipated effects on credit quality.
  - The increase in the provision related to credit-impaired loans in business loan portfolios.
  - In 2019, refining the methodology for assessment of the risk parameters for non-credit-impaired loans related to the lifespan of revolving exposures such as credit cards and lines of credit ended up reducing the provision for credit losses. This negative impact was mitigated, however, by a migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.

  Desjardins Group continued to have a quality loan portfolio in 2020.
  - The credit loss provisioning rate was 0.41% for 2020, up compared to 0.18% in 2019 due to the significant increase in the provision for credit losses as a result of the COVID-19 pandemic, as explained earlier.
  - The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.62% compared to 0.56% as at December 31, 2019.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $9,233 million,** up $122 million in 2020.
  - Wealth Management and Life and Health Insurance segment: Cost of claims up $67 million in 2020. This was the result of:
    - Increase in provisions for dividends and experience refunds mainly as a result of the favourable experience in group insurance due to the decrease in claim applications related to the COVID-19 pandemic.
    - Higher payouts for benefits essentially as a result of the larger number of travel insurance claim applications related to the COVID-19 pandemic.
    - Offset by a decrease of $65 million in actuarial liabilities under “Insurance contract liabilities”, which includes the effect of the decrease in the fair value of matched investments, partially offset by the less favourable effects than in 2019 of changes in actuarial assumptions in the normal course of business.
  - Property and Casualty Insurance segment: Cost of claims up $24 million in 2020. This was the result of:
    - Growth in business, which led to a higher cost of claims.
    - Effect of the reinsurance treaty signed as part of the acquisition of State Farm’s Canadian operations.
    - Unfavourable impact of a larger decrease in the discount rates used to measure the provision for claims compared to 2019. It should be mentioned that this increase in the cost of claims was partially offset by an increase in matched bonds.
    - Loss ratio of 62.6% for 2020, compared to 71.7% in 2019: This lower ratio helped to mitigate the increase in the cost of claims.
      - Lower current year loss ratio compared to 2019: namely 65.4% vs. 79.9%, due to the following items:
        - Lower loss experience in automobile insurance related to changes in driving habits, as mentioned earlier.
        - Lower loss experience, in particular because of more favourable weather conditions.
      - Offset by less favourable developments in the loss ratio for prior-year claims than in 2019: (5.3)% vs. (10.5)%.

- **Non-interest expense totalling $8,297 million,** up $265 million in 2020, essentially as a result of:
  - Higher salaries and fringe benefits due to growth in operations and indexing, as well as the increase in pension expense.
  - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular for creating innovative technology platforms, protection of information, security and improving business processes.
  - Offset by contraction in advertising expenses and in payment and financing activities at Desjardins Card Services mainly due to the COVID-19 pandemic situation.

- **Income taxes on surplus earnings before member dividends of $661 million,** up $10 million compared to 2019.
  - Effective tax rate[2] of 21.5% for the year ended December 31, 2020, compared to 20.0% for 2019.
  - If the specific item is excluded, the effective tax rate would have been 21.5% for 2020, compared to 21.1% for 2019.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 4 to 8.
(2) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

3.0 Balance sheet review

3.1 Balance sheet management

Table 21 – Combined Balance Sheets
As at December 31

(in millions of dollars and as at percentage)	2021		2020		2019	
Assets						
Cash and deposits with financial institutions	**$ 16,328**	**4.1 %**	$ 12,126	3.3 %	$ 3,709	1.2 %
Securities	**93,099**	**23.4**	87,668	24.2	59,693	19.1
Securities borrowed or purchased under reverse repurchase agreements	**12,019**	**3.0**	9,658	2.7	10,032	3.2
Net loans and acceptances	**230,779**	**58.2**	211,749	58.5	203,462	65.0
Segregated fund net assets	**22,804**	**5.7**	19,093	5.3	17,026	5.4
Derivative financial instruments	**5,828**	**1.5**	5,820	1.6	4,246	1.4
Other assets	**16,228**	**4.1**	15,921	4.4	14,828	4.7
Total assets	**$ 397,085**	**100.0 %**	$ 362,035	100.0 %	$ 312,996	100.0 %
Liabilities and equity						
Deposits	**$ 238,355**	**60.0 %**	$ 225,236	62.2 %	$ 193,918	61.9 %
Commitments related to securities sold short	**11,342**	**2.9**	9,353	2.6	10,615	3.4
Commitments related to securities lent or sold under repurchase agreements	**31,177**	**7.9**	19,152	5.3	10,562	3.4
Derivative financial instruments	**5,500**	**1.4**	4,884	1.3	4,278	1.4
Insurance contract liabilities	**34,762**	**8.8**	34,827	9.6	31,595	10.1
Segregated fund net liabilities	**22,796**	**5.7**	19,089	5.3	17,002	5.4
Other liabilities	**17,667**	**4.4**	17,738	4.9	16,199	5.2
Subordinated notes	**1,960**	**0.5**	1,493	0.4	1,398	0.4
Equity	**33,526**	**8.4**	30,263	8.4	27,429	8.8
Total liabilities and equity	**$ 397,085**	**100.0 %**	$ 362,035	100.0 %	$ 312,996	100.0 %

ASSETS

As at December 31, 2021, Desjardins Group's total assets stood at $397.1 billion, up by $35.1 billion, or 9.7%, since December 31, 2020.

Cash and deposits with financial institutions were up by $4.2 billion, or 34.7%, while securities, including those borrowed or purchased under reverse repurchase agreements, were up $7.8 billion, or 8.0%.

Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, increased by $19.0 billion, or 9.0%. Residential mortgages, as well as business and government loans, accounted for the growth observed in 2021.

Table 22 – Loans and acceptances
As at December 31

(in millions of dollars and as a percentage)	2021		2020		2019	
Residential mortgages	**$ 149,695**	**64.6 %**	$ 136,208	64.0 %	$ 126,757	62.1 %
Consumer, credit card and other personal loans	**24,386**	**10.5**	25,310	11.9	27,022	13.2
Business and government	**57,668**	**24.9**	51,343	24.1	50,368	24.7
	231,749	**100.0 %**	212,861	100.0 %	204,147	100.0 %
Allowance for credit losses	**(970)**		(1,112)		(685)	
Total loans and acceptances by borrower category	**$ 230,779**		$ 211,749		$ 203,462	

Desjardins Group's residential mortgages increased by $13.5 billion, or 9.9%, since December 31, 2020. Desjardins Group was able to take advantage of the sustained growth in housing activity, particularly in Québec. Business and government loans outstanding, including acceptances, grew by $6.3 billion, or 12.3%. Consumer, credit card and other personal loans outstanding decreased by $0.9 billion, or 3.7%, since the end of 2020.

Information on the quality of Desjardins Group's loan portfolio is presented in Section 4.2, "Risk management", on pages 80 to 84 of this MD&A.

Segregated fund net assets were up $3.7 billion, or 19.4%, mainly due to the change in the fair value of the portfolio.

Derivative financial instrument assets totalled $5.8 billion as at December 31, 2021, comparable to the amount as at December 31, 2020.

Other assets increased by $307 million, or 1.9%.

LIABILITIES

Desjardins Group's total liabilities amounted to $363.6 billion as at December 31, 2021, up $31.8 billion, or 9.6%, since December 31, 2020.

Outstanding deposits grew by $13.1 billion, or 5.8%. The increase in deposits from individuals, which accounted for 57.2% of its total deposit portfolio, was partially responsible for this growth. In fact, outstanding deposits were up $8.4 billion, or 6.6%, mainly as a result of growth in caisse members' deposits.

Table 23 – Deposits
As at December 31

(in millions of dollars and as a percentage)	2021		2020		2019	
Individuals	**$ 136,332**	**57.2 %**	$ 127,928	56.8 %	$ 111,665	57.5 %
Business and government	**101,644**	**42.6**	96,853	43.0	81,556	42.1
Deposit-taking institutions	**379**	**0.2**	455	0.2	697	0.4
Total deposits	**$ 238,355**	**100.0 %**	$ 225,236	100.0 %	$ 193,918	100.0 %

Business and government deposits outstanding, which accounted for 42.6% of the total deposit portfolio, increased by $4.8 billion, or 4.9%, particularly as a result of growth in business members' deposits at the caisses. Various securities, including medium-term notes and covered bonds, issued on U.S., Canadian and European markets made it possible to support the growth of Desjardins Group's funding requirements. Deposits from deposit-taking institutions fell by $76 million.

Commitments related to securities sold short and lent or sold under repurchase agreements increased by $14.0 billion, or 49.2%, to reach a volume of $42.5 billion.

Derivative financial instrument liabilities were up by $616 million, or 12.6%, notably because of developments in financial markets partially offset by the rise in interest rates and fluctuating exchange rates.

Desjardins Group's insurance contract liabilities decreased by $65 million, or 0.2%.

Segregated fund net liabilities were up by $3.7 billion, or 19.4%, mainly on account of changes in the fair value of the portfolio.

Other liabilities fell $71 million, or 0.4%.

EQUITY

Equity was up $3.3 billion, or 10.8%, since December 31, 2020. Net surplus earnings after member dividends totalling $2.7 billion and other comprehensive income of $0.9 billion were the sources of this growth.

Information about income taxes on member dividends, remuneration and dividends is presented in the table below.

Table 24 – Information about member dividends, remuneration and dividends
For the years December 31

(in millions of dollars)	2021	2020	2019
Member dividends	**$ 387**	$ 330	$ 317
Remuneration on F capital shares	**208**	209	207
Remuneration on permanent shares	**—**	1	4
Dividends	**25**	25	35
	$ 620	$ 565	$ 563

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

3.2 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 creditors, 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.

Desjardins Group advocates prudent management of its capital. Its purpose is to maintain higher regulatory capital ratios than those of the Canadian banking industry and regulatory requirements. Desjardins's prudent capital management is reflected in the quality of the credit ratings assigned by the various rating agencies.

The financial industry is placing more emphasis on sound capitalization of its operations. Now more than ever, rating agencies and the market favour the best-capitalized institutions. These factors argue in favour of a general increase in the level and quality of capital issued by financial institutions. This is also reflected in the enhanced requirements under Basel III implemented on January 1, 2013. It was against this backdrop that Desjardins Group set its target for Tier 1A capital at 15%.

Desjardins Group's Integrated Capital Management Framework

Broadly speaking, Desjardins Group's Integrated Capital Management Framework includes the policies and processes required to set targets for its capitalization, to establish strategies to ensure that targets are met, to quickly raise capital, to ensure that the components contribute appropriately to capitalization, and to optimize internal capital flow and use procedures.

In addition, the Internal Capital Adequacy Assessment Program (ICAAP) enables Desjardins Group to ensure it has an appropriate level of capital to cover all the significant risks to which it is exposed and to implement capital management strategies that take into account changes in its risk profile.

Desjardins Group has developed a stress-testing program aimed at establishing and measuring the effect of various integrated scenarios, i.e. to simulate various economic scenarios and to assess their financial and regulatory repercussions. This process makes it possible to determine if the level of capital is adequate in view of the risks to which Desjardins Group is exposed. Additional information on the ICAAP and the stress-testing program is presented in Section 4.2, "Risk management".

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 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 *Adequacy of Capital Base Guideline* for financial services cooperatives issued by the AMF (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 financing, which are set by regulatory authorities governing trusts, credit unions, 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 capital 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. Desjardins Group started issuing TLAC-eligible debt on October 1, 2019 and expects to be able to meet the minimum requirements when they take effect.

The TLAC capital ratio is expressed as a percentage of regulatory capital and TLAC-eligible instruments to risk-weighted assets. The TLAC leverage ratio is calculated by dividing the sum total of regulatory capital and TLAC-eligible instruments by the exposure measure.

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

Table 25 – 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 December 31, 2021
Tier 1A capital ratio	> 4.5 %	2.5 %	> 7.0 %	1.0 %	> 8.0 %	**21.1 %**
Tier 1 capital ratio	> 6.0	2.5	> 8.5	1.0	> 9.5	**21.1**
Total capital ratio	> 8.0	2.5	> 10.5	1.0	> 11.5	**22.1**
Leverage ratio	> 3.5	N/A	> 3.5	N/A	> 3.5	**8.5**

(1) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets in accordance with the guideline.

(2) The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk that includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) 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) The AMF may also, at its discretion, set higher target ratios when circumstances warrant. In this regard, since March 31, 2019, the AMF has been able to activate the countercyclical buffer if it considers that excessive credit growth is associated with a systemic build-up of risk. In this assessment, a countercyclical buffer requirement of between 0% and 2.5% of total risk-weighted assets (RWA) would be imposed if the situation justified it. The requirement would be lifted when the risk either materialized or dissipated.

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 December 31, 2021, 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 is 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 was set at 70% for fiscal 2020, at 50% for 2021 and will be set at 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 are not eligible for this treatment. For more information about the Stage 1 and Stage 2 allowances, see Note 2, "Significant accounting policies", to the Combined Financial Statements.
- Temporary 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. Since January 1, 2022, eligible securities issued by sovereign borrowers have been reintegrated into the leverage ratio exposure measure, while reserves in central banks will remain excluded until further notice.
- The temporary reduction of the stressed Value-at-Risk multiplier under market risk from 3 to 1 ended on May 1, 2021.

On February 1, 2021, the AMF issued a notice to the effect that the guaranteed portion of a loan granted under the BDC's Highly Affected Sectors Credit Availability Program (HASCAP) is treated as a Government of Canada exposure, and the residual portion not covered by the guarantee is considered to be a borrower exposure. The total amount of the loan is included in the calculation of the leverage ratio.

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.

On June 25, 2021, the AMF published a draft for consultation of the *Capital Adequacy Guideline*. The draft is related to the Basel III regulatory reforms approved by the BCBS on December 7, 2017.

These reforms are basically aimed at reducing excessive variability of risk-weighted assets and enhancing the comparability and transparency of financial institution capital ratios:

- By enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk.
- By limiting the use of the internal ratings-based (IRB) approach, first by limiting the use of certain variables for the calculation of capital requirements, and second, by removing the use of advanced approaches for certain portfolios.
- By adjusting the leverage ratio exposure measure.
- By replacing the existing threshold with a more robust and risk-sensitive floor based on the Basel III revised standardized approaches.

On October 7, 2021, the AMF issued a new draft of the *Capital Adequacy Guideline*, which is the result of merging the guideline on the adequacy of capital base standards for financial services cooperatives (in French only) with the *Capital Adequacy Guideline — Credit unions not members of a federation, trust companies and savings companies*. The results of the consultation on June 25, 2021 have been incorporated into the Guideline. The purpose of the other changes proposed in the consultation is mainly to introduce simplified rules for small and medium-sized deposit institutions, to complete the incorporation of the new Basel III provisions relating to market risk requirements, and to increase the robustness and risk sensitivity of the standardized approaches for credit valuation adjustment (CVA) risk. Interested parties had been invited to submit their comments by October 29, 2021.

The *Capital Adequacy Guideline* is expected to come into effect on January 1, 2023, except for the market risk and CVA changes, which will be effective January 1, 2024.

The "Regulatory environment" section presents additional details on regulation as it affects all Desjardins Group operations. In addition, this section contains information on the internal recapitalization (bail-in) regime applicable to Desjardins.

Compliance with requirements

As at December 31, 2021, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 21.1%, 21.1% and 22.1%, respectively. The leverage ratio was 8.5%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

As at December 31, 2021, the Tier 1A capital ratio was down 77 basis points compared to December 31, 2020 due to growth in risk-weighted assets, largely due to changes in methodology, partially offset by the increase in reserves and undistributed surplus earnings as well as the decrease in net defined benefit plan liabilities as at December 31, 2021.

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 December 31, 2021.

Regulatory capital

The following tables present Desjardins Group's main capital components, regulatory capital, capital ratios, and movements in capital over the year.

Table 26 – 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 • F capital shares • Caisse permanent shares and surplus shares subject to phase-out • Eligible portion of general allowance[4]	• Non-controlling interests[2]	• General allowance • 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. To be eligible, the notes must include a clause requiring the full and permanent conversion into a Tier 1A capital instrument at the point of non-viability.

(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 will be subject to risk-weighting at a rate of 250%.

Table 27 – Regulatory capital

As at December 31

(in millions of dollars and as a percentage)	2021	2020
Tier 1A capital		
F capital shares[1]	**$ 4,889**	$ 4,889
Permanent shares and surplus shares subject to phase-out	**84**	125
Reserves and undistributed surplus earnings	**26,813**	23,132
Eligible accumulated other comprehensive income	**773**	1,308
Deductions[2]	**(4,122)**	(3,137)
Total Tier 1A capital	**28,437**	26,317
Total Tier 1 capital[3]	**28,437**	26,317
Tier 2 capital		
Eligible instruments[4]	**1,985**	1,023
Senior notes subjects to phase-out	**—**	495
General allowance	**125**	105
Deductions	**(826)**	(826)
Total Tier 2 capital	**1,284**	797
Total regulatory capital (Tiers 1 and 2)	**$ 29,721**	$ 27,114
Ratios and leverage ratio exposure		
Tier 1A capital ratio	**21.1 %**	21.9 %
Tier 1 capital ratio	**21.1**	21.9
Total capital ratio	**22.1**	22.6
Leverage ratio	**8.5**	8.5
Leverage ratio exposure	**$ 336,136**	$ 307,925

(1) Including capital shares held in the Trust Fund of the Federation.

(2) Deductions from Tier 1A are comprised of regulatory adjustments ($1,078 million, $1,215 million en 2020), significant investments ($2,913 million, $1,784 million in 2020) and elements that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers ($131 million, $138 million in 2020).

(3) No Tier 1B capital instrument has been issued to date.

(4) Corresponds to eligible qualifying shares and NVCC subordinated notes. For further information, see “Template CCA – Main features of regulatory capital instruments and other TLAC-eligible instruments” in the Pillar 3 Report.

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% until January 1, 2022. These instruments include permanent shares and surplus shares issued before September 12, 2010. As at December 31, 2021, the balance of permanent shares and surplus shares was $84 million.

In addition, the subordinated notes issued by Desjardins Capital Inc. were also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes had to meet Non-Viability Contingent Capital (NVCC) requirements. On December 15, 2021, Desjardins Capital Inc. proceeded with the early repayment in full of its senior notes Series J outstanding in the amount of $500 million. As at the date hereof, Desjardins Capital Inc. has no more subordinated notes outstanding.

The Federation is able to issue eligible instruments as NVCC on Canadian, U.S. and European markets, and carried out an issue of $2.0 billion of such securities, $1.0 billion of which were issued in the second quarter of 2021. As a result, should there be a trigger event as defined in the Guideline, these notes would automatically and immediately be converted into Tier 1A capital of the Federation.

On December 16, 2021, the Board of Directors approved an interest payment to holders of F capital shares of $208 million.

Table 28 – Change in regulatory capital
For the years ended December 31

(in millions of dollars)	2021	2020
Tier 1A capital		
Balance at beginning of year	**$ 26,317**	$ 24,549
Increase in reserves and undistributed surplus earnings[1]	**3,681**	1,910
Eligible accumulated other comprehensive income	**(535)**	1,085
Permanent shares and surplus shares subject to phase-out	**(41)**	(113)
Deductions	**(985)**	(1,114)
Balance at end of year	**28,437**	26,317
Total Tier 1 capital[2]	**28,437**	26,317
Tier 2 capital		
Balance at beginning of year	**797**	—
Eligible instruments	**962**	998
Senior notes subject to phase-out	**(495)**	(192)
General allowance	**20**	28
Deductions	**—**	(37)
Balance at end of year	**1,284**	797
Total capital	**$ 29,721**	$ 27,114

(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.
- This approach has been used for Retail client exposures – Personal as well as 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

- Desjardins Group uses internal market risk models for trading portfolios.
- The Standardized Approach is used for foreign exchange risk and commodity risk in the banking portfolio.

Operational risk

- Desjardins Group uses 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 the adequacy of capital base standards for financial services cooperatives issued by the AMF.

As indicated in the following table, risk-weighted assets totalled $134.5 billion as at December 31, 2021. Of this amount, $117.2 billion was for credit risk, $2.9 billion for market risk and $14.5 billion for operational risk. As at December 31, 2020, risk-weighted assets stood at $120.1 billion.

Table 29 – Risk-weighted assets

(in millions of dollars and as a percentage)	Inter Ratings-Based Approach		Standardized Approach		Total as at December 31, 2021				Total as at December 31, 2020
	Exposures (1)	Risk-weighted assets	Exposures (1)	Risk-weighted assets	Exposures (1)	Risk-weighted assets	Capital requirements (2)	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	$ 74,393	$ 7,465	$ 13,622	$ —	$ 88,015	$ 7,465	$ 597	8.5 %	$ 7,393
Financial institutions	4,234	1,437	10,827	2,222	15,061	3,659	293	24.3	3,446
Businesses	70,255	30,946	14,310	13,156	84,565	44,102	3,528	52.2	37,832
Securitizations	—	—	26	327	26	327	26	1,250.0	97
Equities	—	—	356	1,962	356	1,962	157	551.1	365
SMEs similar to other retail client exposures	9,831	4,790	251	187	10,082	4,977	398	49.4	5,057
Mortgages	110,585	17,021	336	177	110,921	17,198	1,376	15.5	12,273
Other retail client exposures (excluding SMEs)	10,560	4,656	1,782	1,340	12,342	5,996	480	48.6	6,272
Qualifying revolving retail client exposures	31,203	7,254	—	—	31,203	7,254	580	23.2	8,569
Subtotal - Credit risk other than counterparty risk	311,061	73,569	41,510	19,371	352,571	92,940	7,435	26.4	81,304
Counterparty risk									
Sovereign borrowers	66	2	—	—	66	2	—	2.6	—
Financial institutions	3,303	1,656	7	1	3,310	1,657	133	50.1	1,401
Businesses	5	11	300	161	305	172	14	56.4	15
Trading portfolio	807	520	680	586	1,487	1,106	88	74.3	1,008
Credit valuation adjustment (CVA) charge	—	—	4,120	1,873	4,120	1,873	149	45.5	1,854
Additional requirements for banking and trading portfolio	—	—	—	—	746	45	4	6.0	20
Subtotal - Counterparty risk	4,181	2,189	5,107	2,621	10,034	4,855	388	48.4	4,298
Other assets[3]	—	—	—	—	20,707	14,828	1,186	71.6	13,864
Scaling factor[4]	—	4,545	—	—	—	4,545	364	—	4,192
Total credit risk	315,242	80,303	46,617	21,992	383,312	117,168	9,373	30.6	103,658
Market risk									
Value at Risk (VaR)	—	426	—	—	—	426	34	—	798
Stressed Value at Risk (SVaR)	—	1,072	—	—	—	1,072	85	—	578
Incremental risk charge[5]	—	907	—	—	—	907	73	—	708
Other[6]	—	75	—	394	—	469	38	—	477
Total market risk[7]	—	2,480	—	394	—	2,874	230	—	2,561
Operational risk	—	—	—	14,476	—	14,476	1,158	—	13,705
Total risk-weighted assets before the RWA floor	315,242	82,783	46,617	36,862	383,312	134,518	10,761	35.1	119,924
RWA floor adjustment[8]	—	—	—	—	—	—	—	—	177
Total risk-weighted assets	$ 315,242	$ 82,783	$ 46,617	$ 36,862	$ 383,312	$ 134,518	$ 10,761	35.1 %	$ 120,101

(1) Net exposure after credit risk mitigation (net of loss allowance for expected credit losses on credit-impaired loans other than retail (except for credit card loans) using the Standardized Approach, excluding those using the Internal Ratings-Based Approach, according to the AMF guideline).

(2) The capital requirement represents 8% of risk-weighted assets.

(3) Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain threshold in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.), the investments portion below a certain threshold in associates as well as the portion of other deferred tax assets above a certain threshold. These three items are weighted at 250% and the deducted portion (namely above a certain threshold) is weighted at 0%. This class does not include the CVA charge and additional requirements for the banking and trading portfolios, which are disclosed in the counterparty credit risk section.

(4) The scaling factor is a 6% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.

(5) Additional requirements representing an estimate of default and migration risks of unsecuritized products exposed to interest rate risk.

(6) Represents mainly capital requirements calculated using the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio.

(7) As at December 31, 2020, the SVaR multiplier was reduced in market risk calculations pursuant to the relief measures introduced by the AMF in response to the COVID-19 pandemic.

(8) The RWA floor is defined based on the Standardized Approaches.

Movements in risk-weighted assets

For credit risk, fluctuations in RWA during 2021 are segmented into two items, namely credit risk other than counterparty risk, and counterparty and issuer risk. In credit risk other than counterparty risk, the net increase of $12.9 billion in RWA is chiefly due to growth in portfolio size, which resulted in a $9.9 billion increase in RWA, as well as to changes in procedures and policies, resulting in a $5.7 billion increase in RWA. This increase was partially offset by changes in portfolio quality, which led to a $3.2 billion decrease in RWA. In counterparty and issuer risk, a growth in portfolio size and updating of models used to calculate regulatory capital, offset by the improvement in portfolio quality, resulted in a net increase of $0.6 million.

In market risk, a $0.3 billion increase in RWA was observed, mainly due to adjustments in capital requirements related to the COVID-19 pandemic, partially offset by a fluctuation in risk levels.

In operational risk, a $0.8 billion increase in RWA was also observed on account of the fluctuation in revenue generated.

The RWA floor adjustment as previously defined caused RWA to decrease by $0.2 billion in 2021.

Table 30 – Change in risk-weitghted assets
As at December 31

(in millions of dollars)	2021			2020		
	Credit risk other than counterparty risk	**Counterparty and issuer risk**	**Total**	Credit risk other than counterparty risk	Counterparty and issuer risk	Total
Credit risk						
Risk-weighted assets at beginning of year	**$ 99,252**	**$ 4,406**	**$ 103,658**	$ 90,491	$ 4,308	$ 94,799
Size of portfolio[1]	**9,906**	**442**	**10,348**	7,970	509	8,479
Quality of portfolio[2]	**(3,184)**	**(460)**	**(3,644)**	(1,735)	229	(1,506)
Updating of models[3]	**548**	**594**	**1,142**	744	(681)	63
Procedures and policies[4]	**5,695**	**1**	**5,696**	1,868	—	1,868
Acquisitions and transfers	**—**	**—**	**—**	12	—	12
Change in exchange rates	**(35)**	**3**	**(32)**	(98)	41	(57)
Total changes in risk-weighted assets	**12,930**	**580**	**13,510**	8,761	98	8,859
Risk-weighted assets at end of year	**$ 112,182**	**$ 4,986**	**$ 117,168**	$ 99,252	$ 4,406	$ 103,658

(in millions of dollars)	2021	2020
Market risk		
Risk-weighted assets at beginning of year	**$ 2,561**	$ 3,095
Change in risk levels[5]	**(951)**	357
Procedures and policies[4]	**1,264**	(891)
Total changes in risk-weighted assets	**313**	(534)
Risk-weighted assets at end of year	**$ 2,874**	$ 2,561
Operational risk		
Risk-weighted assets at beginning of year	**$ 13,705**	$ 13,021
Revenue generated	**771**	684
Acquisitions and transfers	**—**	—
Total changes in risk-weighted assets	**771**	684
Risk-weighted assets at end of year	**$ 14,476**	$ 13,705
RWA floor adjustment		
Risk-weighted assets at beginning of year	**$ 177**	$ 2,946
Size of portfolio[1]	**2,581**	(587)
Quality of portfolio[2]	**1,789**	(1,978)
Updating of models[3]	**(1,141)**	(879)
Procedures and policies[4]	**(3,441)**	641
Acquisitions and transfers	**—**	—
Change in exchange rates	**35**	34
Other	**—**	—
Total changes in risk-weighted assets	**(177)**	(2,769)
Risk-weighted assets at end of year	**$ —**	$ 177

(1) Increase or decrease in underlying risk exposure.
(2) Change in risk mitigation factors and portfolio quality.
(3) Change in risk models and parameters.
(4) Regulatory changes and developments in the regulatory capital calculation methods. As at December 31, 2020, the change in market risk was the result of a reduction in the SVaR multiplier pursuant to the relief measures introduced by the AMF in response to the COVID-19 pandemic.
(5) Change in risk levels and fluctuation in exchange rates, which is not considered to be material.

3.3 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.

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

As at December 31, 2021, Desjardins Group administered, for the account of its members and clients, assets totalling $482.9 billion, for an annual increase of $24.7 billion, or 5.4%. Financial assets placed with Desjardins Group as wealth manager amounted to $91.3 billion at the close of 2021, representing an increase of $13.8 billion, or 17.8% on an annual basis. The increase in assets under management and under administration is due mainly to new management mandates as well as growth in assets on account of developments on financial markets in 2021.

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.

Table 31 – Assets under management and under administration
As at December 31

(in millions of dollars)	2021	2020	2019
Assets under management[1]			
Institutions and individuals	**$ 23,901**	$ 20,298	$ 17,325
Investment funds	**67,357**	57,176	50,228
Total assets under management	**$ 91,258**	$ 77,474	$ 67,553
Assets under administration[1]			
Individual and institutional trust and custodial services	**$ 344,644**	$ 335,610	$ 335,009
Investment funds	**138,267**	122,567	101,991
Total assets under administration	**$ 482,911**	$ 458,177	$ 437,000

(1) For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

CREDIT INSTRUMENTS

In order to meet its members' and clients' financing needs, Desjardins Group enters into various agreements with them for such instruments as credit commitments, indemnification commitments related to securities lending and documentary letters of credit. These products are generally off-balance sheet instruments and may expose Desjardins Group to credit and liquidity risks. These instruments are subject to Desjardins Group's usual risk management rules.

Note 29, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Combined Financial Statements provides more detailed information about these credit instruments.

GUARANTEES

Desjardins Group also enters into various guarantee and indemnification agreements with its members and clients in the normal course of operations. These agreements remain off-balance sheet arrangements and include guarantees, standby letters of credit and credit default swaps. Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements provides information about these off-balance sheet arrangements.

STRUCTURED ENTITIES

Desjardins Group enters into various financial transactions with structured entities in the normal course of operations to diversify its sources of financing and manage its capital. Structured entities are usually created for a unique and distinct purpose, and they frequently have limited activities. These entities may be included in Desjardins Group's Combined Balance Sheets if it has control over them. Detailed information concerning significant exposure to structured entities not included in Desjardins Group's Combined Balance Sheets is provided below. Note 13, "Interests in other entities", to the Combined Financial Statements provides more information about structured entities.

Securitization of Desjardins Group's financial assets

Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program to manage its liquidities and capital. Transactions carried out under this program sometimes require the use of a structured entity, the Canada Housing Trust (CHT), set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 8, "Derecognition of financial assets", to the Combined Financial Statements provides more information about the securitization of Desjardins Group's loans.

4.0 Risk management

The shaded areas and tables marked with an asterisk (*) in this section contain information about credit, market and liquidity risks in accordance with IFRS 7, “Financial Instruments: Disclosures”. They also contain an analysis of how Desjardins Group assesses its risks as well as a description of its risk management objectives, policies and methods. IFRS 7 provides that risk disclosures may be included in the MD&A. Consequently, the shaded areas and tables marked with an asterisk (*) contain audited information and are an integral part of the Combined Financial Statements, as explained in Note 30, “Financial instrument risk management”, to the Combined Financial Statements.

4.1 Risk factors that could impact future results

In addition to the risks presented in Section 4.2 of this MD&A, other systemic or macroeconomic risk factors, which are outside of Desjardins Group’s control, may impact its future results. Furthermore, as indicated in the caution concerning forward-looking statements, general or specific risks and uncertainties may cause the actual results of Desjardins Group to differ from those in the forward-looking statements. Some of these risk factors are presented below.

Main risks and emerging risks

Principal risks and emerging risks are risks or risk factors that could have a significant impact on Desjardins Group’s financial autonomy and would likely affect its reputation, the volatility of its results, the adequacy of its capitalization or liquidities, in the event they fully materialize. Among these risks, certain so-called emerging risks are sharply growing risk factors, or ones that are developing unexpectedly, with unanticipated results. Desjardins Group continues to be proactive in identifying and tracking these risks so that it can take the appropriate management measures when required. For example, the external environment is continuously monitored to identify the risk factors and economic and regulatory events that could impact its operations. In addition, regular exchanges between the Risk Management Executive Division, risk officers and the business segments further define the risk factors of greatest concern.

	Description
COVID-19 pandemic	The COVID-19 pandemic as well as its associated risks are still being monitored by Desjardins Group. Many actions have been taken by Desjardins Group to address this issue, and active monitoring of the effects and evolution of the COVID-19 pandemic is still in place. The COVID-19 pandemic has had and will continue to have an impact on the risks to which Desjardins Group is exposed in the normal course of its business presented in Section 4.2, "Risk management", as well as on its main emerging and other risks presented below. Desjardins is continuing to closely monitor the development of these risks in order to ensure the sustainability of its operations in a crisis environment. For more details on the impact of the COVID-19 pandemic and the measures put in place by Desjardins Group, please refer to "COVID-19 pandemic" in Section 1.3, "Significant events", of this MD&A.
Security breaches	Risks related to cyber threats have been on the rise for a number of years. Both the aggregation of new services for members and clients and the exposure of online services are becoming increasingly complex and gradually extending to more and more areas and products. Increased monitoring of Desjardins Group’s employees and infrastructures, including that of applications involving confidential data, has been set up in order to better meet the performance needs of teleworking and to mitigate the risks associated with service interruptions, information security and reputation. In addition, the perpetrators of cyber threats are using increasingly sophisticated methods and strategies for criminal purposes. Consequently, Desjardins Group has been investing in technology for many years, strengthening its cyber-defence capabilities in order to detect security incidents as quickly as possible by optimizing its processes to respond efficiently to incidents and by attracting and training new talent in order to continue to develop its defence methods. The Desjardins Group Security Office has been ensuring the protection of members’ and clients’ assets since 2020, including their personal information. The Office now brings together the organization’s cross-sector strategic security operations, including fraud management, optimal resource allocation and security investments.
Government, corporate and household indebtedness	Despite a slight improvement since the spring of 2020, excessive household debt remains a major concern. This has been compounded by concerns about the rapid increase in government debt (due to recovery plans) and corporate debt. Developments in interest rates after the COVID-19 pandemic will therefore be decisive in this regard. This poses a medium- to long-term risk in the event of a new labour market shock or an unexpected rise in interest rates. In particular, it could lead to a decline in the housing market, which has experienced solid growth in recent years, despite tighter mortgage granting rules. In addition, the recent sharp rise in real estate prices increases the risks of overvaluation and correction. Desjardins has sound practices in granting and managing mortgage financing, including a stress test involving interest rates for mortgage financing, which should allow it to circumvent this risk.
Technological developments	Innovative technologies are being increasingly taken into consideration and adopted by financial institutions. These innovative technologies represent a crucial vector for transforming business processes and models. Use of these technologies exposes financial institutions to other risks relating to cyber threats, system stability, the modernizing of infrastructure, complex environments, systems interdependence, and digital transformation. The public health crisis related to the COVID-19 pandemic has also accelerated the digital shift in order to meet members’ and clients’ growing needs to access banking transactions remotely. Regulatory authorities’ expectations and the regulatory environment will be increasingly demanding, and financial sector requirements will continue to grow in terms of managing technology risk. The growing presence of FinTech and InsurTech, which offer simple, innovative technology solutions that meet the expectations of members and clients, puts more pressure on traditional financial institutions to adapt. Desjardins Group has been no exception and remains active in managing this operational and strategic risk, among others, by investing in technology and by reviewing and diversifying its products, services and distribution channels to meet the needs of its members and clients.

	Description
Regulatory developments	The financial services industry is one of the most tightly monitored and regulated, and industry regulation has been rapidly expanding for many years now. This trend is in response to a number of socio-economic phenomena: the development of new, increasingly complex financial products, ongoing volatility in the securities market, increasingly complex financial fraud, the fight against money laundering and terrorist financing, the fight against tax evasion, compliance with economic sanctions and the protection of personal information. Although Desjardins Group actively monitors and manages regulatory risk, changes in regulation, its complexity and its uncertainty could have an impact on the performance of its operations, its reputation, its strategies and its financial objectives. As an independent supervisory function, the Vice-President and Chief Compliance and Privacy Officer, Desjardins Group promotes a proactive approach to compliance by fully integrating it into the organization's regular operations. Maintaining an effective compliance management framework mobilizes significant amounts of technical, human and financial resources.
Interest rate developments	The economy is recovering well in just about every country across the planet. However, some supply and demand imbalances are being observed, generating upward pressure on prices. Moreover, production constraints stemming from the pandemic and supply problems have caused an acceleration in inflation that could persist, particularly if the pressures on wages and housing costs become greater. Under these conditions, the Bank of Canada gradually decreased its quantitative bond purchases on the markets and went into a reinvestment phase in October 2021. North American key interest rates began to gradually rise in March 2022. Our financial results are sensitive to interest rate fluctuations as indicated under "Structural interest rate risk management".
Climate change	Climate change risk is defined as an entity's vulnerability to climate change, or the negative impact of climate change on an entity, which could lead to financial losses. It includes both: physical risk factors resulting from climate change that may be due to extreme events (acute) or longer term changes (chronic); transition risk factors resulting from the transition to an economy with low greenhouse gas (GHG) emissions. These can be regulatory, legal, technology, market or reputational factors.
Geopolitical uncertainties	The evolution of the COVID-19 pandemic is still a major source of uncertainty affecting the economic and financial outlook. As for other risks, the global economy will be more vulnerable to new shocks as it emerges from the pandemic. The social and geopolitical climate could also deteriorate with new terrorist attacks, armed conflicts, cyber-attacks or labour disputes. The alarming rise in political polarization and a certain radicalization, most notably in the U.S., may create uncertainty. Geopolitical tensions have intensified in Ukraine. In addition to the risk of armed conflict, they could have a major impact on global financial markets, in particular on energy prices. Lastly, a latent risk concerning climate change could lead to shocks to the global economy.

Other risk factors that could impact future results

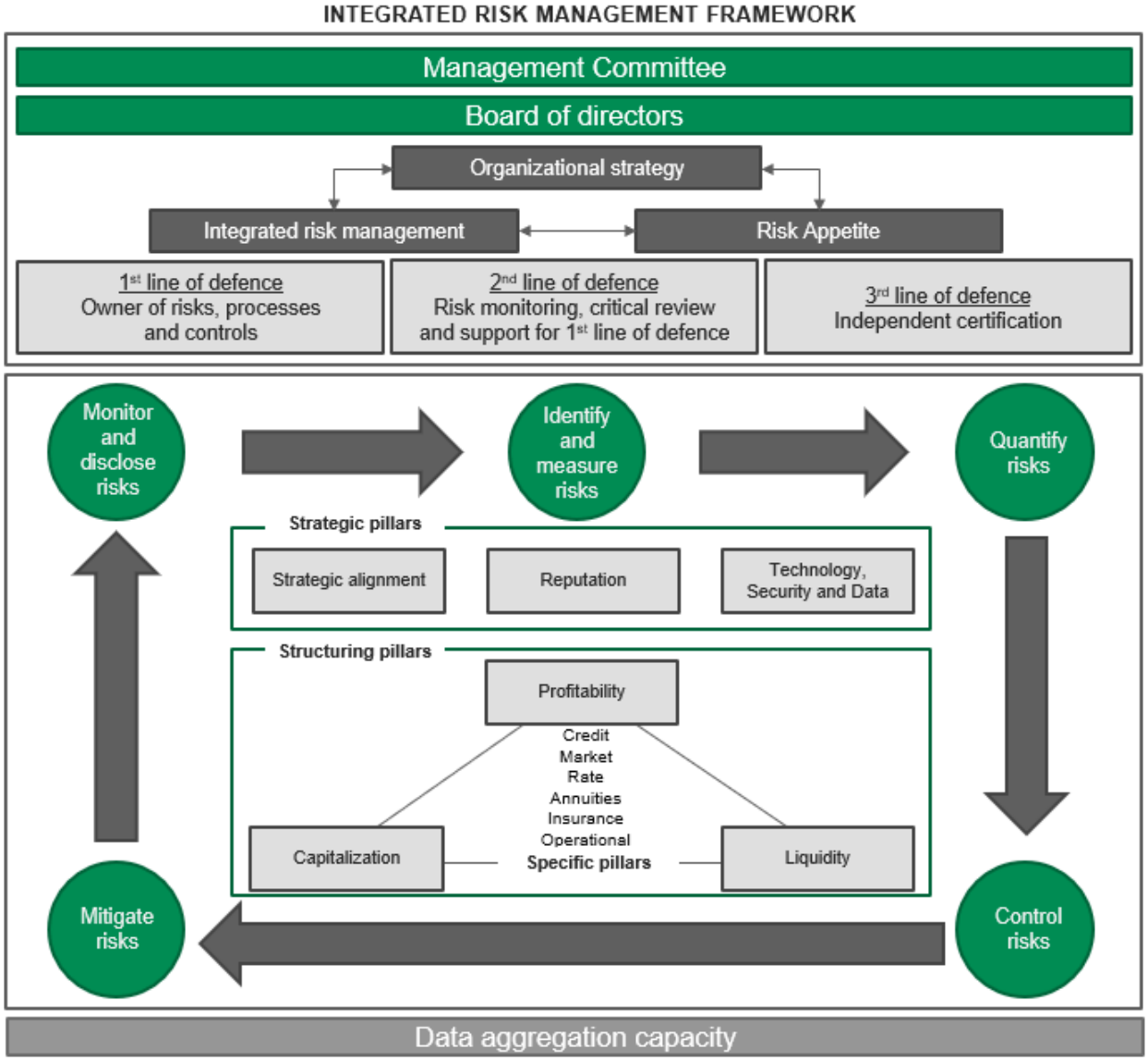
	Description
General economic and business conditions in regions in which Desjardins Group operates	General economic and business conditions in the regions where Desjardins Group operates may significantly affect its income and surplus earnings. These conditions include short- and long-term interest rates, inflation, debt securities market fluctuations, foreign exchange rates, financial market volatility, tighter liquidity conditions in certain markets, the level of indebtedness, the strength of the economy, consumer spending and saving habits, and the volume of business conducted by Desjardins Group in a given region.
Monetary policies	The monetary policies of the Bank of Canada and the U.S. Federal Reserve (the Fed), as well as interventions in capital markets, have an impact on Desjardins Group's income. The general level of interest rates may impact Desjardins Group's profitability because interest rate fluctuations affect the spread between interest paid on deposits and interest earned on loans, thereby affecting Desjardins Group's net interest income. Furthermore, considering the current level of indebtedness of Canadian households, higher interest rates could have an adverse effect on consumers' ability to service their debt, leading to an increased risk of loan losses for financial institutions. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.
Critical accounting estimates and accounting standards	The Combined Financial Statements are prepared in accordance with the IFRS. The accounting policies used by Desjardins Group determine how it reports its financial position and results of operations, and management may be required to make estimates or rely on assumptions about matters that are inherently uncertain. Any change in these estimates and assumptions, as well as in accounting standards and policies, may have a significant impact on Desjardins Group's financial position and results of operations. Significant accounting policies and future accounting changes are described in Note 2, "Significant accounting policies", to the Combined Financial Statements.
New products and services to maintain or increase market share	Strong competitive pressures from Canadian financial institutions and the emergence of new competitors have led Desjardins Group to develop new products and services at a faster pace to maintain or increase its attractiveness as a financial institution with its clients. Developing these new products and services could require large investments by Desjardins or involve risks not identified at the time of their development. Desjardins cannot be certain that the new products and services it offers will result in the anticipated financial benefits.

	Description
Geographic concentration	Although Desjardins Group is diversified through its insurance operations, its banking operations are heavily concentrated in Québec. As at December 31, 2021, its loans to Québec members and clients therefore accounted for 91.2% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results are largely depend on economic conditions in Québec. Any deterioration in these conditions could adversely impact: • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; • the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in the approval of transactions by regulators or their imposing of additional conditions, the inability to apply the strategic plan in its original form, difficulties in integrating or retaining clients, an increase in regulatory costs, unexpected expenses, or changes in the economic and competitive environment. As a result, synergies, higher income, cost savings, increased market share and other expected benefits may not materialize or may be delayed, thereby impacting Desjardins Group's future surplus earnings.
Credit ratings	The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. These ratings may be revised or withdrawn at any time by the agencies. In addition, a significant downgrade to various ratings could push up Desjardins Group's cost of funding, reduce its access to financial markets, and increase additional obligations required by its counterparties.
Dependency on third parties	We need to rely on third parties in order to provide top-quality, secure services. These third parties play a major role in supporting Desjardins Group's operations as well as in implementing technological innovations that allow Desjardins to improve the services it offers to members and clients (IT, office automation, telecommunications, cloud and other providers and suppliers). Using third parties can, however, generate certain risks. Desjardins recognizes the importance of these risks and is putting in place all the necessary measures to mitigate them. Inadequate management of third-party risk could affect Desjardins Group's ability to provide the services that members and clients need. This type of risk could have an impact on information security, business continuity, as well as on other types of risks, such as reputational risk. The oversight process used for outsourcing, together with the incident management process, allow Desjardins to adequately prevent and handle third-party risk.
Other factors	Other factors that may have an impact on Desjardins Group's future results include interest rate benchmark reform (for further information, see Note 2, "Significant accounting policies", to the Combined Financial Statements), changes in 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 possible impact, on operations, of international conflicts, public health crises, such as pandemics and epidemics or any other similar disease affecting the local, national or global economy, as well as Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment. Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

4.2 Risk management

Integrated Risk Management Framework

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 sectors 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, including risks related to external factors like climate change.



RISK IDENTIFICATION

Desjardins Group considers it important to periodically assess the environment in which it operates and to identify key risks, as well as the aforesaid principal risk factors and emerging risk factors to which it is exposed. Desjardins Group has a risk log that sets out the main categories and subcategories of risks which could affect Desjardins Group. The log is updated periodically and is used as a basis to make a quantitative and qualitative assessment of risk materiality, to determine Desjardins Group's risk profile and to implement appropriate strategies to mitigate risk.

In the normal course of business, Desjardins Group is exposed to the principal risks shown below, which are covered in specific subsections of this MD&A.

Credit	Market	Liquidity	Operational	Insurance	Strategic	Reputation	Pension plan	Environmental or social	Legal and regulatory

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.

RISK MEASUREMENT

Desjardins Group uses both quantitative and qualitative techniques to determine its risk exposure. It ensures that an appropriate selection of measurement tools and mitigation techniques are designed and maintained in order to support its business development.

Models play a central role in assessing risk at Desjardins Group and support decision-making in many situations. They are applied to various aspects of risk management. Quantitative models are used for modelling credit risk measurement parameters. They are also used in market risk measurement, economic capital calculations, asset valuation and pricing. Risks are quantified based on both the current economic context as well as on hypothetical stress-testing situations, which are measured for specific risks on a Desjardins-wide integrated basis.

Desjardins-wide integrated stress testing

Desjardins-wide sensitivity tests and crisis scenarios are used as additional risk analysis tools to measure the potential impact of exceptional but plausible events on, in particular, profitability, liquidity and capital levels. Organization-wide crisis scenarios are developed based on the anticipated economic outlook under unfavourable conditions. In accordance with Pillar 2 of the Basel Capital Accord, the results of these analyses are a key element of Desjardins Group's internal capital adequacy assessment program and can identify potential vulnerabilities in various operations in relation to risk factors. Desjardins-wide stress testing is conducted annually.

Desjardins Group economists develop a series of potential crisis scenarios annually, based on current economic conditions, on the principal risk factors to which the organization is exposed and on emerging risk factors. These scenarios are then submitted to senior management for approval of an enterprise-wide assessment. More than 20 macroeconomic variables, including GDP, interest rates, the jobless rate, housing prices, stock indices and inflation, are projected for each of the scenarios and different interest rate curves.

This exercise requires input from various business units and business segments to ensure a global perspective for the analysis as well as consistency among the various estimated impacts. Credit portfolios belonging to the Desjardins caisse network and the Federation are among the large portfolios analyzed. The analysis also covers the two insurance groups, namely Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc., as well as the Desjardins Group Pension Plan.

The exercise is tied in with Desjardins Group's integrated financial planning and is used to establish capitalization targets and to update risk appetite indicators.

During Desjardins-wide stress testing in 2021, the scenarios developed separately considered the possibility of a major drop in the Canadian real estate market, a greater-than-expected rise in inflation and a crisis relating to a major compliance issue. The results obtained from the assessment of these scenarios show that Desjardins Group's current capitalization levels would be enough to withstand the economic deterioration considered and that its capital ratios would still exceed regulatory limits and its own risk appetite limits.

The results of the exercise are presented annually to various internal committees consisting of Desjardins Group's directors and senior management, namely the Risk Management Commission, the Desjardins Group Finance and Risk Management Committee, the Desjardins Group Management Committee and the Federation's Board of Directors.

In addition to the crisis scenarios studied during this exercise, Desjardins Group carries out regulatory stress testing based on AMF prescribed assumptions and according to the frequency set by the AMF, generally every two years. The last such regulatory scenario was carried out in 2021.

Ad hoc scenarios can also be quickly quantified to respond to specific situations, and senior management's or regulatory authorities' requests. For instance, at the beginning of the COVID-19 pandemic in 2020, a crisis scenario was quantified to assess the potential impact of this change in economic conditions and to guide strategic thinking.

Governance and model validation

In order to ensure sound governance of the use of Desjardins Group risk models and support the unit monitoring risk models and strategies in its role, activities such as the design, performance monitoring and validation of models for credit risk, market risk, economic capital and stress testing are subject to guidelines that specify the roles and responsibilities of the various parties involved in these activities.

The validation group, which is independent from the units responsible for developing models and the end-user units, is in charge of running the appropriate validation program based on the model's importance. It is responsible for determining the importance level of each of Desjardins Group's risk assessment models. For the most important models, the program consists of a series of points to be validated for evaluating the model on design methodology, including assumptions, reliability and data quality. The program also includes an assessment of the possibility of automatic replication of certain results obtained by the modelling teams and the review of some aspects affecting implementation of the models. In addition, for models used to calculate regulatory capital, validation aims to assess compliance with applicable regulatory requirements. For models of lesser importance, the program has a smaller number of validation points. A model's importance level also dictates how often the model's performance will be validated during its useful life. Even though the governance structure overseeing design and performance monitoring activities includes controls that mitigate the risk that inadequate models are deployed and used, independent validation is the main measure mitigating this risk.

It should be noted that, over the 2021-2024 strategic planning horizon, Desjardins Group is undertaking to increase model risk governance in order to broaden its scope to all models that contribute significantly to Desjardins Group's goals and purpose. This initiative will also be an opportunity for a Desjardins-wide roll-out of the model risk management practices with which all major financial institutions in Canada must comply. In fact, the importance of using quantitative models to support the business decision-making process in a number of areas of operation, and not only in the area of risk management, justifies that Desjardins develop its model risk governance and management practices.

RISK DISCLOSURE

A risk disclosure report is prepared quarterly and presented to the Desjardins Group Finance and Risk Management Committee, the Desjardins Group Management Committee, the Risk Management Commission and the Federation's Board of Directors. These reports provide relevant information on changes in the principal risks identified as well as on the capital position, particularly capital adequacy in relation to Desjardins Group's risk profile. These reports are regularly updated to include the latest risk management developments.

RISK APPETITE

As a significant component of the Integrated Risk Management Framework, risk appetite makes it possible to determine the risk type and level that Desjardins is prepared to assume in pursuing its business and strategic objectives. Risk appetite forms an integral part of strategic planning, which makes it possible to guide risk-taking in order to ensure Desjardins Group's stability and sustainability in the case of unfavourable future events that could affect reputation, the volatility of profitability, capital adequacy or liquidities. As a result, risk appetite provides a basis for integrated risk management by promoting a better understanding of the effect of principal risks and emerging risk factors on Desjardins Group's results.

The risk appetite framework reflects Desjardins Group's risk-taking philosophy, mission and values and is based on:

- taking necessary risks to enrich the lives of people and communities and managing such risks conscientiously;
- protecting Desjardins Group's reputation with its members, clients, communities, regulatory authorities and other stakeholders, while respecting its cooperative values;
- understanding the risks arising from Desjardins Group's operations and engaging in only new activities for which the risks are defined, assessed and understood;
- ensuring Desjardins Group's financial sustainability by preserving a capitalization level that meets market expectations and complies with regulatory requirements;
- managing liquidities and refinancing activities in order to guard against liquidity risk;
- thanks to adequate profitability in light of risk exposure, ensuring Desjardins Group's sustainability to be able to give back to members and communities and to meet its financial commitments;
- taking the appropriate measures against internal and external threats to protect information, including personal information and the safety of our members' and clients' assets, as well as those of Desjardins Group;
- modernizing Desjardins Group technology to adjust to member, client and employee needs;
- balancing credit risk and long-term return with Desjardins Group's members and clients to support them and communities throughout our relationship;
- avoiding excessively large risk concentrations;
- maintaining an effective control environment and promoting sound management of operational and regulatory risks.

The risk management function ensures that Desjardins Group's risk profile is in line with its risk appetite. Each quarter, it makes sure that the statements and indicators set by senior management and the Board of Directors are respected, and keeps them informed. In the event a threshold or limit for a risk appetite indicator is exceeded, an immediate investigation is required. The supporting commentary and an action plan, as applicable, are then brought to the attention of the appropriate bodies. The Board of Directors is responsible for approving the risk appetite framework and ensuring that Desjardins Group's financial and strategic objectives are in line with its risk appetite.

The Risk Appetite Framework is reviewed regularly and submitted to the Federation's Board of Directors for approval. The Risk Management Executive Division relays the main guidelines for risk appetite to the business segments and components, and supports them in implementing these concepts by ensuring consistency in all the indicators, targets, levels and limits with the Desjardins Group Risk Appetite Framework.

PROACTIVE RISK MANAGEMENT APPROACH

A proactive risk management approach is one of the cornerstones of Desjardins Group's Integrated Risk Management Framework. It represents all the practices and behaviours of individuals and groups within the organization that condition the collective ability to identify, understand and openly discuss risks and handle present and future risks. Stakeholders, including the Board of Directors, senior management and the Risk Management Executive Division, guide risk-taking behaviour to be in line with Desjardins Group's risk management frameworks. A proactive risk management approach promotes open and transparent communication between Desjardins Group's risk management function and its other support functions, business segments and components, while promoting an appropriate risk-return trade-off.

Ethical conduct and integrity are firmly entrenched in Desjardins Group's proactive risk management approach, which relies on the *Desjardins Code of Professional Conduct.* The code sets out the values and principles that Desjardins Group has espoused in order to maintain a high level of integrity.

Other methods used to support the proactive risk management approach and to promote accountability for risk include:
- defining and communicating risk management roles and responsibilities to all line levels in terms of an operations management approach based on the Three Lines of Defence model;
- alignment of strategic decisions and compensation processes with risk-taking;
- the dissemination of risk management frameworks;
- the organizing of risk management training and awareness sessions, bearing in mind the type of risk discussed and the role of the various parties involved.

Risk management and the Integrated Risk Management Framework are based on the following guidelines that provide in particular for:
- the accountability of Desjardins Group's business segments and other functions with regard to the risks inherent to their operations;
- the independence of the risk management function in relation to business segments;
- implementation at every level of the organization in order to obtain a comprehensive vision of risk exposure;
- a procedure aimed at ensuring that risk matters are disclosed and flagged accurately and transparently to senior management in a timely manner;
- the existence and presence of a complete and rigorous process to determine the appropriate capital level based on the risks assumed;
- consideration of risk management in the formulation of strategic plans and business strategies and in the resulting decisions;
- thorough risk assessment prior to launching new products or initiating transactions with a strong financial impact.

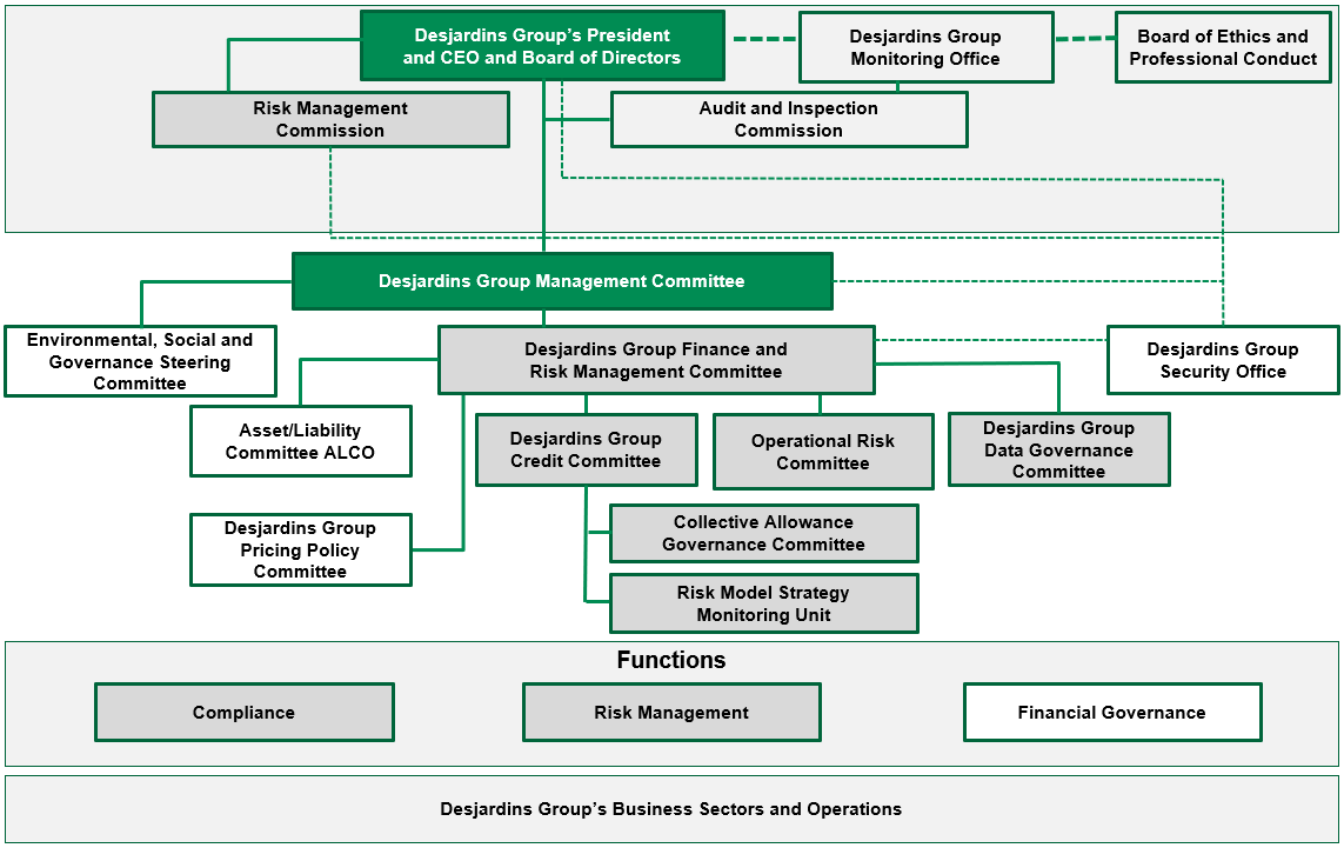
Compensation in relation to risk management

Desjardins Group has established strict governance with regard to total compensation. The Board of Directors is responsible for the annual changes in the total compensation of all employees and managers. In this regard, it establishes an annual salary review, sets the objectives and measures the results of the general incentive plan. It also establishes a framework for all individual incentive plans that apply to Desjardins Group's sales force and investment teams. Acting as a subcommittee of the Board of Directors, the Human Resources Commission is responsible for making recommendations to the Board of Directors with respect to all aspects of total compensation for all Desjardins Group employees and managers other than the President and Chief Executive Officer. The Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group is responsible for defining the compensation, working conditions, annual objectives and annual performance review of the President and Chief Executive Officer, and it recommends them to the Board of Directors.

Incentive plans for senior executives, other than the President and Chief Executive Officer, which are consistent with the aim to promote sound risk management over a time horizon of more than one year, provide for the medium to long-term deferral of a significant portion of members' annual bonus. The amounts thus deferred can vary annually depending on Desjardins Group's overall performance. This formula encourages key stakeholders to have a long-term vision of Desjardins Group's development, always in the best interests of members and clients, for whom the organization's sustainability is an important and reassuring factor.

RISK MANAGEMENT GOVERNANCE

The Integrated Risk Management Framework is based on a solid risk governance structure and reflects Desjardins Group's organizational structure as shown below.



The **Federation's Board of Directors** is responsible for guiding, planning, coordinating and monitoring all of Desjardins Group's operations, and in such capacity, it participates actively in overseeing the major risks to which Desjardins Group is exposed. It is in particular responsible for adopting the overall directions and strategies proposed by senior management as well as risk management policies aimed at ensuring sound and prudent management of operations.

The Board is supported in this regard by the Risk Management Commission, the Audit and Inspection Commission, the Board of Ethics and Professional Conduct and the Desjardins Group Management Committee. Further information about these bodies is found in the Corporate Governance section of the 2021 Desjardins Group Annual Report.

The **Desjardins Group Management Committee** makes recommendations to the Board of Directors concerning risk management guidelines and strategies and ensures that they are implemented effectively and efficiently.

The Committee relies on the Desjardins Group Finance and Risk Management Committee in performing its duties.

The **Desjardins Group Finance and Risk Management Committee** is responsible for ensuring that the on- or off-balance sheet principal risks to which Desjardins Group is or will be exposed directly or through one or more of its subsidiaries, have been identified and measured, and for assessing the potential impact of identified risks on business strategies. Climate change-related risk assessments are submitted to this committee.

This committee is supported by the Desjardins Group Credit Committee, the Desjardins Group Data Governance Committee and Operational Risk Committee:

- The Desjardins Group Credit Committee approves large credit commitments by considering the analysis of ESG factors, and monitors activities related to assessing and quantifying credit risk. In its monitoring role, the committee is supported by the risk model and strategy monitoring unit and by the collective allowance governance committee.
- The Desjardins Group Data Governance Committee monitors data quality and compliance with regulatory requirements related to data within the scope of Desjardins Group data governance.
- The Desjardins Operational Risk Committee has a cross-sector view and monitors the different categories of operational and regulatory risks to which the Group is exposed.

The Desjardins Group Finance and Risk Management Committee is also responsible for overseeing and monitoring interest rate and liquidity risk management as well as ensuring compliance with Desjardins Group's pricing policy and the consistency of pricing with Desjardins's strategic objectives and financial targets. These mandates are performed through the **Asset/Liability Committee (ALCO)** and the **Desjardins Group Pricing Policy Committee.**

The **Environmental, Social and Governance Steering Committee** is responsible for reviewing environmental, social and governance position statements, assessing their inherent risks and ensuring that they are in line with Desjardins Group's strategic priorities.

The **Security Office** coordinates organizational initiatives and institutes cross-sector security strategies in order to continue to reinforce its practices aimed at protecting Desjardins members and clients, their assets and their personal information. It reports to the Desjardins Group Finance and Risk Management Committee, the Desjardins Group Management Committee, the Risk Management Commission and the Board of Directors.

Operations management approach based on the Three Lines of Defence model

Risk management governance and the Integrated Risk Management Framework are also based on the Three Lines of Defence model. The Three Lines of Defence encompass complementary responsibilities that are coordinated to support sound and prudent risk management. The management approach based on this model focuses in particular on segregation of tasks and the assignment of complementary roles and responsibilities that are clearly defined between the various parties within the organization in terms of risk management, as the following table illustrates:

THREE LINES OF DEFENCE MODEL	
First line	
Owner of processes, risks and controls	• Identifies and analyzes its operational risks and manages gaps between its processes, practices and controls, and framework statements. • Coaches and trains employees on how to apply processes and controls and makes them accountable. • Establishes practices to ensure the sustainability of compliance maintenance capabilities over time. • Develops, deploys and validates processes and controls to close gaps. • Measures and monitors the performance of the processes and controls deployed. • Adjusts processes and controls as required. • Upon request, demonstrates compliance with frameworks, including risk appetite. • Triggers the escalation process defined in the framework if one of the triggers is activated. • Ensures that employees adopt and apply the processes and controls.
Second line	
Framework, critical monitoring and support for the first lines of defence	• Establishes the objectives, scope, principles and structure of the oversight framework. • Establishes expectations of the first line, the escalation processes and the triggers for its activation. • Has the framework approved by the appropriate organizational authority. • Provides complementary expertise, a cross-functional vision, assurance, monitoring and constructive criticism to risk management. • Monitors the risk levels of the processes and controls deployed. • Monitors compliance with the frameworks and reports to the various stakeholders (senior management, authorities and regulators) as set forth in the framework.
Third line	
Independent assurance	• Gives an independent and objective opinion on the effectiveness of governance, risk management and internal controls and issues findings to improve effectiveness. • Provides objective assurance to the Management Committee and the Board of Directors concerning the overall effectiveness of governance, risk management and internal controls.

1st Line of Defence

The first line of defence, assumed by process owners, is responsible for the overall performance of the activities assigned to it in the process and for managing the resulting risks.

Consequently, the business sectors and several responsibilities of the Desjardins Group Security Office ensure day-to-day risk management in compliance with the risk appetite framework and also design, implement and maintain effective internal controls, and monitor their risk profile.

2nd Line of Defence

The Risk Management Executive Division is a strategic function whose main purpose is to partner with the business sectors and Desjardins as a whole in their development by identifying, measuring and managing risks. It also ensures that risk management is aligned with Desjardins's risk appetite and business strategy.

In partnership with the business sectors, the Desjardins Group risk management function is responsible for recommending and establishing risk management frameworks, and ensures that the appropriate risk management infrastructure, processes and practices are set up to target all major Desjardins-wide risks.

The Risk Management Executive Division can also rely on the work performed by the Desjardins Group Security Office and the compliance and financial governance functions which, based on their separate mandates, help to regulate and manage certain issues inherent to Desjardins Group's operations.

3rd Line of Defence

The **Desjardins Group Monitoring Office** is an independent and objective advisory and assurance body that assists Desjardins Group's officers in carrying out their governance, risk management and control responsibilities.

Moreover, it assists the President and Chief Executive Officer of Desjardins Group, and oversees and advises management in its duty to ensure sound and prudent management. In so doing, it contributes to improving Desjardins Group's overall performance and maintaining the confidence of its members, the public and regulatory bodies. The Desjardins Group Monitoring Office includes the internal audit services of Desjardins Group components.

BASEL CAPITAL ACCORD

Basel III is an international capital adequacy tool designed to align regulatory capital requirements more closely with risk exposure and to further the continuous development of the risk assessment capabilities of financial institutions.

The Basel III framework is essentially based on three pillars:
- the first pillar sets out the requirements for risk-weighted regulatory capital;
- the second pillar deals with the supervisory review process;
- the third pillar stipulates financial disclosure requirements.

Credit risk

- Desjardins uses the Internal Ratings-Based Approach for credit risk.
- This approach is used for retail loan portfolios – Personal and 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

- Desjardins Group uses 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

- Desjardins Group uses the Standardized Approach to calculate operational risk.

These provisions are used to calculate Desjardins's capital ratios, among other things.

Desjardins Group has also set up an internal capital adequacy assessment program (ICAAP). This program is a sound management practice recognized in the industry and is the key element of the second pillar of the Basel Accord. It allows a financial institution to provide for an appropriate level of capital to cover all major risks to which it is exposed, and to implement capital management strategies that follow the changes in its risk profile.

This program is under the responsibility of the Risk Management Executive Division. Capital adequacy is assessed by verifying whether available capital is sufficient to cover the capital required. The units responsible oversee the overall adequacy of Desjardins Group's available capital based on both internal measures of economic capital and the regulatory capital requirements under the first pillar. The results of stress testing exercises are also considered in the capital adequacy assessment.

The internal measure of capital used by Desjardins Group is economic capital, namely the amount of capital that an institution must maintain, in addition to expected losses, to remain solvent over a certain horizon and at a high confidence level. For Desjardins Group, economic capital is assessed over a one-year horizon. A confidence level is selected to meet the objective of maintaining attractive credit ratings. In order to assess Desjardins Group's overall capital adequacy in relation to its risk profile, all significant risks identified through the risk logging process are assessed using internal methodologies to measure economic capital. It should be pointed out that all economic capital methodologies are validated independently to ensure that modelling input and assumptions used allow the assessed risk to be measured appropriately.

In the course of its operations, Desjardins Group is exposed to various risks. The table below provides its risk profile by business segment. Economic capital is broken down to illustrate the relative size of the risks associated with the various business segments. The distribution of risk-weighted assets shows Desjardins Group's exposure to credit risk, market risk and operational risk for the purposes of regulatory capital measurement.

Table 32 – Economic capital and risk-weighted assets by business segment and by risk type

As at December 31, 2021

(in millions of dollars and as a percentage)

Desjardins Group

Economic capital	
Banking activities	
Credit risk	49.0 %
Market risk	1.7
Operational risk	5.1
Other risks[1]	(3.1)
Total banking activities	52.7
Insurance activities	41.3
Risk related to goodwill and other intangible assets[2]	6.0

Risk-weighted assets	
Credit risk	$ 117,168
Market risk	2,874
Operational risk	14,476
RWA floor adjustment	—

Business segment	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other
Balance sheet[3]	Assets $ 306,878	Assets $ 56,891	Assets $ 16,574	Assets $ 16,742
Economic capital	Proportion of total for Desjardins Group 37.0 %	Proportion of total for Desjardins Group 24.3 %	Proportion of total for Desjardins Group 15.4 %	Proportion of total for Desjardins Group 23.3 %
	Banking activities	Banking activities	Banking activities	Banking activities
	Credit risk 68.9	Credit risk 2.2	Credit risk —	Credit risk 61.1
	Market risk 2.4	Market risk —	Market risk —	Market risk 2.8
	Operational risk 12.1	Operational risk —	Operational risk —	Operational risk —
	Other risks[4] 16.5	Other risks[4] —	Other risks[4] —	Other risks[4] 31.3
	Total banking activities 99.9	Total banking activities 2.2	Total banking activities —	Total banking activities 95.2
	Insurance activities[5] —	Insurance activities[5] 92.0	Insurance activities[5] 90.7	Insurance activities[5] —
	Risk related to goodwill and other intangible assets[2] 0.1	Risk related to goodwill and other intangible assets[2] 5.8	Risk related to goodwill and other intangible assets[2] 9.3	Risk related to goodwill and other intangible assets[2] 4.8
Risk-weighted assets	Credit risk $ 91,816	Credit risk $ 5,664	Credit risk $ 4,726	Credit risk $ 14,962
	Market risk 2,142	Market risk 43	Market risk —	Market risk 689
	Operational risk 10,580	Operational risk 204	Operational risk —	Operational risk 3,692
Risk profile	Desjardins Group is exposed to credit risk, market risk, operational risk and other risks, including in particular liquidity risk, interest rate risk, strategic risk, reputation risk and insurance risk.			

(1) Includes defined benefit plan risk, liquidity risk, interest rate risk, strategic risk, reputation risk and the diversification effect.

(2) The economic capital amount for the risk related to goodwill and other intangible assets is the carrying amount of these assets. It is considered that in a worst-case scenario for economic capital, the value of these assets would become nil.

(3) The different adjustments required to prepare the Combined Financial Statements as well as intersegment balance eliminations are classified in the asset amount of the Other category.

(4) Includes liquidity risk, interest rate risk, strategic risk and reputation risk. The risk related to other credit assets and deferred tax assets, defined benefit plan risk and the diversification effect are not allocated to business segments.

(5) For insurance operations, economic capital is the total amount of economic capital calculated for life and health and P&C insurance activities.

Again this year, numerous efforts were made throughout Desjardins Group to reinforce the implementation of sound risk management practices and to align regulatory capital requirements more closely with risk exposure. Desjardins Group is continuing to invest in improving its tools and systems and aligning them with sound practices in the industry for the principal types of risk. In recent years, the Bank for International Settlements has issued new requirements (Basel III) for the global regulation of capital standards. These new rules, in effect since January 1, 2013, have increased not only capital requirements but also risk management requirements. In addition to the changes made to the level and definition of eligible capital and the measurement of risk-weighted assets, Basel III has, under the second pillar, introduced new liquidity requirements and raised expectations for a number of management practices. Disclosure standards, which fall under the third pillar, have also been enhanced. Desjardins Group will continue its development by integrating these new regulatory requirements into its Integrated Risk Management Framework.

Additional information about capital management is presented in Section 3.2, “Capital management”.

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, which represented 58.1% of the combined assets on the balance sheet as at December 31, 2021, compared to 58.4% at the end of 2020. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as securities transactions.

As the situation of the COVID-19 pandemic has continued to evolve, Desjardins Group continues to offer solutions to support its members and clients. Government authorities have also set up a number of programs to stabilize the situation and bolster the economy. Although the future repercussions are still uncertain, the credit portfolio is being monitored to take into consideration the impacts.

In 2021, the AMF and the federal government announced changes to the minimum qualifying rate for mortgages for the purposes of qualifying borrowers. Since June 1, 2021, the minimum qualifying rate for mortgages (insured or secured by a guarantor) has been the higher of the mortgage contract rate plus 2% or 5.25% as a minimum floor. This qualifying rate will be reviewed periodically to ensure that it remains appropriate for the risks in the environment.

CREDIT RISK MANAGEMENT

Desjardins Group upholds its goal of effectively serving all its members and clients. To this end, it has developed robust distribution channels specialized by product and client. The units and components that make up these channels are considered centres of expertise and are accountable for their performance in their respective markets, including the management of credit risk. In this regard, they have latitude regarding the framework they use and the approval given and are also equipped with the corresponding management and monitoring tools and structures. To assist these units and components, Desjardins Group has set up centralized structures and procedures to ensure that its Integrated Risk Management Framework permits effective management that is also sound and prudent.

The Risk Management Executive Division has been structured so that it can effectively manage credit risk and provide credit approval, support, quantification and monitoring, and report on credit matters.

Framework

A set of policies, guidelines, standards, rules and practices govern all aspects of credit risk management at Desjardins Group. These frameworks define the responsibilities and powers of the parties involved, the limits imposed by risk appetite, the rules governing the assignment and administration of files, and the disclosure rules for Desjardins Group's exposure to credit risks.

All these frameworks govern Desjardins's credit risk management and control activities.

Assessment of regulatory capital

The AMF has authorized two credit risk assessment approaches to be included in calculating regulatory capital, namely the Standardized Approach and the Internal Ratings-Based Approach. The calculation of risk-weighted assets (RWA) is used to measure Desjardins Group's credit risk, market risk and operational risk. Desjardins has adopted the Internal Ratings-Based Approach for credit risk. In order to apply this method, Desjardins Group had to make internal estimates to calculate the probability of default (PD), loss given default (LGD) and exposure at default (EAD). Desjardins uses the Standardized Approach 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.

PD is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. Internal rating models, estimated using logistic regressions, produce risk levels monthly for retail personal and business clients as well as for some non-retail client portfolios. For retail clientele, behavioural scoring models are used, with predictive features related, in particular, to borrower and account-specific features such as account age, loan size and delinquency. These models allow proactive management of the portfolio credit risk. However, for regulatory purposes, the PD from rating models is:

- adjusted slightly upward (prudential margin) to compensate for the historical volatility of PD;
- calibrated by groups of products, for behavioural scoring models applicable to retail clientele, according to the following drivers: residential mortgages, loans and lines of credit, point-of-sale financing and credit cards.

LGD measures the size of the possible economic loss in the event of the borrower's default. It is expressed as a percentage of EAD. LGD estimates reflect average economic losses by collateral or guarantee type input into an internal history. Economic losses include direct and indirect management costs as well as any recoveries adjusted for the delay between the time of default and the time of the transaction. LGD is adjusted upward to take into account the possible effects of an economic slowdown.

EAD is an estimate of the amount outstanding for a given exposure at the time of default. For on-balance sheet exposures, EAD is equal to the balance at the time of observation. For off-balance sheet exposures, EAD includes an estimate of the additional drawdowns that may occur between the time of observation and the default. Estimates of such possible additional drawdowns reflect the internal history of the average drawdown on revolving credit products between the observation date and the time of default. Finally, as in the case of LGD, EAD of off-balance sheet exposures is adjusted upward to take into account the possible effects of an economic slowdown.

Differences between the parameters used for accounting and regulatory capital purposes

Loss allowances for expected credit losses for accounting purposes according to IFRS 9 are based primarily on the parameters used to calculate regulatory capital under the Internal-Ratings Based Approach, namely PD, LGD and EAD. However, there are certain differences, and the main ones are presented in the table below:

	Regulatory capital	IFRS 9
PD	• Estimated using a long-term average for a full economic cycle. • Projected over the next 12 months. • Definition of default associated with an instrument for which payments have been past due for over 90 days, plus certain other criteria.	• Estimated at a point in time for the next 12 months or for the lifetime of the instrument. • Based on past experience, current conditions and relevant forward-looking information. • Corresponds to the definition of default used for regulatory capital purposes.
LGD	• Based on losses that would be expected during an economic downturn. • Subject to certain regulatory floors. • Takes into account all direct and indirect recovery costs. • Discounted to account for the recovery period until default using the discount rate required for regulatory capital purposes.	• Based on past experience, current conditions and relevant forward-looking information. • Excessive conservatism and floors are excluded. • Takes into account only direct recovery costs. • Discounted to account for the recovery period until default using the initial effective interest rate.
EAD	• Corresponds to drawn amounts plus expected use of undrawn amounts before default.	• Based on the expected balance of amounts in default projected over the next 12 months or the lifetime of the instrument based on forward-looking expectations.
Discounting	• No discounting between the date of default and the reporting date.	• Discounting from the date of default to the reporting date using the initial effective interest rate.

More specifically, credit and counterparty risk exposure includes the following categories:

- Used exposure is the amount of funds invested or advanced to a member or client.
- Unused exposure is the amount of credit in loans or margins that has been authorized, but not yet used after credit conversion factors (CCF) have been applied.
- Repo-style transactions are contractual transactions between two parties, including a retrocession commitment at a pre-set price. Repo-style transactions include repurchase agreement transactions, reverse repurchase agreement transactions, and lending and borrowing of securities that are not outstanding with a central counterparty as well as these same transactions carried out with a non-qualifying central counterparty.
- Over-the-counter (OTC) derivative instruments refer to all OTC derivative financial instruments with different underlying instruments.
- Off-balance sheet exposures include guarantees, commitments, derivatives and other contractual agreements of which the total notional principal amount may not be recognized on the balance sheet.
- The net exposure is calculated after using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

As at December 31, 2021, the EAD was $387.6 billion before using CRM techniques and $357.7 billion after using CRM techniques. The complete results of the credit risk assessment by type of exposure, asset class and the calculation methods of the Standardized Approach and the Basel III Internal Ratings-Based Approach as required by the AMF are found in Table 33, “Risk Exposure by Asset Class”.

Desjardins Group uses the Internal Ratings-Based Approach on 84.8% of exposure at default. Consequently, 15.2% of exposure at default is, for now, assessed using the Standardized Approach. Desjardins Group periodically reviews portfolios subject to the Standardized Approach to determine whether the Advanced Internal Ratings-Based Approach should be applied.

Table 33 – Risk exposure by asset class (Exposure at default) [EAD])[(1)*]
As at December 31

(in millions of dollars and as a percentage)	2021 Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Nets exposure[(2)]	EAD as a % of total
Standardized Approach								
Sovereign borrowers	$ 13,368	$ —	$ —	$ —	$ 254	$ 13,622	$ 13,622	3.5 %
Financial institutions	10,135	865	229	—	91	11,320	10,835	2.9
Businesses	11,176	2,701	327	281	473	14,958	14,609	3.9
SMEs similar to other retail client exposures	241	10	—	—	5	256	251	0.1
Mortgages	333	3	—	—	—	336	336	0.1
Other retail client exposures (excluding SMEs)	1,201	1,124	—	—	5	2,330	1,782	0.6
Securitization	26	—	—	—	—	26	26	—
Equities	356	—	—	—	—	356	356	0.1
Trading portfolio	—	—	15,699	172	—	15,871	680	4.0
Subtotal - Standardized Approach	36,836	4,703	16,255	453	828	59,075	42,497	15.2
Internal Ratings-Based Approach								
Sovereign borrowers	39,399	1,314	—	66	51	40,830	74,459	10.5
Financial institutions	3,666	526	2,288	3,181	407	10,068	7,536	2.6
Businesses	74,152	7,601	5	—	1,144	82,902	70,261	21.4
SMEs similar to other retail client exposures	7,494	3,099	—	—	78	10,671	9,831	2.8
Mortgages	110,969	18,518	—	—	—	129,487	110,585	33.4
Revolving retail client exposures	10,200	21,003	—	—	—	31,203	31,203	8.1
Other retail client exposures (excluding SMEs)	10,961	734	—	—	7	11,702	10,560	3.0
Trading portfolio	—	—	11,224	432	—	11,656	807	3.0
Subtotal - Internal Ratings-Based Approach	256,841	52,795	13,517	3,679	1,687	328,519	315,242	84.8
Total	$ 293,677	$ 57,498	$ 29,772	$ 4,132	$ 2,515	$ 387,594	$ 357,739	100.0 %

(in millions of dollars and as a percentage)	2020 Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Nets exposure[(2)]	EAD as a % of total
Standardized Approach								
Sovereign borrowers	$ 9,793	$ —	$ —	$ —	$ —	$ 9,793	$ 9,793	2.7 %
Financial institutions	9,418	743	34	236	25	10,456	10,184	2.9
Businesses	8,265	1,456	1	34	881	10,637	10,191	2.9
SMEs similar to other retail client exposures	206	9	—	—	4	219	215	0.1
Mortgages	417	5	—	—	—	422	422	0.1
Other retail client exposures (excluding SMEs)	1,435	689	—	—	7	2,131	1,360	0.6
Securitization	8	—	—	—	—	8	8	—
Equities	263	—	—	—	—	263	263	0.1
Trading portfolio	—	—	12,124	238	—	12,362	633	3.4
Subtotal - Standardized Approach	29,805	2,902	12,159	508	917	46,291	33,069	12.8
Internal Ratings-Based Approach								
Sovereign borrowers	39,595	1,523	—	6	201	41,325	76,480	11.4
Financial institutions	3,560	593	1,332	2,916	277	8,678	7,115	2.4
Businesses	65,018	8,226	—	—	940	74,184	62,473	20.4
SMEs similar to other retail client exposures	7,336	3,213	—	—	81	10,630	9,801	2.9
Mortgages	102,601	16,074	—	—	—	118,675	96,848	32.6
Revolving retail client exposures	10,580	21,779	—	—	—	32,359	32,359	8.9
Other retail client exposures (excluding SMEs)	11,390	662	—	—	8	12,060	11,434	3.3
Trading portfolio	—	—	18,904	467	—	19,371	1,406	5.3
Subtotal - Internal Ratings-Based Approach	240,080	52,070	20,236	3,389	1,507	317,282	297,916	87.2
Total	$ 269,885	$ 54,972	$ 32,395	$ 3,897	$ 2,424	$ 363,573	$ 330,985	100.0 %

(1) The definition of exposure classes related to regulatory capital requirements differs from the accounting classification.
(2) After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

The following table presents exposure at default for businesses, sovereign borrowers and financial institutions. The sectors are determined according to the North American Industry Classification System.

Table 34 – Exposure at default - Businesses, sovereign borrowers and financial institutions by industry*
As at December 31

	2021						
(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[1]
Agriculture	$ 8,887	$ 554	$ —	$ —	$ 29	$ 9,470	$ 10,174
Mining, oil and gas	312	502	—	—	110	924	923
Utilities[2]	1,149	722	—	—	92	1,963	1,963
Construction	4,732	1,275	—	—	275	6,282	6,280
Manufacturing	4,348	1,146	—	—	264	5,758	5,785
Wholesale trade	1,963	442	—	—	113	2,518	2,529
Retail trade	3,256	945	—	—	25	4,226	4,236
Transportation	1,225	599	—	—	118	1,942	1,947
Information industry	207	584	—	—	52	843	847
Finance and insurance	11,514	988	2,849	3,528	700	19,579	16,415
Real estate	46,319	1,646	—	—	93	48,058	48,561
Professional services	975	460	—	—	81	1,516	1,525
Management of companies	830	52	—	—	28	910	863
Administrative services	384	63	—	—	16	463	465
Education	1,033	171	—	—	7	1,211	1,212
Health care	4,524	280	—	—	17	4,821	4,828
Arts and entertainment	687	124	—	—	19	830	837
Accommodation	1,415	41	—	—	1	1,457	1,470
Other services	872	141	—	—	16	1,029	1,033
Public agencies[2]	55,394	1,559	—	—	330	57,283	76,311
Other businesses	1,870	713	—	—	34	2,617	3,118
Total business loans	**$ 151,896**	**$ 13,007**	**$ 2,849**	**$ 3,528**	**$ 2,420**	**$ 173,700**	**$ 191,322**

	2020						
(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[1]
Agriculture	$ 8,040	$ 557	$ —	$ —	$ 21	$ 8,618	$ 9,175
Mining, oil and gas	362	456	—	—	77	895	896
Utilities[2]	980	698	—	—	56	1,734	1,734
Construction	3,559	1,323	—	—	207	5,089	5,096
Manufacturing	4,075	1,253	—	—	237	5,565	5,600
Wholesale trade	1,442	414	—	—	81	1,937	1,950
Retail trade	2,903	1,036	—	—	24	3,963	4,003
Transportation	1,182	809	—	—	123	2,114	2,125
Information industry	282	612	—	—	43	937	940
Finance and insurance	9,913	851	1,367	3,192	837	16,160	14,136
Real estate	39,896	1,556	—	—	68	41,520	41,822
Professional services	616	428	—	—	74	1,118	1,129
Management of companies	640	48	—	—	35	723	667
Administrative services	324	57	—	—	31	412	415
Education	1,226	163	—	—	7	1,396	1,398
Health care	3,975	262	—	—	17	4,254	4,282
Arts and entertainment	669	125	—	—	16	810	822
Accommodation	1,392	58	—	—	1	1,451	1,502
Other services	780	109	—	—	15	904	924
Public agencies[2]	52,006	1,630	—	—	213	53,849	75,927
Other businesses	1,387	96	—	—	141	1,624	1,693
Total business loans	$ 135,649	$ 12,541	$ 1,367	$ 3,192	$ 2,324	$ 155,073	$ 176,236

(1) After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.
(2) A reclassification has been made from the “Utilities” sector to the "Public administrations” sector.

Credit granting

The Risk Management Executive Division assigns approval limits to the various units and components, including the caisse network. The units and components are primarily responsible for approving the files originating from them. However, the Risk Management Executive Division approves any commitments exceeding the approval limits assigned to them. Its approval responsibilities and the depth of the analyses required depend on product features as well as the complexity and extent of transaction risk.

The Risk Management Executive Division also sets commitment limits, namely the maximum commitment that can be granted to a borrower and the related entities. Risk-sharing arrangements can also be made with other financial institutions through banking syndicates.

Retail loans

Retail loan portfolios consist of residential mortgages, personal loans and lines of credit, point-of-sale financing and credit card loans. The Internal Ratings-Based Approach for credit risk is currently used for most of these portfolios.

In general, credit decisions are based on risk ratings generated using predictive credit scoring models. Credit adjudication and portfolio management methodologies are designed to ensure consistent granting of credit and early identification of problem loans. Desjardins Group's automated risk rating system measures the creditworthiness of each member and client on a monthly basis. This process ensures the quick, valid identification and management of problem loans.

The table below presents PD tranches in relation to risk levels.

Table 35 – Probabilities of default of retail clients by risk level*

Risk levels	PD tranches
Excellent	**0.00% to 0.14%**
Very low	**0.15% to 0.49%**
Low	**0.50% to 2.49%**
Moderate	**2.50% to 9.99%**
High	**10.00% to 99.99%**
Default	**100.00%**

Monitoring performance of credit risk assessment models using the Internal Ratings-Based Approach

For portfolios assessed using the Internal Ratings-Based Approach, the Risk Management Executive Division is responsible for the design, development and performance monitoring of models, in accordance with various guidelines on the subject.

Credit risk assessment models are developed and tested by specialized teams supported by the business units and related credit risk management units concerned by the model.

The performance of credit risk parameters is analyzed on an ongoing basis through back testing. This testing is performed on out-of-time and out-of-sample inputs and aims to assess parameter robustness and adequacy. Where a statistically significant overage is observed, prudential upward adjustments are made to reflect an unexpected trend in a segment in particular. These adjustments, allowing a more adequate risk assessment related to the transactions and borrowers, are validated and approved by the units responsible.

More specifically for PD, such back testing takes the form of various statistical tests to assess the following criteria:
- the model's discriminating power;
- the calibration of the model;
- the stability of model results.

Independent validations are also performed on credit risk assessment models. The most critical aspects to be validated are factors allowing appropriate risk classification by level, the adequate quantification of exposures and the use of assessment techniques taking external factors into consideration, such as economic conditions and the credit situation and, lastly, alignment with internal policies and regulatory provisions.

The model approval procedure and reporting are regulated by different bodies depending on the type and size of the approval in question. As a result, new models and significant changes to existing models are approved by the next higher committee than the one that is informed of the annual model performance monitoring results and authorizes any resulting recommendations.

Loans to businesses, sovereign borrowers and financial institutions

These loans include retail loans, loans to sovereign borrowers and public administrations, loans to the housing sector and loans to other businesses.

The following table presents the internal rating scale and the corresponding ratings of external agencies.

Table 36 – Probabilities of default of businesses, financial institutions and sovereign borrowers by risk level*

Risk level	Desjardins ratings	PD tranches			S&P ratings	Moody's ratings
		Businesses	Financial institutions	Sovereign brorrowers		
Acceptable risk						
Investment grade	[1 – 4]	**0.00% to 0.49%**	**0.00% to 0.26%**	**0.00% to 0.14%**	AAA – BBB-	Aaa – Baa3
Other than investment grade	[4.5 – 7]	**0.50% to 6.18%**	**0.27% to 5.47%**	**0.15% to 2.06%**	BB+ – B-	Ba1 – B3
Under watch	[7.5 – 9.75]	**6.19% to 99.99%**	**5.48% to 99.99%**	**2.07% to 99.99%**	CCC+ – CC	Caa1 – Ca
Default	10	**100.00%**	**100.00%**	**100.00%**	D	C

Retail clients, small residential rental properties and small commercial rental properties

Credit scoring systems based on proven statistics are used to assess the risk of credit activities involving these client bases.

These systems were designed using the behavioural history of borrowers with a profile or characteristics similar to those of the applicant in order to estimate the transaction risk.

Such systems are used for initial approval as well as for the monthly reassessment of borrowers' risk levels. Ongoing updates allow for proactive management of the credit risk of portfolios.

The performance of these systems is periodically analyzed, and adjustments are made regularly to measure transaction and borrower risk as adequately as possible. The units responsible for developing scoring systems and the underlying models ensure that adequate controls are set up to monitor their stability and performance.

Other segments

The granting of credit is based on the detailed analysis of a file. Each borrower's financial, market and management characteristics are analyzed using a credit risk assessment model designed from internal and external historical data, taking into account the size of the business, the special characteristics of the main industry in which the borrower operates, and the performance of comparable businesses.

In order to determine the model to be used, a segment is assigned to each borrower based on the borrower's main industry and some other features. A quantitative analysis based on financial data is supplemented by an assessment of qualitative factors by the person in charge of the file. Once this analysis is finished, each borrower is assigned a credit risk rating representing the borrower's risk level.

The use of scoring results has been expanded to other risk management and governance activities such as establishing analysis requirements and the required decision-making level, determining the different types of follow-up activities, as well as assessing and disclosing portfolio risk quality.

Credit risk mitigation

When a loan is granted to a member or client, Desjardins Group may obtain collateral to mitigate the borrower's credit risk. Such collateral is normally in the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities, equities, etc.) or cash.

For some portfolios, programs offered by various organizations, in particular Canada Mortgage and Housing Corporation (CMHC) and *La Financière agricole du Québec*, are used in addition to customary collateral. As at December 31, 2021, guaranteed or insured loans represented 20.6% of Desjardins Group's total gross loans, compared to 22.6% at the end of 2020. As a result of these additional measures, the residual credit risk is minimal for loan portfolios with such collateral. In order for enhanced credit offered by a guarantor to be considered a credit risk mitigation technique, the guarantor must meet certain specific criteria to allow this.

Frameworks adapted to each type of collateral contain the requirements for appraising collateral, its legal validity and follow-up. The type of collateral as well as the value of the assets encumbered by such collateral are established on the basis of a credit risk assessment of the transaction and the borrower, depending in particular on the borrower's PD. Such an assessment is required whenever any new loan is granted in accordance with Desjardins Group's frameworks. When an outside professional, such as a chartered appraiser or an environmental assessment firm, is required to determine the value of the collateral, the selection of the professional and the mandate must comply with the necessary requirements in the frameworks. Considering that the collateral is used to recover all or part of the unpaid balance of a loan in the event of the borrower's default to make payment, the quality, the legal validity and the ease with which the collateral can be realized are determining factors in obtaining a loan.

In order to ensure that the value of the collateral remains adequate, it must be periodically updated. The frequency of reappraisals depends in particular on the risk level, the type of collateral or certain triggering events such as a deterioration in the borrower's financial position or the sale of an asset held as collateral. The decision-making level is responsible for approving the updated value of the collateral, if applicable.

During the year ended December 31, 2021, some practices and procedures, as well as the control environment, were reviewed for the purpose of enhancing the management and monitoring of the risks associated with taking, inspecting and realizing on the collateral held. The quality of assets held as collateral did not change significantly.

Loan debt relief

In managing loan portfolios, Desjardins Group may, for financial or legal reasons, change the original terms and conditions of a loan granted to a borrower experiencing financial difficulty and therefore prevented from discharging his obligations. Such changes may include an interest rate adjustment, the deferral or extension of principal and interest payments, or the waiver of a tranche of the principal or interest.

On account of the current pandemic, exceptional relief measures have been put forward to support members and clients and mitigate the impact of this crisis. Loans with debt relief totalled $3,077 million as at December 31, 2021, compared to $3,613 million at the end of 2020. Of these loans, $97 million were classified as gross credit-impaired loans as at December 31, 2021, compared to $116 million as at December 31, 2020.

File monitoring and management of higher risk files

Credit practices govern the monitoring of loans. Files are reassessed on a regular basis. Requirements regarding review frequency and depth increase with a higher PD or the size of potential losses on receivables. The officer in charge of the file monitors high risk loans using various intervention methods. A positioning, which must be authorized by the appropriate decision-making level, is required to be performed for files with irregularities or increased risk as well as for files in default.

The unit in charge of the financing is primarily responsible for monitoring files and for managing higher risks. However, certain tasks or files may be outsourced to the Federation's intervention units specializing in turnarounds or recovery. Supervision reports produced and submitted periodically to the appropriate bodies make it possible to monitor the position of high-risk borrowers as well as changes in the corrective measures put in place. In addition, a report accounting for credit activities, covering changes in credit quality and financial issues, is submitted quarterly to the management of the component concerned.

Default situations

Identification of default

In accordance with the AMF guideline on adequacy of capital base standards, the following two criteria are used to identify a default situation:

- Quantitative criterion: A borrower's payments are past due by more than 90 days.
- Qualitative criterion: Desjardins Group believes that a borrower is unlikely to repay his debt in full unless the appropriate action is taken, such as realization on a collateral or guarantee, if any.

These criteria are applicable to all clients.

Impact of default

The impact of a default consists of associating the identified default on exposure with all the same borrower's commitments as well as with other entities in its borrower group. Such impacts vary according to the type of client base.

For individuals, barring exceptions, Desjardins Group does not pass on the default.

For retail businesses, small residential rental properties and small commercial rental properties, the default is passed on only to the borrower's exposures to commitments with the same entity within the scope of Desjardins Group. For the application of this criterion, the caisse network is considered one and the same entity.

For non-retail businesses, public administrations, financial institutions and sovereign borrowers, the default is entirely passed on through all the borrower's commitments in the scope of Desjardins Group. The default may also be passed on to other entities forming part of its borrower group according to a case-by-case analysis.

Removing default

When default is recognized in terms of the quantitative criterion, it may be removed immediately for clients that are retail businesses, small residential rental properties, small commercial rental properties and individuals, subject to certain conditions stipulated in the credit risk guidelines. If not, it is generally removed within a minimum of three to six months if certain conditions set out in the credit risk guidelines are met.

Monitoring of portfolio and reporting

The Risk Management Executive Division oversees the management of all risks to which the organization is exposed, including credit risks. The operating methods require ongoing monitoring of the credit risks to which Desjardins Group is exposed, as well as periodic reporting on portfolio quality to the appropriate bodies.

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

The following chart presents the distribution of loans and acceptances by borrower category. Over half of the portfolio consists of residential mortgages, for which, statistically, the loss rate is lower.

Breakdown of loans and acceptances
As at December 31, 2021
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2021, the main sectors of the business loan portfolio were agriculture, real estate and construction. They accounted for 53.0% of the business loan portfolio, which amounted to $54.2 billion. As at December 31, 2020, the main industries were agriculture, real estate and manufacturing.

Table 37– Loans by borrower category and by industry
As at December 31

(in millions of dollars)	2021		2020		2019	
	Gross loans	**Gross credit-impaired loans**	Gross loans	Gross credit-impaired loans	Gross loans	Gross credit-impaired loans
Residential mortgages	**$ 149,695**	**$ 209**	$ 136,208	$ 374	$ 126,757	$ 326
Consumer, credit card and other personal loans	**24,386**	**148**	25,310	212	27,022	276
Public agencies[1]	**3,246**	**—**	3,017	—	3,319	—
Business						
Agriculture	**10,534**	**108**	9,738	125	9,971	147
Mining, oil and gas	**338**	**34**	389	44	358	2
Utilities	**905**	**—**	720	—	676	—
Construction	**5,017**	**92**	3,904	117	3,485	134
Manufacturing	**4,686**	**90**	4,324	111	4,257	61
Wholesale trade	**2,097**	**16**	1,568	35	1,663	11
Retail trade	**3,744**	**64**	3,389	73	3,274	36
Transportation	**1,424**	**32**	1,359	34	1,531	22
Information industry	**239**	**4**	312	14	388	2
Finance and insurance	**945**	**1**	855	1	1,723	—
Real estate	**13,162**	**56**	10,573	43	8,862	19
Professional services	**1,285**	**4**	887	8	964	4
Management of companies	**1,148**	**12**	993	9	976	6
Administrative services	**397**	**24**	353	13	354	16
Education	**254**	**5**	255	2	287	2
Health care	**4,036**	**66**	3,666	35	3,719	22
Arts and entertainment	**808**	**16**	786	19	822	14
Accommodation	**1,902**	**103**	1,834	48	1,755	31
Other services	**1,195**	**4**	1,133	6	1,112	10
Other businesses	**38**	**—**	960	—	492	1
Total business loans	**$ 54,154**	**$ 731**	$ 47,998	$ 737	$ 46,669	$ 540
Total loans	**$ 231,481**	**$ 1,088**	$ 212,533	$ 1,323	$ 203,767	$ 1,142

(1) Including loans to governments.

Loans by geographic distribution are presented in the following table. Desjardins Group's operations are highly concentrated in Québec. Therefore, as at December 31, 2021, the loans granted by Desjardins to members and clients in Québec accounted for 91.2% of the total loan portfolio, compared to 91.0% as at December 31, 2020.

Table 38 – Loans by geographic distribution
As at December 31

(in millions of dollars)	2021		2020		2019	
	Gross loans	**Gross credit-impaired loans**	Gross loans	Gross credit-impaired loans	Gross loans	Gross credit-impaired loans
Canada						
Québec	**$ 211,082**	**$ 940**	$ 193,489	$ 1,133	$ 183,835	$ 947
Other Canadian provinces	**20,118**	**148**	18,639	190	19,024	192
Total – Canada	**$ 231,200**	**$ 1,088**	$ 212,128	$ 1,323	$ 202,859	$ 1,139
Other countries	**281**	**—**	405	—	908	3
Total	**$ 231,481**	**$ 1,088**	$ 212,533	$ 1,323	$ 203,767	$ 1,142

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

Table 39 – Gross loans past due bu no credit-impaired
As at December 31

(in millions of dollars)	2021				
	1 to 29 days	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 1,352**	**$ 114**	**$ 20**	**$ —**	**$ 1,486**
Consumer, credit card and other personal loans	**498**	**132**	**48**	**36**	**714**
Business and government	**171**	**15**	**14**	**—**	**200**
	$ 2,021	**$ 261**	**$ 82**	**$ 36**	**$ 2,400**

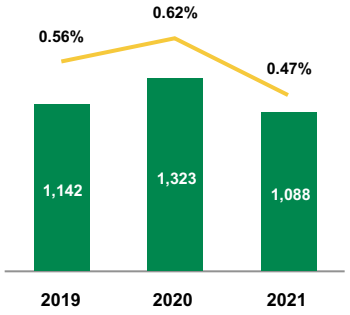
(in millions of dollars)	2020				
	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 1,305	$ 150	$ 31	$ 1	$ 1,487
Consumer, credit card and other personal loans	551	138	55	46	790
Business and government	192	98	14	1	305
	$ 2,048	$ 386	$ 100	$ 48	$ 2,582

According to Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements, the allowance for expected credit losses on loans as at December 31, 2021 stood at $970 million, down $142 million compared to December 31, 2020.

This decrease in the allowance for credit losses was essentially due to the improved macroeconomic outlook and credit quality of borrowers in 2021 and, to a lesser extent, to a refinement of certain risk parameters in the fourth quarter of 2021. However, this was slightly offset by the impact of higher volumes on several portfolios since the beginning of the year. For more information on the methodology and assumptions used to estimate the loss allowance for expected credit losses, refer to Note 2, "Significant accounting policies", and Note 7, "Loans and allowance for credit losses", to the Combined Financial Statements.

Gross credit-impaired loans outstanding are the loans included in Stage 3 of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.47% as at December 31, 2021, in contrast with 0.62% as at December 31, 2020. The allowance for credit losses on credit-impaired loans totalled $279 million as at December 31, 2021, for a provisioning rate on credit-impaired loans of 25.6%.

Gross credit-impaired loans and gross credit-impaired loan ratios
(in millions of dollars and as a percentage)



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

Table 40 – Gross credit-impaired loans by borrower category
As at December 31

(in millions of dollars and as a percentage)	2021				2020		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 credit-impaired loans	Net credit-impaired loans
	Gross loans and acceptances	Gross credit-impaired loans[1]						
Residential mortgages	$ 149,695	$ 209 0.14 %	$ 20	$ 189	$ 374	$ 345	$ 326	$ 302
Consumer, credit and other personal loans	24,386	148 0.61	80	68	212	86	276	133
Business and government	57,668	731 1.27	179	552	737	556	540	436
Total	$ 231,749	$ 1,088 0.47 %	$ 279	$ 809	$ 1,323	$ 987	$ 1,142	$ 871

[1] For more information on the gross credit-impaired loans/gross loans and acceptances ratio, which is a supplemental financial measure, see the Glossary on pages 117 to 124.

Table 41 – Change in gross credit-impaired loans
For the years ended December 31

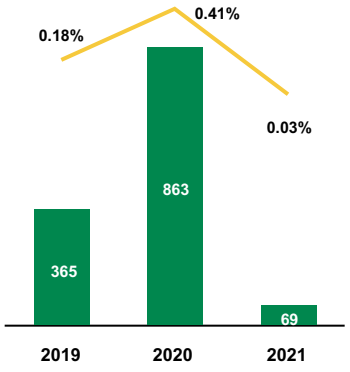
(in millions of dollars)	2021	2020	2019
Gross credit-impaired loans at the beginning loans	$ 1,323	$ 1,142	$ 1,042
Gross loans that became credit-impaired during the year	2,412	2,408	2,326
Loans returned to unimpaired status	(2,467)	(1,870)	(1,851)
Write-offs and recoveries	(216)	(396)	(401)
Other changes	36	39	26
Gross credit-impaired loans at the end of the year	$ 1,088	$ 1,323	$ 1,142

Desjardins Group's provision for credit losses totalled $69 million for 2021, down $794 million compared to 2020. This decline mainly reflects the improved macroeconomic outlook and the credit quality of borrowers, whereas the 2020 provision reflected the significant negative impact of a deteriorating economic outlook as a result of the COVID-19 pandemic. The 2021 provision for credit losses also reflects lower net write-offs compared to 2020, in particular in the credit card portfolio.

The credit loss provisioning rate was 0.03% at the end of fiscal 2021, compared to 0.41% recorded as at December 31, 2020.

Additional information about the credit risk related to the recognition and measurement of the allowance for credit losses is presented in Note 2, "Significant accounting policies", and Note 7, "Loans and allowance for credit losses", to the Combined Financial Statements.

Provision for credit losses and credit loss provisioning rate[1]
(in millions of dollars and as a percentage)



[1] For more information on supplemental financial measures, see the Glossary on pages 117 to 124.

The following tables are presented to meet the disclosure requirements of the *Residential Hypothecary Lending Guideline* issued by the AMF. They present the residential mortgage portfolio of the caisse network in Québec and the Caisse Desjardins Ontario Credit Union Inc. by product type and geographic area, as well as the corresponding loan-to-value ratios.

Table 42 – Residential mortgage portfolio[1][2]

Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[3]

As at December 31

	2021							
(in millions of dollars and as a percentage)	Guaranteed or insured loans[4]		Uninsured loans[5]		Home equity lines of credit[6]		Total	
Québec	$ 27,650	97.4 %	$ 82,443	95.3 %	$ 5,463	94.7 %	$ 115,556	95.8 %
Ontario	724	2.5	4,029	4.7	304	5.3	5,057	4.2
Other[7]	20	0.1	36	—	1	—	57	—
All geographic areas	**$ 28,394**	**100.0 %**	**$ 86,508**	**100.0 %**	**$ 5,768**	**100.0 %**	**$ 120,670**	**100.0 %**

	2020							
(in millions of dollars and as a percentage)	Guaranteed or insured loans[4]		Uninsured loans[5]		Home equity lines of credit[6]		Total	
Québec	$ 28,615	97.1 %	$ 71,622	95.3 %	$ 5,316	94.7 %	$ 105,553	95.7 %
Ontario	819	2.8	3,492	4.6	300	5.3	4,611	4.2
Other[7]	30	0.1	101	0.1	1	—	132	0.1
All geographic areas	$ 29,464	100.0 %	$ 75,215	100.0 %	$ 5,617	100.0 %	$ 110,296	100.0 %

	2019							
(in millions of dollars and as a percentage)	Guaranteed or insured loans[4]		Uninsured loans[5]		Home equity lines of credit[6]		Total	
Québec	$ 27,339	97.1 %	$ 64,328	95.7 %	$ 5,975	94.9 %	$ 97,642	96.0 %
Ontario	814	2.9	2,806	4.2	323	5.1	3,943	3.9
Other[7]	9	—	44	0.1	2	—	55	0.1
All geographic areas	$ 28,162	100.0 %	$ 67,178	100.0 %	$ 6,300	100.0 %	$ 101,640	100.0 %

(1) Represents all loans secured by a property with up to four units. Residential mortgages on properties with up to four units held outside of the caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc. totalled $151 million as at December 31, 2021. They totalled $131 million as at December 31, 2020 and $132 million as at December 31, 2019.

(2) Data as at December 31, 2019 have been restated to conform to the presentation for the current period.

(3) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is instead subject to the Financial Services Regulatory Authority of Ontario rules.

(4) Term mortgages and amortized portion of home equity lines of credit for which Desjardins Group has a full or partial guarantee or insurance from a mortgage insurer (public or private) or a government.

(5) Conventional term mortgages including the conventional amortized portion of home equity lines of credit and amortized consumer loans secured by a property with up to four units.

(6) Unamortized portion of home equity lines of credit and consumer lines of credit secured by a property with up to four units.

(7) Represents the geographic areas of Canada other than Québec and Ontario.

Table 43 – Average loan-to-value (LTV) ratio for uninsured residential mortgage loans granted during the quarter[1]

Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[2]

For the years ended December 31

	2021			2020			2019		
(average loan to value ratio, by geographic area)	Uninsured loans[3]	Home equity lines of credit and related[4]	Total uninsured	Uninsured loans[3]	Home equity lines of credit and related[4]	Total uninsured	Uninsured loans[3]	Home equity lines of credit and related[4]	Total uninsured
Québec	**65.9 %**	**70.7 %**	**69.5 %**	67.1 %	71.4 %	70.1 %	67.4 %	70.6 %	69.6 %
Ontario	**69.0**	**69.0**	**69.0**	68.5	69.4	69.0	70.5	69.3	69.8
Other[5]	**72.3**	**79.9**	**75.7**	70.8	73.9	72.5	70.2	75.3	73.2
All geographic areas	**66.1 %**	**70.7 %**	**69.5 %**	67.2 %	71.3 %	70.1 %	67.6 %	70.6 %	69.7 %

(1) Data as at December 31, 2019 have been restated to conform to the presentation for the current period.

(2) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is subject instead to the Financial Services Regulatory Authority of Ontario rules.

(3) Conventional term mortgages and amortized consumer loans secured by a property with up to four units.

(4) Home equity lines of credit including related amortized loans and consumer lines of credit secured by a property with up to four units.

(5) Represents the geographic areas of Canada other than Québec and Ontario.

The following table presents Desjardins Group's residential mortgage portfolio by remaining amortization period.

Table 44 – Remaining amortization period for residential mortgage loans[1]
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[2]
As at December 31

(in millions of dollars in gross loans and as a percentage of the total by remaining amortization category)	Total amortized loans					
	2021		2020		2019	
0 to 10 years	$ 3,615	3.1 %	$ 3,293	3.1 %	$ 2,940	3.1 %
10 to 20 years	22,472	19.6	20,024	19.1	17,825	18.7
20 to 25 years	78,666	68.5	71,785	68.6	66,156	69.4
25 to 30 years	9,010	7.8	8,187	7.8	6,867	7.2
30 to 35 years	895	0.8	1,108	1.1	1,259	1.3
35 years and more	244	0.2	282	0.3	293	0.3
All amortization periods	**$ 114,902**	**100.0 %**	$ 104,679	100.0 %	$ 95,340	100.0 %

(1) Data as at December 31, 2019 have been restated to conform to the presentation for the current period.
(2) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is subject instead to the Financial Services Regulatory Authority of Ontario rules.

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.

Desjardins Group is exposed to counterparty and issuer risk through the matching transactions of its traditional banking activities, its trading activities and the investment portfolios of its insurance companies. According to its classification, each counterparty or issuer is assigned a risk rating based on internal models or the ratings issued by rating agencies (DBRS, Fitch, Moody's and Standard & Poor's) recognized by the AMF and the OSFI. The Risk Management Executive Division establishes an exposure limit for a counterparty or issuer after measuring its risk rating. Desjardins Group's exposure limits are established on the basis of its risk appetite framework and its Tier 1A capital. These amounts are then allocated to various components based on their needs. Limits may also apply to certain financial instruments, if considered relevant.

A large proportion of Desjardins Group's risk 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 its U.S. sovereign debt holdings and its commitments to major international banks, Desjardins Group's exposure to foreign entities is low. Growth in Desjardins Group's securities portfolio increases exposure to economic losses when credit spreads widen. This exposure impacts net income.

In its derivative financial instrument and securities lending transactions, which include repurchase agreements, reverse repurchase agreements and securities borrowing and lending, Desjardins Group is exposed to counterparty credit risk.

Desjardins Group uses derivative financial instruments primarily for asset and liability management purposes. Derivative financial instruments are contracts whose value is based on an underlying asset, such as interest rates, exchange rates or financial indices. The vast majority of Desjardins Group's derivative financial instruments are traded over the counter with a counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, and currency, interest rate and stock index options. Other instruments are exchange-traded contracts, consisting mainly of futures and swaps traded through a clearing house. They are standard contracts executed on established stock exchanges or well-capitalized clearing houses for which the counterparty risk is very low. The proportion of contracts via clearing houses increased in 2021 because existing and forthcoming regulations are definitely in favour of clearing.

The credit risk associated with derivative financial instruments traded over the counter refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins. This risk normally represents a small fraction of the notional amount. It is quantified using two measurements, namely replacement cost and the credit risk equivalent. Replacement cost refers to the current replacement cost of all contracts with a positive fair value. Credit risk equivalent is equal to the sum of this replacement cost and the potential credit exposure. Desjardins Group limits counterparty risk exposure by entering into master agreements called International Swaps and Derivatives Association (ISDA) agreements, which define the terms and conditions for the transactions. These agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreement in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold. The value of these different measures and the impact of the master netting agreements is presented in Note 20, "Derivative financial instruments and hedging activities", to the Combined Financial Statements.

Desjardins Group also limits its risk by doing business with counterparties that have a high credit rating. Note 20, "Derivative financial instruments and hedging activities", to the Combined Financial Statements presents derivative financial instruments by credit risk rating and type of counterparty. Based on replacement cost, this note indicates that substantially all of Desjardins Group's counterparties have credit ratings ranging from AAA to A-.

Securities lending transactions are regulated by standard industry agreements. To mitigate its credit risk exposure, Desjardins Group also requires a percentage of collateralization (a pledge) on these transactions. Furthermore, some of these transactions are settled through a clearing house.

Desjardins Group accepts from its counterparties only financial collateral that complies with the eligibility criteria set out in its policies. These criteria allow for the timely realization of collateral, if necessary, in the event of default. The types of collateral received and pledged by Desjardins Group are mainly cash and government securities.

Additional information about credit risk is presented in Note 5, "Offsetting financial assets and liabilities", Note 20, "Derivative financial instruments and hedging activities", and Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

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 added to 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 its trading activities and non-trading activities. The principal market risks associated with non-trading activities are also indicated in the table.

Table 45 – Link between market risk and the Combined Balance Sheets
As at December 31, 2021

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk		Net exposed to market risk	Principal risk associated with non-trading activities
		Trading activities[1][2]	Non-trading activities[3]		
Assets					
Cash and deposits with financial institutions	$ 16,328	$ —	$ 16,328	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	39,772	11,276	28,496	—	Interest rate
Securities at fair value through other comprehensive income	53,286	—	53,286	—	Interest rate, FX, price
Securities at amortized cost	41	—	41	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	12,019	10,909	1,110	—	Interest rate
Net loans and acceptances	230,779	—	230,779	—	Interest rate
Segregated fund net assets	22,804	—	22,804	—	Interest rate, price
Derivative financial instruments	5,828	377	5,451	—	Interest rate, FX, price
Other assets	16,228	—	—	16,228	
Total assets	$ 397,085	$ 22,562	$ 358,295	$ 16,228	
Liabilities and equity					
Deposits	$ 238,355	$ —	$ 238,355	$ —	Interest rate
Commitments related to securities sold short	11,342	10,764	578	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	31,177	28,312	2,865	—	Interest rate
Derivative financial instruments	5,500	290	5,210	—	Interest rate, FX, price
Insurance contract liabilities	34,762	—	34,762	—	Interest rate
Segregated fund net liabilities	22,796	—	22,796	—	Interest rate, price
Other liabilities	17,667	—	1,048	16,619	Interest rate
Subordinated notes	1,960	—	1,960	—	Interest rate
Total equity	33,526	—	—	33,526	
Total liabilities and equity	$ 397,085	$ 39,366	$ 307,574	$ 50,145	

See next page for footnotes.

Table 45 – Link between market risk and the Combined Balance Sheets (continued)

As at December 31, 2020

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk		Net exposed to market risk	Principal risk associated with non-trading activities
		Trading activities[1][2]	Non-trading activities[3]		
Assets					
Cash and deposits with financial institutions	$ 12,126	$ —	$ 12,126	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	34,960	8,170	26,790	—	Interest rate
Securities at fair value through other comprehensive income	52,679	—	52,679	—	Interest rate, FX, price
Securities at amortized cost	29	—	29	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	9,658	8,842	816	—	Interest rate
Net loans and acceptances	211,749	—	211,749	—	Interest rate
Segregated fun net assets	19,093	—	19,093	—	Interest rate, price
Derivative financial instruments	5,820	405	5,415	—	Interest rate, FX, price
Other assets	15,921	—	—	15,921	
Total assets	$ 362,035	$ 17,417	$ 328,697	$ 15,921	
Liabilities and equity					
Deposits	$ 225,236	$ —	$ 225,236	$ —	Interest rate
Commitments related to securities sold short	9,353	9,352	1	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	19,152	12,508	6,644	—	Interest rate
Derivative financial instruments	4,884	548	4,336	—	Interest rate, FX, price
Insurance contract liabilities	34,827	—	34,827	—	Interest rate
Segregated fund net liabilities	19,089	—	19,089	—	Interest rate, price
Other liabilities	17,738	—	3,107	14,631	Interest rate
Subordinated notes	1,493	—	1,493	—	Interest rate
Equity	30,263	—	—	30,263	
Total liabilities and equity	$ 362,035	$ 22,408	$ 294,733	$ 44,894	

(1) Trading activity positions for which the risk measure is VaR and SVaR.
(2) The amounts reported in trading activities reflect intercompany eliminations.
(3) 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 specify the risk factors to be measured and the limit for each of these factors as well as the total. Tolerance limits are also provided for various stress tests. 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 that is exceeded is immediately analyzed and 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 time interval 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 scaled up to 10 days for the purpose of 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, the aggregate SVaR takes into account the historical data for a crisis period of one year, which includes the 2008 financial crisis. However, a ratio of aggregate SVaR to VaR is calculated on a daily basis to ensure that the stress period selected is still adequate. In addition, this stress period is reviewed periodically, as well as stress testing.

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 aggregate VaR and the aggregate SVaR for Desjardins Group's trading activities by risk category as well as the incremental risk charge (IRC) are presented in the table below. Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four market 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 AMF standard.

Table 46 – Market risk measures for the trading portfolio*

(in millions of dollars)	As at December 31, 2021	For the year ended December 31, 2021			As at December 31, 2020	For the year ended December 31, 2020		
		Average	High	Low		Average	High	Low
Equities	**$ 0.4**	**$ 0.5**	**$ 1.2**	**$ 0.1**	$ 0.9	$ 1.6	$ 3.7	$ 0.2
Foreign exchange	**0.2**	**0.6**	**3.3**	**0.1**	0.6	0.9	2.7	0.1
Interest rate	**3.4**	**4.0**	**7.2**	**2.2**	3.7	4.5	7.7	2.1
Specific interest rate risk[1]	**3.1**	**2.1**	**4.5**	**1.2**	3.2	3.2	7.7	0.8
Diversification effect[2]	**(3.7)**	**(3.0)**	**N/A[3]**	**N/A[3]**	(4.2)	(5.0)	N/A.[3]	N/A.[3]
Aggregate VaR	**$ 3.4**	**$ 4.2**	**$ 8.0**	**$ 2.4**	$ 4.2	$ 5.2	$ 8.1	$ 2.1
Aggregate SVaR	**$ 7.7**	**$ 12.7**	**$ 25.3**	**$ 6.6**	$ 7.6	$ 15.2	$ 28.9	$ 6.6
Incremental risk charge (IRC)	**$ 72.5**	**$ 71.7**	**$ 108.9**	**$ 50.0**	$ 56.6	$ 52.2	$ 86.8	$ 24.2

(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 the specific risk from the general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of the 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) Refers to 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 types of market risk can occur on different dates. It is not relevant to calculate a diversification effect.

The average of the trading portfolio's aggregate VaR was $4.2 million for 2021, down $1.0 million compared to 2020. As for the average of the aggregate SVaR, it was $12.7 million for 2021, down $2.5 million compared to 2020. The average of the incremental risk charge was $71.7 million, up $19.5 million compared to 2020.

It should be noted that the decrease in Desjardins Group's average aggregate VaR in 2021 was essentially due to the fact that market data were significantly less volatile in 2020.

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:

- These measures do not allow future losses to be predicted if the 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 limits, the process of monitoring trading activities using VaR is supplemented by stress testing and by establishing limits in this regard.

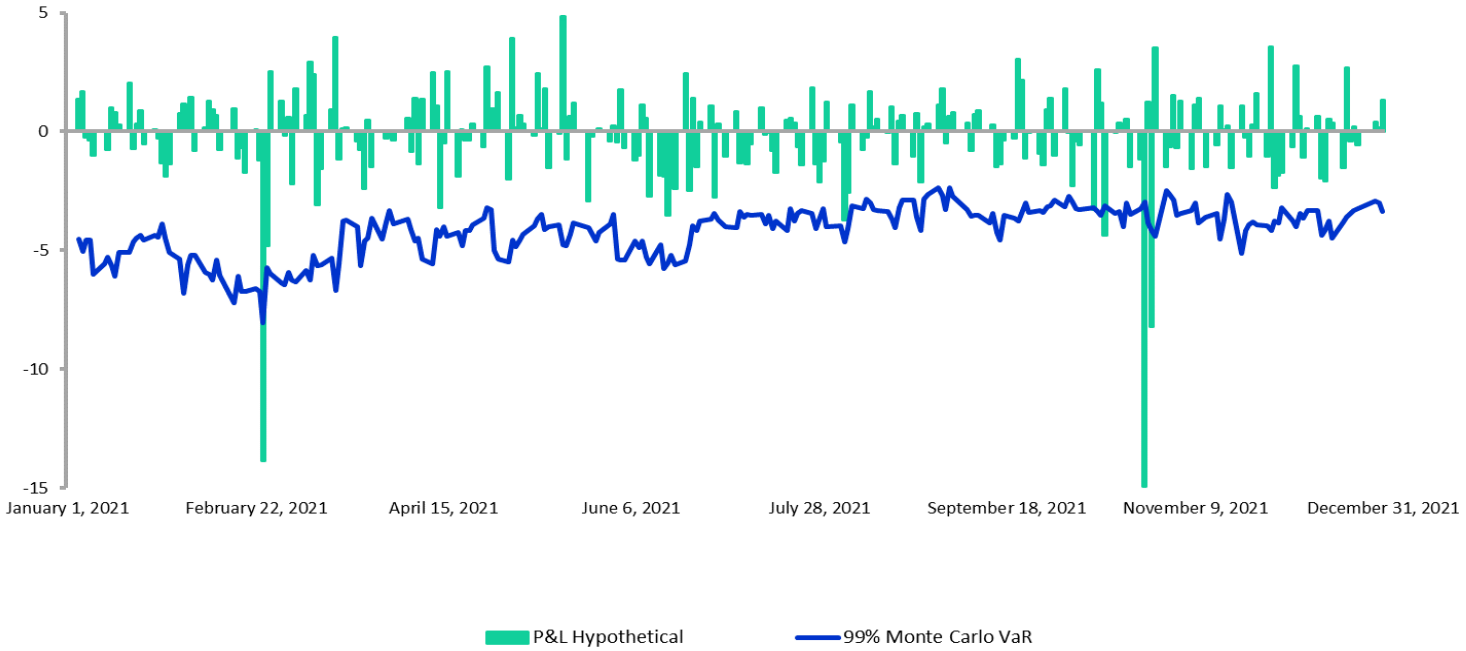
Back testing

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 chart presents changes in VaR for trading activities as well as hypothetical P&L related to these activities for 2021. During fiscal 2021, five hypothetical P&L overages and two actual P&L overages compared to VaR were observed for Desjardins Group.

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



Stress testing

Certain events that are considered highly unlikely and that could 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, 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 banking activities other than trading, 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 years 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 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. Simulations are 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 simulations 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.

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 100 and 25 basis point increase and decrease, respectively, 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.

Table 47 – Interest rate sensitivity (before income taxes)[1]*
As at December 31

(in millions of dollars)	2021		2020	
	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	**$ 17**	**$ (160)**	$ 30	$ (168)
Impact of a 25-basis-point decrease in interest rates[4]	**(1)**	**37**	7	39

(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 $218 million decrease in the economic value of equity before taxes as at December 31, 2021, and a $165 million decrease as at December 31, 2020. A 25-basis-point decrease in interest rates would result in an increase of $53 million in the economic value of equity before taxes as at December 31, 2021, and a $49 million increase as at December 31, 2020. Additional information is provided in the "Interest rate risk management" section of Note 16, "Insurance contract liabilities", to the Combined Financial Statements.

(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.

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 forward exchange 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.

PRICE RISK MANAGEMENT

In its non-trading activities, Desjardins Group is exposed to price risk, related mainly to components that operate in insurance and their investment portfolios. *Price risk is the risk of potential loss resulting from a change in the market value of assets (shares, commodities, real estate properties, index-based assets) but not resulting from a change in interest rates or foreign exchange rates, or in the credit quality of a counterparty.*

Management of price risk related to real estate activities

The insurance components may be exposed to changes in the real estate market through the properties they own, whose market value may fluctuate. They manage this risk using policies that set out diversification limits such as geographic limits and limits for real estate property categories. Each real estate investment is subject to an annual professional appraisal to determine its market value in accordance with the standards prescribed by regulatory authorities.

Management of price risk related to stock markets

The insurance components may also be exposed to price risk related to stock markets, particularly through the equity securities and derivative financial instruments they hold as well as the minimum guarantees provided under segregated fund contracts, whose value is affected by market fluctuations. They manage this risk using the different limits set in policies and a hedging program to mitigate the effect of market volatility. For additional information, see Note 16, "Insurance contract liabilities", to the Combined Financial Statements.

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 financing, 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 financial 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.

Desjardins Group's average LCR was 140% for the quarter ended December 31, 2021, compared to 150% for the previous quarter. The AMF stipulates that this ratio is not to be less than the minimum requirements of 100% in the absence of stressed conditions. 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 financial 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 magnitude 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 following tables present a summary of Desjardins Group's liquid assets, which do not include assets held by the insurance subsidiaries because these assets are committed to covering 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 because of regulatory, legal, operational or any other restrictions.

Table 48 – Liquid assets[1]
As at December 31, 2021

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivative trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposit with financial institutions	**$ 15,250**	**$ —**	**$ 15,250**	**$ 535**	**$ 14,715**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**54,112**	**11,780**	**65,892**	**39,947**	**25,945**
Other securities in Canada	**4,648**	**754**	**5,402**	**2,304**	**3,098**
Issued or guaranteed by foreign issuers	**505**	**1**	**506**	**7**	**499**
Loans					
Insured residential mortgage-backed securities	**7,213**	**—**	**7,213**	**2,839**	**4,374**
Total	**$ 81,728**	**$ 12,535**	**$ 94,263**	**$ 45,632**	**$ 48,631**

As at December 31, 2020

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivative trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposit with financial institutions[2]	$ 11,300	$ —	$ 11,300	$ 359	$ 10,941
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	51,483	8,526	60,009	24,139	35,870
Other securities in Canada	4,273	1,387	5,660	4,446	1,214
Issued or guaranteed by foreign issuers	421	3	424	6	418
Loans					
Insured residential mortgage-backed securities	7,366	—	7,366	1,610	5,756
Total	$ 74,843	$ 9,916	$ 84,759	$ 30,560	$ 54,199

(1) Excluding assets held by insurance subsidiaries.
(2) The data for 2020 have been adjusted to conform to the current year's presentation because of a refinement in methodology.

Table 49 – Unencumbered liquid assets by entity[1]
As at December 31

(in millions of dollars)	2021	2020
Fédération[2]	**$ 30,934**	$ 34,244
Caisse network	**15,638**	17,463
Other entities	**2,059**	2,492
Total	**$ 48,631**	$ 54,199

(1) Excluding assets held by insurance subsidiaries. Substantially all unencumbered liquid assets presented in this table are issued in Canadian dollars.
(2) The data for 2020 have been adjusted to conform to the current year's presentation because of a refinement in methodology.

Liquidity risk indicators

The purpose of monitoring liquidity indicators daily is to quickly identify a lack of liquidity, whether potential or real, within Desjardins Group and on financial markets. Warning levels subject to an escalation process are established for each of these indicators. If one or more indicators trigger a warning level, the Desjardins Group Finance and Risk Management Committee is immediately alerted. This committee would also act as a crisis committee should the contingency plan be put into action.

This plan lists the sources of liquidity available in exceptional situations. In addition, it lays down the decision-making and information process. The aim of the plan is to allow quick and effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in capital markets or economic conditions. Furthermore, in the event of a crisis extensive enough to question Desjardins Group's creditworthiness, a living will has been prepared to enable the crisis committee to draw on a broader range of liquidity sources to deal with the situation.

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.

Table 50 – Encumbered assets

As at December 31, 2021

(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
				Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 16,328	$ —	$ 16,328	$ —	$ 535	$ 14,715	$ 1,078
Securities	93,099	17,968	111,067	46,436	1,315	29,482	33,834
Securities borrowed or purchased under reverse repurchase agreements	12,019	—	12,019	—	—	—	12,019
Net loans and acceptances	230,779	—	230,779	26,304	—	63,954	140,521
Segregated fund net assets	22,804	—	22,804	—	—	—	22,804
Other assets	22,056	—	22,056	—	—	—	22,056
Total	$ 397,085	$ 17,968	$ 415,053	$ 72,740	$ 1,850	$ 108,151	$ 232,312

As at December 31, 2020

(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
				Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 12,126	$ —	$ 12,126	$ —	$ 359	$ 10,941	$ 826
Securities	87,668	14,649	102,317	32,945	1,173	36,708	31,491
Securities borrowed or purchased under reverse repurchase agreements	9,658	—	9,658	—	—	—	9,658
Net loans and acceptances[3]	211,749	—	211,749	28,401	—	55,140	128,208
Segregated fund net assets	19,093	—	19,093	—	—	—	19,093
Other assets	21,741	—	21,741	—	—	—	21,741
Total	$ 362,035	$ 14,649	$ 376,684	$ 61,346	$ 1,532	$ 102,789	$ 211,017

(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) The data for 2020 have been adjusted to conform to the current year's presentation because of a refinement in methodology.

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

Table 51 – Liquidity coverage ratio[1]

(in millions of dollars and as a percentage)	For the quarter ended December 31, 2021		For the quarter ended September 30, 2021
	Total non-weighted[2] value (average[4])	Total weighted[3] value (average[4])	Total weighted[3] value (average[4])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 44,895**	$ 47,336
Cash outflows			
Retail deposits and small business deposits, including:	**$ 102,807**	**6,792**	6,695
Stable deposits	**49,842**	**1,495**	1,497
Less stable deposits	**52,965**	**5,297**	5,198
Unsecured wholesale funding, including:	**40,440**	**19,619**	19,306
Operational deposits (all counterparties) and deposits in cooperative bank networks	**11,289**	**2,703**	2,743
Non-operational deposits (all counterparties)	**20,671**	**8,436**	8,357
Unsecured debt	**8,480**	**8,480**	8,206
Secured wholesale funding	**N/A**	**156**	27
Additional requirements, including:	**14,909**	**3,142**	3,917
Outflows related to exposures on derivatives and other collateral required	**1,251**	**1,133**	1,182
Outflows related to funding loss on debt products	**123**	**123**	888
Credit and liquidity facilities	**13,535**	**1,886**	1,847
Other contractual funding liabilities	**3,824**	**2,019**	1,795
Other contingent funding liabilities	**99,454**	**2,513**	2,501
Total cash outflows	**N/A**	**$ 34,241**	$ 34,241
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 5,757**	**$ 363**	$ 169
Inflows related to completely effective exposures	**3,610**	**1,805**	1,689
Other cash inflows	**—**	**—**	846
Total cash inflows	**$ 9,367**	**$ 2,168**	$ 2,704

	Total adjusted value[5]	Total adjusted value[5]
Total high-quality liquid assets	**$ 44,895**	$ 47,336
Total net cash outflows	**32,073**	31,537
Liquidity coverage ratio	**140 %**	150 %

(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.

Net stable funding ratio

The net stable funding ratio (NSFR) was developed by the Basel Committee on Banking Supervision to promote the medium- and long-term resilience of the liquidity risk profile of financial institutions. The NSFR requires financial institutions to maintain a stable funding and capitalization profile in relation to the composition of their assets and off-balance sheet activities. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. The NSFR presents the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). According to the AMF's *Liquidity Adequacy Guideline*, this ratio should be equal to at least 100% on an on-going basis. Desjardins Group's NSFR was above the minimum regulatory threshold as at December 31, 2021.

The amount of ASF designates the portion of capital and liabilities considered stable over a one-year horizon. Liabilities with the longest contractual maturities are the most significant contributors to the increase in the ratio. The amount of RSF is measured based on the broad characteristics of the liquidity risk profile of assets and off-balance sheet exposures. The amounts of ASF and RSF are weighted to reflect the degree of stability of liabilities and the liquidity of assets.

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

Table 52– Net Stable Funding Ratio[1]

	As at December 31, 2021					As at September 30, 2021
	Unweighted value by residual maturity					
(in millions of dollars and as a percentage)	No maturity	< 6 months	From 6 months to < 1 year	≥ 1 year	Weighted value	Weighted value
Available Stable Funding (ASF) item						
Capital	$ 32,567	$ —	$ —	$ —	$ 32,567	$ 32,672
Regulatory capital	32,567	—	—	—	32,567	32,672
Other capital instruments	—	—	—	—	—	—
Retail deposits and deposits from small business customers	80,705	45,985	13,153	28,115	156,057	153,598
Stable deposits	45,966	7,822	4,202	9,337	64,427	63,423
Less stable deposits	34,739	38,163	8,951	18,778	91,630	90,175
Wholesale funding	23,249	46,508	3,487	15,338	29,110	30,592
Operational deposits	8,708	—	—	—	4,354	4,933
Other wholesale funding	14,541	46,508	3,487	15,338	24,756	25,659
Liabilities with matching interdependent assets	—	835	895	10,721	—	—
Other liabilities	24,569	7,808	5,473	—	—	—
NSFR derivative liabilities	N/A	—	5,473	—	N/A	N/A
All other liabilities and equity not included in the above categories	24,569	7,808	—	—	—	—
Total ASF	N/A	N/A	N/A	N/A	$ 217,734	$ 216,862
Required Stable Funding (RSF) item						
Total NSFR high-quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	$ 750	$ 860
Deposits held by other financial institutions for operational purposes	$ —	$ —	$ —	$ —	—	—
Performing loans and securities	19,000	39,984	18,410	153,372	150,387	147,240
Performing loans to financial institutions secured by Level 1 HQLA	—	10,362	—	—	518	697
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	1	2,148	—	375	591	574
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	13,348	20,010	9,930	53,351	69,244	67,941
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	—	6,372	5,873	12,101	7,866	7,457
Performing residential mortgages, of which:	5,627	6,934	7,590	97,513	77,491	75,550
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	5,627	6,934	7,590	97,513	77,491	75,550
Securities that are not in default and do not quality as HQLA, including exchange-traded equities	24	530	890	2,133	2,543	2,478
Assets with matching interdependent liabilities	—	835	895	10,721	—	—
Other assets[2]	—	—	25,343	—	14,426	13,622
Physical traded commodities, including gold	—	N/A	N/A	N/A	—	—
Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties[2]	N/A	—	457	—	388	431
NSFR derivative assets[2]	N/A	—	5,649	—	274	238
NSFR derivative liabilities before deduction of variation margin posted[2]	N/A	—	5,473	—	—	—
All other assets not included in the above categories	—	11	3	13,750	13,764	12,953
Off-balance sheet items	N/A	—	113,919	—	2,688	2,662
Total RSF	N/A	N/A	N/A	N/A	$ 168,251	$ 164,384
Net Stable Funding Ratio	N/A	N/A	N/A	N/A	129 %	132 %

(1) Excluding the insurance subsidiaries.
(2) The amounts in these lines include the categories of residual maturities of less than 6 months, 6 months to less than 1 year and 1 year or more.

Sources of financing

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. For more information on contractual maturities, see the table "Contractual maturities of on-balance sheet items and off-balance sheet commitments" in Note 30, "Financial instrument risk management" to the Combined Financial Statements. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $238.4 billion as at December 31, 2021, up $13.1 billion since December 31, 2020. Additional information on deposits is presented in Section 3.1, "Balance sheet management", of this MD&A.

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 2021, 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:

Table 53 – Main financing programs

Financing program	Maximum authorized amount
Medium-term notes (Canadian)[1]	**$10 billion**
Covered bonds (multi-currency)	**$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) Includes the sustainable bonds program.

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

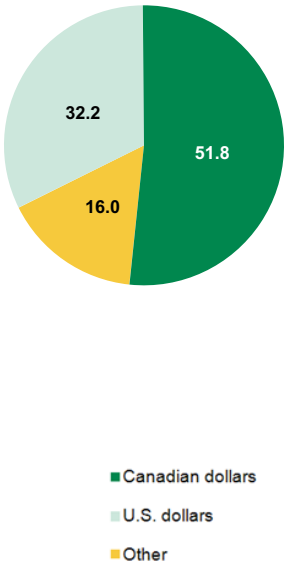
Table 54 – Remaining contractual term to maturity of wholesale funding
As at December 31

(in millions of dollars)	2021								2020
	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	**$ 1,242**	**$ 1,142**	**$ 7**	**$ 23**	**$ 2,414**	**$ —**	**$ —**	**$ 2,414**	$ 3,833
Commercial paper	**3,835**	**6,092**	**126**	**217**	**10,270**	**—**	**—**	**10,270**	11,676
Medium-term notes	**998**	**—**	**—**	**1,298**	**2,296**	**793**	**5,325**	**8,414**	6,446
Mortgage securitization	**—**	**355**	**479**	**895**	**1,729**	**2,264**	**8,438**	**12,431**	12,100
Covered bonds	**—**	**—**	**978**	**1,264**	**2,242**	**2,024**	**4,194**	**8,460**	9,979
Subordinated notes	**—**	**—**	**—**	**—**	**—**	**—**	**1,960**	**1,960**	1,493
Total	**$ 6,075**	**$ 7,589**	**$ 1,590**	**$ 3,697**	**$ 18,951**	**$ 5,081**	**$ 19,917**	**$ 43,949**	$ 45,527
Including:									
Secured	**$ —**	**$ 355**	**$ 1,457**	**$ 2,159**	**$ 3,971**	**$ 4,288**	**$ 14,592**	**$ 22,851**	$ 23,572
Unsecured	**6,075**	**7,234**	**133**	**1,538**	**14,980**	**793**	**5,325**	**21,098**	21,955

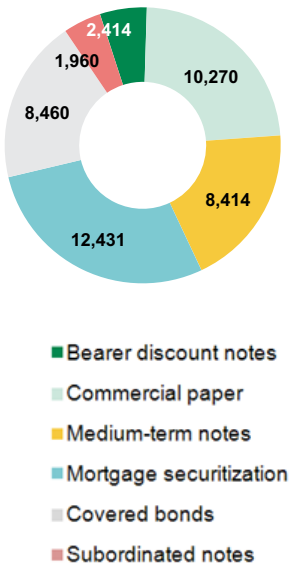
Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. and which were redeemed in full in advance on December 15, 2021. Total wholesale funding decreased by $1.6 billion compared to December 31, 2020. This decline was primarily due to the decrease in covered bonds and commercial paper, partly offset by the increase in medium-term notes. Desjardins Group does not foresee any event, commitment or requirement that could have a major impact on its ability to raise funds through wholesale funding or its members' deposits.

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.

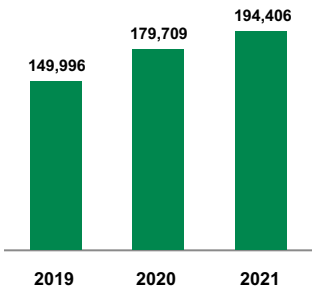
Wholesale funding by currendy
As at December 31, 2021
(as a percentage)



Wholesale funding by category
As at December 31, 2021
(in millions of dollars)



Member deposits
As at December 31, 2021
(in millions of dollars)



Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $1.7 billion in 2021. During the same period, the Federation also made the following issues:

- On January 21, 2021, an issue of $1.0 billion, subject to the bail-in regime, under its Canadian medium-term note program;
- On April 8, 2021, an issue totalling 500 million euros under its legislative covered bond program;
- On May 21, 2021, an issue totalling US$1.25 billion, subject to the bail-in regime, under its multi-currency medium-term note program;
- On May 28, 2021, an issue of $1.0 billion in notes eligible as Non-Viability Contingent Capital under its Canadian NVCC subordinated notes program;
- On August 23, 2021, an issue of $500 million under its Canadian medium-term note program due in August 2022 and CORRA-based. This issuance supports the CDOR reform;
- On September 10, 2021, an issue of $500 million, subject to the bail-in regime, under its Canadian medium-term note program and in compliance with the Desjardins Sustainable Bond Framework;
- On October 14, 2021, an issue of US$750 million under its legislative covered bond program;
- On February 8, 2022, an issue of 750 million euros under its legislative covered bond program.

Outstanding notes issued under the Federation's medium-term funding programs amounted to $29.3 billion as at December 31, 2021, compared to $28.5 billion as at December 31, 2020. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Combined Balance Sheets.

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

CREDIT RATING 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, is backed by Desjardins Group's financial strength.

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

Highlights of decisions by the rating agencies concerning Desjardins Group's instruments:

- On July 12, 2021, Moody's rating agency upgraded to A1 from A2 the rating for the senior medium- and long-term debt issued by the Federation.
- On July 15, 2021, DBRS affirmed the ratings of the instruments issued by the Federation while maintaining its outlook as stable. This reflects Desjardins Group's strong presence in Québec, with leading market shares for deposits, residential mortgages and insurance.
- On December 16, 2021, following an update of its methodology, S&P affirmed the ratings of the instruments issued by the Federation while maintaining its outlook as stable. This assessment reflects the strength of Desjardins Group's balance sheet, but also its good earnings record and its robust capital ratios.
- On January 6, 2022, Fitch affirmed the ratings of Federation instruments while maintaining its outlook as stable. This affirmation reflects the strength of Desjardins Group's business plan, but also its leadership in the markets for savings, agricultural loans, residential mortgages, as well as its significant market shares in the wealth management and insurance segments and in consumer credit and commercial and industrial loans.

A list of the various credit ratings assigned to the instruments of the *Fédération des caisses Desjardins du Québec* are found in the following table.

Table 55 – Credit ratings of securities issued and outstanding

	DBRS	FITCH	MOODY'S	STANDARD & POOR'S
Fédération des caisses Desjardins du Québec				
Counterparty/Deposits[1]	**AA**	**AA**	**Aa1**	**A+**
Short-term debt	**R-1 (high)**	**F1+**	**P-1**	**A-1**
Medium- and long-term debt, existing senior[2]	**AA**	**AA**	**Aa2**	**A+**
Medium- and long-term debt, senior[3]	**AA (low)**	**AA-**	**A1**	**A-**
NVCC subordinated notes	**A (low)**	**A**	**A2**	**BBB+**
Covered bonds	**—**	**AAA**	**Aaa**	**—**
Outlook	**Stable**	**Stable**	**Stable**	**Stable**

(1) Represents Moody's long-term deposit rating and counterparty risk rating, S&P's issuer credit rating, DBRS's long-term deposit rating, and Fitch's long-term issuer default rating, long-term deposit rating and derivative counterparty rating.
(2) 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.
(3) Includes senior medium- and long-term debt issued on or after March 31, 2019, which qualifies for the recapitalization (bail-in) regime applicable to Desjardins Group.

Desjardins Group regularly monitors the additional level of obligations its counterparties would require in the event of a credit rating downgrade for the Federation. 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 several credit rating agencies.

Operational risk

Operational risk is the risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses or failure to achieve objectives, and takes into consideration the impact of failures to achieve the strategic objectives of the component concerned or Desjardins Group, if applicable.

Operational risk is inherent to all of Desjardins Group's activities, including management and control practices in other risk areas (credit, market, liquidity, etc.) as well as activities carried out by a third party. This risk may, in particular, lead to losses mainly resulting from theft, fraud, damage to tangible assets, non-compliance with legislation or regulations, systems failures, unauthorized access to computer systems, cyber threats, or problems or errors in process management. To maintain this risk at an acceptable level, an operational risk management framework has been developed and deployed throughout the organization. The framework includes the usual practices for sound management of operations and is based on the three lines of defence model, clearly defining the roles and responsibilities in risk and operations management.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

The purpose of the operational risk management framework is to identify, measure, mitigate and monitor operational risk as well as make interventions and disclosures for operational risk in accordance with operational risk appetite and the frameworks adopted by the Board of Directors. It is supported by guidelines setting out operational risk management foundations. At the same time, the operational risk management framework connects with the other areas of risk.

The operational risk management framework is reviewed annually to ensure its adequacy and its relevance based on Desjardins Group's risk profile and developments in industry practices.

GOVERNANCE

Risk management governance emphasizes accountability and effective risk oversight. Operational risk is governed by frameworks, which are reviewed periodically to ensure consistency with the Integrated Risk Management Framework approved by the Board of Directors.

Reporting is done on a regular basis to the committees that provide risk management oversight so that their members can assess Desjardins Group's operational risk exposure.

INFORMATION TECHNOLOGY AND SECURITY RISK

An information technology (IT) risk refers to the risk related to the inability to maintain (management/performance) and/or to modernize infrastructure, applications or technology data bases. A security risk is the risk of theft, loss, leak or disclosure of confidential information/data (loss of confidentiality) through an intentional or unintentional act (internal threat, error, negligence or omission), including cyber-attacks.

Technology is a crucial element in the development and maintenance of Desjardins Group's operations. A failure or disruption of IT systems may have a serious impact on our members and clients, as well as on our operations. The COVID-19 situation only reinforces the need to accelerate the digital shift to meet our clients' and members' growing needs and to ensure information security. These two risks are at the very core of risk management activities. Modernization programs to ensure that disruptions to our critical assets and environments are prevented or contained and that preventive and reactive security controls are added to address internal and external threats make up our core and ongoing activities. In order to effectively monitor these risks, scenario analysis, analysis of major changes and monitoring of operational events are examples of activities allowing the identification of these risks and their management within the organization. Governance that follows industry best practices is implemented to monitor and contain these risks at set acceptable tolerance levels. Since 2020, the Desjardins Group Security Office has protected members' and clients' assets, including their personal information. The Office brings together the organization's cross-sector strategic security operations, including fraud management, optimal resource allocation and security investments.

THIRD PARTY RISK

A third party risk refers to the risk of loss or incidents as a result of outsourcing, including reliance on the third parties involved. A third party is an entity with which the organization does business, including suppliers and their subcontractors, trade partners, affiliates, brokers, distributors, resellers and agents.

Through its operational risk management program, Desjardins Group monitors its outsourcing with proactive mechanisms to ensure efficient management of outsourcing risks and to comply with changing regulatory requirements. In addition, each major acquisition is subject to enhanced governance to continuously ensure that its performance is aligned with the needs of the organization.

BUSINESS CONTINUITY RISK

Business continuity risk refers to the risk of incidents resulting from a dysfunction in information systems, networks and telecommunication, or from business interruptions.

Business incident analysis can identify the organization's priority activities, based on an assessment of interruption events, considering operational, reputation, regulatory and financial aspects. Considering the changing nature of any organization and the implied impact on its level of preparation, an update is necessary at least every year, or whenever there is a significant change, by adding change management and continuous improvement principles. The business continuity approach ensures that continuity solutions are identified, implemented and validated to maintain an acceptable and approved service level, considering the priority activities and the continuity requirements needed according to the major consequences recognized. Exercises are planned at regular intervals to check the relevance and performance of the identified solutions in addition to ensuring that personnel are prepared.

Approaches to identifying, measuring and monitoring operational risk

With respect to the operational risk management framework, the following table illustrates the tools and methods used to identify, measure and monitor operational risk.

	Description
Risk and control identification and measurement	A standard inventory of operational risks to which Desjardins Group is exposed has been prepared and is used as the basis for determining the most significant operational risks and evaluating the effectiveness of the mitigation measures in place to reduce them. The risk and control assessments, carried out on a periodic basis, can be related to projects, products, systems, processes and activities, as well as to strategic initiatives and important new products. Consideration of various internal and external factors (losses, audit findings, etc.) is an integral part of these assessments. When the results indicate operational risk exposures that exceed the established tolerance level, action plans are prepared to reduce exposure to an acceptable level.
Collection and analysis of internal and external events	The collection of internal event data is carried out to list and quantify events according to predetermined levels. Internal events are indexed in a database. Through analysis, causes are better understood, trends are determined, and corrective measures are taken when necessary. The main trends identified through analysis of internal events are reported to the various committees on a regular basis. Contingent liabilities, including the impact of litigation, are presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.
Risk indicators	To monitor their risk profile and track developments in it, the business segments and support functions establish operational risk indicators to help them proactively monitor any increase in their exposure to the most significant risks and act accordingly when the tolerance level is reached.
Scenario analysis	Scenario analysis consists of assessing events that could lead to a major operational risk, but have little likelihood of occurring (e.g. earthquake). The analysis makes it possible to identify vulnerabilities to such "extreme risks" within the organization in order to apply the required mitigation measures.
Specialized assessment programs	Complementing the operational risk management framework are certain programs that are the responsibility of specialized groups. These programs regulate specific risks and track them using their oversight process.
Risk-sharing insurance programs	Desjardins Group has developed insurance programs to give itself additional protection against material operational losses. These programs offer protection based on the business segment's needs, the institution's risk tolerance, as well as emerging risks on the market.
Calculation of capital exposed to operational risk	Since second quarter of 2017, Desjardins Group has used the Standardized Approach to calculate its operational risk in the form of regulatory capital exposed to operational risk.

Insurance risk

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

Desjardins Group is exposed to insurance risk in the course of its life and health and property and casualty insurance operations.

Insurance risk for the life and health insurance subsidiaries is composed of the following elements:
- Mortality risk: Financial consequence resulting from amounts payable on life insurance products that differ from the projections, due to mortality;
- Longevity risk: Financial consequence resulting from amounts payable on annuity contracts that differ from the projections, due to the survival of annuitants;
- Morbidity/disability risk: Financial consequence resulting from amounts payable on health insurance products that differ from the projections, due to the state of health of insureds;
- Policyholder behaviour risk: Financial consequence resulting from life or health policyholder or annuitant behaviour in keeping a policy or contract in force or exercising any clauses specified in policies or contracts;
- Expense risk: Financial consequence resulting from the administrative expenses incurred to service life or health insurance products or annuity contracts that differ from the projections.

Property and casualty insurance risk is composed of the following elements:

- Underwriting risk: Financial consequence resulting from an increase in the frequency or severity of losses (e.g., fire, theft, water damage, vandalism) covered by the insurance products offered, which mainly cover physical damage to property, bodily injury as well as liability of insureds (civil, legal, etc.);
- Catastrophe risk: Financial consequence resulting from an increase in the frequency or severity of catastrophes covered by insurance policies;
- Reserve risk: Financial consequence resulting from inadequate provisions or actuarial reserves.

Identifying, assessing and mitigating the risks associated with new insurance products and changes made to existing ones are part of a thorough product approval process. All risks at the insurance subsidiaries, including insurance risk, are managed in accordance with their Integrated Risk Management Policy, in line with Desjardins Group's Integrated Risk Management Framework. The process of logging risks under this policy makes it possible to identify all risks likely to affect the subsidiary concerned that should be the subject of governance and a framework, as well as to maintain a register of all such risks and assess them using the appropriate method.

The subsidiaries are responsible for the risk they generate, including insurance risk. Each one has its own specific governance structure. Insurance risk is governed by several policies that clearly set out the roles and responsibilities of the different parties concerned so that they can comply with the various regulatory guidelines. The subsidiaries also have a robust infrastructure that includes the appropriate tools for ensuring the availability, integrity, completeness and aggregation of all the data necessary for sound insurance risk management.

Insurance risk arises from potential errors in projections concerning the many factors used to set premiums, including future returns on investments, underwriting experience in terms of loss experience, mortality and morbidity, and administrative expenses. These projections are essentially based on actuarial assumptions that must be consistent with the standards of practice in effect in Canada. The insurance subsidiaries also adopt strict pricing standards and policies and perform spot checks to compare their projections with actual results. Insurance product design and pricing are reviewed on a regular basis. Some product pricing may be adjusted depending on the accuracy of projections.

In addition, the subsidiaries limit their losses through reinsurance treaties that vary based on the nature of the operations. The property and casualty insurance subsidiaries also have additional protection with respect to large-scale catastrophic events.

To reduce reinsurance risk, the insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. Such reinsurance treaties do not release the subsidiaries from their obligations toward their policyholders but do mitigate the risks to which they are exposed.

The subsidiaries comply with the standards for sound management practices established by the regulatory bodies that govern them and test their financial soundness using unfavourable scenarios and measure the effect of such scenarios on their capitalization ratio. These tests include stress testing, including the standardized acute stress scenarios required from time to time by regulators, as well as an examination of financial soundness. Test results showed that capital was adequate in each case.

In the context of COVID-19, changes in mortality experience or disability claims experience, in particular, are being monitored by the life and health insurance subsidiaries. In property and casualty insurance, the uncertainty related to premium growth versus claims, the possible increase in fraud, and the potential for corporate liability claims are being monitored. Additional margins are included in reserves for claims and unearned premiums.

Each insurance sector subsidiary provides independent reports and assessments of its exposure to different risks to its Board of Directors as well as to the appropriate levels at Desjardins Group. They report in particular on changes in material risks and the effectiveness of the procedures in place to mitigate them, the results of risk analyses, and the main assumptions and findings from the stress testing.

The activities specific to the insurance subsidiaries expose them, in addition to insurance risk, to other types of risk, notably the risks identified in Note 16, "Insurance contract liabilities", to the Combined Financial Statements, as well as other risk factors identified in Section 4.1, "Risk factors that could impact future results".

Strategic risk

Strategic risk refers to the risk of loss attributable to the occurrence of external and internal events or the implementation of inappropriate strategies that may prevent Desjardins Group from achieving its strategic priorities.

It is first up to senior management and the Board of Directors to address, define and monitor developments in the strategic orientations of Desjardins Group according to its risk appetite and the consultation processes specific to Desjardins. Events that could compromise the achievement of Desjardins Group's strategic objectives are systematically and periodically monitored by the Board of Directors and senior management. Business segments and support functions identify and periodically assess events and risks that could prevent the achievement of strategic objectives, and report thereon to the appropriate bodies.

Organizational development plans are assessed in light of the organization's risk appetite framework to ensure that such initiatives are in line with the organization's strategic plan. Furthermore, this plan is updated annually to take market developments into account, in particular major trends in the industry and action taken by competitors.

Reputation risk

Reputation risk is the risk that a negative perception by the stakeholders, whether or not justified, of Desjardins Group's practices, actions or lack of action could have an unfavourable impact on its income and equity, and the trust that it inspires.

A reputation is of critical importance, and reputation risk cannot be managed separately from other risks. Therefore, managing reputation risk in all its business segments is a constant concern for Desjardins Group. In this regard, Desjardins Group seeks to ensure that all employees are constantly aware of the potential repercussions of their actions on Desjardins's reputation and image. Desjardins Group considers it essential to foster a proactive approach to risk management in which integrity and ethical conduct are fundamental values.

Desjardins Group has defined a management framework, and roles and responsibilities with regard to reputation risk. This framework is in addition to various processes already in place to identify, measure and govern this risk, such as the previously mentioned operational risk management initiatives, the regulatory compliance program, ethical requirements, and reputation risk assessment as part of new initiatives and the introduction of new products. All these aspects aim to promote sound reputation risk management. In addition, the President and Chief Executive Officer of Desjardins Group is the main person responsible for the culture change process. The aim of this process is to effect a profound change in behaviour in order to always work in the best interests of members and clients. This process will also help manage reputation risks.

Pension plan risk

Pension plan risk is the risk of loss resulting from pension plan commitments made by Desjardins Group for the benefit of its employees. This risk basically arises from rate, price, foreign exchange and longevity risks.

The organization's main pension plan is the Desjardins Group Pension Plan (DGPP). The Federation, through its Board of Directors, is the sponsor of the DGPP and, as such, acts as the representative for all Desjardins Group employers. The Desjardins Group Retirement Committee, which is composed of members designated by the Board of Directors of the Federation, active members and a group made up of non-active members and beneficiaries, is the administrator of the DGPP and the sole and exclusive trustee for the pension fund. It is responsible for managing pension fund assets and administering the benefits promised by the plan. It sees to it that the DGPP By-law is applied and ensures compliance with the legislation and regulations in force. In particular, it must see to the sound governance of the plan. In this regard, it has developed policies and an internal by-law as required under the *Supplemental Pension Plans Act*.

In order to properly manage DGPP risks, the Desjardins Group Retirement Committee has developed a risk management policy to formalize the framework within which DGPP risks are managed and to clarify the roles and responsibilities of the parties involved. In addition, it has delegated certain powers and responsibilities to its Investment Management Committee. The content and accuracy of the risk register is reviewed at least once per year and presented to the Investment Management Committee and the Desjardins Group Retirement Committee, which provide their comments, if any. The indicators listed in the DGPP's risk register are constantly monitored and disclosed each quarter through a risk management dashboard, which allows the Investment Management Committee and the Desjardins Group Retirement Committee to ensure that risks are being managed and controlled effectively.

The Investment Management Committee is also tasked with reviewing the investment policy and recommending any amendments in this regard to the Desjardins Group Retirement Committee, as well as with adopting any special investment framework, including the investment policy. Every year, the Investment Management Committee recommends an asset allocation strategy, adopts the resulting investment plan and monitors it. It also analyzes the investment opportunities submitted to it, as well as the associated risks. The asset allocation strategy is developed on the basis of strategic indicators that represent risk factors, including interest rate risk.

The COVID-19 crisis has had little impact on the financial position of the pension plans.

Environmental or social risk

Environmental or social risk results from an environmental or social event or issue during Desjardins Group's operations or its financing, investment or insurance activities, which could lead to financial loss or harm its reputation.

Regarding environmental risk, potential financial losses could be related to an internal risk, namely a risk generated by an entity and leading to negative impacts on the environment, or an external risk, namely an event caused by the environment and having a detrimental effect on the entity. Climate change is included under environmental or social risk and defined in Section 4.1, "Risk factors that could impact future results".

In addition, business relations with entities whose operations could involve Environmental, Social or Governance (ESG) issues could lead to reputation risk.

Desjardins Group has long recognized the importance of social and environmental issues, and sees this as a key part of its values and business decision-making processes. In addition, for the purposes of rigour and transparency, Desjardins Group publishes its Social and Cooperative Responsibility Report, prepared in accordance with the guidelines of the Global Reporting Initiative (GRI), and also responds to the Climate Change Questionnaire provided by CDP (formerly known as the Carbon Disclosure Project) and produces a report entitled "Climate action at Desjardins". These two public disclosures address the risks and opportunities associated with climate change and are aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Here follows a discussion of key aspects of these disclosures.

GOVERNANCE

Matters related to climate are overseen by the Board of Directors, with support from its Corporate Governance and Responsible Finance Commission and its Risk Management Commission.

The Environmental, Social and Governance Steering Committee is a subcommittee of the Desjardins Group Management Committee. It recommends ESG orientations, monitors them, and promotes progress and a cohesive approach within the organization as ESG factors are taken into account in its business decision-making processes.

Highlights for 2021 are as follows:
- Strengthened the team that manages climate-related risks.
- Monitored the implementation of climate-related action plans in response to the internal audit on sustainable development performed in 2019-2020 by the Desjardins Group Monitoring Office.
- Monitored international trends in governance and sustainable development, with a report submitted, with comments, to the Board of Directors and its Corporate Governance and Responsible Finance Commission.
- Developed knowledge on climate change among the organization's decision-makers.

STRATEGY

Since sustainable development is a priority for Desjardins Group, it has developed a sustainable development policy for all its operations, incorporating orientations for the development of a sustainable and responsible economy as part of the strategic alignment of its risk appetite framework.

Desjardins Group is also a signatory to several international United Nations frameworks for integrating ESG criteria into its business model: the Principles for Responsible Investment (since 2009), the Principles for Responsible Insurance (2019) and the Responsible Banking Principles (2019).

As a concrete expression of its commitment to exit the thermal coal industry, Desjardins Group was the first North American institution to join the Powering Past Coal Alliance.

Furthermore, in 2021 Desjardins Group developed an ambitious climate plan to achieve net zero emissions by 2040 in its extended operations and in its financing and capital investment activities in three key sectors (energy, transportation and real estate). This commitment was formalized when Desjardins joined Business Ambition for 1.5°C, a global coalition organized by the Science-Based Targets initiative.

Our strategic orientations and commitments are based on identifying climate-related risks and assessing our exposure and the potential impacts of these risks, as well as on developing a diversified offering that will enable our members and clients to better cope with the impacts of climate change.

The main achievements in 2021 are as follows:
- Publication of a renewed, ambitious climate plan and its development in 5-year operational goals toward our 2040 climate ambition.
- Commitment to the Business Ambition for 1.5°C and commencement of work to define our science-based targets.
- Participation in several modules of the TCFD program and the United Nations Environment Programme Finance Initiative (UNEP FI).
- Commitment by Desjardins Global Asset Management to the Net Zero Asset Managers Initiative.

RISK MANAGEMENT

In order to mitigate environmental or social risk, and to uphold its commitment to contribute to the development of a sustainable and responsible economy, Desjardins Group has incorporated ESG factors into its business decision-making processes. Tools and reference materials are being developed to support the business sectors.

In accordance with our Integrated Risk Management Framework, a frontline team specialized in sustainable development and responsible finance supports the business segments as they consider climate change risks in relation to how they manage their specific risks. In addition, a dedicated climate-related risk team, in collaboration with the other second-line defence teams (insurance, credit, etc.), is being formed to oversee and monitor how this risk is included and managed.

This is the framework within which Desjardins Group identifies and assesses its climate change risks in a multidisciplinary, organization-wide process. Business segments and support functions work with professionals from Risk Management and the Sustainable Development and Responsible Finance team to identify the main risks affecting their operations, as well as their impact. In this context, the approach taken to manage climate-related risks has been revised, and the methodology for analyzing climate-related risk has been refined.

The achievements in 2021 in climate-related risk management are:
- Development of the approach and commencement of the work to optimize the operational model for managing climate-related risks.
- Refinement of the methodology and an update to risk analysis.
- Systematic consideration of ESG factors in the financing of a growing number of our members and clients.

METRICS AND TARGETS

Desjardins Group maintains its leadership in sustainable development through varied initiatives that are integrated into its Strategic Plan and performance management. In particular, this is achieved by monitoring the carbon footprint of its operational and financial activities, the exposures of its financings and investments in carbon-intensive sectors, and its business volume in renewable energies, as well as by implementing targets related to reductions in its greenhouse gas (GHG) emissions. When considered relevant, these indicators and targets are gradually integrated into performance objectives.

In 2021, Desjardins Group took the following actions:
- Implementation of a long-term net zero target (2040; energy, transportation and real estate), with work underway to set intermediate science-based targets.
- An update to our target for reductions in operational GHG emissions (-41% in the period from 2019 to 2025).
- Structuring of climate indicators within the performance review of our strategic plan.
- Improvements to the methodology used to monitor exposures to carbon-intensive sectors and renewable energies.
- Measurement and first public disclosure of our financed emissions (investing and lending) as per the methodology of the Partnership for Carbon Accounting Financials (PCAF).

Legal and regulatory risk

Legal and regulatory risk refers to the risk associated with Desjardins Group's non-compliance with the obligations arising from the interpretation or application of legislative and regulatory provisions or contractual commitments, which could affect its operations, reputation, strategies and financial objectives.

Legal and regulatory risk entails, inter alia, effectively preventing and handling possible disputes and claims that may lead in particular to judgments or decisions by a court of law or regulatory body that could result in orders to pay damages, financial penalties or sanctions. Moreover, the legal and regulatory environment is evolving quickly and could increase Desjardins Group's exposure to new types of litigation. In addition, some lawsuits against Desjardins Group may be very complex and be based on legal theories that are new or have never been verified. The outcome of such lawsuits may be difficult to predict or estimate until the proceedings have reached an advanced stage, which may take several years. Class action lawsuits or multi-party litigation may feature an additional risk of judgments with substantial monetary, non-monetary or punitive damages. Plaintiffs who bring a class action or other lawsuit sometimes claim very large amounts, and it is impossible to determine Desjardins Group's liability, if any, for some time. Legal liability or an important regulatory measure could have an adverse effect on the current activities of Desjardins Group, its results of operations and its financial position, in addition to damaging its reputation. Even if Desjardins Group won its court case or was no longer the subject of measures imposed by regulatory bodies, these situations could harm its reputation and have an adverse impact on its financial position, due in particular to the costs associated with such proceedings, and its brand image.

The financial services industry is one of the most strictly regulated and monitored sectors. In recent years, the regulations governing the industry have expanded significantly in response to numerous socio-economic phenomena such as the development of new, increasingly complex financial products, the continuing volatility in the securities industry, increasingly complex financial fraud, the fight against money laundering and terrorist financing, and the fight against tax evasion, to mention but a few. In addition to federal (Canada and the U.S.) and provincial government requirements, due consideration must be given to the requirements of the *Autorité des marchés financiers* (AMF), the Canadian Securities Administrators (CSA), the Office of the Superintendent of Financial Institutions (OSFI), the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Mutual Fund Dealers Association of Canada (MFDA), and the Investment Industry Regulatory Organization of Canada (IIROC). Complying with important legislative and regulatory provisions, such as those on the protection of personal information, laws and regulations governing insurance, the Foreign Account Tax Compliance Act, the Standard for Automatic Exchange of Financial Account Information in Tax Matters, the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Basel accords, requires considerable technical, human and financial resources and also affects the way Desjardins Group manages its current operations and implements its business strategies.

Fulfilling an independent supervisory function, the office of the Vice-President and Chief Compliance and Privacy Officer fosters a proactive approach to compliance by fully integrating compliance into the organization's current operations. It is responsible for developing, updating and maintaining the compliance management framework, which is based on the identification and monitoring of regulatory obligations and the functional units subject to them. Regulatory developments and their impact on operations are therefore monitored and evaluated on an ongoing basis by the compliance function in cooperation with the Office of the Chief Legal Officer, and strategies are implemented as required to mitigate them. The compliance function provides support to managers in charge of business segments and support functions so that they can effectively manage their risks, by developing an appropriate framework and documentation, acting in an advisory capacity, setting up training programs and periodically inspecting operations. The Desjardins Group Monitoring Office provides an independent assessment of the effectiveness of the compliance management framework. Lastly, Desjardins Group has set up a formal reporting process related to such compliance for its senior management and various decision-making bodies. In addition, to maintain its reputation for integrity as well as the confidence of its members and clients, the market and the general public, Desjardins Group has developed a code of professional conduct applicable to all its officers and employees and to all its components. This compliance management framework has been implemented to provide reasonable assurance that Desjardins Group's operations are carried out in compliance with applicable regulations. Despite all these efforts, Desjardins Group may not be able to predict the exact impact of regulatory developments and appropriately implement strategies to respond. It could then sustain an adverse impact on its financial performance, its operations and its reputation. For further information, refer to the "Regulatory environment" section of this MD&A.

5.0 Additional information

5.1 Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the CSA guidance in National Instrument 52-109, the President and CEO as well as the Executive Vice-President Finance and Chief Financial Officer (CFO) caused to be designed disclosure controls and procedures (DCPs). These controls and procedures are designed to provide reasonable assurance that the information presented in annual, interim or other reports filed or transmitted under securities legislation is recorded, processed, summarized and reported within the time periods prescribed by such legislation. These controls and procedures are also designed to warrant that such information is assembled and disclosed to the management of Desjardins Group, including its signing officers, in accordance with what is appropriate to make timely decisions regarding disclosure.

As at December 31, 2021, Desjardins Group management, in collaboration with the President and CEO, and the CFO, assessed the design and effectiveness of its DCPs. Based on the results of this assessment, the President and CEO, and the CFO concluded that the DCPs were adequately designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Desjardins Group management caused an adequate internal control over financial reporting process to be designed and has maintained it. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Combined Financial Statements for external purposes in accordance with IFRS. Internal control over financial reporting (ICFR) includes, in particular, those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Combined Financial Statements in accordance with IFRS, and that cash receipts and payments are being made only in accordance with authorizations of management and directors;
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets that could have a significant impact on the Annual Combined Financial Statements or Interim Financial Reports.

Because of its inherent limitations, ICFR may not prevent or detect all misstatements on a timely basis. Management’s assessment of the controls provides only reasonable, not absolute, assurance that all the problems related to control which could give rise to material misstatements have been detected.

Desjardins Group management, in collaboration with the President and CEO, and the CFO, have assessed the design and effectiveness of ICFR. This assessment was performed in accordance with the 2013 Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for financial controls and in accordance with the Control Objectives for Information and Related Technologies (COBIT) framework for IT general controls.

Based on the results of the assessment, the President and CEO, and the CFO, concluded that as at December 31, 2021, ICFR was adequately designed and effective.

The DCPs and ICFR set forth in Regulation 52-109 are applied in the Federation’s Annual Information Form prepared in accordance with Regulation 51-102, and for the purposes of certifying Desjardins Group under Regulation 52-109, the Federation’s information form is considered to be Desjardins Group’s Annual Information Form.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2021, 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, ICFR.

Various other aspects of corporate governance are examined in more detail in the “Corporate governance” section of the 2021 Desjardins Group Annual Report.

5.2 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's key management personnel are the members of its Board of Directors and its Management Committee. They are responsible for the planning, management and control of Desjardins Group's operations, and have the authority to perform their duties.

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.

Additional information about related party transactions is presented in Note 32, "Related party disclosures", to the Combined Financial Statements.

5.3 Critical accounting policies and estimates

A description of the accounting policies used by Desjardins Group is essential to understanding the Combined Financial Statements as at December 31, 2021. The significant accounting policies are described in Note 2, "Significant accounting policies", to the Combined Financial Statements. 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 may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

The context of the COVID-19 pandemic continues to generate sources of uncertainty that have an impact on judgments as well as significant estimates and assumptions made by management in preparing the Combined Financial Statements. This particularly affects the loss allowance for expected credit losses. For more information about significant judgments made to estimate the loss allowance for expected credit losses, see Note 7, "Loans and allowance for credit losses", to the Combined Financial Statements.

STRUCTURED ENTITIES

A structured entity is consolidated when it is controlled by a Desjardins Group entity. Management must make significant judgments when it assesses the various elements and all related facts and circumstances as a whole to determine whether control exists, especially in the case of structured entities.

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

Additional information about structured entities is presented in Note 13, "Interests in other entities", to the Combined Financial Statements.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value measurement of financial instruments is determined using a three-level hierarchy, reflecting the importance of the inputs used for the measurements. Level 1 denotes measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities, while level 2 designates valuation techniques based primarily on observable market data. Level 3 concerns valuation techniques not based primarily on observable market data.

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

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

Loans

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

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 20, "Derivative financial instruments and hedging activities", to the Combined Financial Statements describes the type of derivative financial instruments held by Desjardins Group.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements", "Clients' liability under acceptances", "Amounts receivable from clients, brokers and financial institutions", some items included in "Other assets – Other", "Acceptances", "Commitments related to securities lent or sold under repurchase agreements", "Amounts payable to clients, brokers and financial institutions" and some items included in "Other liabilities – Other".

Additional information on the fair value of financial instruments is presented in Note 4, "Fair value of financial instruments", to the Combined Financial Statements. Note 2, "Significant accounting policies" to the Combined Financial Statements provides information on the classification and measurement of financial assets and financial liabilities.

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

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

Additional information about the derecognition of financial assets is presented in Note 8, "Derecognition of financial assets", to the Combined Financial Statements.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

Determination of significant increases in credit risk

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

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

Definition of default and credit impaired financial asset

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

Measurement of the loss allowance for expected credit losses

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

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

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. It may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters.

For credit-impaired financial assets that are individually material, measuring the loss allowance for expected credit losses does not require using credit risk parameters. It is instead based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions.

Key date and assumptions

Estimating the loss allowance for expected credit losses under IFRS 9 is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions, and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

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

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

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the loss allowance for expected credit losses. Changes in the credit risk rating may increase or decrease the loss allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the allowance, while an improvement results in a decrease in the allowance.

Determination of significant increases in credit risk

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

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

Significant judgments had to be made to estimate the negative impact of the unprecedented current COVID-19 pandemic 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.

Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine 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 macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios are reviewed quarterly.

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

The major uncertainty resulting from the COVID-19 pandemic continues to add significantly more complexity to the task of determining reasonable and supportable assumptions concerning changes in macroeconomic variables for the various scenarios and the related probability of occurrence. This uncertainty required management to make significant judgments to revise the assumptions concerning forward-looking information. Considering the unusual nature of the current economic crisis, management continues to apply expert credit judgment in assessing the loss allowance for expected credit losses. This expert judgment is applied to the degree of correlation between input data related to forward-looking indicators and expected credit losses in order to take into consideration the impact of this unprecedented environment. Expert judgment also continues to be applied when considering the impact of government support measures, which are at an unprecedented level and have been continuously evolving since the onset of the pandemic.

Estimated life of revolving credit facilities

The expected life of most financial instruments is equal to the maximum contractual term during which Desjardins Group is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans, for which their life must be estimated. To determine the life of revolving credit facilities, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions. This estimate takes into account the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

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

Additional information about loans and the allowance for credit losses, in particular a sensitivity analysis of the allowance for credit losses, is presented in Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements.

IMPAIRMENT OF "AVAILABLE-FOR-SALE" SECURITIES UNDER IAS 39 CONSIDERED FOR THE OVERLAY APPROACH

Desjardins Group elected to designate certain eligible insurance operations financial assets for the overlay approach permitted by IFRS 4, "Insurance Contracts", to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, "Financial Instruments", and IFRS 17, "Insurance Contracts".

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

In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers, in particular, the impairment of "Available-for-sale" securities under IAS 39, which requires the significant use of judgment.

Under IAS 39, "Available-for-sale" securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, major financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring and the disappearance of an active market for the asset in question. Debt securities are assessed individually to determine whether there is any objective evidence of impairment. For equity securities, objective evidence of impairment would also include a significant or prolonged decline in fair value below cost.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

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

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

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

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

Property and casualty insurance contract liabilities

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

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

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

Note 16, "Insurance contract liabilities", to the Combined Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

Additional information is presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

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

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

Note 28, "Income taxes on surplus earnings", to the Combined Financial Statements provides additional information on income taxes on surplus earnings.

MEMBER DIVIDENDS

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

Member dividends are calculated on the basis of average balances maintained in the following product families: Accounts, Loans and lines of credit, Savings and investments, and Funds. For credit card volumes, the dividend calculation is based on net purchases for the year concerned. For the insurance product family, dividends are calculated on the premium paid covering the year concerned. The provision for member dividends is mainly allocated to the Personal and Business Services segment.

FRINGE BENEFITS

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

Group pension plans are plans whose risks are shared by entities under common control. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a pro rata basis of 35% and 65%, respectively.

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

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

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

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

Note 17, "Employee benefits – Pension and post-retirement benefit plans", to the Combined Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2020 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, "INSURANCE CONTRACTS"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", to replace the current standard, IFRS 4, "Insurance Contracts". IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 proposes a general model for the measurement of insurance contracts, as well as a simplified approach for contracts of one year or less, and a specific method for insurance contracts with direct participation features. The general model, which is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows. It takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

The provisions of IFRS 17 will apply retrospectively to each group of insurance contracts. When retrospective application is impracticable, the modified retrospective approach or the fair value approach may be used for annual reporting periods beginning on or after January 1, 2023.

Desjardins Group is currently assessing the impact of adopting this standard, which will be effective for annual periods beginning on or after January 1, 2023.

5.5 Additional information required pursuant to the AMF's decision No. 2021-FS-0091

In addition to the entities comprising the Desjardins Cooperative Group (as defined in Section 1.1, “Profile and structure”) and the subsidiaries of such entities, Desjardins Group’s Combined Financial Statements include the Caisse Desjardins Ontario Credit Union Inc. (CDO). The CDO’s financial information compared to that of Desjardins Group is presented in the table below.

Table 56 - CDO's financial information

As at December 31 or for the years ended December 31

	2021			2020			2019		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Balance Sheets**	**% proportion**	CDO	Desjardins Group Combined Balance Sheets	% proportion	CDO	Desjardins Group Combined Balance Sheets	% proportion
Total assets	**$ 9,864**	**$ 397,085**	**2.5 %**	$ 8,463	$ 362,035	2.3 %	$ 7,272	$ 312,996	2.3 %
Total liabilities	**9,047**	**363,559**	**2.5**	7,803	331,772	2.4	6,645	285,567	2.3
Total equity	**817**	**33,526**	**2.4**	660	30,263	2.2	627	27,429	2.3

	2021			2020			2019		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Statements of Income**	**% proportion**	CDO	Desjardins Group Combined Statements of Income	% proportion	CDO	Desjardins Group Combined Statements of Income	% proportion
Total income	**$ 268**	**$ 20,320**	**1.3 %**	$ 181	$ 21,473	0.8 %	$ 177	$ 20,757	0.9 %
Surplus earnings before member dividends	**133**	**2,942**	**4.5**	59	2,419	2.4	70	2,598	2.7
Net surplus earnings for the period after member dividends	**125**	**2,658**	**4.7**	51	2,174	2.3	63	2,366	2.7

5.6 Five-year statistical review

Table 57 – Combined Balance Sheets
As at December 31

(in millions of dollars)	2021	2020	2019	2018[1]	2017[1][2]
ASSETS					
Cash and deposits with financial institutions	**$ 16,328**	$ 12,126	$ 3,709	$ 3,384	$ 2,435
Securities					
Securities at fair value through profit of loss	**39,772**	34,960	35,168	36,916	31,654
Available-for-sale securities	**N/A**	N/A	N/A	N/A	24,934
Securities at fair value through other comprehensive income	**53,286**	52,679	22,909	21,395	N/A
Securities at amortized cost	**41**	29	1,616	1,621	N/A
	93,099	87,668	59,693	59,932	56,588
Securities borrowed or purchased under reverse repurchase agreements	**12,019**	9,658	10,032	11,934	8,674
Loans					
Residential mortgage	**149,695**	136,208	126,757	120,113	113,146
Consumer, credit card and other personal loans	**24,386**	25,310	27,022	26,210	24,044
Business and government	**57,400**	51,015	49,988	44,906	40,738
	231,481	212,533	203,767	191,229	177,928
Allowance for credit losses	**(970)**	(1,112)	(685)	(719)	(438)
	230,511	211,421	203,082	190,510	177,490
Segregated fund net assets	**22,804**	19,093	17,026	13,234	13,379
Other assets					
Clients' liability under acceptances	**268**	328	380	160	31
Premiums receivable	**2,839**	2,803	2,686	2,376	2,095
Derivative financial instruments	**5,828**	5,820	4,246	3,743	3,206
Amounts receivable from clients, brokers and financial institutions	**2,557**	2,499	2,229	1,315	1,554
Reinsurance assets	**1,582**	1,962	2,001	1,958	2,202
Right-of-use assets	**530**	565	566	N/A	N/A
Investment property	**926**	924	957	958	832
Property, plant and equipment	**1,531**	1,541	1,471	1,424	1,411
Goodwill	**157**	156	121	121	121
Intangible assets	**497**	424	381	389	466
Investments in companies accounted for using the equity method	**1,380**	1,189	1,034	907	515
Deferred tax assets	**789**	1,154	1,292	1,174	992
Other	**3,440**	2,704	2,090	1,946	2,223
Assets of the disposal group held to be transferred	**—**	—	—	—	881
	22,324	22,069	19,454	16,471	16,529
TOTAL ASSETS	**$ 397,085**	$ 362,035	$ 312,996	$ 295,465	$ 275,095

See the next page for footnotes.

Table 57 – Combined Balance Sheets (continued)
As at December 31

(in millions of dollars)	2021	2020	2019	2018[1]	2017[1][2]
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 136,332**	$ 127,928	$ 111,665	$ 105,298	$ 100,578
Business and government	**101,644**	96,853	81,556	77,574	70,737
Deposit-taking institutions	**379**	455	697	286	271
	238,355	225,236	193,918	183,158	171,586
Other liabilities					
Acceptances	**268**	328	380	160	31
Commitments related to securities sold short	**11,342**	9,353	10,615	10,829	9,112
Commitments related to securities lent or sold under repurchase agreements	**31,177**	19,152	10,562	16,845	10,229
Derivative financial instruments	**5,500**	4,884	4,278	2,816	3,094
Amounts payable to clients, brokers and financial institutions	**7,938**	6,810	5,552	4,105	4,247
Lease liabilities	**596**	633	624	N/A	N/A
Insurance contract liabilities	**34,762**	34,827	31,595	28,740	28,272
Segregated fund net liabilities	**22,796**	19,089	17,002	13,212	13,354
Net defined benefit plan liabilities	**1,048**	3,107	3,068	2,537	2,624
Deferred tax liabilities	**301**	372	281	214	155
Other	**7,516**	6,488	6,294	5,822	5,568
Liabilities of the disposal group held to be transferred	**—**	—	—	—	662
	123,244	105,043	90,251	85,280	77,348
Subordinated notes	**1,960**	1,493	1,398	1,378	1,388
TOTAL LIABILITIES	**363,559**	331,772	285,567	269,816	250,322
EQUITY					
Capital stock	**4,982**	5,021	5,134	5,350	5,361
Share capital	**—**	—	—	5	90
Undistributed surplus earnings	**1,546**	1,874	2,352	3,649	1,360
Accumulated other comprehensive income	**765**	1,302	211	(23)	445
Reserves	**25,321**	21,316	18,959	15,920	16,707
Equity - Group's share	**32,614**	29,513	26,656	24,901	23,963
Non-controlling interest	**912**	750	773	748	810
TOTAL EQUITY	**33,526**	30,263	27,429	25,649	24,773
TOTAL LIABILITIES AND EQUITY	**$ 397,085**	$ 362,035	$ 312,996	$ 295,465	$ 275,095

(1) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 16, “Leases”, on January 1, 2019, on a retrospective basis without restatement of comparative periods.

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

Table 58 – Combined Statements of Income
For the years ended December 31

(in millions of dollars)	2021	2020[1]	2019	2018[2]	2017[2][3]
Interest income					
Loans	**$ 6,928**	$ 7,278	$ 7,709	$ 6,862	$ 5,902
Securities	**473**	488	412	390	323
	7,401	7,766	8,121	7,252	6,225
Interest expense					
Deposits	**1,508**	2,010	2,618	2,195	1,678
Subordinated notes and other	**107**	116	207	163	93
	1,615	2,126	2,825	2,358	1,771
Net interest income	**5,786**	5,640	5,296	4,894	4,454
Net premiums	**11,278**	9,920	9,412	8,823	8,049
Other income					
Deposit and payment service charges	**424**	388	431	433	458
Lending fees and credit card service revenues	**735**	628	774	697	660
Brokerage and investment fund services	**1,108**	954	886	905	1,030
Management and custodial service fees	**732**	617	582	545	483
Net investment income	**319**	3,116	3,087	206	1,689
Overlay approach adjustment for insurance operations financial assets	**(404)**	(42)	(192)	523	N/A
Foreign exchange income	**121**	103	64	91	77
Other	**221**	149	417	195	250
	3,256	5,913	6,049	3,595	4,647
Total income	**20,320**	21,473	20,757	17,312	17,150
Provision for credit losses	**69**	863	365	384	349
Claims, benefits, annuities and changes in insurance contract liabilities	**6,883**	9,233	9,111	6,557	6,663
Non-interest expense					
Salaries and fringe benefits	**4,410**	3,878	3,646	3,407	3,452
Premises, equipment and furniture, including depreciation	**939**	878	772	701	727
Service agreements and outsourcing	**257**	265	361	338	319
Communications	**306**	257	288	261	284
Other	**3,654**	3,019	2,965	2,802	2,669
	9,566	8,297	8,032	7,509	7,451
Operating surplus earnings	**3,802**	3,080	3,249	2,862	2,687
Income taxes on surplus earnings	**860**	661	651	536	536
Surplus earnings before member dividends	**2,942**	2,419	2,598	2,326	2,151
Member dividends	**387**	330	317	253	202
Tax recovery on member dividends	**(103)**	(85)	(85)	(68)	(54)
Net surplus earnings for the year after member dividends	**$ 2,658**	$ 2,174	$ 2,366	$ 2,141	$ 2,003
Of which:					
Group's share	**$ 2,515**	$ 2,090	$ 2,320	$ 2,100	$ 1,960
Non-controlling interests' share	**143**	84	46	41	43

(1) Data have been reclassified to conform to the current year's presentation.
(2) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 16, “Leases”, on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(3) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, “Financial instruments”, IFRS 15, “Revenue from contracts with customers”, and amendments to IFRS 4, “Insurance contracts”, on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

Table 59 – Selected Financial measures

As at December 31 or for the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019	2018[1]	2017[1][2]
Tier 1A capital ratio[3]	**21.1 %**	21.9 %	21.6 %	17.3 %	18.0 %
Tier 1 capital ratio[3]	**21.1**	21.9	21.6	17.3	18.0
Total capital ratio[3]	**22.1**	22.6	21.6	17.6	18.4
Leverage ratio[3]	**8.5**	8.5	8.8	8.3	8.5
Liquidity coverage ratio[4]	**140**	157	130	122	121
Net Stable Funding Ratio[4]	**129**	N/A	N/A	N/A	N/A
Net interest margin[5]	**2.06**	2.38	2.47	2.45	2.39
Return on equity[6]	**8.9**	8.3	9.9	9.3	9.1
Productivity index[5]	**71.2**	67.8	69.0	69.8	71.0
Credit loss provisioning rate[6]	**0.03**	0.41	0.18	0.21	0.20
Gross credit-impaired loans[7] /gross loans and acceptances ratio[6]	**0.47**	0.62	0.56	0.54	0.25
Assets under administration[6]	**$ 482,911**	$ 458,177	$ 437,000	$ 374,178	$ 423,574
Assets under management[6]	**91,258**	77,474	67,553	57,448	58,220
Average assets[6]	**383,204**	342,354	307,220	287,593	269,938
Average net loans and acceptances[6]	**221,317**	207,727	196,628	183,822	171,361
Average deposits[6]	**234,571**	214,148	189,889	178,658	169,219
Risk-weighted assets[3]	**134,518**	120,101	113,861	129,474	116,487

(1) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 16, “Leases”, on January 1, 2019, on a retrospective basis without restatement of comparative periods.

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

(3) In accordance with the guideline on adequacy of capital base standards for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, “Capital Management”.

(4) In accordance with the Liquidity Adequacy Guideline issued by the AMF, see Section 4.0, “Risk Management”.

(5) For more information on non-GAAP ratios, see the section “Non-GAAP and other financial measures” on pages 4 to 8.

(6) For more information on supplementary financial information, see the Glossary on pages 117 to 124.

(7) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

Glossary

Acceptance

Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

Actuarial liabilities

Amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses.

Allowance for credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Amortized cost

For a financial asset or a financial liability, represents the historical cost at initial recognition, decreased or increased by amortization and any differences that made it fluctuate from initial recognition to maturity.

Annuity premium

Amount invested by a policyholder in order to receive annuity payments, immediately or after an accumulation period.

Assets under administration

Assets administered by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of such assets are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions.

Assets under management

Assets managed by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of assets under management include selecting investments and offering investment advice. Assets under management may also be administered by the financial institution. In such case, they are included in assets under administration.

***Autorité des marchés financiers* (AMF)**

Organization whose mission is to enforce the laws governing the financial industry in Québec, particularly in the areas of insurance, securities, deposit-taking institutions and financial product and service distribution.

Average assets

Average of assets presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average deposits

Average of deposits presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average equity before non-controlling interests

Average of equity before non-controlling interests presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average gross loans and acceptances

Average of loans, including clients' liability under acceptances, presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average net loans and acceptances

Average of loans, including clients' liability under acceptances, net of the allowance for credit losses presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Basis point

Unit of measure equal to one one-hundredth of a percent (0.01%).

Bond

Certificate evidencing a debt under which the issuer promises to pay the holder a specified amount of interest for a specified period of time, and to repay the borrowing at maturity. Generally, assets are pledged as security for the borrowing, except in the case of government or corporate bonds. This term is often used to describe any debt security.

Capital ratios

Ratio determined by dividing regulatory Tier 1A capital, Tier 1 capital or total regulatory capital by risk-weighted assets. These measures are defined in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF.

Catastrophe and notable event

– Catastrophe

In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the cost is deemed significant since it reaches a minimum threshold, established annually Desjardins Group's management, for the reinsurance program retention.

- Natural catastrophes can take many forms and include, but are not limited to, hurricanes, tornados, windstorms, hailstorms, heavy rainfalls, ice storms, floods, extreme weather conditions and wildfires.
- Catastrophes other than natural catastrophes include, but are not limited to, terrorist acts, riots, explosions, crashes, train wrecks, large-scale cyber attacks.

– Notable event

In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the impact on the loss ratio and claims frequency is deemed significant by Desjardins Group's management.

Commitment

– Direct commitment

Any agreement entered into by a Desjardins Group component with a natural or legal person creating a on- or off-balance sheet exposure, either disbursed or non-disbursed, revocable or irrevocable, with or without condition, that may lead to losses for the component if the debtor is unable to meet its obligations.

– Indirect commitment

Any financial receivable creating a credit exposure that is acquired by a Desjardins Group component in connection with a purchase on the market or the delivery of a financial asset pledged as collateral by a client or a counterparty, whose value may change in particular as a result of the deterioration of the creditworthiness of the counterparty associated to this receivable or changes in market prices.

Counterparty and issuer risk

Credit risk related to different types of securities, derivative financial instruments and securities lending transactions.

Covered bond

Full recourse on-balance sheet bond issued by a financial institution and secured by assets, comprised mainly of mortgage loans, over which investors enjoy a priority claim in the event of an issuer's insolvency or bankruptcy. These assets are separated from the issuer's assets in the event of the issuer's insolvency or bankruptcy and belong to a bankruptcy remote structured entity that guarantees the bond.

Credit commitment

Unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit, whose primary purpose is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Credit instrument

Credit facility offered in the form of a loan or other financing vehicle recognized in the Combined Balance Sheets or in the form of an off-balance sheet product. Credit instruments include credit commitments, documentary letters of credit as well as guarantees and standby letters of credit.

Credit loss provisioning rate

Provision for credit losses expressed as a percentage of average gross loans and acceptances.

Credit risk

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.

Credit valuation adjustment

Adjustment representing the market value of a potential loss on over-the-counter derivatives due to counterparty risk.

Defined benefit pension plan

Pension plan guaranteeing each participant a defined level of retirement income that is often based on a formula set by the plan in terms of the participant's salary and years of service.

Derivative financial instrument, or derivative

Financial contract whose value fluctuates based on an underlying asset, but that does not require holding or delivering the underlying asset itself. Derivatives are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and financial indexes.

Desjardins Group (Desjardins) component

Cooperative or subsidiary that is part of Desjardins Group.

Documentary letter of credit

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

Economic capital

Amount of capital that an institution must maintain, in addition to anticipated losses, to ensure its solvency over a certain horizon and at a high confidence level.

Effective interest rate

Rate determined by discounting total future cash flows, including those related to commissions paid or received, premiums or discounts and transaction costs.

Effective tax rate

Income tax expense on surplus earnings expressed as a percentage of operating surplus earnings.

Environmental or social risk

Risk that the impact of an environmental or social event or issue in connection with Desjardins Group’s operations or its financing, investing or insurance activities could result in financial losses or damage Desjardins Group’s reputation.

Exposure at default

Estimate of the amount of a given exposure at time of default. For balance sheet exposures, it corresponds to the balance as at observation time. For off-balance sheet exposures, it includes an estimate of additional draws that may be made between observation time and default.

Fair value

Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date.

Fair value measurement

Measurement to determine the approximate value at which financial instruments could be traded in a current transaction between willing parties.

Foreign exchange risk

Risk that 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.

Forward contract

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are tailored and traded over the counter.

Forward exchange contract

Contractual commitment to sell or purchase a fixed amount of foreign currency on a specified future date and at a predetermined exchange rate.

Futures contract

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are standardized and exchange-traded.

Gross credit-impaired loan

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated cash flows of that financial asset have occurred. A financial asset is therefore considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant. The definition of default is associated with an instrument for which contractual payments are 90 days past due, in addition to certain other criteria.

Gross credit-impaired loans/gross loans and acceptances

Gross credit-impaired loans expressed as a percentage to total gross loans and acceptances.

Gross premiums written

In property and casualty insurance, the premiums stipulated in insurance policies issued during the year. In life and health insurance, insurance or annuity premiums for the policies or certificates issued during the year.

Group insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance. The premium is directly proportional to the number of insured persons and the coverage chosen by the policyholder.

Guarantee and standby letter of credit

Irrevocable commitment by a financial institution to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans.

Hedge fund

Investment fund offered to accredited investors. A hedge fund manager enjoys great latitude with respect to the investment strategies to be used, which may include selling short, leverage, program trading, swaps, arbitrage and derivatives.

Hedging

Transaction designed to reduce or offset Desjardins Group's exposure to one or more financial risks that involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

Incremental risk charge (IRC)

Additional capital charge related to default and migration risks of positions with issuer risk in trading portfolios.

Indemnification commitment related to securities lending

Commitment made to members and clients with whom Desjardins Group entered into securities lending agreements and intended to ensure that the fair value of the securities lent will be reimbursed if the borrower does not return the borrowed securities or if the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

Individual insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The cost of insurance portion of the premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance contract liabilities

Provision representing the amount of an insurance company's commitments toward all insureds and beneficiaries, established to guarantee the payment of benefits.

Insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance risk

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

Insurance sales

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to annualized gross new premiums under group and individual insurance policies.

Internal Model Method

Approach used to calculate, with internal models, risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on different risk measures, such as Value at Risk, stressed Value at Risk and the incremental risk charge (IRC).

Internal Ratings-Based Approach

Approach under which risk weighing is based on the type of counterparty (individuals, small or medium-sized business, large corporation, etc.) and risk-weighting factors determined using internal parameters: the borrower's probability of default, loss given default, effective maturity and exposure at default.

Large loss

In property and casualty insurance, single claim having a significant cost.

Legal and regulatory risk

Risk associated with the non-compliance by Desjardins Group with obligations arising from the interpretation or application of a legislative or regulatory provision or a contractual commitment, which could have an impact on the conduct of its operations, its reputation, its strategies and its financial objectives.

Leverage ratio

Ratio determined by dividing Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items.

Liquidity coverage ratio

Basel III metric representing a liquidity standard that measures the sufficiency of high quality liquid assets available to face net short-term financial obligations over a 30 day period in an acute liquidity stress scenario.

Liquidity risk

Risk related 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.

Loss given default

Economic loss that may be incurred should the borrower default, expressed as a percentage of exposure at default.

Market risk

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.

Master netting agreement

Standard agreement developed to reduce the credit risk of multiple derivative transactions by creating a legal right to set off the obligations of a counterparty in the event of default.

Matching

Process of adjusting asset, liability and off-balance sheet item maturities in order to reduce risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

Member dividend

As a cooperative financial group, Desjardins Group distributes to its members a portion of its surplus earnings for a given year, taking into account its financial capacity. This distribution, called member dividend, is paid by the caisses and tailored to each member based on the use they make of their cooperative's financial services.

Morbidity rate

Probability that a person of a given age will suffer an illness or disability. The accident/health insurance premium paid by a person belonging to a particular age group is based on this group's morbidity rate.

Mortality rate

Rate of death in a particular group of persons. The life insurance premium paid by a person belonging to a particular age group is based on this group's mortality rate.

Mortgage-backed security

Security created through the securitization of a pool of residential mortgage loans under the *National Housing Act*.

Net interest income

Difference between what a financial institution receives on assets such as loans and securities and what it pays out on liabilities such as deposits and subordinated bonds.

Net premiums

In property and casualty insurance, premiums earned for a given period, net of reinsurance premiums. In life and health insurance, comprise insurance premiums and annuity premiums, net of reinsurance premiums.

Net sales of savings products

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to sales of group and individual savings products manufactured and distributed by segment entities, and is comprised of on- or off-balance sheet deposits, less redemptions.

Notional amount

Reference amount used to calculate payments for instruments such as forward rate agreements and interest rate swaps. This amount is called "notional" because it does not change hands.

NVCC subordinated notes

Securities that meet the non-viability contingent capital (NVCC) requirements set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, in particular securities issued by the *Fédération des caisses Desjardins du Québec* (the Federation) with a clause providing for their automatic conversion into capital shares of the Federation upon the occurrence of a trigger event as defined in the guideline.

Off-balance sheet exposure

Includes guarantees, commitments, derivatives and other contractual agreements whose total notional amount may not recognized on the balance sheet.

Office of the Superintendent of Financial Institutions (OSFI)

Organization whose mission is to enforce all laws governing the financial industry in Canada, particularly as concerns banks, insurance companies, trust companies, loan companies, cooperative credit associations, fraternal companies and private pension plans subject to federal oversight.

Operational risk

Risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses or failure to achieve objectives and takes into account the impact of failures on the achievement of the strategic objectives of the relevant component or Desjardins Group, as the case may be.

Option

Contractual agreement that grants the right, but not the obligation, to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

Other retail client exposures

In accordance with the regulatory capital framework, risk category that includes all loans granted to individuals except for exposures related to residential mortgage loans and qualifying revolving retail client exposures.

Pension plan

Contract under which participants receive retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made either by the employer alone or by both the employer and the participants.

Pension plan risk

Risk of loss resulting from pension plan commitments made by Desjardins Group for the benefit of its employees. This risk basically arises from rate, price, foreign exchange and longevity risks.

Permanent share or capital share

Equity security offered to Desjardins caisse members.

Price risk

Risk of potential loss resulting from a change in the market value of assets (shares, commodities, real estate properties, index-based assets) but not resulting from a change in interest or foreign exchange rates or in the credit quality of a counterparty.

Probability of default

Probability that a borrower defaults on his obligations over a period of one year.

Qualifying revolving retail client exposures

In accordance with the regulatory capital framework, risk category that includes credit card loans and unsecured credit margins granted to individuals.

Ratio of fringe benefits to total base compensation

Fringe benefits expressed as a percentage of salaries.

Regulatory capital

In accordance with the definition set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, the regulatory capital under Basel III comprises Tier 1A capital, Tier 1 capital and Tier 2 capital. The composition of these various tiers is presented in the “Capital management” section of the Management's Discussion and Analysis.

Regulatory funds

Funds needed to cover unexpected losses, calculated according to parameters and methods prescribed by regulatory authorities.

Reinstatement premium

Premium payable to restore the original reinsurance coverage limit that has been reduced by the occurrence of a catastrophe. Reinstatement premiums are recognized in net premiums.

Reinsurance treaty

Agreement whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the treaty, the original insurer remains fully liable to its policyholders for the insurance obligations.

Repurchase agreement

Agreement involving both the sale of securities for cash and the repurchase of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Reputation risk

Risk that a negative perception by the stakeholders, whether or not justified, of Desjardins Group's practices, actions or lack of action could have an unfavourable impact income and equity, and the trust that Desjardins Group inspires.

Return on equity / Adjusted return on equity

Return on equity is equal to surplus earnings before member dividends, excluding the non-controlling interests' share, expressed as a percentage of average equity before non-controlling interests.

Adjusted return on equity is equal to surplus earnings before member dividends, excluding the non-controlling interests' share and specific items, expressed as a percentage of average equity before non-controlling interests and excluding specific items.

Reverse repurchase agreement

Agreement involving both the purchase of securities for cash and the sale of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Risk-weighted assets

Assets adjusted based on a risk-weighting factor prescribed by regulations to reflect the level of risk associated with items presented in the Combined Balance Sheets. Some assets are not weighted, but rather deducted from capital. The calculation method is defined in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF. For more details, see the "Capital management" section of the Management's Discussion and Analysis.

Scaling factor

Adjustment representing 6.0% of assets valuated according to the Internal Ratings-Based Approach, applied to credit exposures in compliance with section 1.3 of the AMF guideline on the capital adequacy standards applicable to financial services cooperatives.

Securitization

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities.

Security borrowed or purchased

Security typically borrowed or purchased to cover a short position. The borrowing or purchase usually requires that an asset, taking the form or cash or highly rated securities, be pledged as collateral by the borrower.

Security lent or sold

Security typically lent or sold to cover a short position of the borrower. The loan or sale usually requires that an asset, taking the form or cash or highly rated securities, be pledged as collateral by the borrower.

Security sold short

Commitment by a seller to sell a security it does not own. Typically, the seller initially borrows the security to deliver it to the purchaser. At a later date, the seller buys an identical security to replace the borrowed security.

Segregated fund

Type of fund offered by insurance companies through a variable contract that provides the contract holder with a number of guarantees, such as principal repayment upon death. Segregated funds encompass a range of categories of securities and are designed to meet a variety of investment objectives. Segregated fund deposits represent amounts invested by clients. Segregated funds are comprised of investment funds with capital guaranteed upon death or at maturity.

Segregated fund deposits

Amounts paid by annuity contract holders in order to invest in segregated funds. Individual annuity contracts provide for a guarantee of the principal on death or at maturity.

Standardized Approach

- Credit risk

  Default approach used to calculate risk-weighted assets. Under this method, the financial institution uses valuations performed by external credit assessment institutions recognized by the AMF to determine the risk-weighting factors related to the various exposure categories.

- Market risk

  Default approach used to calculate risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on predefined rules such as those on the size and nature of the financial instruments held.

– Operational risk

  Risk measurement approach used to assess the capital charge for operational risk. For this measurement, activities are divided into predefined business lines for a financial institution. The capital charge is calculated by multiplying each business line's gross income by a specific factor. The total capital charge represents the three-year average of the summation of the capital charges across each of the business lines in each year.

Strategic risk

Risk of loss of value attributable to the occurrence of external and internal events or the implementation of inadequate strategies that might prevent the relevant component or Desjardins Group from achieving its strategic objectives.

Stressed Value at Risk (VaR)

Value calculated in the same way as the Value at Risk, except for the historical data used, which are for a one-year stress period.

Structural interest rate risk

Risk related to the potential impact of interest rate fluctuations on net interest income and the economic value of equity.

Structured entity

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

Subordinated note

Unsecured note whose repayment in the event of liquidation is subordinated to the prior repayment of certain other creditors.

Subsidiary

Company controlled by the Federation.

Swap

Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

TLAC leverage ratio

Ratio determined by dividing the sum of regulatory capital, as previously defined, and instruments that meet the eligibility criteria set out in the *Total loss absorbing capacity* guideline issued by the AMF (the TLAC guideline) by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items.

TLAC ratio

Ratio determined by dividing total regulatory capital, as previously defined, and instruments that meet the eligibility criteria set out in the *Total loss absorbing capacity* guideline issued by the AMF (the TLAC guideline) by risk-weighted assets.

Underwriting experience

In life and health insurance, the difference between actual results and actuarial assumptions used to determine premiums or actuarial liabilities, as applicable.

Unused exposure

Amount of credit authorizations offered in the form of margins or loans that is not yet used.

Used exposure

Amount of funds invested in or advanced to a member or client.

Value at Risk (VaR)

Estimate of the potential loss over a certain period of time at a given confidence level, calculated using historical data for a one-year interval.