Desjardins

Financial Report

Third quarter of 2021

Desjardins Group posts surplus earnings of $816 million for the third quarter of 2021

FINANCIAL HIGHLIGHTS

(in millions of dollars and as a percentage)	As at and for the three-month periods ended			As at and for the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Results					
Net interest income	**$ 1,476**	$ 1,452	$ 1,464	**$ 4,331**	$ 4,185
Net premiums	**2,905**	2,587	2,534	**8,077**	7,294
Other operating income[1]	**869**	830	645	**2,494**	2,090
Operating income[1]	**5,250**	4,869	4,643	**14,902**	13,569
Investment income (loss)[1]	**(114)**	909	161	**(953)**	2,540
Total income	**5,136**	5,778	4,804	**13,949**	16,109
Provision for (recovery of) credit losses	**52**	(3)	99	**53**	694
Claims, benefits, annuities and changes in insurance contract liabilities	**1,713**	2,191	1,775	**3,698**	7,452
Non-interest expense	**2,288**	2,377	1,954	**6,830**	5,965
Income taxes on surplus earnings	**267**	278	247	**819**	455
Surplus earnings before member dividends	**$ 816**	$ 935	$ 729	**$ 2,549**	$ 1,543
Contribution to combined surplus earnings by business segment[2]					
Personal and Business Services	**$ 401**	$ 397	$ 445	**$ 1,212**	$ 950
Wealth Management and Life and Health Insurance	**109**	235	140	**469**	360
Property and Casualty Insurance	**289**	330	155	**867**	244
Other	**17**	(27)	(11)	**1**	(11)
	$ 816	$ 935	$ 729	**$ 2,549**	$ 1,543
Return to members and the community					
Member dividends	**$ 90**	$ 90	$ 80	**$ 270**	$ 237
Sponsorships, donations and bursaries[3]	**20**	20	14	**52**	44
Desjardins Member Advantages program	**4**	5	10	**13**	33
	$ 114	$ 115	$ 104	**$ 335**	$ 314
Indicators					
Net interest margin[1][4]	**2.07 %**	2.09 %	2.22 %	**2.09 %**	2.27 %
Return on equity[1]	**9.6**	11.5	9.9	**10.5**	7.2
Productivity index[1]	**66.8**	66.3	64.5	**66.6**	68.9
Credit loss provisioning rate[2]	**0.09**	(0.01)	0.19	**0.03**	0.45
Gross credit-impaired loans/gross loans and acceptances[1]	**0.52**	0.55	0.64	**0.52**	0.64
Liquidity Coverage Ratio[5]	**150**	151	157	**150**	157
Net Stable Funding Ratio	**132**	134	N/A	**132**	N/A
On-balance sheet and off-balance sheet					
Assets	**$ 390,641**	$ 389,278	$ 359,887	**$ 390,641**	$ 359,887
Net loans and acceptances	**227,027**	222,023	209,931	**227,027**	209,931
Deposits	**239,677**	238,670	225,820	**239,677**	225,820
Equity	**33,603**	32,719	29,418	**33,603**	29,418
Assets under administration	**480,578**	485,806	446,812	**480,578**	446,812
Assets under management[6]	**90,527**	85,360	73,118	**90,527**	73,118
Capital measures					
Tier 1A capital ratio	**21.2 %**	21.4 %	21.4 %	**21.2 %**	21.4 %
Tier 1 capital ratio	**21.2**	21.4	21.4	**21.2**	21.4
Total capital ratio	**22.4**	22.6	22.1	**22.4**	22.1
Leverage ratio	**8.7**	8.5	8.3	**8.7**	8.3
Risk-weighted assets	**$ 135,334**	$ 130,514	$ 120,603	**$ 135,334**	$ 120,603
Other information					
Number of employees	**52,827**	52,056	48,791	**52,827**	48,791

(1) See "Non-GAAP measures".

(2) The breakdown by line item is presented in Note 10, "Segmented information", to the Interim Combined Financial Statements.

(3) Including $8 million from the caisses' Community Development Fund ($10 million for the second quarter of 2021, $6 million for the third quarter of 2020, $23 million for the first nine months of 2021 and $20 million for the first nine months of 2020).

(4) Data for 2020 have been reclassified to conform to the current period's presentation because of a refinement in methodology.

(5) The ratio is presented based on the average of daily data during the quarter. The change of calculation method during the third quarter of 2021 did not have a significant impact on the value of the ratio.

(6) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.

MESSAGE FROM SENIOR MANAGEMENT

Lévis, November 12, 2021 – For the third quarter ended September 30, 2021, Desjardins Group, the largest financial cooperative group in North America, posted surplus earnings before member dividends of $816 million, up $87 million, or 11.9%, compared to the corresponding quarter of 2020. Growth in surplus earnings was mainly due to the lower loss experience for the Property and Casualty Insurance segment, solid performance from the caisse network and a decline in the provision for credit losses. This increase was offset by an increase in non-interest expense, largely due to amounts invested in Desjardins-wide strategic projects.

This result reflects the contribution of $401 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $109 million and $289 million, respectively, to surplus earnings.

The total amount returned to members and the community was $114 million in the third quarter of 2021, including a $90 million provision for member dividends, $20 million in the form of sponsorships, donations and bursaries, of which $8 million was from the caisses' Community Development Fund, and $4 million paid out through the Desjardins Member Advantages program, compared to a total amount returned to members and the community of $104 million for the corresponding period of 2020. In addition to this, commitments totalling $4 million were made for the third quarter of 2021 in connection with the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions.

During the quarter, Desjardins Group launched its debut issue of $500 million in sustainable bonds on the Canadian market. This initial issue is part of a broader program that should lead Desjardins to solicit the sustainable bond market on a number of occasions in the next few years.

Desjardins Group complies with Basel III rules and maintains very good capitalization. As at September 30, 2021, Desjardins Group's Tier 1A and total capital ratios were 21.2% and 22.4%, respectively, compared to 21.9% and 22.6%, respectively, as at December 31, 2020.

"Desjardins Group's excellent results for the third quarter continue the trend established early this year," said Desjardins President and CEO Guy Cormier. "Surplus earnings and member dividends were both up, due primarily to strong performance in the caisse network and a lower claims rate in property and casualty insurance. I'm proud of the work accomplished by the entire Desjardins Group team as well as our efforts to ensure a green socioeconomic recovery. With our various commitments to carbon neutrality, we are also invested in the fight against climate change more than ever before".

ENHANCED DISCLOSURE TASK FORCE RECOMMENDATIONS INDEX

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

Information regarding the EDTF recommendations is presented in the 2020 Annual Report, the interim financial report for the third quarter of 2021 and the documents "Supplemental Financial Information" and "Pillar 3 Report", which are available on Desjardins Group's website at www.desjardins.com/ca/about-us/investor-relations. The documents "Supplemental Financial Information" and "Pillar 3 Report" are not incorporated by reference in this Management's Discussion and Analysis (MD&A).

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

				Third quarter of 2021		
Type of risk	Recommendation	Disclosure	2020 Annual Report	Interim Financial Report	Supplemental Financial Information	Pillar 3 Report
General	1	Summary of risk information	XXX	Current page		
	2	Risk terminology, risk measures and key parameters	65-70, 233-240		53-54	21-23
	3	Principal and emerging risks	53, 54, 62, 63, 70-72, 88	13, 14, 35, 36		
	4	New regulatory ratios	53-56, 88-94, 193, 194	31, 32, 44, 45, 47-49	7, 8	
Risk governance, risk management and business models	5	Organizational risk management structure	66-70			
	6	Risk management culture	66-70			
	7	Risks from business model and risk appetite	12, 32-43, 53, 57-59, 65-72			
	8	Stress testing	66			
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	53-55	31		6-8, 15, 16
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	55, 56, 193, 194	32, 33	6, 7, 9	9, 10, 15
	11	Movements in regulatory capital	55, 56	33	7	
	12	Capital management and planning	53-56	30-34	6	
	13	Risk-weighted assets by business segments	57-59, 71		10, 11	5
	14	Breakdown of capital requirements by type of risk and by calculation method	57-59, 76, 77, 84,85	33, 34	10, 11	5
	15	Credit risk		33, 34	23-47	14
	16	Movements in risk-weighted assets by type of risk	59	33, 34	12-14	14
	17	Back testing and validation of credit models	76		44	
Liquidity	18	Management of liquidity needs and reserve	88-94	44-49		17
Funding	19	Encumbered and unencumbered assets	90-94, 198-200	46-48		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	91-93, 200-204	50, 53-56		
	21	Funding sources and strategies	52, 88, 91-93	44, 45, 50		
Market risk	22	Reconciliation of market risk measures to balance sheet	83, 84	40, 41		
	23	Market risk factors	82-87, 177, 178	39-44		
	24	Assumptions, limitations and validation procedures for market risk models	84-86	41-43		
	25	Extreme loss measures	53, 66, 84-86	41-43		
Credit risk	26	Credit risk profile	51, 52, 63, 64, 66, 76, 77, 79-82	29, 36-39	23-52	14
	27	Policy for identifying gross credit-impaired loans	78, 121-139			
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	51, 52, 78-81, 121-139, 152-160	29, 36-39, 76-82		
	29	Counterparty risk related to derivatives	81, 82, 182-191			
	30	Credit risk mitigation techniques	77, 81, 82, 182-191		23-25	
Other risks	31	Management of other risks	57-59, 68-71, 94-99	34-36		
	32	Publicly known risk events	95, 198-200			

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Management's Discussion and Analysis (MD&A) dated November 12, 2021, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended September 30, 2021, in comparison to previous periods. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* (Regulation 52-109) 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 the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Combined Financial Statements (the Interim Combined Financial Statements), including the notes thereto, as at September 30, 2021, and Desjardins Group's 2020 Annual Report (the 2020 Annual Report), which contains the MD&A and the audited Annual Combined Financial Statements (the Annual Combined Financial Statements).

Additional information about Desjardins Group is available on the SEDAR website at www.sedar.com (under the Desjardins Capital Inc. profile and, since first quarter 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. Further information is available on the Desjardins website at www.desjardins.com/ca/about-us/investor-relations. None of the information presented on these sites is incorporated by reference into this MD&A.

The Annual and Interim Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the AMF in Québec, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). These Interim Combined Financial Statements of Desjardins Group have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". All the accounting policies have been applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements, except for the amendments to IFRS 9, IAS 39 and IFRS 7, adopted on January 1, 2021, as part of Phase 2 of the interest rate benchmark reform project and described in Note 2, "Significant accounting policies", to the Interim Combined Financial Statements.

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements, within the meaning of applicable securities legislation, particularly in Québec, Canada and the United States. Forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications.

Forward-looking statements include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and financial markets, the outlook for the Québec, Canadian, U.S. and global economies, as well as 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 "believe", "expect", "anticipate", "intend", "estimate", "plan", "forecast", "aim", "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. It is therefore possible that, due to many factors, the assumptions made may be incorrect, or the predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Furthermore, the uncertainty created by the COVID-19 pandemic has sharply increased this risk by generating additional difficulties in determining assumptions, forecasts, projections or other forward-looking statements compared to previous periods.

Readers are cautioned not to rely unduly on the 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 forward-looking statements in this MD&A. These factors include those discussed in the "Risk management" section and under "COVID-19 pandemic" in the "Significant events" section of Desjardins Group's 2020 annual MD&A and this MD&A for the third quarter of 2021, such as credit, market, liquidity, operational, insurance, strategic and reputation risk, the risk related to pension plans, environmental or social risk, and legal and regulatory risk.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to the COVID-19 pandemic, climate change, government, corporate and household indebtedness, technological advancements and regulatory developments, interest rate fluctuations and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; security breaches; 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; and credit ratings. Other factors include amendments to tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact 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, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment. Additional information about these factors is found in the "Risk management" section and under "COVID-19 pandemic" in the "Significant events" section of Desjardins Group's 2020 annual MD&A and this MD&A for the third quarter of 2021.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of Desjardins Group's 2020 annual MD&A.

Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable and founded on valid bases, it cannot guarantee that these expectations will materialize or prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions, given that actual results, conditions, actions or future events could differ significantly from the targets, expectations, estimates or intentions advanced in them, explicitly or implicitly. Readers who rely on these 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 document are described in Section 1.5 "Economic environment and outlook" of Desjardins Group's 2020 annual MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section. To develop our economic growth forecasts, in general and for the financial services sector, we mainly use historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies. Given how the COVID-19 pandemic has developed and its impact on the global economy and financial market conditions, as well as on Desjardins Group's business operations, financial results and financial position, greater uncertainty is attached to our economic assumptions compared to previous periods, such assumptions being based on uncertain future developments and considering the difficulty of anticipating the extent of the pandemic's long-term effects.

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

SIGNIFICANT EVENTS

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 mainly 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 curfews. 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.

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. Since September 2021, some provinces, including Québec and Ontario, have made it mandatory to provide proof of vaccination in order to enter certain establishments open to the general public. 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 that have been in effect since March 16, 2020 are still in place and evolving in order to offer solutions at all times for members and clients in financial difficulty, by providing solutions tailored to their needs.

Details on the measures taken by Desjardins Group may be found under "COVID-19 pandemic" in Section 1.3 "Significant events" of Desjardins Group's 2020 annual MD&A.

The table below presents, as at September 30, 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 September 30, 2021**
Residential mortgages and consumer loans	**176,545**	**$19.7 billion**	**$2.1 billion**
Credit card and other personal loans	**167,665**	**$1.7 billion**	**$2 million**
Business loans	**35,312**	**$17.2 billion**	**$0.9 billion**
Insurance	**Number**	**Value of refund**	
Auto insurance premium refund	**2,151,000**	**$155 million**	

Desjardins also 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.

- Business Development Bank of Canada (BDC) Co-Lending Program:
  - As at September 30, 2021, 138 loans totalling $87 million had been granted to Desjardins Group members and clients since the beginning of the co-lending program. Members and clients can take advantage of this program until December 31, 2021.
- BDC Highly Affected Sectors Credit Availability Program (HASCAP):
  - As at September 30, 2021, 175 loans totalling $37 million had been granted to Desjardins Group members and clients since the beginning of the program. Members and clients can take advantage of this program until December 31, 2021.
- Loan guarantees for small- and medium-sized enterprises (EDC):
  - As at September 30, 2021, 136 loans totalling $86 million had been granted to Desjardins Group members and clients since the start of this program. Members and clients can take advantage of this program until December 31, 2021.
- Concerted temporary action program for businesses (PACTE) with Investissement Québec:
  - As at September 30, 2021, 211 loans totalling $77 million had been granted to Desjardins Group members and clients since the start of the PACTE program. Applications for financial assistance under this program can be submitted up to no later than four weeks after the lifting of the public health emergency or, in the case of tourism sector businesses, up to four weeks after the complete reopening of the Canada-U.S. border if this reopening occurs after the lifting of the state of emergency.

Details on these assistance programs may be found under "COVID-19 pandemic" in Section 1.3 "Significant events" of Desjardins Group's 2020 annual MD&A.

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, please see the "Capital management" section of this MD&A for the third quarter of 2021.

In addition, the Canadian government set up programs for extraordinary liquidity facilities to facilitate access to financial institution financing. Additional information on the federal government programs used by Desjardins Group may be found under "Liquidity risk" in the "Risk management" section of this MD&A for the third quarter of 2021.

Social measures and reopening of the economy

For information on the hygiene and protection measures applied by Desjardins Group since March 2020 to help limit the spread of COVID-19 and its effects as well as the initiatives implemented to promote innovation and entrepreneurship to help out businesses and community organizations, see "COVID-19 pandemic" in Section 1.3 "Significant events" of Desjardins Group's 2020 annual MD&A.

Impact of the pandemic

As mentioned in the "Economic environment and outlook" section 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 effect on Desjardins Group's operations, operating results, profitability, reputation and financial position for an undetermined, considerable period of time. Desjardins Group is continuing to monitor developments in the COVID-19 pandemic and the potential detrimental effects on its operations. The pandemic's repercussions on the economy and the markets as well as on Desjardins' 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, vaccines' long-term efficacy, as well as the possibility of subsequent waves or the emergence of new variants that could force the closure of certain sectors of the economy, or result in additional closures or a tightening of lockdown measures by government authorities. More information on the impact of the pandemic may be found under "COVID-19 pandemic" in Section 1.3 "Significant events" of Desjardins Group's 2020 annual MD&A.

The COVID-19 pandemic has led to, or could lead to, an increase in some of the risks described in the "Risk management" section of this MD&A and of Desjardins Group's 2020 annual MD&A, including credit, market and liquidity risks, operational risk and insurance risk. The COVID-19 pandemic and its associated risks are the main situation being monitored by Desjardins Group. For details about the impact of the pandemic on risks, see the "Risk management" section of this MD&A and Desjardins Group's 2020 annual MD&A.

Desjardins Group released its medium-term financial objectives in its 2020 Annual Report. The environment of great uncertainty due to the COVID-19 pandemic could continue to affect the global economy and global markets as well as Desjardins Group's operations, results and financial position in 2021. The key medium-term indicators presented in the 2020 Annual Report did not take into account the possible repercussions of the COVID-19 pandemic or other extraordinary events on Desjardins Group's ability to achieve its medium-term financial objectives.

NON-GAAP MEASURES

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

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

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

Productivity index

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Non-interest expense	**$ 2,288**	$ 2,377	$ 1,954	**$ 6,830**	$ 5,965
Total income	**5,136**	5,778	4,804	**13,949**	16,109
Claims, benefits, annuities and changes in insurance contract liabilities	**(1,713)**	(2,191)	(1,775)	**(3,698)**	(7,452)
Total income excluding claims	**$ 3,423**	$ 3,587	$ 3,029	**$ 10,251**	$ 8,657
Productivity index	**66.8 %**	66.3 %	64.5 %	**66.6 %**	68.9 %

Net interest margin

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

Gross credit-impaired loans/gross loans and acceptances

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

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

Loss ratio – Expense ratio – Combined ratio

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

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

The loss ratio is comprised of the following ratios:

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

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

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Net premiums	**$ 1,505**	$ 1,464	$ 1,436	**$ 4,396**	$ 4,028
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 763**	$ 683	$ 880	**$ 2,131**	$ 2,948
Market yield adjustment (MYA)	**18**	(9)	(14)	**126**	(255)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 781**	$ 674	$ 866	**$ 2,257**	$ 2,693
Loss ratio	**51.9 %**	46.0 %	60.3 %	**51.3 %**	66.9 %
Non-interest expense	**$ 359**	$ 370	$ 326	**$ 1,056**	$ 972
Other expenses excluded from the expense ratio[1]	**(3)**	(3)	(3)	**(8)**	(7)
Operating expenses	**$ 356**	$ 367	$ 323	**$ 1,048**	$ 965
Expense ratio	**23.7 %**	25.1 %	22.5 %	**23.8 %**	24.0 %
Combined ratio	**75.6 %**	71.1 %	82.8 %	**75.1 %**	90.9 %

(1) Comes mainly from investment management expenses.

Return on equity

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Surplus earnings before member dividends	**$ 816**	$ 935	$ 729	**$ 2,549**	$ 1,543
Non-controlling interests' share	**(34)**	(39)	(21)	**(103)**	(41)
Group's share	**$ 782**	$ 896	$ 708	**$ 2,446**	$ 1,502
Average equity before non-controlling interests' share	**$ 32,305**	$ 31,367	$ 28,399	**$ 31,244**	$ 27,931
Return on equity[1]	**9.6 %**	11.5 %	9.9 %	**10.5 %**	7.2 %

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

Income

Operating income

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

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

Investment income

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

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

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Presentation of income in the Combined Financial Statements					
Net interest income	**$ 1,476**	$ 1,452	$ 1,464	**$ 4,331**	$ 4,185
Net premiums	**2,905**	2,587	2,534	**8,077**	7,294
Other income					
Deposit and payment service charges	**109**	105	96	**313**	284
Lending fees and credit card service revenues	**198**	182	126	**567**	463
Brokerage and investment fund services	**283**	285	235	**841**	711
Management and custodial service fees	**185**	177	152	**531**	449
Net investment income (loss)[1]	**(90)**	1,055	304	**(637)**	2,470
Overlay approach adjustment for insurance operations financial assets	**(24)**	(146)	(143)	**(316)**	70
Foreign exchange income	**34**	28	22	**92**	82
Other	**60**	53	14	**150**	101
Total income[2]	**$ 5,136**	$ 5,778	$ 4,804	**$ 13,949**	$ 16,109
Presentation of income in the MD&A					
Net interest income	**$ 1,476**	$ 1,452	$ 1,464	**$ 4,331**	$ 4,185
Net premiums	**2,905**	2,587	2,534	**8,077**	7,294
Other operating income					
Deposit and payment service charges	**109**	105	96	**313**	284
Lending fees and credit card service revenues	**198**	182	126	**567**	463
Brokerage and investment fund services	**283**	285	235	**841**	711
Management and custodial service fees	**185**	177	152	**531**	449
Foreign exchange income	**34**	28	22	**92**	82
Other	**60**	53	14	**150**	101
Operating income	**5,250**	4,869	4,643	**14,902**	13,569
Investment income (loss)					
Net investment income (loss)[1]	**(90)**	1,055	304	**(637)**	2,470
Overlay approach adjustment for insurance operations financial assets	**(24)**	(146)	(143)	**(316)**	70
Investment income (loss)	**(114)**	909	161	**(953)**	2,540
Total income[2]	**$ 5,136**	$ 5,778	$ 4,804	**$ 13,949**	$ 16,109

(1) The breakdown of this line item is presented in Note 9, “Net interest income and net investment income (loss)”, to the Interim Combined Financial Statements.

(2) To take into account the matching activities of the life and health insurance and property and casualty insurance subsidiaries, the change in this item must be analyzed together with the item “Claims, benefits, annuities and changes in insurance contract liabilities” in the Combined Statements of Income.

Credit loss provisioning rate

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Provision for (recovery of) credit losses	**$ 52**	$ (3)	$ 99	**$ 53**	$ 694
Average gross loans	**225,380**	219,425	209,494	**219,802**	207,469
Average gross acceptances	**150**	122	104	**196**	168
Average gross loans and acceptances	**$ 225,530**	$ 219,547	$ 209,598	**$ 219,998**	$ 207,637
Credit loss provisioning rate[1]	**0.09 %**	(0.01) %	0.19 %	**0.03 %**	0.45 %

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

DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial cooperative in North America, with assets of $390.6 billion. As at September 30, 2021, the organization included 214 caisses in Québec, as well as 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 the 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 over 52,800 employees and the commitment of more than 2,500 directors.

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 *Act respecting financial services cooperatives*. 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 *Act respecting financial services cooperatives* 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 "Additional information required pursuant to the AMF's Decision No. 2021-FS-0091".

CHANGES IN THE REGULATORY ENVIRONMENT

Desjardins Group closely monitors regulations for financial products and services, as well as new developments in fraud, corruption, tax evasion, protection of personal information, money laundering, terrorist financing, and domestic and international economic sanctions in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information can be found in the "Regulatory environment" section of Desjardins Group's 2020 annual MD&A, and the "Capital management" section presents further information on regulatory developments relating to capital. Since the release of Desjardins Group's 2020 annual MD&A, the changes in the regulatory environment described below must also be considered:

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.

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 has been passed by the National Assembly and assented to. 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. As for the federal government's Bill C-11, *An Act to enact the Consumer Privacy Protection Act and the Personal Information and Data Protection Tribunal Act and to make related and consequential amendments to other Acts,* it was dropped following the announcement of the federal election on September 20, 2021.

Pillar 3 financial disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These Pillar 3 requirements aim to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its *Base Capital Adequacy Guideline — Financial services cooperatives (*available in French only), which includes revised Pillar 3 provisions. Desjardins Group has been issuing 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. During the first two quarters of 2020, the AMF announced relief measures intended to minimize the impact of COVID-19 on Québec's financial system. These measures included, in particular, postponing the effective date of the disclosures to first quarter 2023 and the adjustment of certain existing requirements in order to include additional information on regulatory capital. The table of systemic risk indicators, which aims to present an assessment of Desjardins's relative size within the global financial system, is expected to be applicable as of the disclosure for first quarter 2022.

Report on Ontario's automobile 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. Steps to introduce a "Care, Not Cash" default clause to ensure that a driver's auto insurance coverage will pay for treatment instead of costly legal fees and reforming the flawed medical assessment process to bring credibility and accountability to the assessments that injured claimants must undergo after an accident should be prioritized. The Financial Services Regulatory Authority of Ontario (FSRA) has created a Technical Advisory Committee for Transforming Auto Insurance Rate Regulation. 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 (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) for the purpose of 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 will review the comments received by October 4, 2021 and, at the same time, the CSA will begin work on implementing the New SRO. Desjardins Group is currently analyzing the potential impact of the regulatory framework for the New SRO 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. Desjardins Group is continuing its work in order to comply with the required implementation dates. As a result of COVID-19 challenges, the in-force date is now December 31, 2021 for all elements other than the conflict of interest provisions, which came into force on June 30, 2021.

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. Desjardins Group has set up a task force 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.

Minimum qualifying rate for mortgages

On May 20, 2021, the AMF and the federal government announced changes to the minimum qualifying rate for mortgages. Since June 1, 2021, the minimum qualifying rate for insured and uninsured mortgages 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.

ECONOMIC ENVIRONMENT AND OUTLOOK

Global economy

The course of the pandemic continues to have a strong impact on global economic growth. The second and third waves of COVID-19 have had major economic repercussions in several countries. Due in part to the vaccination campaigns, an easing of health measures during the spring has accelerated economic recovery in several countries. In addition, vaccinations appear to be mitigating the negative impact of the most recent wave caused by the Delta variant. Some indicators slowed in the third quarter after picking up speed in the spring, but this should not be interpreted as signaling a new economic downturn. However, the new wave of COVID-19 has consequences beyond those related to tighter health measures or consumers' fears. By provoking more plant closures and slowdowns in production or shipping, this latest wave has exacerbated existing problems in many industries, whose supply chains have been facing challenges since the start of the pandemic. This is in addition to the pressures exerted by higher commodity prices, increased transportation costs, the scarcity of certain parts and labour shortages. For the time being, the post-COVID-19 inflationary surge is primarily a North American phenomenon, but the pressures on consumer prices are still likely to spread.

Financial markets remained positive until the end of August. However, the financial problems of Evergrande, a Chinese giant, and fears of rapidly climbing interest rates caused stock markets to plunge in September. Bond yields had declined since late winter but then jumped after the United States Federal Reserve signaled a rapid reduction in its asset purchases and more hikes in its medium-term key interest rates. Closer to home, the Bank of Canada plans to stabilize its bond holdings soon. In the final analysis, the major asset classes were relatively stable throughout the third quarter.

Market volatility may remain high over the next few months, and it should not come as a surprise if the main stock market indices enter a period of consolidation. The outlook for equity markets is nevertheless quite favourable in the medium term, as the economy is expected to grow strongly. A gradual normalization of monetary policies and significant risks around higher inflation suggest that bond yields will rise over the next few quarters, even though the first hikes in key interest rates are not expected until the second half of 2022.

United States

The American economy continues to recover from problems caused by the pandemic. Following annualized quarterly growth of 6.3% in the first quarter of 2021, the 6.7% increase in real GDP recorded for the second quarter surpassed pre-pandemic levels. However, growth was weaker in the third quarter, when the annualized change in real GDP was only 2.0%. Consumption of durable goods, business inventories, investment in equipment and exports were all affected by the supply problems experienced by the automotive sector. However, real consumption of services continued to grow at a healthy rate of 7.9% and continue to catch up. Even though real GDP surpassed pre-crisis levels, the news has not been as good from the labour market, which is still 4,204,000 workers short of the peak reached in February 2020. The unwillingness of workers to re-enter the labour market appears to be a constraint at this time even though job offers abound and the special federal unemployment insurance programs ended in September. Consumer prices accelerated sharply driven in part by rising energy costs and higher prices in the automotive sector. Inflation is likely to remain high in the near term before slowing in 2022.

Canada

Against all expectations, the Canadian economy lost ground in the second quarter of 2021, with real GDP slipping 1.1% on an annualized quarterly basis. It should be recalled that several sanitary measures implemented to counter the third wave of COVID-19 dampened economic activity in the spring. As a result, domestic demand grew by only 0.7% during the period, significantly less than in previous quarters. In addition, after reaching an all-time high in March, existing home sales and housing starts began to slow in the spring. There is every reason to believe that this slowdown will continue over the next few quarters, particularly in light of deteriorating affordability owing to strong price increases. In addition, supply problems have deeply affected certain sectors. This is particularly true of the automotive products industry, where a global shortage of semiconductor chips has become a major obstacle. As a result, most of the recent problems in the Canadian economy are due to supply constraints rather than insufficient demand. These impediments are temporary, however, and the outlook for growth over the coming quarters is quite good, especially with the vaccination campaign now nearly complete and with the imminent introduction of a national vaccination passport. Even if we can expect some ongoing volatility, real GDP should turn positive again starting in the third quarter and continue climbing thereafter. The Canadian economy may grow as much as 4.7%, followed by an increase of approximately 3.5% in 2022.

Québec

Québec real GDP had completely recovered by March 2021. The economy has since continued to grow at a more moderate rate but nevertheless reached 3.4% on an annualized basis in the second quarter. This was mainly due to a rebound in consumer spending, following a difficult start to the year due to some closures. The gradual reopening that began in the spring has finally led to a rally in spending on services. However, spending on services still has a long way to go, unlike spending on goods, which recovered quickly after the Great Lockdown in the spring of 2020. At 16.1%, the savings rate remained high in the second quarter. Households therefore have considerable flexibility to drive the recovery in spending on services. Residential investment has performed well, despite a sustained decline in resale market activity since late 2020. Strong construction starts early in the year drove new construction in the second quarter, and spending on renovations remained strong. The unemployment rate fell to 5.6% in October 2021 and is therefore approaching the 4.5% low reached in February 2020. Labour shortages and upward pressures on salaries represent a growing challenge for businesses. Even though Québec has been hit by the pandemic's fourth wave, the province was be able to avoid another period of closures due to the introduction of its vaccination passport on September 1. The outlook for the next few quarters is positive, even if there are uncertainties around the changing nature of the pandemic.

REVIEW OF FINANCIAL RESULTS

ANALYSIS OF RESULTS

Financial results and indicators

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Results					
Net interest income	**$ 1,476**	$ 1,452	$ 1,464	**$ 4,331**	$ 4,185
Net premiums	**2,905**	2,587	2,534	**8,077**	7,294
Other operating income[1]					
Deposit and payment service charges	**109**	105	96	**313**	284
Lending fees and credit card service revenues	**198**	182	126	**567**	463
Brokerage and investment fund services	**283**	285	235	**841**	711
Management and custodial service fees	**185**	177	152	**531**	449
Foreign exchange income	**34**	28	22	**92**	82
Other	**60**	53	14	**150**	101
Operating income[1]	**5,250**	4,869	4,643	**14,902**	13,569
Investment income (loss)[1]					
Net investment income (loss)	**(90)**	1,055	304	**(637)**	2,470
Overlay approach adjustment for insurance operations financial assets	**(24)**	(146)	(143)	**(316)**	70
Investment income (loss)[1]	**(114)**	909	161	**(953)**	2,540
Total income	**5,136**	5,778	4,804	**13,949**	16,109
Provision for (recovery of) credit losses	**52**	(3)	99	**53**	694
Claims, benefits, annuities and changes in insurance contract liabilities	**1,713**	2,191	1,775	**3,698**	7,452
Non-interest expense	**2,288**	2,377	1,954	**6,830**	5,965
Income taxes on surplus earnings	**267**	278	247	**819**	455
Surplus earnings before member dividends	**$ 816**	$ 935	$ 729	**$ 2,549**	$ 1,543
Contribution to combined surplus earnings by business segment[2]					
Personal and Business Services	**$ 401**	$ 397	$ 445	**$ 1,212**	$ 950
Wealth Management and Life and Health Insurance	**109**	235	140	**469**	360
Property and Casualty Insurance	**289**	330	155	**867**	244
Other	**17**	(27)	(11)	**1**	(11)
	$ 816	$ 935	$ 729	**$ 2,549**	$ 1,543
Return to members and the community					
Member dividends	**$ 90**	$ 90	$ 80	**$ 270**	$ 237
Sponsorships, donations and bursaries[3]	**20**	20	14	**52**	44
Desjardins Member Advantages program	**4**	5	10	**13**	33
	$ 114	$ 115	$ 104	**$ 335**	$ 314
Indicators					
Net interest margin[1][4]	**2.07 %**	2.09 %	2.22 %	**2.09 %**	2.27 %
Return on equity[1]	**9.6**	11.5	9.9	**10.5**	7.2
Productivity index[1]	**66.8**	66.3	64.5	**66.6**	68.9
Credit loss provisioning rate[1]	**0.09**	(0.01)	0.19	**0.03**	0.45

(1) See “Non-GAAP measures”.
(2) The breakdown by line item is presented in Note 10, “Segmented information”, to the Interim Combined Financial Statements.
(3) Including $8 million from the caisses’ Community Development Fund ($10 million for the second quarter of 2021, $6 million for the third quarter of 2020, $23 million for the first nine months of 2021 and $20 million for the first nine months of 2020).
(4) The data for 2020 have been reclassified to conform to the current period's presentation because of a refinement in methodology.

COMPARISON OF THE THIRD QUARTERS OF 2021 AND 2020

Surplus earnings

For the third quarter ended September 30, 2021, Desjardins Group posted surplus earnings before member dividends of $816 million, an $87 million, or 11.9%, increase compared to the corresponding quarter of 2020. Growth in surplus earnings was mainly due to a lower loss experience for the Property and Casualty Insurance segment, the solid performance of the caisse network and the lower provision for credit losses. This increase was offset by an increase in non-interest expense, largely due to 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 the third quarter of 2021.

- A total of $114 million was returned to members and the community, up $10 million compared to the corresponding period in 2020.
  - The provision for member dividends totalled $90 million for the quarter ended September 30, 2021, up $10 million compared to the third quarter of 2020.
  - An amount of $20 million was returned in the form of sponsorships, donations and bursaries, compared to $14 million for the same period in 2020, including $8 million in the third quarter of 2021 and $6 million in the third quarter of 2020 from the caisses' Community Development Fund.
  - Through the Desjardins Member Advantages program, $4 million was paid out, compared to $10 million for the corresponding period in 2020.
- Commitments of $4 million were made for the third quarter of 2021 with regard to the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions.

Business segment contributions to surplus earnings

- Personal and Business Services: **Surplus earnings of $401 million,** down $44 million, or 9.9%, compared to the same period in 2020, due to the increase in non-interest expense, largely due to amounts invested in Desjardins-wide strategic projects. This decrease was partly offset by the following:
  - Solid performance of the caisse network.
  - Year-over-year decrease in the provision for credit losses in the third quarter of 2021, mainly as a result of the lower net write-offs in the third quarter of 2021 compared to the comparative quarter in the previous year, particularly in the credit card portfolio.
- Wealth Management and Life and Health Insurance: **Surplus earnings of $109 million,** down $31 million, or 22.1%, compared to the third quarter in 2020, mainly due to the following:
  - The markets' less favourable impact on guaranteed investment funds than in the comparative quarter.
  - A downward revision to the travel insurance provisions made in first quarter 2020 was recognized in the third quarter of 2020.
- Property and Casualty Insurance: **Surplus earnings of $289 million,** up $134 million compared to the third quarter of 2020, as a result of:
  - Decrease in the cost of claims, particularly as a result of favourable changes in prior year claims, essentially in automobile insurance.
  - Increase in net premiums.
  - However, the third quarter of 2021 was affected by one catastrophe, a hailstorm in Alberta, while the corresponding quarter in 2020 was affected by a major event of lesser magnitude.

- **Return on equity was 9.6%,** compared to 9.9% for the quarter ended September 30, 2020.

Operating income

Operating income, which comprises net interest income, net premiums and other operating income, totalled $5,250 million, up $607 million, or 13.1%, compared to the third quarter of 2020.

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

Net interest income totalled $1,476 million, up $12 million, or 0.8%, 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:

- Decline in the average return on loans due to lower interest rates.
- Lower interest income from the securities portfolio related to treasury activities.

- **Net interest margin of 2.07%** for the quarter ended September 30, 2021, as a percentage of average interest-bearing assets, down 15 basis points compared to the same period in 2020, chiefly because of the lower interest rates and the increase in securities and liquidities generating a lower net interest margin.

Net premiums totalled $2,905 million, up $371 million, or 14.6%, compared to the third quarter of 2020, due to elements from the following segments:

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $1,475 million,** up $308 million, or 26.4%, essentially as a result of:
  - Increase of $251 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 $45 million in group insurance premiums.

Property and Casualty Insurance segment

- **Net premiums of $1,505 million,** up $69 million, or 4.8%, due essentially to the following:
  - Growth in average premium for property insurance and automobile insurance.
  - Business growth.

Other operating income stood at $869 million, up $224 million, or 34.7%, compared to the third quarter of 2020, due to the following:
- Increase in income from growth in assets under management.
- Increase in business volumes from payment activities at Desjardins Card Services.
- Smaller increase than in third quarter 2020 in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm) arising from the favourable developments in claims taken over.
- Growth in income from securities brokerage activities.
- Increase in income from deposit and payment service charges. Relief measures had been granted to members in the comparative period.
- Income from the operations of DuProprio and Purplebricks Canada.

Investment income

A loss of $114 million, presented under "Investment income (loss)", compared to income of $161 million in the third quarter of 2020, basically due to the following:
- Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
  - Negative change in the fair value of matched bonds greater than in the comparative quarter, chiefly because market interest rates in the third quarter of 2021 increased more than that recorded in the comparative quarter of 2020.
  - This decrease was largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Lower gains on the disposal of securities compared to third quarter 2020.
- Decrease in the fair value of matched bonds in the Property and Casualty Insurance segment as opposed to an increase in the comparative quarter of 2020, chiefly because of an increase in market interest rates in the third quarter of 2021 compared to a decrease recorded in the third quarter of 2020. It is worth noting that this change in the fair value of bonds was offset by an adjustment in the cost of claims on account of a matching strategy.
- Lower trading income as a result of developments on financial markets.
- Offset by positive change in activities related to derivative financial instruments.

Total income

Total income amounted to $5,136 million, up $332 million, or 6.9%, compared to the same period in 2020.

Provision for credit losses

The provision for credit losses totalled $52 million, down $47 million, or 47.5%, compared to the same period in 2020. This decrease was mainly due to lower net write-offs than in the third quarter of 2020, especially in the credit card portfolio.

Desjardins Group continued to present a quality loan portfolio in 2021.
- The credit loss provisioning rate was 0.09% for the third quarter of 2021, compared to 0.19% for the corresponding period of 2020, chiefly because of net write-offs that were lower than in the third quarter of 2020.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.52%, compared to 0.64% as at September 30, 2020.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $1,713 million, down $62 million, or 3.5%, compared to the corresponding quarter of 2020. This change, which was offset by a decrease in "Investment income (loss)", is due to elements from the following segments:

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $956 million,** up $71 million, or 8.0%, essentially due to the following:
  - Increase in benefits under dental and travel insurance claim applications.
  - Increase in actuarial liabilities, included under "Insurance contract liabilities", as a result of business growth and offset by the decrease in the fair value of matched investments, as presented under "Investment income (loss)".
  - However, in third quarter 2020, a downward revision to travel insurance provisions made in first quarter 2020 was recognized.

Property and Casualty Insurance segment

- **Cost of claims of $763 million,** down $117 million, or 13.3%, due to the following:
  - Loss ratio of 51.9% compared to 60.3% for the corresponding period in 2020.
    - More favourable ratio of changes in prior year claims than in the comparative quarter of 2020, i.e. (14.5)% vs. (5.8)%, essentially in automobile insurance.
    - Lower current year loss ratio compared to third quarter 2020, i.e. 62.4% vs. 64.8%, in property and automobile insurance.
    - Offset by higher loss ratio related to catastrophes and major events than in the comparative quarter of 2020, i.e. 4.0% vs. 1.3%. The third quarter of 2021 was affected by one catastrophe, a hailstorm in Alberta, while in the corresponding quarter of 2020, one major event of smaller magnitude was noted, also caused by a hailstorm in Alberta.
  - Favourable impact of the increase in the discount rates used to measure the provision for claims, as opposed to an unfavourable impact in third quarter 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, presented under "Investment income".
  - Offset by business growth, which led to a higher cost of claims.

Non-interest expense and productivity index

- **Non-interest expense totalled $2,288 million,** up $334 million, or 17.1%, compared to the third quarter of 2020, essentially because of:
  - Higher salaries as a result of growth in operations and indexing.
  - 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.
  - Growth in payment activities, including expenses related to the rewards program.

- **Productivity index at 66.8% for the third quarter of 2021,** compared to 64.5% for the corresponding period in 2020.

Income taxes

- **Income taxes on surplus earnings before member dividends of $267 million,** up $20 million compared to the third quarter of 2020.
  - Effective tax rate of 24.7% for the quarter ended September 30, 2021, down compared to 25.3% for the corresponding period in 2020.
  - The decrease in the effective tax rate was mainly due to the non-taxable investment income, which was higher than in the third quarter of 2020.

COMPARISON OF THE FIRST NINE MONTHS OF 2021 AND 2020

Surplus earnings

For the first nine months ended September 30, 2021, Desjardins Group posted surplus earnings before member dividends of $2,549 million, up $1,006 million, or 65.2%, compared to the same period in 2020. The growth in surplus earnings was mainly due to a decline in the provision for credit losses, solid performance from the caisse network, a lower loss experience for the Property and Casualty Insurance segment and changes in actuarial assumptions related to life and health insurance operations. It is worth noting that surplus earnings for the nine months ended September 30, 2020 were marked by the onset of the COVID-19 pandemic. The provision for credit losses was affected by the impact of the deterioration in the economic outlook, the travel insurance provisions that had been recognized and the $155 million in automobile insurance premium refunds granted to members and clients.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the first nine months of 2021.

- A total of $335 million was returned to members and the community, compared to $314 million for the corresponding period in 2020.
  - The provision for member dividends totalled $270 million, up $33 million compared to the first nine months of 2020.
  - An amount of $52 million was returned in the form of sponsorships, donations and bursaries, compared to $44 million for the same period in 2020, including $23 million for the first nine months of 2021 and $20 million for the first nine months of 2020 from the caisses' Community Development Fund.
  - Through the Desjardins Member Advantages program, $13 million was paid out, compared to $33 million in the corresponding period in 2020.
- Commitments of $19 million were made for the first nine months of 2021 with regard to the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions. Since 2017, Desjardins Group has made commitments totalling $142 million.

Business segment contributions to surplus earnings

- Personal and Business Services: **Surplus earnings of $1,212 million,** up $262 million, or 27.6%, compared to the same period in 2020, essentially due to the following:
  - Lower provision for credit losses for the first nine months of 2021, compared to the corresponding period in 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
  - Solid performance from the caisse network.
  - Offset by an increase in non-interest expense, largely due to amounts invested in Desjardins-wide strategic projects.
- Wealth Management and Life and Health Insurance: **Surplus earnings of $469 million,** up $109 million, or 30.3%, mainly because of the following:
  - Positive effect of the changes in actuarial assumptions related to potential risk of default.
  - Effect of the travel insurance provisions recognized in first quarter 2020, in spite of their revision in the second and third quarters of 2020.
  - The markets' positive impact on guaranteed investment funds, whereas the funds had been negatively affected in the comparative period.
  - Offset by lower gains on the disposal of securities and real estate investments compared to 2020.
- Property and Casualty Insurance: **Surplus earnings of $867 million,** up $623 million compared to the first nine months of 2020, due to the following:
  - Lower cost of claims, particularly on account of:
    - Favourable change in prior year claims, chiefly in automobile insurance.
    - Lower current year loss ratio in automobile insurance, in particular on account of changes in driving habits related to the COVID-19 pandemic, as well as in property 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 pandemic in the comparative period.

- **Return on equity was 10.5%,** up compared to 7.2% for the nine-month period ended September 30, 2020, mainly because of higher surplus earnings, as explained earlier.

Operating income

Operating income, which comprises net interest income, net premiums and other operating income, totalled $14,902 million, up $1,333 million, or 9.8%, compared to the first nine months of 2020.

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

Net interest income of $4,331 million, up $146 million, or 3.5%, mainly because of:
- Growth in average residential mortgages outstanding.
- Decrease in the average cost of funds, resulting in lower interest expense, despite an increase in deposit volume.

This increase was partially offset by:
- Decrease in average consumer and credit card loans outstanding.
- Decline in the average return on loans due to lower interest rates.

- **Net interest margin of 2.09%** for the first nine months ended September 30, 2021, as a percentage of average interest-bearing assets, down 18 basis points compared to the same period in 2020, mainly because of the increase in securities and liquidities generating a lower net interest margin, as well as the decline in interest rates.

Net premiums totalled $8,077 million, up $783 million, or 10.7%, compared to the first nine months of 2020, due to the elements from the following segments:

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $3,901 million,** up $430 million, or 12.4%, mainly because of the following:
  - An increase of $291 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”.
  - Increase of $122 million in group insurance premiums and of $17 million in individual insurance premiums.

Property and Casualty Insurance segment

- **Net premiums of $4,396 million,** up $368 million, or 9.1%, essentially due to the following:
  - Growth in average property insurance and automobile insurance premiums.
  - In the 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.

Other operating income stood at $2,494 million, up $404 million, or 19.3%, compared to the corresponding period in 2020, mainly due to the following:
- Higher income from growth in assets under management.
- Higher business volume from payment activities at Desjardins Card Services.
- Growth in income from securities brokerage activities.
- Income from the operations of DuProprio and Purplebricks Canada.
- Higher income from deposit and payment service charges. Relief measures had been granted to members during the comparative period.
- Smaller increase than in the first nine months of 2020 in the contingent consideration payable as part of the acquisition of State Farm’s Canadian operations and arising from the favourable developments in claims taken over.
- Offset by a 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

A $953 million loss, presented under “Investment income (loss)”, compared to income of $2,540 million recorded for the first nine months of 2020, essentially because of 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 related to higher market interest rates, whereas they were lower in 2020.
  - This decrease was largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Decrease in the fair value of matched bonds in the Property and Casualty Insurance segment whereas there had been a positive change in the first nine months of 2020, due mainly to higher market interest rates in 2021, whereas they were lower in 2020. It should be remembered that this change in the fair value of bonds was offset by an adjustment in the cost of claims because of a matching strategy.
- Lower gains on the disposal of securities and real estate investments compared to the first nine months of 2020.

Total income

Total income amounted to $13,949 million, down $2,160 million, or 13.4%, compared to the same period in 2020.

Provision for credit losses

The provision for credit losses totalled $53 million, down $641 million, compared to the same period in 2020. While the provision for credit losses for the first nine months of 2021 mainly reflects the effects of the improvement in borrowers’ credit quality, the provision for the first nine months of 2020 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 the first nine months of 2021 also reflects the decrease in net write-offs, especially in the credit card portfolio, compared to the corresponding period of 2020.

Desjardins Group has continued to present a quality loan portfolio in 2021.
- The credit loss provisioning rate was 0.03% for the first nine months of 2021, compared to 0.45% for the corresponding period of 2020. The decrease in this indicator is due to the fact that the provision for credit losses for the first nine months of 2021 was significantly lower than in the corresponding period of 2020, which reflected the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.52% compared to 0.64% as at September 30, 2020.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $3,698 million, down $3,754 million, or 50.4%, compared to the corresponding period of 2020. This reduction, which is offset by a similar change in "Investment income (loss)", is due to elements from the following segments:

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $1,588 million,** down $2,928 million, essentially due to the following:
  - Decrease of $3,082 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)", as well as the positive effect of the changes in actuarial assumptions related to potential risk of default, partially offset by business growth.
  - Decrease related to the travel insurance provisions recognized in 2020, in connection with the COVID-19 pandemic.
  - Offset by an increase in benefits under dental and travel insurance claim applications.

Property and Casualty Insurance segment

- **Cost of claims of $2,131 million**, down $817 million, or 27.7%, as a result of the following:
  - Loss ratio of 51.3%, compared to 66.9% for the corresponding period in 2020.
    - Lower current year loss ratio compared to the corresponding period in 2020, i.e. 61.9% vs. 69.6%, essentially in automobile insurance, particularly due to changes in driving habits during the COVID-19 pandemic, as well as in property insurance.
    - More favourable ratio of changes in prior year claims than in the first nine months of 2020, i.e. (11.9)% vs. (5.7)%, mainly in automobile insurance.
    - Lower loss ratio related to catastrophes and major events than in the comparative period of 2020, i.e. 1.3% vs. 3.0%. The first nine months of 2021 were affected by one catastrophe, a hailstorm in Alberta, while in the corresponding period of 2020, one catastrophe and a major event were noted, both of which were caused by hailstorms in Alberta.
  - 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 comparative period 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, presented under "Investment income".
  - Offset by business growth, which led to a higher cost of claims.

Non-interest expense and productivity index

- **Non-interest expense totalled $6,830 million,** up $865 million, or 14.5%, compared to the first nine months of 2020, essentially because of:
  - Increase in salaries as a result of growth in operations and indexing.
  - 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.
  - Growth in payment activities, including expenses related to the rewards program.

- **Productivity index at 66.6% for the first nine months of 2021,** compared to 68.9% for the corresponding period in 2020. The improvement in the productivity index for the first nine months of 2021 was due to the increase in surplus earnings.

Income taxes

- **Income taxes on surplus earnings before member dividends of $819 million,** up $364 million compared to the corresponding period in 2020.
  - Effective tax rate of 24.3% for the first nine months of 2021, compared to 22.8% for the corresponding period in 2020.
  - The increase in income tax expense stems from higher surplus earnings compared to the first nine months of 2020, combined with the change in the annual effective tax rate expected for fiscal 2021.

RESULTS BY BUSINESS SEGMENT

Desjardins Group's financial reporting is organized by business segments, which are defined based on the needs of members and clients, the markets in which Desjardins operates, and on its internal management structure. Desjardins Group's financial results are divided into the following three business segments: Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance. In addition to these three segments, there is also the Other category. This section presents an analysis of results for each of these segments.

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

Additional information about each business segment, particularly its profile, services, 2020 achievements and industry, can be found on pages 32 to 43 of Desjardins Group's 2020 annual MD&A.

Personal and Business Services

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

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

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

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

Personal and Business Services – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Net interest income	**$ 1,280**	$ 1,260	$ 1,254	**$ 3,755**	$ 3,693
Other operating income[1]	**680**	663	555	**2,001**	1,741
Operating income[1]	**1,960**	1,923	1,809	**5,756**	5,434
Investment income[1]	**61**	72	93	**235**	200
Total income	**2,021**	1,995	1,902	**5,991**	5,634
Provision for (recovery of) credit losses	**54**	(2)	90	**58**	671
Non-interest expense	**1,424**	1,458	1,204	**4,293**	3,687
Income taxes on surplus earnings	**142**	142	163	**428**	326
Surplus earnings before member dividends	**401**	397	445	**1,212**	950
Member dividends, net of income tax recovery	**66**	66	60	**198**	175
Net surplus earnings for the period after member dividends	**$ 335**	$ 331	$ 385	**$ 1,014**	$ 775
Indicators					
Average gross loans and acceptances[1]	**$ 222,261**	$ 215,526	$ 204,425	**$ 215,865**	$ 202,651
Average deposits[1]	**196,260**	192,879	185,646	**189,564**	175,541
Credit loss provisioning rate[1]	**0.10 %**	0.00 %	0.18 %	**0.04 %**	0.44 %
Gross credit-impaired loans/gross loans and acceptances[1]	**0.53**	0.39	0.65	**0.53**	0.65

(1) See "Non-GAAP measures".

COMPARISON OF THE THIRD QUARTERS OF 2021 AND 2020 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $401 million,** down $44 million, or 9.9%, compared to the same period in 2020, due to the increase in non-interest expense, largely due to amounts invested in Desjardins-wide strategic projects. This decrease was offset in part by the following:
  - Solid performance of the caisse network.
  - Lower provision for credit losses in third quarter 2021 than in the corresponding quarter in 2020, mainly due to the decrease in net write-offs in third quarter 2021 compared to the corresponding period in 2020, in particular in the credit card portfolio.

- **Operating income of $1,960 million,** up $151 million, or 8.3%.

- **Net interest income of $1,280 million,** up $26 million, or 2.1%, as a result of:
  – Growth in average residential mortgages outstanding.
  – Decrease in the average cost of funds, resulting in lower interest expense despite a higher volume of deposits.
  – Offset by a decline in the average return on loans due to lower interest rates.

- **Other operating income of $680 million,** up $125 million, or 22.5%, mainly due to:
  – Growth in business volumes from payment activities at Desjardins Card Services.
  – Increase in income from securities brokerage activities.
  – Higher income from deposit and payment service charges. Relief measures had been granted to members during the comparative period.
  – Growth in sales by the caisse network of various Desjardins Group products designed by the subsidiaries, such as investment funds.

- **Investment income of $61 million**, down $32 million, or 34.4%. essentially because of:
  – Smaller gains on disposal of securities compared to third quarter 2020.
  – Lower trading income as a result of developments on financial markets.
  – Unfavourable fluctuation in credit spreads compared to third quarter 2020.
  – Offset by favourable change in activities related to derivative financial instruments.

- **Total income of $2,021 million,** up $119 million, or 6.3%.

- **Provision for credit losses of $54 million,** down $36 million, or 40.0%, compared to the same period in 2020, mainly due to the decrease in net write-offs compared to the corresponding period in 2020, in particular in the credit card portfolio.

- **Non-interest expense of $1,424 million,** up $220 million, or 18.3%, 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 those related to wealth management advisory services and AccèsD services.
  – Growth in payment activities, including expenses related to the rewards program.

COMPARISON OF THE FIRST NINE MONTHS OF 2021 AND 2020 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of $1,212 million,** up $262 million, or 27.6%, compared to the first nine months of 2020, essentially due to:
  – Lower provision for credit losses in the first nine months of 2021 than in the corresponding period in 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
  – Solid performance of the caisse network.
  – Offset by an increase in non-interest expense, largely due to amounts invested in Desjardins-wide strategic projects.

- **Operating income of $5,756 million,** up $322 million, or 5.9%.

- **Net interest income of $3,755 million,** up $62 million, or 1.7%, as a result of:
  – Growth in average residential mortgages outstanding.
  – Decrease in the average cost of funds, resulting in lower interest expense despite a higher volume of deposits.
  This increase was partially offset by:
  – Drop in average consumer and credit card loans outstanding.
  – Decline in the average return on loans due to lower interest rates.

- **Other operating income of $2,001 million,** up $260 million, or 14.9%, mainly due to the following:
  – Growth in business volumes from payment activities at Desjardins Card Services.
  – Increase in income from securities brokerage activities.
  – Higher income from deposit and payment service charges. Relief measures had been granted to members during the comparative period.
  – Growth in sales by the caisse network of various Desjardins Group products designed by the subsidiaries, such as investment funds.

- **Investment income of $235 million,** up $35 million. or 17.5%, basically due to:
  – Favourable fluctuation in activities related to derivative financial instruments due in particular to developments on financial markets and credit spreads compared to the first nine months of 2020.
  – Offset by smaller gains on disposal of securities compared to the corresponding period in 2020.

- **Total income of $5,991 million,** up $357 million, or 6.3%.

- **Provision for credit losses of $58 million,** down $613 million, compared to the same period in 2020. While the provision for credit losses in the first nine months of 2021 mainly reflected the impact of the improvement in borrowers' credit quality, the provision for the first nine months of 2020 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 in the first nine months of 2021 also reflected lower net write-offs compared to the same period in 2020, especially in the credit card portfolio.

- **Non-interest expense of $4,293 million,** up $606 million, or 16.4%, 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 those related to wealth management advisory services and AccèsD services.
  – Growth in payment activities, including expenses related to the rewards program.

Wealth Management and Life and Health Insurance

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

The segment designs several lines of individual insurance (life and health) coverage as well as investment and group retirement savings solutions. The segment also includes asset management and trust services for institutional clients.

The Wealth Management and Life and Health Insurance segment's vast and diversified Canada-wide distribution networks are one of its greatest strengths:
- Desjardins caisse network.
- Desjardins agent networks.
- 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 also distributed directly via customer care centres, online or through applications for mobile devices. Online services are constantly being finetuned so that they properly meet clients' changing requirements.

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.

Wealth Management and Life and Health Insurance – Segment results

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Net interest income	**$ —**	$ —	$ 1	**$ —**	$ 7
Net premiums	**1,475**	1,197	1,167	**3,901**	3,471
Other operating income[1]	**381**	369	324	**1,104**	962
Operating income[1]	**1,856**	1,566	1,492	**5,005**	4,440
Investment income (loss)[1]	**(165)**	847	89	**(1,055)**	2,087
Total income	**1,691**	2,413	1,581	**3,950**	6,527
Provision for (recovery of) credit losses	**—**	—	(1)	**—**	2
Claims, benefits, annuities and changes in insurance contract liabilities	**956**	1,516	885	**1,588**	4,516
Non-interest expense	**611**	605	518	**1,792**	1,561
Income taxes on surplus earnings	**15**	57	39	**101**	88
Net surplus earnings for the period	**$ 109**	$ 235	$ 140	**$ 469**	$ 360
Indicators					
Net sales of savings products	**$ 2,083**	$ 1,160	$ 897	**$ 6,912**	$ 3,475
Insurance sales	**97**	144	103	**420**	306
Group insurance premiums	**857**	868	812	**2,565**	2,443
Individual insurance premiums	**233**	225	221	**680**	663
Annuity premiums	**385**	104	134	**656**	365
Segregated fund receipts	**709**	881	538	**3,450**	1,751

[1] See "Non-GAAP measures".

COMPARISON OF THE THIRD QUARTERS OF 2021 AND 2020 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $109 million,** down $31 million, or 22.1%, compared to the third quarter of 2020, mainly due to the following:
  - The markets' impact on guaranteed investment funds less favourable than during the comparative quarter.
  - In the third quarter of 2020, a downward revision to the travel insurance provisions made in first quarter 2020 was recognized.

- **Operating income of $1,856 million,** up $364 million, or 24.4%.

- **Net premiums of $1,475 million,** up $308 million, or 26.4%, essentially on account of the following:
  - Increase of $251 million in group annuity premiums particularly 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".
  - Growth of $45 million in group insurance premiums.

- **Other operating income of $381 million,** up $57 million, or 17.6%, mainly as a result of the increase in assets under management.

- **Loss of $165 million, presented under "Investment income (loss)",** compared to income of $89 million in the third quarter of 2020, mainly because of the following:
  - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
    - Higher negative change in the fair value of matched bonds than that recorded for the comparative quarter due mainly to higher market interest rates in the third quarter of 2021 than in the comparative quarter of 2020.
    - This decrease was largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

- **Total income of $1,691 million,** up $110 million, or 7.0%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalling $956 million,** up $71 million, or 8.0**%,** essentially due to the following:
  - Increase in benefits under dental and travel insurance claim applications.
  - Increase in actuarial liabilities, under "Insurance contract liabilities", as a result of business growth and offset by the decrease in the fair value of matched investments, which is presented under "Investment income (loss)".
  - However, in third quarter 2020, a downward revision to the travel insurance provisions made in first quarter 2020 was recognized.

- **Non-interest expense of $611 million,** up $93 million, or 18.0%, primarily due to the following:
  - 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.
  - Increase in administration costs to improve services for caisse members and clients.
  - Higher expenses as a result of growth in assets under management.

COMPARISON OF THE FIRST NINE MONTHS OF 2021 AND 2020 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $469 million,** up $109 million, or 30.3%, mainly due to the following items:
  - Favourable effect of changes in actuarial assumptions related to potential risk of default.
  - Effect of the travel insurance provisions recognized in first quarter 2020, in spite of their revision in second and third quarters 2020.
  - Markets' positive impact on guaranteed investment funds, whereas the funds had been unfavourably affected in the comparative period.
  - Offset by smaller gains on the disposal of securities and real estate investments compared to 2020.

- **Operating income of $5,005 million,** up $565 million, or 12.7%.

- **Net premiums of $3,901 million,** up $430 million, or 12.4%, mainly due to:
  - Increase of $291 million 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".
  - Growth of $122 million in group insurance premiums and $17 million in individual insurance premiums.

- **Other operating income of $1,104 million,** up $142 million, or 14.8%, mainly as a result of the increase in assets under management.

- **Loss of $1,055 million, presented under "Investment income (loss)",** compared to income of $2,087 million for the first nine months of 2020, mainly 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 related to higher market interest rates, whereas they were lower in in 2020.
    - This decrease was largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Lower gains on the disposal of securities and real estate investments compared to 2020.

- **Total income of $3,950 million,** down $2,577 million, or 39.5%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $1,588 million,** down $2,928 million, essentially due to:
  - Decrease of $3,082 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)", as well as the favourable effect of changes in actuarial assumptions related to potential risk of default, partially offset by business growth.
  - Decrease related to the travel insurance provisions recognized in 2020, in connection with the COVID-19 pandemic.
  - Offset by the increase in benefits under dental and travel insurance claim applications.

- **Non-interest expense of $1,792 million,** up $231 million, or 14.8%, mainly due to:
  - 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.
  - Increase in administration costs to improve services for members and clients.
  - Higher expenses as a result of the increase in assets under management.

Property and Casualty Insurance

The Property and Casualty Insurance segment offers insurance products providing coverage for the assets of Desjardins Group members and clients and guarding them against disasters. 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, a number of client care centres (call centres) and Desjardins Business centres, as well as through an exclusive agent network of close to 500 agencies in Ontario, Alberta and New Brunswick, which distributes P&C insurance and several other financial products. Digital services and applications for mobile devices form an integral part of the distribution strategy for each of our networks.

Desjardins General Insurance Group Inc., which has more than 3 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.

Property and Casualty Insurance – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Net premiums	**$ 1,505**	$ 1,464	$ 1,436	**$ 4,396**	$ 4,028
Other operating income (loss)[1]	**(29)**	(44)	(82)	**(127)**	(125)
Operating income[1]	**1,476**	1,420	1,354	**4,269**	3,903
Investment income[1]	**40**	75	57	**79**	335
Total income	**1,516**	1,495	1,411	**4,348**	4,238
Claims, benefits, annuities and changes in insurance contract liabilities	**763**	683	880	**2,131**	2,948
Non-interest expense	**359**	370	326	**1,056**	972
Income taxes on surplus earnings	**105**	112	50	**294**	74
Net surplus earnings for the period	**$ 289**	$ 330	$ 155	**$ 867**	$ 244
Of which:					
Group's share	**$ 255**	$ 291	$ 134	**$ 764**	$ 203
Non-controlling interests' share	**34**	39	21	**103**	41
Indicators					
Gross written premiums	**$ 1,660**	$ 1,656	$ 1,634	**$ 4,631**	$ 4,317
Loss ratio[1]	**51.9 %**	46.0 %	60.3 %	**51.3 %**	66.9 %
Current year loss ratio[1]	**62.4**	59.6	64.8	**61.9**	69.6
Loss ratio related to catastrophes and major events[1]	**4.0**	—	1.3	**1.3**	3.0
Ratio of favourable changes in prior year claims[1]	**(14.5)**	(13.6)	(5.8)	**(11.9)**	(5.7)
Expense ratio[1]	**23.7**	25.1	22.5	**23.8**	24.0
Combined ratio[1]	**75.6**	71.1	82.8	**75.1**	90.9

(1) See "Non-GAAP measures".

COMPARISON OF THE THIRD QUARTERS OF 2021 AND 2020 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $289 million,** up $134 million compared to third quarter 2020, due to:
  - Decrease in cost of claims due, in particular, to favourable changes in prior year claims, essentially in auto insurance
  - Increase in net premiums.
  - However, third quarter 2021 was marked by a catastrophe, a hailstorm in Alberta, while the corresponding quarter in 2020 was affected by a smaller major event.

- **Operating income of $1,476 million,** up $122 million, or 9.0%.

- **Net premiums of $1,505 million,** up $69 million, or 4.8%, due to:
  - Growth in the average premium in property insurance and automobile insurance.
  - Business growth.

- **Loss of $29 million, presented under "Other operating income (loss)",** compared to an $82 million loss in the comparative quarter, primarily due to a smaller increase than in third quarter 2020 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.

- **Investment income of $40 million,** down $17 million, or 29.8%, as a result of the decrease in the fair value of matched bonds whereas there had been a positive change in the comparative quarter of 2020. This decrease was mainly due to higher market interest rates in the third quarter of 2021, whereas they were lower in the third quarter of 2020. It should be remembered that this change in the fair value of bonds was offset by an adjustment in the cost of claims because of a matching strategy.

- **Total income of $1,516 million,** up $105 million, or 7.4%.

- **Cost of claims of $763 million,** down $117 million, or 13.3%, as a result of:
  - Loss ratio of 51.9% compared to 60.3% for the comparative quarter of 2020.
    - More favourable ratio of changes in prior year claims than in the comparative quarter of 2020, i.e., (14.5)% vs. (5.8)%, mainly in automobile insurance.
    - Lower current year loss ratio compared to the corresponding period of 2020, i.e., 62.4% vs. 64.8% in automobile and property insurance.
    - Offset by a higher loss ratio for catastrophes and major events than in the comparative quarter, i.e., a ratio of 4.0% vs. 1.3%. The third quarter of 2021 was marked by one catastrophe, a hailstorm in Alberta, while the corresponding quarter in 2020 was affected by a smaller major event that was also caused by a hailstorm in Alberta.
  - 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 third 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 $359 million,** up $33 million, or 10.1%, due to the 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.

COMPARISON OF THE FIRST NINE MONTHS OF 2021 AND 2020 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $867 million,** up $623 million compared to the first nine months of 2020, due to:
  - Lower cost of claims, particularly on account of:
    - Favourable change in prior year claims, chiefly in automobile insurance.
    - Lower current year loss ratio in automobile insurance, in particular on account of changes in driving habits related to the COVID-19 pandemic, as well as in property insurance.
  - Increase in net premiums, including the impact of automobile insurance premium refunds of $155 million granted to members and clients as a relief measure to support them during the COVID-19 pandemic in the comparative period.

- **Operating income of $4,269 million,** up $366 million, or 9.4%.

- **Net premiums of $4,396 million,** up $368 million, or 9.1%, essentially due to:
  - Growth in the average premium for property insurance and automobile insurance.
  - In the 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.

- **Loss of $127 million, presented under "Other operating income (loss)",** compared to loss of $125 million for the first nine months of 2020, due to:
  - 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.
  - Offset by the smaller increase than in the first nine months of 2020 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.

- **Investment income of $79 million,** down $256 million, essentially as a result of:
  - Decrease in the fair value of matched bonds whereas there had been an increase in the first nine months of 2020, due mainly to higher market interest rates in 2021 whereas they were lower in 2020. It should be remembered that this change in the fair value of the bonds was offset by an adjustment in the cost of claims because of a matching strategy.
  - Offset by net gains on common shares whereas a net loss had been recorded in the first nine months of 2020.

- **Total income of $4,348 million,** up $110 million, or 2.6%.

- **Cost of claims totalling $2,131 million,** down $817 million, or 27.7%, as a result of:
  - Loss ratio of 51.3%, compared to 66.9% for the corresponding period of 2020.
    - Lower current year loss ratio compared to the corresponding period, i.e. 61.9% vs. 69.6%, mainly in automobile insurance, particularly due to changes in driving habits related to the COVID-19 pandemic, as well as in property insurance.
    - More favourable ratio of changes in prior year claims than in the comparative period, i.e., (11.9)% vs. (5.7)%, essentially in automobile insurance.
    - Lower loss ratio for catastrophes and major events than in the first nine months of 2020, i.e., a ratio of 1.3% vs. 3.0%. The first nine months of 2021 were marked by a catastrophe, a hailstorm in Alberta, whereas the first nine months of 2020 had been marked by one catastrophe and one major event, both caused by hailstorms in Alberta.
  - 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 comparative period 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 $1,056 million,** up $84 million, or 8.6%, due 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.

Other category

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

Since the third quarter of 2020, the Other category has also included the real estate operations of 9420-7404 Québec Inc., which manages two brands: DuProprio and Purplebricks Canada.

Other category

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Net interest income	**$ 196**	$ 192	$ 209	**$ 576**	$ 485
Net premiums	**(75)**	(74)	(69)	**(220)**	(205)
Other operating income (loss)[1]	**(163)**	(158)	(152)	**(484)**	(488)
Operating income (loss)[1]	**(42)**	(40)	(12)	**(128)**	(208)
Investment income (loss)[1]	**(50)**	(85)	(78)	**(212)**	(82)
Total income (loss)	**(92)**	(125)	(90)	**(340)**	(290)
Provision for (recovery of) credit losses	**(2)**	(1)	10	**(5)**	21
Claims, benefits, annuities and changes in insurance contract liabilities	**(6)**	(8)	10	**(21)**	(12)
Non-interest expense	**(106)**	(56)	(94)	**(311)**	(255)
Income taxes on surplus earnings	**5**	(33)	(5)	**(4)**	(33)
Net surplus earnings (deficit) for the period	**$ 17**	$ (27)	$ (11)	**$ 1**	$ (11)

[1] See "Non-GAAP measures".

COMPARISON OF THE THIRD QUARTERS OF 2021 AND 2020 – CONTRIBUTION OF OTHER CATEGORY TO SURPLUS EARNINGS

- **Net surplus earnings of $17 million,** compared to net deficit of $11 million for the third quarter of 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 decreased by an unfavourable effect 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, and the amounts paid out under the Desjardins Member Advantages program.

COMPARISON OF THE FIRST NINE MONTHS OF 2021 AND 2020 – CONTRIBUTION OF OTHER CATEGORY TO SURPLUS EARNINGS

- **Net surplus earnings of $1 million,** compared to a net deficit of $11 million for the first nine months ended September 30, 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 decreased by an unfavourable effect 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, and the amounts paid out under the Desjardins Member Advantages program.

SUMMARY OF INTERIM RESULTS

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

Results of the most recent eight quarters

(in millions of dollars)	2021			2020				2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net interest income	**$ 1,476**	$ 1,452	$ 1,403	$ 1,455	$ 1,464	$ 1,368	$ 1,353	$ 1,383
Net premiums	**2,905**	2,587	2,585	2,626	2,534	2,238	2,522	2,527
Other operating income[1]								
Deposit and payment service charges	**109**	105	99	104	96	83	105	109
Lending fees and credit card service revenues	**198**	182	187	165	126	141	196	185
Brokerage and investment fund services	**283**	285	273	243	235	235	241	226
Management and custodial service fees	**185**	177	169	168	152	147	150	155
Foreign exchange income	**34**	28	30	21	22	14	46	12
Other	**60**	53	37	48	14	58	29	341
Operating income[1]	**5,250**	4,869	4,783	4,830	4,643	4,284	4,642	4,938
Investment income (loss)[1]								
Net investment income (loss)	**(90)**	1,055	(1,602)	646	304	2,624	(458)	(93)
Overlay approach adjustment for insurance operations financial assets	**(24)**	(146)	(146)	(112)	(143)	(299)	512	(22)
Investment income (loss)[1]	**(114)**	909	(1,748)	534	161	2,325	54	(115)
Total income	**5,136**	5,778	3,035	5,364	4,804	6,609	4,696	4,823
Provision for (recovery of) credit losses	**52**	(3)	4	169	99	271	324	113
Claims, benefits, annuities and changes in insurance contract liabilities	**1,713**	2,191	(206)	1,781	1,775	3,606	2,071	1,411
Non-interest expense	**2,288**	2,377	2,165	2,332	1,954	2,012	1,999	2,172
Income taxes on surplus earnings	**267**	278	274	206	247	191	17	192
Surplus earnings before member dividends	**816**	935	798	876	729	529	285	935
Member dividends, net of income tax recovery	**66**	66	66	70	60	58	57	57
Net surplus earnings for the period after member dividends	**$ 750**	$ 869	$ 732	$ 806	$ 669	$ 471	$ 228	$ 878
Of which:								
Group's share	**$ 716**	$ 830	$ 702	$ 763	$ 648	$ 464	$ 215	$ 858
Non-controlling interests' share	**34**	39	30	43	21	7	13	20

(1) See "Non-GAAP measures".

Quarterly income, expenses and surplus earnings before member dividends are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the financial markets. 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 recognized by Desjardins. The results of the fourth quarter of 2019, on the other hand, were affected by the sale to Global Payments of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand, completed on December 31, 2019. For more information about quarterly trends, see pages 47 and 48 of the 2020 annual MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

Combined Balance Sheets

(in millions of dollars and as a percentage)	As at September 30, 2021		As at December 31, 2020	
Assets				
Cash and deposits with financial institutions	**$ 13,645**	**3.5 %**	$ 12,126	3.3 %
Securities	**88,974**	**22.8**	87,668	24.2
Securities borrowed or purchased under reverse repurchase agreements	**15,542**	**4.0**	9,658	2.7
Net loans and acceptances	**227,027**	**58.1**	211,749	58.5
Segregated fund net assets	**21,678**	**5.5**	19,093	5.3
Derivative financial instruments	**5,439**	**1.4**	5,820	1.6
Other assets	**18,336**	**4.7**	15,921	4.4
Total assets	**$ 390,641**	**100.0 %**	$ 362,035	100.0 %
Liabilities and equity				
Deposits	**$ 239,677**	**61.5 %**	$ 225,236	62.2 %
Commitments related to securities sold short	**9,564**	**2.4**	9,353	2.6
Commitments related to securities lent or sold under repurchase agreements	**25,572**	**6.5**	19,152	5.3
Derivative financial instruments	**4,833**	**1.2**	4,884	1.3
Insurance contract liabilities	**33,846**	**8.7**	34,827	9.6
Segregated fund net liabilities	**21,672**	**5.5**	19,089	5.3
Other liabilities	**19,400**	**5.0**	17,738	4.9
Subordinated notes	**2,474**	**0.6**	1,493	0.4
Equity	**33,603**	**8.6**	30,263	8.4
Total liabilities and equity	**$ 390,641**	**100.0 %**	$ 362,035	100.0 %

Assets

As at September 30, 2021, Desjardins Group's total assets stood at $390.6 billion, up by $28.6 billion, or 7.9%, since December 31, 2020. This growth was mainly due to an increase in net loans and acceptances as well as securities, including securities borrowed or purchased under reverse repurchase agreements.

Desjardins Group's cash and deposits with financial institutions were up $1.5 billion, or 12.5%, and securities, including securities borrowed or purchased under reverse repurchase agreements, increased by $7.2 billion, or 7.4%.

Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, increased by $15.3 billion, or 7.2%. Residential mortgages, which have an important place in Desjardins Group's credit activities, were responsible for this growth and accounted for 64.2% of its portfolio as at September 30, 2021.

Loans and acceptances

(in millions of dollars and as a percentage)	As at September 30, 2021		As at December 31, 2020	
Residential mortgages	**$ 146,615**	**64.2 %**	$ 136,208	64.0 %
Consumer, credit card and other personal loans	**24,743**	**10.9**	25,310	11.9
Business and government	**56,676**	**24.9**	51,343	24.1
	228,034	**100.0 %**	212,861	100.0 %
Allowance for credit losses	**(1,007)**		(1,112)	
Total loans and acceptances by borrower category	**$ 227,027**		$ 211,749	

Desjardins Group's residential mortgages have increased by $10.4 billion, or 7.6%, since December 31, 2020. Desjardins Group was able to capitalize on the sustained growth in housing activity, particularly in Québec. Outstanding business and government loans, including acceptances, were up by $5.3 billion, or 10.4%. Consumer, credit card and other personal loans outstanding were down $567 million, or 2.2%, since the end of 2020.

Information on the quality of Desjardins Group's credit portfolio can be found in the "Risk management" section, on pages 36 to 39 of this MD&A.

Segregated fund net assets were up $2.6 billion, or 13.5%, mainly on account of changes in the fair value of the portfolio.

Derivative financial instrument assets were down by $381 million, or 6.5%, particularly because of developments in financial markets.

Other assets increased by $2.4 billion, or 15.2%, mainly as a result of the higher amounts receivable from clients, brokers and financial institutions.

Liabilities

Desjardins Group's total liabilities amounted to $357.0 billion as at September 30, 2021, up $25.3 billion, or 7.6%, since December 31, 2020, largely due to the increase in deposits and commitments related to securities lent or sold under repurchase agreements.

Outstanding deposits grew by $14.4 billion, or 6.4%. The increase in business and government deposits, which comprised 43.8% of Desjardins Group's total deposit portfolio as at the same date, partly accounted for this growth. In fact, these outstanding deposits were up $8.2 billion, or 8.5%, chiefly because of growth in business member deposits in the caisse network. 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

(in millions of dollars and as a percentage)	As at September 30, 2021		As at December 31, 2020	
Individuals	**$ 134,218**	**56.0 %**	$ 127,928	56.8 %
Business and government	**105,082**	**43.8**	96,853	43.0
Deposit-taking institutions	**377**	**0.2**	455	0.2
Total deposits	**$ 239,677**	**100.0 %**	$ 225,236	100.0 %

Personal deposits outstanding, which accounted for 56.0% of the total deposit portfolio, increased by $6.3 billion, or 4.9%, primarily because of growth in member deposits in the caisse network. Deposits from deposit-taking institutions were down by $78 million.

Commitments related to securities sold short and lent or sold under repurchase agreements were up by $6.6 billion, or 23.3%, to reach a volume of $35.1 billion.

Derivative financial instrument liabilities were down $51 million, or 1.0%.

Desjardins Group's insurance contract liabilities were down by $1.0 billion, or 2.8%, largely as a result of a change in actuarial liabilities arising from life and health insurance operations.

Segregated fund net liabilities increased by $2.6 billion, or 13.5%, mainly because of changes in the fair value of the portfolio.

Other liabilities grew by $1.7 billion, or 9.4%, due in particular to the higher amounts payable to clients, brokers and financial institutions partially offset by the decrease in net defined benefit plan liabilities.

Equity

Equity has increased by $3.3 billion, or 11.0%, since December 31, 2020. Net surplus earnings after member dividends, totalling $2.4 billion for the first nine months of 2021, and other comprehensive income of $1.0 billion were the sources of this growth.

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

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members, 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. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of Desjardins Group's 2020 annual MD&A.

Regulatory framework and internal policies

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

The current situation and the forecasts show that, overall, Desjardins Group has a solid capital base that allows it to continue to be one of the best-capitalized financial institutions.

Desjardins Group's regulatory capital ratios are calculated according to the AMF's *Base Capital Adequacy Guideline — Financial services cooperatives (*available in French only). This guideline takes into account the global regulatory framework for more resilient banks and banking systems (Basel III) issued by the Bank for International Settlements.

Under this framework, a minimum amount of capital must be maintained on a combined basis by all the Desjardins Group components. Some of these components are subject to separate requirements regarding regulatory capital, liquidity and funding, which are set by regulatory authorities governing 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 ratio of at least 21.5% of risk-weighted assets as well as a TLAC leverage ratio of at least 6.75% as of the second quarter of 2022. For this purpose, Desjardins Group started issuing TLAC-eligible debt on October 1, 2019 and expects to be able to meet the minimum requirements when they take effect.

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

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

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[3][4]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at September 30, 2021
Tier 1A capital	> 4.5 %	2.5 %	> 7.0 %	1.0 %	> 8.0 %	**21.2 %**
Tier 1 capital	> 6.0	2.5	> 8.5	1.0	> 9.5	**21.2**
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	**22.4**
Leverage ratio	> 3.5	N/A	> 3.5	N/A	> 3.5	**8.7**

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

(2) The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk and includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet items.

(3) In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios.

(4) At its discretion, the AMF may also set higher target ratios when warranted by circumstances. In this regard, since March 31, 2019, the AMF could activate the countercyclical buffer when it considers that excess credit growth is associated with a build-up of system-wide risk. Based on this assessment, a countercyclical buffer requirement representing between 0% and 2.5% of total risk-weighted assets (RWA) will be put in place when circumstances warrant. This requirement will be lifted when the risk either crystallizes or dissipates.

Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS) and to assess their impact on the capital ratios and the leverage ratio. Additional information in this regard can be found in Desjardins Group's 2020 annual MD&A on page 54. This section also presents the measures issued by the AMF since March 31, 2020 aimed at minimizing the impacts of the COVID-19 pandemic and thereby support Québec's financial system. The "Changes in the regulatory environment" section presents additional details on regulation as it affects all Desjardins Group operations.

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.

On April 30, 2021, the relief measure granted at the beginning of the pandemic and aimed at reducing the stressed Value-at-Risk multiplier under market risk from 3 to 1 expired.

On June 25, 2021, the AMF published a draft for consultation of the *Base Capital Adequacy Guideline — Financial services cooperatives (*available in French only). 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 *Base Capital Adequacy Guideline — Financial services cooperatives (*available 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 have 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.

Compliance with requirements

As at September 30, 2021, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 21.2%, 21.2% and 22.4%, respectively. The leverage ratio was 8.7%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

As at September 30, 2021, the Tier 1A capital ratio was down 68 basis points compared to December 31, 2020 on account of 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 September 30, 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 September 30, 2021.

Regulatory capital

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

Main capital components

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

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios for financial services cooperatives regulated by the AMF.

(2) The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.

(3) These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the guideline. 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 the "Capital management" section in the 2020 annual MD&A.

(5) Represent the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from this capital. The net non-deducted balance is subject to risk-weighting at a rate of 250%.

Regulatory capital, risk-weighted assets and capital ratios

(in millions of dollars and as a percentage)	As at September 30, 2021	As at December 31, 2020
Capital		
Tier 1A capital	**$ 28,735**	$ 26,317
Tier 1 capital	**28,735**	26,317
Total capital	**30,332**	27,114
Risk-weighted assets		
Credit risk	**$ 117,916**	$ 103,658
Market risk	**3,158**	2,561
Operational risk	**14,260**	13,705
Total risk-weighted assets before the RWA floor	**135,334**	119,924
RWA floor adjustment	**—**	177
Total risk-weighted assets	**$ 135,334**	$ 120,101
Ratios and leverage ratio exposure		
Tier 1A capital	**21.2 %**	21.9 %
Tier 1 capital	**21.2**	21.9
Total capital	**22.4**	22.6
Leverage	**8.7**	8.5
Leverage ratio exposure	**$ 329,091**	$ 307,925

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them since 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, which totalled $2.1 billion.

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

The Federation is able to issue NVCC instruments on Canadian, U.S. and European markets. It has issued $2.0 billion of such securities, including $1.0 billion in the second quarter of 2021.

Change in regulatory capital

For the nine-month period ended

(in millions of dollars)	September 30, 2021
Tier 1A capital	
Balance at beginning of period	**$ 26,317**
Increase in reserves and undistributed surplus earnings[1]	**3,601**
Eligible accumulated other comprehensive income	**(368)**
Permanent shares and surplus shares subject to phase-out	**(30)**
Deductions	**(785)**
Balance at end of period	**28,735**
Total Tier 1 capital[2]	**28,735**
Tier 2 capital	
Balance at beginning of period	**797**
Eligible instruments	**976**
Senior notes subject to phase-out	**(186)**
General allowance	**10**
Deductions	**—**
Balance at end of period	**1,597**
Total capital	**$ 30,332**

(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 is used for credit risk related to retail 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 book.

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 *Base Capital Adequacy Guideline — Financial services cooperatives (*available in French only) issued by the AMF.

RWA totalled $135.3 billion as at September 30, 2021, up $4.8 billion compared to the previous quarter.

For credit risk, changes in RWA for the third quarter of 2021 are divided into two segments: credit risk other than counterparty risk, and counterparty risk. In credit risk other than counterparty risk, the net increase of $4.8 billion in RWA was mainly the result of changes in portfolio size, which caused a $2.3 billion increase in RWA, as well as changes in methods and policies, resulting in a $1.7 billion increase in RWA, and changes in the portfolio's quality, which led to a $738 million increase in RWA. In counterparty risk, a $648 million increase in RWA was due to changes in portfolio quality and size.

In market risk, a $929 million decrease in RWA resulted from a change in risk levels.

An increase of $256 million in RWA was noted in operational risk as a result of fluctuations in the income generated.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, guarantees, participation in government loan programs and structured entities, including securitization. Additional information can be found in the "Off-balance sheet arrangements" section of Desjardins Group's 2020 annual MD&A.

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

Assets under management and under administration

As at September 30, 2021, Desjardins Group administered, for the account of its members and clients, assets worth $480.6 billion, for an increase of $22.4 billion, or 4.9%, since December 31, 2020. The financial assets entrusted to Desjardins Group as wealth manager totalled $90.5 billion as at September 30, 2021, up $13.1 billion, or 16.8%, since December 31, 2020. The increase in assets under management and under administration is due mainly to new management mandates and growth in assets stemming from changes in financial markets.

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

RISK MANAGEMENT

RISK MANAGEMENT

Desjardins Group's objective in risk management is to optimize the risk-return trade-off by developing and applying integrated risk management strategies, frameworks, practices and procedures to all of the organization's business 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.

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

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

In the first nine months of fiscal 2021, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which it is exposed (including operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental or social risk and risk related to the regulatory and legal environment) did not change significantly from those described on pages 65 to 99 of Desjardins Group's 2020 annual MD&A. In addition to these types of risk, other risk factors, which are beyond Desjardins Group's control, could have an impact on its future results. These principal risks and emerging risks, as well as other risk factors, did not change significantly from those described on pages 62 to 64 of Desjardins Group's 2020 annual MD&A.

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

Below you will find the pandemic's main impact on some of the principal types of risk at Desjardins:

- Market risk
  - The extreme volatility observed in the first quarter of 2020 affected the one-year data history used to calculate the Value at Risk (VaR) for subsequent quarters. There was a decrease in the VaR for the third quarter of 2021 compared to previous quarters, that is, to its pre-pandemic level, in part because this period of extreme volatility was excluded from the data history.

- Credit risk – Portfolio quality
  - The quality of the credit portfolio has remained stable since the second quarter of 2020. A possible increase in delinquencies is being monitored.

- Credit risk – Provisioning
  - Despite the continued application of public health measures, delinquencies and defaults did not increase as anticipated. Consequently, the expected credit losses recognized because of the anticipated effects of the COVID-19 pandemic have not materialized for the time being, but an increase in bankruptcies over the coming months could bring about these expected losses. Desjardins Group continues to monitor developments in the situation.

- Insurance risk – Life and Health Insurance
  - The consequences of the pandemic continue to be monitored, in particular for disability and mortality.

- Insurance risk – Property and Casualty Insurance
  - Given COVID-19 public health measures, claims, particularly in automobile insurance, have been declining since the beginning of the pandemic. The Property and Casualty Insurance segment has provided support to its insured clients by applying rate adjustments due to changes in driving habits during the COVID-19 pandemic, which slowed down growth in the average premium. The P&C Insurance segment also adjusted its programs with the launch of a new version of Ajusto based on modified use of the motor vehicle driven. Ajusto is a telematics program providing personalized feedback on driving and is used to reflect the changes in insured clients' driving.
  - There is still uncertainty about growth in premiums versus claims, the likely increase in fraud and potential civil liability claims for businesses. Additional margins are included in loss reserves and unearned premiums.

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

- Operational risks – Information security
  - With the new reality of teleworking, remote monitoring has been reinforced, including on applications with confidential data. The adequacy of the working environment for all employees has been assessed to ensure compliance with information security standards. The organization is focusing more attention on the risk of ransomware attacks.

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

- Operational risks – Business continuity
  - The impact of the current fourth wave of the COVID-19 pandemic on Desjardins employees and their families, as well as on business continuity, is constantly being monitored. Preventive measures and business continuity plans are adjusted and fine-tuned on an ongoing basis to minimize the impact on Desjardins employees and operations.

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

In order to mitigate this impact, Desjardins Group has increased the frequency of its risk management activities, which are set out in Section 4 of Desjardins Group's 2020 annual MD&A. For more information about the impact of the COVID-19 pandemic and the measures implemented by Desjardins Group, please see "Significant events – COVID-19 pandemic" in Desjardins Group's 2020 annual MD&A and in this MD&A, which presents certain factors that could add to the risks described above and those presented in Desjardins Group's 2020 annual MD&A.

CREDIT RISK

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

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

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

Quality of loan portfolio

As at September 30, 2021, in accordance with Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements, the loss allowance for expected credit losses on loans totalled $1,007 million, down $105 million compared to December 31, 2020. This decrease was mainly due to improved borrower credit quality, the effects of which were however slightly offset by the higher volumes observed in several portfolios since the beginning of fiscal 2021. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements.

Gross credit-impaired loans outstanding are considered Stage 3 loans of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.52% for the third quarter of 2021, compared to 0.62% as at December 31, 2020. The allowance for credit losses on credit-impaired loans totalled $288 million as at September 30, 2021, resulting in a provisioning rate of 24.3% for credit-impaired loans.

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

Gross loans past due but not credit-impaired

As at September 30, 2021

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	**$ 1,011**	**$ 71**	**$ 19**	**$ 1**	**$ 1,102**
Consumer, credit card and other personal loans	**517**	**99**	**41**	**32**	**689**
Business and government	**198**	**11**	**11**	**—**	**220**
	$ 1,726	**$ 181**	**$ 71**	**$ 33**	**$ 2,011**

As at December 31, 2020

(in millions of dollars)	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

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

Gross credit-impaired loans by borrower category

(in millions of dollars and as a percentage)	As at September 30, 2021				As at December 31, 2020	
	Gross carrying amount					
	Gross loans and acceptances	Gross credit-impaired loans		Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans
Residential mortgages	**$ 146,615**	**$ 226**	**0.15 %**	**$ 19**	**$ 207**	$ 374	$ 345
Consumer, credit card and other personal loans	**24,743**	**145**	**0.59**	**81**	**64**	212	86
Business and government	**56,676**	**814**	**1.44**	**188**	**626**	737	556
Total loans	**$ 228,034**	**$ 1,185**	**0.52 %**	**$ 288**	**$ 897**	$ 1,323	$ 987

Change in gross credit-impaired loans

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Gross credit-impaired loans at the beginning of the period	**$ 1,227**	$ 1,236	$ 1,307	**$ 1,323**	$ 1,142
Gross loans that became credit-impaired since the last period	**546**	679	440	**1,833**	1,557
Loans returned to unimpaired status	**(534)**	(616)	(325)	**(1,849)**	(1,098)
Write-offs and recoveries	**(47)**	(58)	(89)	**(161)**	(282)
Other changes	**(7)**	(14)	7	**39**	21
Gross credit-impaired loans at the end of the period	**$ 1,185**	$ 1,227	$ 1,340	**$ 1,185**	$ 1,340

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.

Residential mortgage portfolio[1][2]

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

	As at September 30, 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	$ 27,971	97.3 %	$ 80,259	95.3 %	$ 5,376	94.7 %	$ 113,606	95.8 %
Ontario	747	2.6	3,937	4.7	301	5.3	4,985	4.2
Other[7]	22	0.1	35	0.0	1	0.0	58	0.0
All geographic areas	$ 28,740	100.0 %	$ 84,231	100.0 %	$ 5,678	100.0 %	$ 118,649	100.0 %

	As at June 30, 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	$ 28,314	97.3 %	$ 77,886	95.4 %	$ 5,304	94.6 %	$ 111,504	95.8 %
Ontario	766	2.6	3,775	4.6	300	5.4	4,841	4.2
Other[7]	19	0.1	34	0.0	1	0.0	54	0.0
All geographic areas	$ 29,099	100.0 %	$ 81,695	100.0 %	$ 5,605	100.0 %	$ 116,399	100.0 %

	As at September 30, 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	$ 28,226	97.3 %	$ 69,258	95.3 %	$ 5,591	94.5 %	$ 103,075	95.8 %
Ontario	796	2.7	3,339	4.6	322	5.4	4,457	4.1
Other[7]	11	0.0	61	0.1	3	0.1	75	0.1
All geographic areas	$ 29,033	100.0 %	$ 72,658	100.0 %	$ 5,916	100.0 %	$ 107,607	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 $138 million as at September 30, 2021. They totalled $124 million and $135 million for the June 2021 and the September 2020 quarters, respectively.

(2) Data as at September 30, 2020 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.

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]

	As at September 30, 2021			As at June 30, 2021			As at September 30, 2020		
(average loan to value ratio, by geographic area)	Uninsured loans[3]	Home equity lines of credit and related loans[4]	Total uninsured	Uninsured loans[3]	Home equity lines of credit and related loans[4]	Total uninsured	Uninsured loans[3]	Home equity lines of credit and related loans[4]	Total uninsured
Québec	64.3 %	71.6 %	69.8 %	65.8 %	71.6 %	70.1 %	66.8 %	72.1 %	70.7 %
Ontario	67.3	68.2	67.8	70.5	69.1	69.7	68.7	69.0	68.9
Other[5]	71.5	79.9	75.4	—	80.0	80.0	71.7	74.8	73.5
All geographic areas	64.5 %	71.5 %	69.7 %	66.2 %	71.5 %	70.1 %	66.9 %	71.9 %	70.6 %

(1) Data as at September 30, 2020 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.

Remaining amortization period for residential mortgage loans[1]

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

(in millions of dollars in gross loans and as a percentage of the total by remaining amortization category)	Total amortized loans					
	As at September 30, 2021		As at June 30, 2021		As at September 30, 2020	
0 to 10 years	**$ 3,581**	**3.2 %**	$ 3,543	3.2 %	$ 3,191	3.1 %
10 to 20 years	**21,964**	**19.4**	21,522	19.4	19,388	19.1
20 to 25 years	**77,541**	**68.6**	75,968	68.6	70,010	68.8
25 to 30 years	**8,701**	**7.8**	8,518	7.7	7,713	7.6
30 to 35 years	**932**	**0.8**	986	0.9	1,112	1.1
35 years and more	**252**	**0.2**	257	0.2	277	0.3
All amortization periods	**$ 112,971**	**100.0 %**	$ 110,794	100.0 %	$ 101,691	100.0 %

(1) Data as at September 30, 2020 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.

The Risk Management Executive Division sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. In addition, limits are set for certain financial instruments. The amounts are then allocated to different components based on their needs. Growth in Desjardins Group's securities portfolio increases exposure to economic losses when credit spreads widen. This exposure impacts net profit or loss.

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

MARKET RISK

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

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

Governance

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

Link between market risk and the Combined Balance Sheets

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

Link between market risk and the Combined Balance Sheets

As at September 30, 2021

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[1][2]	Exposed to market risk: Non-trading activities[3]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 13,645	$ —	$ 13,645	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	36,985	10,457	26,528	—	Interest rate
Securities at fair value through other comprehensive income	51,950	—	51,950	—	Interest rate, FX, price
Securities at amortized cost	39	—	39	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	15,542	14,710	832	—	Interest rate
Net loans and acceptances	227,027	—	227,027	—	Interest rate
Segregated fund net assets	21,678	—	21,678	—	Interest rate, price
Derivative financial instruments	5,439	373	5,066	—	Interest rate, FX, price
Other assets	18,336	—	—	18,336	
Total assets	$ 390,641	$ 25,540	$ 346,765	$ 18,336	
Liabilities and equity					
Deposits	$ 239,677	$ —	$ 239,677	$ —	Interest rate
Commitments related to securities sold short	9,564	9,514	50	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	25,572	24,405	1,167	—	Interest rate
Derivative financial instruments	4,833	216	4,617	—	Interest rate, FX, price
Insurance contract liabilities	33,846	—	33,846	—	Interest rate
Segregated fund net liabilities	21,672	—	21,672	—	Interest rate, price
Other liabilities	19,400	—	1,366	18,034	Interest rate
Subordinated notes	2,474	—	2,474	—	Interest rate
Equity	33,603	—	—	33,603	
Total liabilities and equity	$ 390,641	$ 34,135	$ 304,869	$ 51,637	

Footnotes to this table are presented on the next page.

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: Trading activities[1][2]	Exposed to market risk: Non-trading activities[3]	Not exposed to market risk	Principal risks associated with non-trading activities
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 fund 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 presented under trading activities take inter-company eliminations into account.
(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 day-to-day basis under specific frameworks, which set out the risk factors that must be measured and the limit for each of these factors as well as the total. Tolerance limits are also provided for various stress testing. Compliance with these limits is monitored daily and a market risk dashboard is produced on a daily basis and reported to senior management. Any limit exceeded is immediately analyzed and the appropriate action is taken.

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

In addition to aggregate VaR, Desjardins Group calculates an aggregate stressed VaR (SVaR). It is calculated in the same way as aggregate VaR, except for the use of historical data. Therefore, instead of using the interval of the past year, aggregate SVaR takes into account the historical data for a crisis period of one year from September 2008. 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 table below presents the aggregate VaR and the aggregate SVaR of trading activities by risk category, as well as the IRC. Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four 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.

Market risk measures for the trading portfolio

(in millions of dollars)	For the quarter ended September 30, 2021				For the quarters ended			
					June 30, 2021		September 30, 2020	
	As at September 30, 2021	Average	High	Low	As at June 30, 2021	Average	As at September 30, 2020	Average
Equities	$ 0.6	$ 0.3	$ 0.8	$ 0.1	$ 0.3	$ 0.3	$ 1.3	$ 1.0
Foreign exchange	0.2	0.4	1.5	0.1	0.2	0.4	0.4	0.9
Interest rate	3.0	3.4	4.6	2.2	3.7	4.4	5.2	4.7
Specific interest rate risk[1]	2.1	2.0	3.4	1.3	2.6	1.9	2.7	2.7
Diversification effect[2]	(2.8)	(2.6)	N/A[3]	N/A[3]	(3.1)	(2.5)	(4.1)	(4.2)
Aggregate VaR	$ 3.1	$ 3.5	$ 4.7	$ 2.4	$ 3.7	$ 4.5	$ 5.5	$ 5.1
Aggregate SVaR	$ 8.3	$ 11.0	$ 15.3	$ 7.8	$ 11.8	$ 16.0	$ 9.3	$ 15.5
Incremental risk charge (IRC)	$ 74.0	$ 83.8	$ 108.9	$ 58.3	$ 88.1	$ 70.9	$ 43.6	$ 53.0

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

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

(3) The highs and lows of the various market risk categories can refer to different dates. It is not relevant to calculate a diversification effect.

The average of the trading portfolio's aggregate VaR was $3.5 million for the quarter ended September 30, 2021, down $1.0 million compared to the quarter ended June 30, 2021. The average of the aggregate SVaR was $11.0 million for the quarter ended September 30, 2021, down $5.0 million compared to the quarter ended June 30, 2021. The average of the incremental risk charge totalled $83.8 million, up $12.9 million compared to the previous quarter.

It should be noted that the $1.0 million decline in the Desjardins average VaR is essentially due to much less volatile market data than 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 ones:

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

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

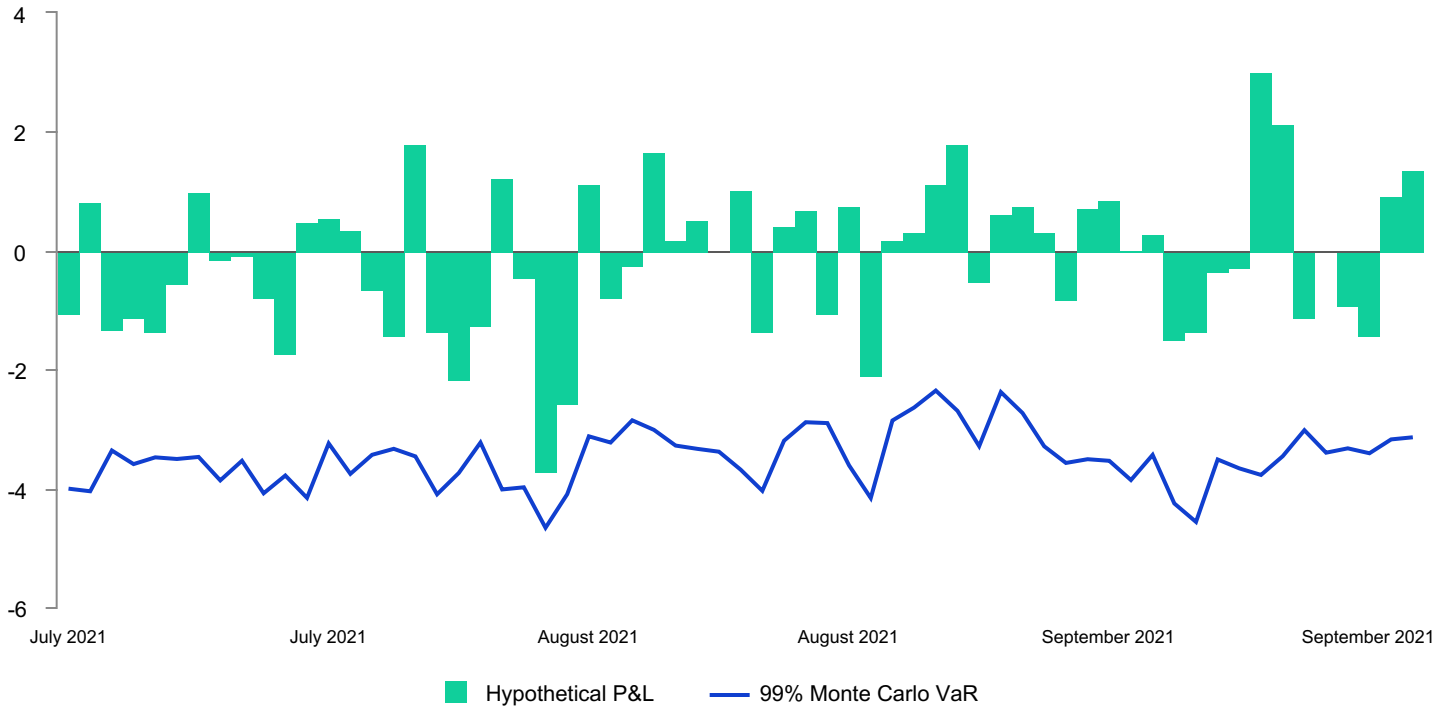
Back testing

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

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

The following graph shows changes in VaR for trading activities as well as the hypothetical P&L related to these activities. During the third quarter of 2021, no overage of actual P&L and hypothetical P&L was observed in relation to the VaR 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 may have a significant impact on trading portfolios may occur from time to time. These events are at the tail-end of a distribution and are the result of extreme situations. Use of a stress-testing program is required to assess the impact of these potential situations.

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

Structural interest rate risk management

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

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

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

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

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

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

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

Interest rate sensitivity (before income taxes)[1]

(in millions of dollars)	As at September 30, 2021		As at June 30, 2021		As at September 30, 2020	
	Net interest income[2]	**Economic value of equity[3]**	Net interest income[2]	Economic value of equity[3]	Net interest income[2]	Economic value of equity[3]
Impact of a 100-basis-point increase in interest rates	**$ 3**	**$ (150)**	$ 56	$ (125)	$ (36)	$ (209)
Impact of a 25-basis-point decrease in interest rates[4]	**(12)**	**30**	(21)	28	12	32

(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 $200 million decrease in the economic value of equity before taxes as at September 30, 2021, and in a $196 million and $185 million decrease as at June 30, 2021 and September 30, 2020, respectively. A 25-basis-point decrease in interest rates would result in a $52 million increase in the economic value of equity before taxes as at September 30, 2021, and in a $51 million and $53 million increase as at June 30, 2021 and September 30, 2020, respectively.

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

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

(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

Foreign exchange risk management

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

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

LIQUIDITY RISK

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

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

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

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

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

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF.

In the current context of the COVID-19 pandemic, the Government of Canada has set up exceptional liquidity programs to facilitate access to financial institutional financing. Additional information on Government of Canada programs is presented under “Sources of funding” in the “Liquidity risk” section of Desjardins Group’s 2020 annual MD&A. Desjardins Group has used these programs to maintain adequate liquidity in order to deal with this unprecedented situation. However, as market conditions stabilized, some Bank of Canada programs to provide temporary liquidity to the financial system ended during the second quarter of 2021. Desjardins Group’s average LCR was 150% for the quarter ended September 30, 2021, compared to 151% for the previous quarter. Despite this decline, the average ratio for the third quarter rose to a very high level because of the use of the aforementioned programs and the increase in deposits. The AMF requires that in the absence of stressed conditions, the ratio be greater than or equal to the minimum requirement of 100%. However, in order to promote the effective circulation of liquidity during the COVID-19 pandemic crisis, the AMF could exceptionally accept levels this one time that are lower than the minimum requirements. Desjardins Group does not expect its regulatory ratio to fall below the regulatory limit. This ratio is proactively managed by Desjardins Group’s Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group’s main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

Liquid assets

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

Liquid assets[1]

As at September 30, 2021

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	**$ 12,731**	**$ —**	**$ 12,731**	**$ —**	**$ 12,731**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**52,476**	**15,051**	**67,527**	**33,131**	**34,396**
Other securities in Canada	**4,000**	**844**	**4,844**	**2,162**	**2,682**
Issued or guaranteed by foreign issuers	**420**	**2**	**422**	**14**	**408**
Loans					
Insured residential mortgage-backed securities	**6,410**	**—**	**6,410**	**2,340**	**4,070**
Total	**$ 76,037**	**$ 15,897**	**$ 91,934**	**$ 37,647**	**$ 54,287**

As at December 31, 2020

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	$ 11,300	$ —	$ 11,300	$ —	$ 11,300
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	$ 30,201	$ 54,558

(1) Excluding assets held by insurance subsidiaries.

Unencumbered liquid assets by entity[1]

(in millions of dollars)	As at September 30, 2021	As at December 31, 2020
Federation	**$ 35,308**	$ 34,603
Caisse network	**16,606**	17,463
Other entities	**2,373**	2,492
Total	**$ 54,287**	$ 54,558

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

Encumbered assets

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

Encumbered assets
As at September 30, 2021

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 13,645	$ —	$ 13,645	$ —	$ 565	$ 12,166	$ 914
Securities	88,974	21,830	110,804	40,294	939	37,493	32,078
Securities borrowed or purchased under reverse repurchase agreements	15,542	—	15,542	—	—	—	15,542
Net loans and acceptances	227,027	—	227,027	29,075	—	81,182	116,770
Segregated fund net assets	21,678	—	21,678	—	—	—	21,678
Other assets	23,775	—	23,775	—	—	—	23,775
Total	$ 390,641	$ 21,830	$ 412,471	$ 69,369	$ 1,504	$ 130,841	$ 210,757

As at December 31, 2020

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 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	211,749	—	211,749	28,401	—	73,167	110,181
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	$ 120,816	$ 192,990

(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.

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

Liquidity coverage ratio[1]

(in millions of dollars and as a percentage)	For the quarter ended September 30, 2021 Total non-weighted value[2] (average[4])	For the quarter ended September 30, 2021 Total weighted value[3] (average[4])	For the quarter ended June 30, 2021 Total weighted value[3] (average[4])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 47,336**	$ 47,629
Cash outflows			
Retail deposits and small business deposits, including:	**$ 101,874**	**6,695**	6,470
Stable deposits	**49,892**	**1,497**	1,446
Less stable deposits	**51,982**	**5,198**	5,024
Unsecured wholesale funding, including:	**40,309**	**19,306**	17,936
Operational deposits (all counterparties) and deposits in cooperative bank networks	**11,467**	**2,743**	2,721
Non-operational deposits (all counterparties)	**20,636**	**8,357**	7,657
Unsecured debt	**8,206**	**8,206**	7,558
Secured wholesale funding	**N/A**	**27**	10
Additional requirements, including:	**16,001**	**3,917**	3,154
Outflows related to exposures on derivatives and other collateral required	**1,300**	**1,182**	1,236
Outflows related to funding loss on debt products	**888**	**888**	114
Credit and liquidity facilities	**13,813**	**1,847**	1,804
Other contractual funding liabilities	**3,484**	**1,795**	3,240
Other contingent funding liabilities	**98,808**	**2,501**	2,542
Total cash outflows	**N/A**	**$ 34,241**	$ 33,352
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 7,917**	**$ 169**	$ 164
Inflows related to completely effective exposures	**3,378**	**1,689**	1,629
Other cash inflows	**846**	**846**	80
Total cash inflows	**$ 12,141**	**$ 2,704**	$ 1,873

	Total adjusted value[5]	Total adjusted value[5]
Total high-quality liquid assets	**$ 47,336**	$ 47,629
Total net cash outflows	**31,537**	31,479
Liquidity coverage ratio	**150 %**	151 %

(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 daily data for the quarter. The change of calculation method during the third quarter of 2021 did not have a significant impact on the value of the ratio.
(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.

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.

Net Stable Funding Ratio[1]

(in millions of dollars and as a percentage)	As at September 30, 2021					As at June 30, 2021
	Unweighted value by residual maturity					
	No maturity	< 6 months	From 6 months to < 1 year	≥ 1 year	Weighted value	Weighted value
Available Stable Funding (ASF) item						
Capital	$ 32,672	$ —	$ —	$ —	$ 32,672	$ 31,842
Regulatory capital	32,672	—	—	—	32,672	31,842
Other capital instruments	—	—	—	—	—	—
Retail deposits and deposits from small business customers	78,180	42,312	16,221	28,536	153,598	153,397
Stable deposits	44,701	6,191	5,710	9,652	63,423	63,733
Less stable deposits	33,479	36,121	10,511	18,884	90,175	89,664
Wholesale funding	26,846	42,783	4,150	14,538	30,592	30,613
Operational deposits	9,867	—	—	—	4,933	4,894
Other wholesale funding	16,979	42,783	4,150	14,538	25,659	25,719
Liabilities with matching interdependent assets	—	708	869	10,827	—	—
Other liabilities	18,719	9,587	4,760	—	—	—
NSFR derivative liabilities	N/A	—	4,760	—	N/A	N/A
All other liabilities and equity not included in the above categories	18,719	9,587	—	—	—	—
Total ASF	N/A	N/A	N/A	N/A	$ 216,862	$ 215,852
Required Stable Funding (RSF) item						
Total NSFR high-quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	$ 860	$ 527
Deposits held by other financial institutions for operational purposes	$ —	$ —	$ —	$ —	—	—
Performing loans and securities	19,086	44,668	18,405	147,877	147,240	144,378
Performing loans to financial institutions secured by Level 1 HQLA	—	13,944	—	—	697	636
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	1	1,987	—	375	574	578
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:	13,471	20,392	8,829	51,969	67,941	65,986
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	—	6,763	5,087	11,472	7,457	7,308
Performing residential mortgages, of which:	5,594	8,016	9,176	93,067	75,550	74,650
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	5,594	8,016	9,176	93,067	75,550	74,650
Securities that are not in default and do not quality as HQLA, including exchange-traded equities	20	329	400	2,466	2,478	2,528
Assets with matching interdependent liabilities	—	708	869	10,827	—	—
Other assets[2]	—	—	23,502	—	13,622	13,570
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	—	507	—	431	489
NSFR derivative assets[2]	N/A	—	5,282	—	238	257
NSFR derivative liabilities before deduction of variation margin posted[2]	N/A	—	4,760	—	—	—
All other assets not included in the above categories	—	13	2	12,938	12,953	12,824
Off-balance sheet items	N/A	—	112,745	—	2,662	2,670
Total RSF	N/A	N/A	N/A	N/A	$ 164,384	$ 161,145
Net Stable Funding Ratio	N/A	N/A	N/A	N/A	132 %	134 %

(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 funding

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $239.7 billion as at September 30, 2021, up $14.4 billion since December 31, 2020. Additional information on deposits is presented in the "Balance sheet management" section.

Funding programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, and these strategies are regulated by policies. In the first nine months of 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:

Main funding programs
As at September 30, 2021

	Maximum authorized amount
Medium-term notes (Canadian)	**$10 billion**
Covered bonds (multi-currency)[1]	**$18 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) On April 6, 2021, the AMF announced the termination, effective immediately, of the temporary increase in the covered bond issue limits and, therefore, a return to the normal target of 5.5% of Desjardins Group's assets, as calculated according to the AMF's decision on the matter. The maximum authorized amount under the covered bond program was therefore lowered from $26 billion to $18 billion (calculated as at September 30, 2021).

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

Remaining contractual term to maturity of wholesale funding

(in millions of dollars)	As at September 30, 2021								As at December 31, 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	**$ 2,402**	**$ 470**	**$ 3**	**$ 3**	**$ 2,878**	**$ —**	**$ —**	**$ 2,878**	$ 3,833
Commercial paper	**8,330**	**1,660**	**916**	**—**	**10,906**	**—**	**—**	**10,906**	11,676
Medium-term notes	**—**	**1,000**	**—**	**1,312**	**2,312**	**790**	**5,312**	**8,414**	6,446
Mortgage loan securitization	**—**	**351**	**356**	**868**	**1,575**	**2,229**	**8,593**	**12,397**	12,100
Covered bonds	**464**	**—**	**—**	**2,243**	**2,707**	**2,046**	**3,314**	**8,067**	9,979
Subordinated notes	**—**	**—**	**—**	**—**	**—**	**—**	**2,474**	**2,474**	1,493
Total	**$ 11,196**	**$ 3,481**	**$ 1,275**	**$ 4,426**	**$ 20,378**	**$ 5,065**	**$ 19,693**	**$ 45,136**	$ 45,527
Including:									
Secured	**$ 464**	**$ 351**	**$ 356**	**$ 3,111**	**$ 4,282**	**$ 4,275**	**$ 14,382**	**$ 22,939**	$ 23,572
Unsecured	**10,732**	**3,130**	**919**	**1,315**	**16,096**	**790**	**5,311**	**22,197**	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. Total wholesale funding decreased slightly by $391 million compared to December 31, 2020. 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 currency

(in millions of dollars and as a percentage)	As at September 30, 2021		As at December 31, 2020	
Canadian dollars	**$ 23,885**	**52.9 %**	$ 24,205	53.2 %
U.S. dollars	**16,694**	**37.0**	13,491	29.6
Other	**4,557**	**10.1**	7,831	17.2
Total	**$ 45,136**	**100.0 %**	$ 45,527	100.0 %

Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $1.3 billion in the first nine months of 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.

Outstanding notes issued under the Federation's medium-term funding programs amounted to $28.9 billion as at September 30, 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. Desjardins Capital Inc.'s senior notes outstanding totalled $0.5 billion as at September 30, 2021, unchanged from December 31, 2020.

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

Credit ratings of securities issued and outstanding

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

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

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

In the third quarter of 2021, Standard & Poor's affirmed the ratings of the instruments issued by the Federation as well as those of Desjardins Capital Inc. while maintaining its outlook as stable.

As at the date of this MD&A, the credit ratings and outlooks of rating agencies were as follows:

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**
Desjardins Capital Inc.				
Medium- and long-term debt, senior	**A (high)**	**A**	**A2**	**A**
Outlook	**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 that its counterparties would require in the event of a credit rating downgrade for the Federation and Desjardins Capital Inc. This monitoring enables Desjardins Group to assess the impact of such a downgrade on its funding capabilities and its ability to perform transactions in the normal course of its operations as well as ensure that it has the additional liquid assets and collateral to meet its obligations. Currently, Desjardins Group is not obliged to provide additional collateral in the event of its credit rating being lowered three notches by one or more credit rating agencies.

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

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

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

Note 16, “Insurance contract liabilities”, to the Annual Combined Financial Statements provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments
As at September 30, 2021

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 13,159	$ 486	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 13,645
Securities										
Securities at fair value through profit or loss[1]	150	644	463	872	428	2,500	5,695	20,281	5,952	36,985
Securities at fair value through other comprehensive income[1]	198	398	673	321	727	6,675	25,747	17,150	61	51,950
Securities at amortized cost	—	—	—	1	1	—	5	32	—	39
Securities borrowed or purchased under reverse repurchase agreements	15,042	342	158	—	—	—	—	—	—	15,542
Loans										
Residential mortgages[2]	3,017	3,888	7,637	7,656	6,196	19,713	83,362	9,103	6,043	146,615
Consumer, credit card and other personal loans[2]	86	135	135	184	275	1,233	5,372	7,651	9,672	24,743
Business and government[2]	13,260	6,069	4,653	5,334	4,292	4,555	9,534	2,660	6,109	56,466
Allowance for credit losses	—	—	—	—	—	—	—	—	(1,007)	(1,007)
Segregated fund net assets	—	—	—	—	—	—	—	—	21,678	21,678
Clients' liability under acceptances	189	21	—	—	—	—	—	—	—	210
Premiums receivable	177	69	15	2	—	—	—	—	2,693	2,956
Derivative financial instruments	277	202	194	376	181	1,527	2,396	286	—	5,439
Amounts receivable from clients, brokers and financial institutions	3,426	5	—	—	—	—	—	—	817	4,248
Reinsurance assets	31	56	66	59	55	149	302	1,113	—	1,831
Right-of-use assets	—	—	—	—	—	—	—	—	542	542
Investment property	—	—	—	—	—	—	—	—	918	918
Property, plant and equipment	—	—	—	—	—	—	—	—	1,488	1,488
Goodwill	—	—	—	—	—	—	—	—	159	159
Intangible assets	—	—	—	—	—	—	—	—	497	497
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,311	1,311
Deferred tax assets	—	—	—	—	—	—	—	—	747	747
Other assets	1,127	260	129	52	16	19	44	10	1,982	3,639
Total assets	$ 50,139	$ 12,575	$ 14,123	$ 14,857	$ 12,171	$ 36,371	$ 132,457	$ 58,286	$ 59,662	$ 390,641

See page 56 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)

As at September 30, 2021

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[3]	$ 6,431	$ 4,277	$ 5,287	$ 10,406	$ 4,939	$ 13,823	$ 14,060	$ 369	$ 74,626	$ 134,218
Business and government [3]	13,272	4,090	1,832	2,235	3,451	6,379	14,865	3,854	55,104	105,082
Deposit-taking institutions[3]	55	3	3	1	3	5	2	—	305	377
Acceptances	189	21	—	—	—	—	—	—	—	210
Commitments related to securities sold short[4]	51	196	408	13	19	847	3,428	4,597	5	9,564
Commitments related to securities lent or sold under repurchase agreements	25,572	—	—	—	—	—	—	—	—	25,572
Derivative financial instruments	185	197	172	345	234	1,371	2,202	127	—	4,833
Amounts payable to clients, brokers and financial institutions	3,365	6	—	—	—	—	—	—	6,365	9,736
Lease liabilities	6	11	16	16	15	59	165	311	9	608
Insurance contract liabilities	458	811	1,004	915	860	2,254	4,712	19,671	3,161	33,846
Segregated fund net liabilities	—	—	—	—	—	—	—	—	21,672	21,672
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	1,366	1,366
Deferred tax liabilities	—	—	—	—	—	—	—	—	320	320
Other liabilities	2,979	448	570	473	37	146	132	30	2,345	7,160
Subordinated notes	—	—	—	—	—	—	—	2,474	—	2,474
Total equity	—	—	—	—	—	—	—	—	33,603	33,603
Total liabilities and equity	$ 52,563	$ 10,060	$ 9,292	$ 14,404	$ 9,558	$ 24,884	$ 39,566	$ 31,433	$ 198,881	$ 390,641
Off-balance sheet commitments										
Credit commitments[5]	$ 1,112	$ 612	$ 172	$ 917	$ 848	$ 3,282	$ 8,737	$ 112	$ 110,134	$ 125,926
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	1,367	1,367
Documentary letters of credit	3	15	2	4	1	—	—	—	1	26
Guarantees and standby letters of credit	131	259	240	500	271	38	33	42	17	1,531
Credit default swaps	—	—	—	—	—	—	—	646	—	646

See page 56 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 2020

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 11,739	$ 384	$ 3	$ —	$ —	$ —	$ —	$ —	$ —	$ 12,126
Securities										
Securities at fair value through profit or loss[1]	172	181	866	303	627	1,508	5,632	20,671	5,000	34,960
Securities at fair value through other comprehensive income[1]	695	648	644	625	1,749	6,738	23,188	18,326	66	52,679
Securities at amortized cost	—	—	—	—	1	2	4	22	—	29
Securities borrowed or purchased under reverse repurchase agreements	8,676	599	383	—	—	—	—	—	—	9,658
Loans										
Residential mortgages[2]	2,257	3,040	7,108	6,494	8,643	24,388	73,124	5,136	6,018	136,208
Consumer, credit card and other personal loans[2]	56	59	138	246	359	1,350	5,762	7,918	9,422	25,310
Business and government[2]	11,150	5,796	5,553	5,054	4,824	3,591	7,786	2,757	4,504	51,015
Allowance for credit losses	—	—	—	—	—	—	—	—	(1,112)	(1,112)
Segregated fund net assets	—	—	—	—	—	—	—	—	19,093	19,093
Clients' liability under acceptances	312	2	—	14	—	—	—	—	—	328
Premiums receivable	169	59	13	3	—	—	—	—	2,559	2,803
Derivative financial instruments	155	203	390	223	217	891	3,153	588	—	5,820
Amounts receivable from clients, brokers and financial institutions	1,807	10	—	—	—	—	—	—	682	2,499
Reinsurance assets	38	71	78	69	66	173	362	1,105	—	1,962
Right-of-use assets	—	—	—	—	—	—	—	—	565	565
Investment property	—	—	—	—	—	—	—	—	924	924
Property, plant and equipment	—	—	—	—	—	—	—	—	1,541	1,541
Goodwill	—	—	—	—	—	—	—	—	156	156
Intangible assets	—	—	—	—	—	—	—	—	424	424
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,189	1,189
Deferred tax assets	—	—	—	—	—	—	—	—	1,154	1,154
Other assets	583	187	134	14	17	21	47	12	1,689	2,704
Total assets	$ 37,809	$ 11,239	$ 15,310	$ 13,045	$ 16,503	$ 38,662	$ 119,058	$ 56,535	53,874	$ 362,035

See page 56 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)

As at December 31, 2020

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[3]	$ 4,129	$ 3,579	$ 8,209	$ 5,044	$ 7,058	$ 14,559	$ 15,392	$ 343	$ 69,615	$ 127,928
Business and government[3]	11,884	6,236	5,159	2,556	1,115	6,273	15,384	3,720	44,526	96,853
Deposit-taking institutions[3]	45	—	3	—	6	10	5	—	386	455
Acceptances	312	2	—	14	—	—	—	—	—	328
Commitments related to securities sold short[4]	248	343	399	91	141	858	1,920	5,347	6	9,353
Commitments related to securities lent or sold under repurchase agreements	13,266	1,250	3,119	—	505	1,012	—	—	—	19,152
Derivative financial instruments	330	278	500	229	187	855	2,377	128	—	4,884
Amounts payable to clients, brokers and financial institutions	3,195	—	—	—	—	—	—	—	3,615	6,810
Lease liabilities	6	11	16	16	16	61	168	330	9	633
Insurance contract liabilities	467	845	1,007	906	855	2,126	4,877	20,754	2,990	34,827
Segregated fund net liabilities	—	—	—	—	—	—	—	—	19,089	19,089
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	3,107	3,107
Deferred tax liabilities	—	—	—	—	—	—	—	—	372	372
Other liabilities	2,132	890	587	161	51	146	164	35	2,322	6,488
Subordinated notes	—	—	—	—	—	—	—	1,493	—	1,493
Total equity	—	—	—	—	—	—	—	—	30,263	30,263
Total liabilities and equity	$ 36,014	$ 13,434	$ 18,999	$ 9,017	$ 9,934	$ 25,900	$ 40,287	$ 32,150	$ 176,300	$ 362,035
Off-balance sheet commitments										
Credit commitments[5]	$ 804	$ 189	$ 1,072	$ 1,044	$ 1,120	$ 3,381	$ 7,168	$ 154	$ 107,380	$ 122,312
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	1,702	1,702
Documentary letters of credit	10	9	72	9	17	12	3	—	—	132
Guarantees and standby letters of credit	98	173	283	205	202	30	28	8	10	1,037
Credit default swaps	—	—	—	—	—	—	649	—	—	649

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

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

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

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

(5) Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the nine-month period ended September 30, 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, its internal control over financial reporting. The parties involved and their responsibilities regarding such internal control are described on pages 99 and 100 of Desjardins Group's 2020 annual MD&A.

RELATED PARTY DISCLOSURES

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

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

Desjardins Group has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's length transactions and in compliance with the legislative framework for its various components. These policies and procedures have not changed significantly since December 31, 2020.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Group is essential to understanding the Annual and Interim Combined Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements on pages 121 to 139 of the 2020 Annual Report, except for the amendments to IFRS 9, IAS 39 and IFRS 7, issued on January 1, 2021, as part of Phase 2 of the interest rate benchmark reform project, and described in Note 2, "Significant accounting policies", to the Interim 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 affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 100 to 106 of the 2020 annual MD&A. There was no material change made to these accounting policies during the first nine months of 2021. However, the COVID-19 pandemic situation continues to result in new sources of uncertainty affecting the judgments as well as the estimates and assumptions made by management in applying these accounting policies for the nine-month period ended September 30, 2021. This concerns in particular the loss allowance for expected credit losses. For more information about the significant judgments made to estimate the loss allowance for expected credit losses, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2020 are described in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements, on page 139 of the 2020 Annual Report. The IASB did not issue any new accounting standard or any new amendment to an existing standard during the nine-month period ended September 30, 2021 that would have a significant impact on Desjardins Group's financial statements.

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 under "Desjardins Group profile") 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.

	As at September 30, 2021			As at December 31, 2020		
(in millions of dollars and as a percentage)	CDO	Desjardins Group Combined Balance Sheets	%	CDO	Desjardins Group Combined Balance Sheets	%
Total assets	**$ 9,604**	**$ 390,641**	**2.5 %**	$ 8,463	$ 362,035	2.3 %
Total liabilities	**8,817**	**357,038**	**2.5**	7,803	331,772	2.4
Total equity	**787**	**33,603**	**2.3**	660	30,263	2.2

	For the three-month periods ended									For the nine-month periods ended				
	September 30, 2021			June 30, 2021			September 30, 2020			September 30, 2021			September 30, 2020	
(in millions of dollars and as a percentage)	CDO	Desjardins Group Combined Statements of Income	%	CDO	Desjardins Group Combined Statements of Income	%	CDO	Desjardins Group Combined Statements of Income	%	CDO	Desjardins Group Combined Statements of Income	%	CDO	Desjardins Group Combined Statements of Income	%
Total income	**$ 64**	**$ 5,136**	**1.2 %**	$ 65	$ 5,778	1.1 %	$ 54	$ 4,804	1.1 %	**$ 207**	**$ 13,949**	**1.5 %**	$ 126	$ 16,109	0.8 %
Surplus earnings before member dividends	**30**	**816**	**3.7**	31	935	3.3	22	729	3.0	**102**	**2,549**	**4.0**	33	1,543	2.1
Net surplus earnings for the period after member dividends	**29**	**750**	**3.9**	30	869	3.5	21	669	3.1	**97**	**2,351**	**4.1**	28	1,368	2.0

COMBINED FINANCIAL STATEMENTS

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Combined Balance Sheets

(unaudited)

(in millions of Canadian dollars)	Notes	As at September 30, 2021	As at December 31, 2020
ASSETS			
Cash and deposits with financial institutions		**$ 13,645**	$ 12,126
Securities			
Securities at fair value through profit or loss		**36,985**	34,960
Securities at fair value through other comprehensive income		**51,950**	52,679
Securities at amortized cost		**39**	29
		88,974	87,668
Securities borrowed or purchased under reverse repurchase agreements		**15,542**	9,658
Loans	5		
Residential mortgages		**146,615**	136,208
Consumer, credit card and other personal loans		**24,743**	25,310
Business and government		**56,466**	51,015
		227,824	212,533
Allowance for credit losses	5	**(1,007)**	(1,112)
		226,817	211,421
Segregated fund net assets		**21,678**	19,093
Other assets			
Clients' liability under acceptances		**210**	328
Premiums receivable		**2,956**	2,803
Derivative financial instruments		**5,439**	5,820
Amounts receivable from clients, brokers and financial institutions		**4,248**	2,499
Reinsurance assets		**1,831**	1,962
Right-of-use assets		**542**	565
Investment property		**918**	924
Property, plant and equipment		**1,488**	1,541
Goodwill		**159**	156
Intangible assets		**497**	424
Investments in companies accounted for using the equity method		**1,311**	1,189
Deferred tax assets		**747**	1,154
Other		**3,639**	2,704
		23,985	22,069
TOTAL ASSETS		**$ 390,641**	$ 362,035
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	6		
Individuals		**$ 134,218**	$ 127,928
Business and government		**105,082**	96,853
Deposit-taking institutions		**377**	455
		239,677	225,236
Other liabilities			
Acceptances		**210**	328
Commitments related to securities sold short		**9,564**	9,353
Commitments related to securities lent or sold under repurchase agreements		**25,572**	19,152
Derivative financial instruments		**4,833**	4,884
Amounts payable to clients, brokers and financial institutions		**9,736**	6,810
Lease liabilities		**608**	633
Insurance contract liabilities		**33,846**	34,827
Segregated fund net liabilities		**21,672**	19,089
Net defined benefit plan liabilities		**1,366**	3,107
Deferred tax liabilities		**320**	372
Other		**7,160**	6,488
		114,887	105,043
Subordinated notes		**2,474**	1,493
TOTAL LIABILITIES		**357,038**	331,772
EQUITY			
Capital stock		**4,999**	5,021
Undistributed surplus earnings		**2,645**	1,874
Accumulated other comprehensive income	7	**935**	1,302
Reserves		**24,150**	21,316
Equity – Group's share		**32,729**	29,513
Non-controlling interests		**874**	750
TOTAL EQUITY		**33,603**	30,263
TOTAL LIABILITIES AND EQUITY		**$ 390,641**	$ 362,035

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

Combined Statements of Income

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended September 30 2021	2020	For the nine-month periods ended September 30 2021	2020
INTEREST INCOME					
Loans		**$ 1,763**	$ 1,800	**$ 5,205**	$ 5,488
Securities		**120**	120	**349**	352
		1,883	1,920	**5,554**	5,840
INTEREST EXPENSE					
Deposits		**374**	431	**1,143**	1,570
Subordinated notes		**18**	16	**47**	44
Other		**15**	9	**33**	41
		407	456	**1,223**	1,655
NET INTEREST INCOME	9	**1,476**	1,464	**4,331**	4,185
NET PREMIUMS		**2,905**	2,534	**8,077**	7,294
OTHER INCOME					
Deposit and payment service charges		**109**	96	**313**	284
Lending fees and credit card service revenues		**198**	126	**567**	463
Brokerage and investment fund services		**283**	235	**841**	711
Management and custodial service fees		**185**	152	**531**	449
Net investment income (loss)	9	**(90)**	304	**(637)**	2,470
Overlay approach adjustment for insurance operations financial assets		**(24)**	(143)	**(316)**	70
Foreign exchange income		**34**	22	**92**	82
Other		**60**	14	**150**	101
		755	806	**1,541**	4,630
TOTAL INCOME		**5,136**	4,804	**13,949**	16,109
PROVISION FOR CREDIT LOSSES	5	**52**	99	**53**	694
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**1,713**	1,775	**3,698**	7,452
NON-INTEREST EXPENSE					
Salaries and fringe benefits		**1,041**	910	**3,260**	2,829
Premises, equipment and furniture, including depreciation		**228**	230	**680**	645
Service agreements and outsourcing		**64**	53	**179**	179
Communications		**71**	58	**192**	180
Other		**884**	703	**2,519**	2,132
		2,288	1,954	**6,830**	5,965
OPERATING SURPLUS EARNINGS		**1,083**	976	**3,368**	1,998
Income taxes on surplus earnings		**267**	247	**819**	455
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS		**816**	729	**2,549**	1,543
Member dividends		**90**	80	**270**	237
Tax recovery on member dividends		**(24)**	(20)	**(72)**	(62)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		**$ 750**	$ 669	**$ 2,351**	$ 1,368
of which:					
Group's share		**$ 716**	$ 648	**$ 2,248**	$ 1,327
Non-controlling interests' share		**34**	21	**103**	41

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

Combined Statements of Comprehensive Income

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2021	2020	**2021**	2020
Net surplus earnings for the period after member dividends	**$ 750**	$ 669	**$ 2,351**	$ 1,368
Other comprehensive income, net of income taxes				
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	**243**	(149)	**1,366**	(120)
Share of associates and joint ventures accounted for using the equity method	**1**	(1)	**7**	(1)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(5)**	2	**(4)**	2
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**1**	(1)	**1**	(2)
	240	(149)	**1,370**	(121)
Items that will be reclassified subsequently to the Combined Statements of Income				
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income				
Net unrealized gains (losses)	**(43)**	97	**(322)**	707
Provision for credit losses recognized in profit or loss	**—**	7	**—**	20
Reclassification of net (gains) losses to the Combined Statements of Income	**1**	(39)	**(60)**	(230)
	(42)	65	**(382)**	497
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	**31**	114	**317**	(101)
Reclassification of net (gains) losses to the Combined Statements of Income	**(10)**	(4)	**(76)**	44
	21	110	**241**	(57)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(67)**	(23)	**(178)**	547
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(8)**	(8)	**(34)**	(13)
	(75)	(31)	**(212)**	534
	(96)	144	**(353)**	974
Total other comprehensive income, net of income taxes	**144**	(5)	**1,017**	853
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 894**	$ 664	**$ 3,368**	$ 2,221
of which:				
Group's share	**$ 856**	$ 637	**$ 3,234**	$ 2,178
Non-controlling interests' share	**38**	27	**134**	43

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

Combined Statements of Comprehensive Income *(continued)*

(unaudited)

Income taxes on other comprehensive income

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

	For the three-month periods ended September 30		For the nine-months periods ended September 30	
(in millions of Canadian dollars)	**2021**	2020	**2021**	2020
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	**$ 87**	$ (54)	**$ 488**	$ (43)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(1)**	1	**(1)**	(1)
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**—**	(1)	**—**	(1)
	86	(54)	**487**	(45)
Items that will be reclassified subsequently to the Combined Statements of Income				
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income				
Net unrealized gains (losses)	**(15)**	34	**(113)**	251
Provision for credit losses recognized in profit or loss	**—**	2	**—**	7
Reclassification of net (gains) losses to the Combined Statements of Income	**2**	(13)	**(19)**	(83)
	(13)	23	**(132)**	175
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	**7**	33	**94**	(31)
Reclassification of net (gains) losses to the Combined Statements of Income	**(4)**	—	**(19)**	18
	3	33	**75**	(13)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(24)**	(8)	**(65)**	195
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(2)**	(2)	**(11)**	(4)
	(26)	(10)	**(76)**	191
	(36)	46	**(133)**	353
Total income tax expense (recovery)	**$ 50**	$ (8)	**$ 354**	$ 308

Combined Statements of Changes in Equity

(unaudited)

For the nine-month periods ended September 30

(in millions of Canadian dollars)	Capital stock	Undistributed surplus earnings	Accumulated other comprehensive income global (Note 7)	Reserves				Equity - Group's share	Non-controlling interests	Total equity
				Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves			
BALANCE AS AT DECEMBER 31, 2020	**$ 5,021**	**$ 1,874**	**$ 1,302**	**$ 795**	**$ 1,159**	**$ 19,362**	**$ 21,316**	**$ 29,513**	**$ 750**	**$ 30,263**
Net surplus earnings for the period after member dividends	—	**2,248**	—	—	—	—	—	**2,248**	**103**	**2,351**
Other comprehensive income for the period	—	**1,353**	**(367)**	—	—	—	—	**986**	**31**	**1,017**
Comprehensive income for the period	—	**3,601**	**(367)**	—	—	—	—	**3,234**	**134**	**3,368**
Redemption of shares of capital stock	**(22)**	—	—	—	—	—	—	**(22)**	—	**(22)**
Transactions related to non-controlling interests	—	—	—	—	—	—	—	—	**9**	**9**
Dividends	—	—	—	—	—	—	—	—	**(19)**	**(19)**
Transfer from undistributed surplus earnings (to reserves)	—	**(2,834)**	—	—	**137**	**2,697**	**2,834**	—	—	—
Other	—	**4**	—	—	—	—	—	**4**	—	**4**
BALANCE AS AT SEPTEMBER 30, 2021	**$ 4,999**	**$ 2,645**	**$ 935**	**$ 795**	**$ 1,296**	**$ 22,059**	**$ 24,150**	**$ 32,729**	**$ 874**	**$ 33,603**
BALANCE AS AT DECEMBER 31, 2019	$ 5,134	$ 2,352	$ 211	$ 796	$ 978	$ 17,185	$ 18,959	$ 26,656	$ 773	$ 27,429
Net surplus earnings for the period after member dividends	—	1,327	—	—	—	—	—	1,327	41	1,368
Other comprehensive income for the period	—	(121)	972	—	—	—	—	851	2	853
Comprehensive income for the period	—	1,206	972	—	—	—	—	2,178	43	2,221
Redemption of shares of capital stock	(105)	—	—	—	—	—	—	(105)	—	(105)
Transactions related to non-controlling interests	—	—	—	—	—	—	—	—	(93)	(93)
Loss on dilution of non-controlling interests	—	(14)	—	—	—	—	—	(14)	—	(14)
Dividends	—	—	—	—	—	—		—	(19)	(19)
Transfer from undistributed surplus earnings (to reserves)	—	(1,702)	—	—	248	1,454	1,702	—	—	—
Other	—	(1)	—	—	—	—	—	(1)	—	(1)
BALANCE AS AT SEPTEMBER 30, 2020	$ 5,029	$ 1,841	$ 1,183	$ 796	$ 1,226	$ 18,639	$ 20,661	$ 28,714	$ 704	$ 29,418

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

Combined Statements of Cash Flows

(unaudited)

(in millions of Canadian dollars)	For the nine-month periods ended September 30 2021	2020
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 3,368**	$ 1,998
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment, and investment property, and amortization of intangible assets	**280**	266
Amortization of premiums and discounts	**339**	157
Net change in insurance contract liabilities	**(981)**	3,165
Provision for credit losses	**53**	694
Net realized gains on securities classified as at fair value through other comprehensive income	**(65)**	(315)
Net gains on disposal of property, plant and equipment, intangible assets and investment property	**(2)**	(102)
Overlay approach adjustment for insurance operations financial assets	**316**	(70)
Deferred income taxes	**(13)**	18
Other	**(54)**	(35)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(2,025)**	933
Securities borrowed or purchased under reverse repurchase agreements	**(5,884)**	326
Loans	**(15,449)**	(7,543)
Derivative financial instruments, net amount	**836**	(1,222)
Net amounts receivable from and payable to clients, brokers and financial institutions	**1,177**	973
Deposits	**14,441**	31,902
Commitments related to securities sold short	**211**	(1,769)
Commitments related to securities lent or sold under repurchase agreements	**6,420**	7,111
Other	**391**	(547)
Payment of the contingent consideration	**(104)**	(206)
Income taxes paid on surplus earnings	**(907)**	(366)
Payment of member dividends	**(333)**	—
	2,015	35,368
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	**999**	997
Repayment of subordinated notes	**—**	(899)
Purchase of debt securities and subordinated notes from third parties on the market	**(1)**	(31)
Repayment of lease liabilities	**(69)**	(41)
Redemption of shares of capital stock	**(22)**	(105)
Remuneration on capital stock	**(208)**	(210)
Transactions related to non-controlling interests	**9**	(107)
Dividends paid	**(19)**	(19)
	689	(415)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(21,854)**	(64,607)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**16,483**	19,877
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**4,520**	15,183
Business acquisition, net of cash and cash equivalents acquired	**—**	(56)
Acquisitions of property, plant and equipment, intangible assets and investment property	**(256)**	(246)
Proceeds from disposal of property, plant and equipment, intangible assets and investment property	**15**	129
Payment of the contingent consideration recognized at acquisition date	**—**	(2)
Acquisitions of joint ventures and associates accounted for using the equity method	**(93)**	(96)
	(1,185)	(29,818)
Net increase in cash and cash equivalents	**1,519**	5,135
Cash and cash equivalents at beginning of period	**12,126**	3,709
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 13,645**	$ 8,844
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 1,465**	$ 1,950
Interest received	**6,198**	6,113
Dividends received	**163**	140

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

NOTES TO THE CONDENSED INTERIM COMBINED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – BASIS OF PRESENTATION

Nature of operations

Desjardins Group is made up of the Desjardins caisses in Québec, the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, Caisse Desjardins Ontario Credit Union Inc. (CDO) and the *Fonds de sécurité Desjardins*. A number of the subsidiaries are active across Canada. The address of its head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

Combined Financial Statements

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

As Desjardins caisses and the Federation are financial services cooperatives, these Interim Combined Financial Statements differ from the consolidated financial statements of a group with a traditional organizational structure. Consequently, the Combined Financial Statements of Desjardins Group are a combination of the accounts of the Desjardins caisses of Québec, the Federation, CDO and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The capital stock of Desjardins Group represents the aggregate of the capital stock issued by the caisses, the Federation and CDO.

Statement of Compliance

Pursuant to the *Act Respecting Financial Services Cooperatives*, these Interim Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), more specifically in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Interim Combined Financial Statements for the current period. These reclassifications had no impact on Desjardins Group's profit or loss or total assets and liabilities.

These Interim Combined Financial Statements should be read in conjunction with the audited Annual Combined Financial Statements (the Annual Combined Financial Statements) for the year ended December 31, 2020, and the shaded areas of section 4.0, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Combined Financial Statements.

These Interim Combined Financial Statements were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on November 12, 2021.

Significant judgments, estimates and assumptions

The uncertainty surrounding the COVID-19 pandemic continues to have an impact on judgments as well as significant estimates and assumptions made by management in preparing the Interim Combined Financial Statements. Desjardins Group closely monitors the development of the pandemic and its impact on significant judgments, estimates and assumptions, which are described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements. For more information on significant judgments made to estimate the allowance for expected credit losses, see Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements.

Presentation and functional currency

These Interim Combined Financial Statements are expressed in Canadian dollars, which is also the functional currency of Desjardins Group. Dollar amounts presented in the tables of the Notes to the Interim Combined Financial Statements are in millions of dollars, unless otherwise stated.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

All accounting policies were applied as described in Note 2, “Basis of presentation and significant accounting policies”, to the Annual Combined Financial Statements, except for the changes described in the “Changes in accounting policies” section of this note.

CHANGES IN ACCOUNTING POLICIES

Interest rate benchmark reform

On January 1, 2021, Desjardins Group adopted amendments to IFRS 9, IAS 39 and IFRS 7 in connection with Phase 2 of the interest rate benchmark reform project. These amendments supplement the amendments adopted on January 1, 2020 arising from Phase 1 and focus on the impact on the financial statements of the replacement of the interest rate benchmark.

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

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

IFRS 7 was also amended to include the requirement to disclose the nature and extent of risks related to the reform and how the entity manages those risks as well as the entity’s progress in completing the transition to alternative benchmark rates and how the entity is managing the transition. Amendments to these standards had no material impact on Desjardins Group’s profit or loss or financial position.

Progress and risks arising from the 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. The objective is to improve benchmark indices by making sure they comply with robust international standards.

Desjardins Group is exposed to several risks, including interest, market, reputation and operational risks, which result from transactions on over-the-counter derivative financial instruments, securities, loans and other variable-rate instruments.

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

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

The working group also monitors closely the evolution of the expected timeframe for the retirement of certain interest rate benchmarks, which will start on May 17, 2021 with the cessation of the 6-month and 12-month CDOR. In addition, on March 5, 2021, rate administrators announced that the publication of LIBOR will officially cease after December 31, 2021 for all currencies except for some USD LIBOR, for which the publication will cease after June 30, 2023. Thereafter, on July 29, 2021, the US LIBOR rate administrators officially recommended the use of forward-looking Secured Overnight Financing Rate (SOFR) term rates for loans, which completed the final step of the transition plan to promote the use of SOFR rates. The work of the working group continues to progress and meets the timeline set out in the Desjardins Group’s transition plan.

The following table presents quantitative information about exposures for financial instruments and commitments subject to the reform that have yet to transition to alternative benchmark rates and mature after December 31, 2021 or June 30, 2023 (depending on the expected cessation date of the applicable benchmark rate)[1].

As at September 30, 2021	USD LIBOR Maturing after June 30, 2023	GBP LIBOR Maturing after December 31, 2021	OTHER[2] Maturing after December 31, 2021
Non-derivative financial assets[3]	$ 1,473	$ 51	$ 1
Derivative financial instruments[4]	12,740	—	—
Loan commitments[5]	2,404	6	5

(1) This table excludes exposures to interest rate benchmark for which no cessation plans have been announced, including CDOR (Canadian Dollar Offered Rate) for all maturities except the 6-month and 12-month CDOR, Euribor (Euro Interbank Offered Rate) and BBSW (Australian Bank Bill Swap Rate).

(2) Include the following rates: Euro LIBOR, EONIA (Euro Overnight Index Average), CHF LIBOR, and 6- and 12-month CDOR. These CDOR maturities are no longer published since May 17, 2021.

(3) Non-derivative financial assets include the gross carrying amount of loans and the carrying amount of securities.

(4) Derivative financial instruments include the notional amount of interest rate contracts and foreign exchange contracts.

(5) Include loan commitments for which it is possible to draw amounts in several currencies.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB, but not yet effective as at December 31, 2020, are described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements. During the nine-month period ended September 30, 2021, the IASB has not issued any new accounting standards or new amendments to existing standards having a significant impact on Desjardins Group's financial statements.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at September 30, 2021	**Classified as at fair value through profit or loss[1]**	**Designated as at fair value through profit or loss**	**Classified as at fair value through other comprehensive income[2]**	**Designated as at fair value through other comprehensive income**	**Amortized cost[2]**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ —	$ 313	$ 651	$ —	$ 12,681	$ 13,645
Securities	17,060	19,925	51,889	61	39	88,974
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	15,542	15,542
Loans	—	—	—	—	226,817	226,817
Other financial assets						
Clients' liability under acceptances	—	—	—	—	210	210
Derivative financial instruments[3]	5,439	—	—	—	—	5,439
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	4,248	4,248
Other	1	—	—	—	2,382	2,383
Total financial assets	$ 22,500	$ 20,238	$ 52,540	$ 61	$ 261,919	$ 357,258
Financial liabilities						
Deposits	$ —	$ 276	$ —	$ —	$ 239,401	$ 239,677
Other financial liabilities						
Acceptances	—	—	—	—	210	210
Commitments related to securities sold short	9,564	—	—	—	—	9,564
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	25,572	25,572
Derivative financial instruments[3]	4,833	—	—	—	—	4,833
Amounts payable to clients, brokers and financial institutions	—	—	—	—	9,736	9,736
Other	119	—	—	—	3,528	3,647
Subordinated notes	—	—	—	—	2,474	2,474
Total financial liabilities	$ 14,516	$ 276	$ —	$ —	$ 280,921	$ 295,713

(1) An amount of $3,649 million corresponds to financial assets designated for the overlay approach.

(2) As at September 30, 2021, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $5 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $233 million in assets and $112 million in liabilities.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

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

As at December 31, 2020	At fair value through profit or loss: Classified as at fair value through profit or loss[1]	At fair value through profit or loss: Designated as at fair value through profit or loss	At fair value through other comprehensive income: Classified as at fair value through other comprehensive income[2]	At fair value through other comprehensive income: Designated as at fair value through other comprehensive income	Amortized cost[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ 1	$ 174	$ 719	$ —	$ 11,232	$ 12,126
Securities	13,721	21,239	52,613	66	29	87,668
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	9,658	9,658
Loans	—	—	—	—	211,421	211,421
Other financial assets						
Clients' liability under acceptances	—	—	—	—	328	328
Derivative financial instruments[3]	5,820	—	—	—	—	5,820
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	2,499	2,499
Other	2	—	—	—	1,638	1,640
Total financial assets	$ 19,544	$ 21,413	$ 53,332	$ 66	$ 236,805	$ 331,160
Financial liabilities						
Deposits	$ —	$ 206	$ —	$ —	$ 225,030	$ 225,236
Other financial liabilities						
Acceptances	—	—	—	—	328	328
Commitments related to securities sold short	9,353	—	—	—	—	9,353
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	19,152	19,152
Derivative financial instruments[3]	4,884	—	—	—	—	4,884
Amounts payable to clients, brokers and financial institutions	—	—	—	—	6,810	6,810
Other	155	—	—	—	2,930	3,085
Subordinated notes	—	—	—	—	1,493	1,493
Total financial liabilities	$ 14,392	$ 206	$ —	$ —	$ 255,743	$ 270,341

(1) An amount of $3,082 million corresponds to financial assets designated for the overlay approach.

(2) As at December 31, 2020, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $4 million. Detailed information on the allowance for credit losses on loans is presented in Note 5 "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $742 million in assets and $288 million in liabilities.

During the nine-month period ended September 30, 2021 and the year ended December 31, 2020 there were no material reclassifications of financial instruments.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at September 30, 2021		As at December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Securities	**$ 39**	**$ 39**	$ 29	$ 29
Loans	**226,817**	**226,904**	211,421	213,920
Financial liabilities				
Deposits	**239,401**	**239,763**	225,030	226,762
Subordinated notes	**2,474**	**2,546**	1,493	1,592

FAIR VALUE HIERARCHY

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

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

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at September 30, 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 3	$ 310	$ —	$ 313
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,024	—	—	7,024
Provincial governmental entities and municipal corporations in Canada	16,474	713	—	17,187
School or public corporations in Canada	14	87	—	101
Foreign public administrations	616	—	—	616
Other securities				
Financial institutions	—	1,329	9	1,338
Other issuers	1	4,139	631	4,771
Equity securities	4,632	—	1,316	5,948
	28,761	6,268	1,956	36,985
Derivative financial instruments				
Interest rate contracts	—	1,354	—	1,354
Foreign exchange contracts	—	297	—	297
Other contracts	—	3,788	—	3,788
	—	5,439	—	5,439
Other assets	—	1	—	1
Total financial assets at fair value through profit or loss	28,764	12,018	1,956	42,738
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	3	648	—	651
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,738	6,459	—	14,197
Provincial governmental entities and municipal corporations in Canada	28,294	3,616	—	31,910
School or public corporations in Canada	—	14	—	14
Foreign public administrations	16	—	—	16
Other securities				
Financial institutions	10	4,592	—	4,602
Other issuers	10	1,075	65	1,150
Equity securities	—	2	59	61
	36,068	15,758	124	51,950
Total financial assets at fair value through other comprehensive income	36,071	16,406	124	52,601
Financial instruments of segregated funds	7,417	13,958	354	21,729
Total financial assets	$ 72,252	$ 42,382	$ 2,434	$ 117,068
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 276	$ —	$ 276
Other liabilities				
Commitments related to securities sold short	8,896	668	—	9,564
Other	—	—	119	119
	8,896	944	119	9,959
Derivative financial instruments				
Interest rate contracts	—	794	—	794
Foreign exchange contracts	—	484	—	484
Other contracts	—	3,555	—	3,555
	—	4,833	—	4,833
Total financial liabilities	$ 8,896	$ 5,777	$ 119	$ 14,792

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

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

As at December 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 11	$ 164	$ —	$ 175
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,698	—	—	5,698
Provincial governmental entities and municipal corporations in Canada	16,785	771	—	17,556
School or public corporations in Canada	16	95	—	111
Foreign public administrations	248	—	—	248
Other securities				
Financial institutions	—	1,278	10	1,288
Other issuers	61	4,327	735	5,123
Equity securities	3,901	71	964	4,936
	26,709	6,542	1,709	34,960
Derivative financial instruments				
Interest rate contracts	—	2,556	—	2,556
Foreign exchange contracts	—	464	—	464
Other contracts	—	2,800	—	2,800
	—	5,820	—	5,820
Other assets	—	2	—	2
Total financial assets at fair value through profit or loss	26,720	12,528	1,709	40,957
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	1	718	—	719
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,035	5,380	—	13,415
Provincial governmental entities and municipal corporations in Canada	30,548	3,031	—	33,579
School or public corporations in Canada	—	17	—	17
Foreign public administrations	11	—	—	11
Other securities				
Financial institutions	28	4,678	—	4,706
Other issuers	3	813	69	885
Equity securities	—	2	64	66
	38,625	13,921	133	52,679
Total financial assets at fair value through other comprehensive income	38,626	14,639	133	53,398
Financial instruments of segregated funds	7,113	11,861	127	19,101
Total financial assets	$ 72,459	$ 39,028	$ 1,969	$ 113,456
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 206	$ —	$ 206
Other liabilities				
Commitments related to securities sold short	8,671	682	—	9,353
Other	—	—	155	155
	8,671	888	155	9,714
Derivative financial instruments				
Interest rate contracts	—	1,507	—	1,507
Foreign exchange contracts	—	712	—	712
Other contracts	—	2,665	—	2,665
	—	4,884	—	4,884
Total financial liabilities	$ 8,671	$ 5,772	$ 155	$ 14,598

During the nine-month period ended September 30, 2021 and the year ended December 31, 2020, no material transfers attributable to changes in the observability of market data were made between Levels 1 and 2 of the hierarchy for instruments measured at fair value. Transfers of financial instruments into or out of Level 3 reflect changes in the availability of observable inputs as a result of changes in market conditions.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. During the nine-month period ended September 30, 2021, no significant changes were made to the key controls and procedures as well as the valuation techniques. Some changes were made to input value ranges used to determine fair value, but they did not result in material changes to the fair value of financial instruments categorized within Level 3. For a description of the valuation process for financial instruments categorized within Level 3, refer to Note 4 “Fair value of financial instruments”, to the Annual Combined Financial Statements.

Sensitivity of financial instruments categorized within Level 3

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

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

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

Changes in fair value of financial instruments categorized within Level 3

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

For the nine-month period ended September 30, 2021	Balance at beginning of period	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 10	$ —	$ (1)	$ —	$ —	$ —	$ —	$ 9
Other issuers								
Mortgage bonds	668	—	(20)	—	—	—	(104)	544
Other debt securities	67	—	—	—	—	23	(3)	87
Equity securities	964	—	94	—	—	277	(19)	1,316
Total financial assets at fair value through profit or loss	1,709	—	73	—	—	300	(126)	1,956
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	69	—	—	(2)	—	—	(2)	65
Equity securities	64	—	—	(5)	—	—	—	59
Total financial assets at fair value through other comprehensive income	133	—	—	(7)	—	—	(2)	124
Financial instruments of segregated funds	127	1	5	—	142	102	(23)	354
Total financial assets	$ 1,969	$ 1	$ 78	$ (7)	$ 142	$ 402	$ (151)	$ 2,434
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	$ 155	$ —	$ 57	$ —	$ —	$ 11	$ (104)	$ 119
Total financial liabilities	$ 155	$ —	$ 57	$ —	$ —	$ 11	$ (104)	$ 119

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

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

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

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

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

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

For the nine -month period ended September 30, 2020	Balance at beginning of period	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other securities							
Financial institutions							
Mortgage bonds	$ 55	$ —	$ —	$ —	$ —	$ (45)	$ 10
Other issuers							
Mortgage bonds	710	—	22	—	—	(34)	698
Other debt securities	61	2	(1)	—	7	(2)	67
Equity securities	794	(2)	22	—	96	(10)	900
Total financial assets at fair value through profit or loss	1,620	—	43	—	103	(91)	1,675
Financial assets at fair value through other comprehensive income							
Securities							
Other securities							
Other issuers							
Mortgage bonds	70	—	—	1	—	(2)	69
Equity securities	57	—	—	1	4	—	62
Total financial assets at fair value through other comprehensive income	127	—	—	2	4	(2)	131
Financial instruments of segregated funds	81	—	—	—	45	(5)	121
Total financial assets	$ 1,828	$ —	$ 43	$ 2	$ 152	$ (98)	$ 1,927
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	$ 268	$ —	$ 84	$ —	$ —	$ (208)	$ 144
Total financial liabilities	$ 268	$ —	$ 84	$ —	$ —	$ (208)	$ 144

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

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

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

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which Desjardins Group estimates an allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. Loans and off-balance sheet items are classified based on their credit quality using their 12-month probability of default (PD) adjusted to take into consideration relevant forward-looking information over their lifetime. This is the PD used to determine whether credit risk has significantly increased since initial recognition or identify financial instruments in regulatory default. For more information on the classification of loans and off-balance sheet items based on credit quality, see the table presenting PD tranches in relation with risk levels for loans and off-balance sheet items in Note 7, “Loans and allowance for credit losses”, to the Annual Combined Financial Statements.

Loans

	Non-credit impaired		Credit-impaired	
As at September 30, 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 683	$ —	$ —	$ 683
Very low	49,062	3	—	49,065
Low	59,601	4,178	—	63,779
Moderate	17,904	10,773	—	28,677
High	1,236	2,795	—	4,031
Default	—	154	226	380
Total gross residential mortgages	$ 128,486	$ 17,903	$ 226	$ 146,615
Allowance for credit losses	(78)	(79)	(19)	(176)
Total net residential mortgages	$ 128,408	$ 17,824	$ 207	$ 146,439
Consumer, credit card and other personal loans				
Excellent	$ 3,009	$ —	$ —	$ 3,009
Very low	3,469	—	—	3,469
Low	9,765	258	—	10,023
Moderate	4,314	1,645	—	5,959
High	476	1,596	—	2,072
Default	—	66	145	211
Total gross consumer, credit card and other personal loans	$ 21,033	$ 3,565	$ 145	$ 24,743
Allowance for credit losses	(124)	(239)	(81)	(444)
Total net consumer, credit card and other personal loans	$ 20,909	$ 3,326	$ 64	$ 24,299
Business and government loans[1]				
Acceptable risk:				
Investment grade	$ 10,313	$ 36	$ —	$ 10,349
Other than investment grade	29,321	4,195	—	33,516
Under watch	6,519	5,383	—	11,902
Default	—	95	814	909
Total gross business and government loans	$ 46,153	$ 9,709	$ 814	$ 56,676
Allowance for credit losses	(96)	(103)	(188)	(387)
Total net business and government loans	$ 46,057	$ 9,606	$ 626	$ 56,289

[1] Include clients’ liability under acceptances

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

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

Loans *(continued)*

	Non-credit impaired		Credit-impaired	
As at December 31, 2020	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 709	$ —	$ —	$ 709
Very low	47,146	—	—	47,146
Low	52,003	5,329	—	57,332
Moderate	12,891	12,937	—	25,828
High	1,077	3,546	—	4,623
Default	—	196	374	570
Total gross residential mortgages	$ 113,826	$ 22,008	$ 374	$ 136,208
Allowance for credit losses	(64)	(98)	(29)	(191)
Total net residential mortgages	$ 113,762	$ 21,910	$ 345	$ 136,017
Consumer, credit card and other personal loans				
Excellent	$ 2,194	$ —	$ —	$ 2,194
Very low	4,308	—	—	4,308
Low	9,735	299	—	10,034
Moderate	4,499	1,707	—	6,206
High	393	1,904	—	2,297
Default	—	59	212	271
Total gross consumer, credit card and other personal loans	$ 21,129	$ 3,969	$ 212	$ 25,310
Allowance for credit losses	(126)	(293)	(126)	(545)
Total net consumer, credit card and other personal loans	$ 21,003	$ 3,676	$ 86	$ 24,765
Business and government loans[1]				
Acceptable risk:				
Investment grade	$ 9,700	$ 30	$ —	$ 9,730
Other than investment grade	23,691	5,684	—	29,375
Under watch	4,752	6,623	—	11,375
Default	—	126	737	863
Total gross business and government loans	$ 38,143	$ 12,463	$ 737	$ 51,343
Allowance for credit losses	(70)	(125)	(181)	(376)
Total net business and government loans	$ 38,073	$ 12,338	$ 556	$ 50,967

(1) Include clients' liability under acceptances.

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

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

Off-balance sheet items[1]

As at September 30, 2021	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	**$ 18,899**	**$ —**	**$ —**	**$ 18,899**
Very low	**21,962**	**—**	**—**	**21,962**
Low	**34,531**	**88**	**—**	**34,619**
Moderate	**4,082**	**2,659**	**—**	**6,741**
High	**397**	**1,038**	**—**	**1,435**
Default	**—**	**11**	**50**	**61**
Total gross off-balance sheet items	**$ 79,871**	**$ 3,796**	**$ 50**	**$ 83,717**
Allowance for credit losses	**(51)**	**(14)**	**—**	**(65)**
Total net off-balance sheet items	**$ 79,820**	**$ 3,782**	**$ 50**	**$ 83,652**
Business and government				
Acceptable risk:				
Investment grade	**$ 23,189**	**$ 9**	**$ —**	**$ 23,198**
Other than investment grade	**15,213**	**1,760**	**—**	**16,973**
Under watch	**1,465**	**1,960**	**—**	**3,425**
Default	**—**	**4**	**166**	**170**
Total gross off-balance sheet items	**$ 39,867**	**$ 3,733**	**$ 166**	**$ 43,766**
Allowance for credit losses	**(7)**	**(3)**	**—**	**(10)**
Total net off-balance sheet items	**$ 39,860**	**$ 3,730**	**$ 166**	**$ 43,756**

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

As at December 31, 2020	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 18,439	$ —	$ —	$ 18,439
Very low	20,966	—	—	20,966
Low	34,871	103	—	34,974
Moderate	3,658	2,879	—	6,537
High	358	1,264	—	1,622
Default	—	—	77	77
Total gross off-balance sheet items	$ 78,292	$ 4,246	$ 77	$ 82,615
Allowance for credit losses	(52)	(17)	—	(69)
Total net off-balance sheet items	$ 78,240	$ 4,229	$ 77	$ 82,546
Business and government				
Acceptable risk:				
Investment grade	$ 21,758	$ 13	$ —	$ 21,771
Other than investment grade	13,432	2,190	—	15,622
Under watch	954	2,338	—	3,292
Default	—	10	171	181
Total gross off-balance sheet items	$ 36,144	$ 4,551	$ 171	$ 40,866
Allowance for credit losses	(6)	(3)	—	(9)
Total net off-balance sheet items	$ 36,138	$ 4,548	$ 171	$ 40,857

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

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

ALLOWANCE FOR CREDIT LOSSES

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

For the nine-month period ended September 30, 2021	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Balance at beginning of period	**$ 64**	**$ 98**	**$ 29**	**$ 191**
Provision for credit losses				
Transfers to[1] :				
Stage 1	**50**	**(45)**	**(5)**	**—**
Stage 2	**(10)**	**20**	**(10)**	**—**
Stage 3	**—**	**(3)**	**3**	**—**
Net remeasurement due to transfers[2]	**(12)**	**17**	**9**	**14**
Changes in model inputs[3]	**(49)**	**(2)**	**(1)**	**(52)**
New originations or acquisitions[4]	**44**	**17**	**—**	**61**
Derecognitions and maturities[5]	**(10)**	**(19)**	**(9)**	**(38)**
Net drawdowns (repayments)[6]	**1**	**(4)**	**1**	**(2)**
	14	**(19)**	**(12)**	**(17)**
Write-offs and recoveries	**—**	**—**	**2**	**2**
Balance at end of period	**$ 78**	**$ 79**	**$ 19**	**$ 176**
Consumer, credit card and other personal loans[7]				
Balance at beginning of period	**$ 184**	**$ 313**	**$ 126**	**$ 623**
Provision for credit losses				
Transfers to[1] :				
Stage 1	**210**	**(197)**	**(13)**	**—**
Stage 2	**(45)**	**100**	**(55)**	**—**
Stage 3	**(1)**	**(25)**	**26**	**—**
Net remeasurement due to transfers[2]	**(32)**	**41**	**109**	**118**
Changes in model inputs[3]	**(159)**	**46**	**96**	**(17)**
New originations or acquisitions[4]	**59**	**38**	**—**	**97**
Derecognitions and maturities[5]	**(26)**	**(45)**	**(60)**	**(131)**
Net drawdowns (repayments)[6]	**(8)**	**(15)**	**(6)**	**(29)**
	(2)	**(57)**	**97**	**38**
Write-offs and recoveries	**—**	**—**	**(142)**	**(142)**
Balance at end of period	**$ 182**	**$ 256**	**$ 81**	**$ 519**
Business and government				
Balance at beginning of period	**$ 70**	**$ 125**	**$ 181**	**$ 376**
Provision for credit losses				
Transfers to[1] :				
Stage 1	**31**	**(30)**	**(1)**	**—**
Stage 2	**(12)**	**18**	**(6)**	**—**
Stage 3	**—**	**(7)**	**7**	**—**
Net remeasurement due to transfers[2]	**(4)**	**6**	**29**	**31**
Changes in model inputs[3]	**(54)**	**(20)**	**29**	**(45)**
New originations or acquisitions[4]	**71**	**27**	**—**	**98**
Derecognitions and maturities[5]	**(17)**	**(18)**	**(35)**	**(70)**
Net drawdowns (repayments)[6]	**11**	**2**	**5**	**18**
	26	**(22)**	**28**	**32**
Write-offs and recoveries	**—**	**—**	**(21)**	**(21)**
Balance at end of period	**$ 96**	**$ 103**	**$ 188**	**$ 387**
Total balances at end of period	**$ 356**	**$ 438**	**$ 288**	**$ 1,082**
Composed of:				
Loans	**$ 298**	**$ 421**	**$ 288**	**$ 1,007**
Off-balance sheet items[8]	**58**	**17**	**—**	**75**

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
(4) Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(7) For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet items categories are not material.
(8) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

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

ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
(4) Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(7) For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet items categories are not material.
(8) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

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

KEY DATA AND ASSUMPTIONS

The following information is an update, compared to the most recent annual financial statements, of key data and assumptions underlying the measurement of the allowance for expected credit losses. For more information, see Notes 2, "Basis of presentation and significant accounting policies", and 7, "Loans and allowance for credit losses", to the Annual Combined Financial Statements.

The development of the COVID-19 pandemic and its future resolution continue to give rise to uncertainty. Management therefore has to make particularly complex judgments to estimate the allowance for expected credit losses in the current situation.

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

	Base scenario		**Upside scenario**		**Downside scenario**	
As at September 30, 2021	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**
Macroeconomic variables[1]						
Gross domestic product (annualized change)	**2.8 %**	**1.5 %**	**5.5 %**	**2.1 %**	**0.8 %**	**1.1 %**
Unemployment rate (average)	**5.2 %**	**4.7 %**	**4.0 %**	**3.3 %**	**6.7 %**	**5.7 %**
Consumer Price Index (annualized change)	**2.1 %**	**1.9 %**	**4.0 %**	**2.3 %**	**1.0 %**	**0.3 %**
Housing prices (annualized change)	**(0.8) %**	**(0.8) %**	**12.1 %**	**1.5 %**	**(15.3) %**	**(0.9) %**
Corporate credit spread[2] (average)	**116 bp**	**115 bp**	**97 bp**	**90 bp**	**150 bp**	**139 bp**
S&P/TSX stock index[2] (annualized change)	**7.9 %**	**4.2 %**	**14.9 %**	**5.5 %**	**(14.6) %**	**5.9 %**

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

	Base scenario		Upside scenario		Downside scenario	
As at December 31, 2020	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic variables[1]						
Gross domestic product (annualized change)	3.2 %	1.6 %	5.0 %	1.7 %	0.5 %	1.5 %
Unemployment rate (average)	6.7 %	5.8 %	6.1 %	4.8 %	8.7 %	6.7 %
Consumer Price Index (annualized change)	1.5 %	1.9 %	3.7 %	2.3 %	0.6 %	1.5 %
Housing prices (annualized change)	0.3 %	2.0 %	7.0 %	2.5 %	(8.0) %	1.7 %
Corporate credit spread[2] (average)	124 bp	120 bp	98 bp	86 bp	154 p.b.	140 bp.
S&P/TSX stock index[2] (annualized change)	9.9 %	6.7 %	16.4 %	7.6 %	(0.6) %	5.4 %

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

At the end of the third quarter of 2021, the COVID-19 fourth wave was continuing to progress, but it should have little effect on economic activity. However, despite high vaccination rates in Canada and Québec, some uncertainty remains as a result of the emergence and progression of new variants, which could require adjusting vaccination. In addition, there are uncertainties about supply chains and higher inflation. Overall, the economic forecasts prepared for calculating the allowance for expected credit losses as at September 30, 2021 are more optimistic than those prepared for calculating the allowance as at December 31, 2020.

The base scenario forecasts that the economic activity will be strong in the fourth quarter of 2021. Economic growth pace would slow down afterwards and should converge toward GDP potential growth in 2023. These forecasts are based on the gradual reopening of the economy, helped by the level of vaccination coverage achieved at the end of the third quarter of 2021. In this scenario, the difficulties in supply chains should gradually subside. Furthermore, the unemployment rate should continue to decrease over the coming quarters and then should slowly converge toward its pre-pandemic level. The base scenario forecasts that the housing market will moderate over the coming quarters and does not foresee any major corrections in house prices in the years to come. To prevent inflation from increasing too much, central banks will have to gradually tighten their monetary policies. This scenario therefore includes a first hike in key rates in Canada in fall 2022 and a fast return of inflation to more normal levels, closer to 2%.

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

KEY DATA AND ASSUMPTIONS *(continued)*

In the downside scenario, the rebound in economic activity would be more modest in the short term, due to the potential emergence of a more vaccine-resistant variant. In the longer term, this scenario assumes that real GDP would converge toward a lower level than in the base scenario. The unemployment rate would temporarily increase to close to 7% in the short term and would afterward trend down again to converge toward a higher level than in the base scenario. The downside scenario expects a decrease in house prices of approximately 20% by the end of 2023.

The upside scenario essentially assumes that the economic recovery will be faster than in the base scenario. This recovery would be supported by a faster withdrawal of health restrictions as well as a more pronounced release of savings accumulated by many households during the pandemic. The unemployment rate would decrease more rapidly to under 4% in 2022. The increase in house prices would remain quite strong until the end of 2021, but the faster increase in interest rates would still eventually temper the housing market in future years. Inflation would be higher under this scenario than under the base scenario.

The development of the economic outlook after September 30, 2021 will be considered in estimating the allowance for expected credit losses in future periods. Considering the atypical nature of the current economic crisis, management continues to apply expert credit judgment as to the degree of correlation between input data related to forward-looking indicators and expected credit losses. Expert credit judgment also continued to be applied to consider the impact of government support measures, which are at an unprecedented level and have been continuously evolving since the outset of the pandemic.

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

Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at September 30, 2021	As at December 31, 2020
Under IFRS 9	**$ 794**	$ 854
Weighting of 100% assigned to the scenario:		
Base	**$ 681**	$ 740
Upside	**640**	699
Downside	**1,192**	1,233

Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at September 30, 2021	As at December 31, 2020
Under IFRS 9	**$ 794**	$ 854
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 720**	$ 765

NOTE 6 – DEPOSITS

Deposits consist of demand deposits (payable on demand), notice deposits (payable upon notice) and term deposits (payable on a fixed date). Demand deposits are interest-bearing or non-interest-bearing deposits, primarily accounts with chequing privileges, for which Desjardins Group does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which Desjardins Group has the legal right to require notice prior to withdrawal. Term deposits are interest-bearing deposits, primarily fixed-term deposit accounts, guaranteed investment certificates or other similar instruments, with a term that generally varies from 1 day to 10 years and mature on a predetermined date.

The following table presents the breakdown of deposits.

	As at September 30, 2021				As at December 31, 2020			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	**$ 69,300**	**$ 5,347**	**$ 59,571**	**$ 134,218**	$ 64,544	$ 4,985	$ 58,399	$ 127,928
Business and government	**54,451**	**660**	**49,971**	**105,082**	43,871	473	52,509	96,853
Deposit-taking institutions	**305**	**—**	**72**	**377**	387	—	68	455
	$ 124,056	**$ 6,007**	**$ 109,614**	**$ 239,677**	$ 108,802	$ 5,458	$ 110,976	$ 225,236

NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at September 30, 2021		As at December 31, 2020	
	Group's share	**Non-controlling interests' share**	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains on debt securities classified as at fair value through other comprehensive income[1]	**$ 294**	**$ 1**	$ 670	$ 7
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	**387**	**27**	166	7
Net gains on derivative financial instruments designated as cash flow hedges	**254**	**—**	466	—
Accumulated other comprehensive income	**$ 935**	**$ 28**	$ 1,302	$ 14

(1) Take into account an allowance for credit losses of $5 million as at September 30, 2021 ($4 million as at December 31, 2020) on securities classified as at fair value through other comprehensive income.

NOTE 8 – CAPITAL MANAGEMENT

The goal of capital management at Desjardins Group is to ensure that the capital level is consistent with its risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, and regulators' expectations and requirements.

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

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

As at September 30, 2021, Desjardins Group was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

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

(in millions of dollars and as a percentage)	As at September 30, 2021	As at December 31, 2020
Capital		
Tier 1A capital	**$ 28,735**	$ 26,317
Tier 1 capital	**28,735**	26,317
Total capital	**30,332**	27,114
Risk-weighted assets		
Credit risk	**117,916**	103,658
Market risk	**3,158**	2,561
Operational risk	**14,260**	13,705
Total risk-weighted assets before RWA floor	**135,334**	119,924
RWA floor	**—**	177
Total risk-weighted assets	**$ 135,334**	$ 120,101
Ratios and leverage ratio exposure		
Tier 1A capital	**21.2 %**	21.9 %
Tier 1 capital	**21.2**	21.9
Total capital	**22.4**	22.6
Leverage	**8.7**	8.5
Leverage ratio exposure	**$ 329,091**	$ 307,925

NOTE 9 – NET INTEREST INCOME AND NET INVESTMENT INCOME (LOSS)

NET INTEREST INCOME

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

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2021	2020	**2021**	2020
Interest income on financial assets				
At amortized cost	**$ 1,770**	$ 1,807	**$ 5,231**	$ 5,513
At fair value through other comprehensive income	**110**	113	**311**	326
At fair value through profit or loss	**3**	—	**12**	1
	1,883	1,920	**5,554**	5,840
Interest expense on financial liabilities				
At amortized cost	**407**	456	**1,223**	1,655
	$ 1,476	$ 1,464	**$ 4,331**	$ 4,185

NET INVESTMENT INCOME (LOSS)

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

For the three-month periods ended September 30	**2021**			2020		
	Interest income and expense	**Change in fair value and other**	**Total**	Interest income and expense	Change in fair value and other	Total
Net investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 101**	**$ (39)**	**$ 62**	$ 99	$ 122	$ 221
Designated as at fair value through profit or loss	**129**	**(364)**	**(235)**	132	(164)	(32)
Classified as at fair value through other comprehensive income	**28**	**5**	**33**	24	53	77
At amortized cost and other	**42**	**8**	**50**	31	7	38
	$ 300	**$ (390)**	**$ (90)**	$ 286	$ 18	$ 304

For the nine-months periods ended September 30	**2021**			2020		
	Interest income and expense	**Change in fair value and other**	**Total**	Interest income and expense	Change in fair value and other	Total
Net investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 237**	**$ 323**	**$ 560**	$ 204	$ (50)	$ 154
Designated as at fair value through profit or loss	**384**	**(1,838)**	**(1,454)**	386	1,308	1,694
Classified as at fair value through other comprehensive income	**79**	**65**	**144**	85	315	400
At amortized cost and other	**102**	**11**	**113**	93	129	222
	$ 802	**$ (1,439)**	**$ (637)**	$ 768	$ 1,702	$ 2,470

NOTE 10 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

The following tables provide a summary of Desjardins Group's financial results by business segment.

For the three-month periods ended September 30	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Net interest income	**$ 1,280**	$ 1,254	**$ —**	$ 1	**$ —**	$ —	**$ 196**	$ 209	**$ 1,476**	$ 1,464
Net premiums	**—**	—	**1,475**	1,167	**1,505**	1,436	**(75)**	(69)	**2,905**	2,534
Other income	**741**	648	**216**	413	**11**	(25)	**(213)**	(230)	**755**	806
Total income	**2,021**	1,902	**1,691**	1,581	**1,516**	1,411	**(92)**	(90)	**5,136**	4,804
Provision for credit losses	**54**	90	**—**	(1)	**—**	—	**(2)**	10	**52**	99
Claims, benefits, annuities and changes in insurance contract liabilities	**—**	—	**956**	885	**763**	880	**(6)**	10	**1,713**	1,775
Non-interest expense	**1,424**	1,204	**611**	518	**359**	326	**(106)**	(94)	**2,288**	1,954
Operating surplus earnings	**543**	608	**124**	179	**394**	205	**22**	(16)	**1,083**	976
Income taxes on surplus earnings	**142**	163	**15**	39	**105**	50	**5**	(5)	**267**	247
Surplus earnings before member dividends	**401**	445	**109**	140	**289**	155	**17**	(11)	**816**	729
Member dividends, net of income tax recovery	**66**	60	**—**	—	**—**	—	**—**	—	**66**	60
Net surplus earnings for the period after member dividends	**$ 335**	$ 385	**$ 109**	$ 140	**$ 289**	$ 155	**$ 17**	$ (11)	**$ 750**	$ 669
of which:										
Group's share	**$ 335**	$ 385	**$ 109**	$ 140	**$ 255**	$ 134	**$ 17**	$ (11)	**$ 716**	$ 648
Non-controlling interests' share	**—**	—	**—**	—	**34**	21	**—**	—	**34**	21

NOTE 10 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT *(continued)*

For the nine-month periods ended September 30	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Net interest income	**$ 3,755**	$ 3,693	**$ —**	$ 7	**$ —**	$ —	**$ 576**	$ 485	**$ 4,331**	$ 4,185
Net premiums	**—**	—	**3,901**	3,471	**4,396**	4,028	**(220)**	(205)	**8,077**	7,294
Other income	**2,236**	1,941	**49**	3,049	**(48)**	210	**(696)**	(570)	**1,541**	4,630
Total income	**5,991**	5,634	**3,950**	6,527	**4,348**	4,238	**(340)**	(290)	**13,949**	16,109
Provision for credit losses	**58**	671	**—**	2	**—**	—	**(5)**	21	**53**	694
Claims, benefits, annuities and changes in insurance contract liabilities	**—**	—	**1,588**	4,516	**2,131**	2,948	**(21)**	(12)	**3,698**	7,452
Non-interest expense	**4,293**	3,687	**1,792**	1,561	**1,056**	972	**(311)**	(255)	**6,830**	5,965
Operating surplus earnings	**1,640**	1,276	**570**	448	**1,161**	318	**(3)**	(44)	**3,368**	1,998
Income taxes on surplus earnings	**428**	326	**101**	88	**294**	74	**(4)**	(33)	**819**	455
Surplus earnings before member dividends	**1,212**	950	**469**	360	**867**	244	**1**	(11)	**2,549**	1,543
Member dividends, net of income tax recovery	**198**	175	**—**	—	**—**	—	**—**	—	**198**	175
Net surplus earnings for the period after member dividends	**$ 1,014**	$ 775	**$ 469**	$ 360	**$ 867**	$ 244	**$ 1**	$ (11)	**$ 2,351**	$ 1,368
of which:										
Group's share	**$ 1,014**	$ 775	**$ 469**	$ 360	**$ 764**	$ 203	**$ 1**	$ (11)	**$ 2,248**	$ 1,327
Non-controlling interests' share	**—**	—	**—**	—	**103**	41	**—**	—	**103**	41

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at September 30, 2021	**$ 301,949**	**$ 53,253**	**$ 16,522**	**$ 18,917**	**$ 390,641**
As at December 31, 2020[1]	$ 276,630	$ 51,019	$ 15,457	$ 18,929	$ 362,035

(1) For segmented assets as at December 31, 2020, an amount of $864 million was reclassified from the “Other” category to the “Personal and Business Services” segment to conform with the presentation of the Interim Combined Financial Statements for the current period.

NOTE 11 – SIGNIFICANT TRANSACTION

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

NOTE 12 – SUBSEQUENT EVENT

On October 28, 2021, the AMF authorized Desjardins Capital Inc., a subsidiary included in the scope of Desjardins Group, to proceed with the early redemption, on December 15, 2021, of all of the $500 million outstanding Series J subordinated bonds.

GENERAL INFORMATION

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