

Committed. Connected.

2021 Annual Report
Desjardins Group



**Working
together for a
sustainable and
responsible
economy**



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Message from the president and CEO

Guy Cormier



Building a prosperous, sustainable future together

At Desjardins, we're more committed than ever to shaping society and lighting the way for others as we pursue our cooperative financial group's mission for our members and clients and make a difference on key social and environmental issues.

In 2021, we relied on our stability, our adaptability and the dedication of our teams to continue to provide proactive support to all our members and clients, to business owners and to communities during the COVID-19 pandemic.

We're so pleased to see our organization reach new heights and we salute our employees and directors for their hard work.

Thanks to exceptional collaboration across the organization and the trust of our members and clients, we posted strong financial results with surplus earnings before member dividends of \$2,942 million, up 21.6% over 2020. We generated operating income¹ of \$20,405 million, up 10.9% compared to the previous year.

Technology working for people

We invest nearly \$2 billion a year in information technology. We continue to improve all our systems, uphold our strong commitment to security and work to implement our omnichannel transformation.

The driving force behind these updates is our desire to put technology to work for our members and clients. Case in point: we're already rolling out voice recognition to authenticate callers in our client relations centres.

We've also partnered with Google to integrate the distinct features of Quebec French into an artificial intelligence system. Ultimately, members and clients will be able to speak directly to our automated system instead of having to weed through menu options.

In line with our omnichannel transformation, we've also rolled out several other projects to expand self-service delivery and optimize the overall experience we provide to our members and clients.

And last but not least, our tech development efforts have led to some major firsts for Desjardins! We answered the call to innovate during the pandemic. Over 1,000 delegates attended the first Desjardins Group annual general meeting held entirely online. In the network, 213 Desjardins caisses in Quebec and Ontario held their annual general meetings online and voting increased 281% over 2019.

A socioeconomic leader for a green recovery

We're firmly committed to the socioeconomic recovery, and that focus is clear in several of our initiatives. The first few that come to mind are the GoodSpark Fund and the Momentum Fund, 2 amazing initiatives that support thousands of projects related to employment, entrepreneurship, the environment, innovation, young people and education.

For us, it's not a question: the recovery needs to be green. That's why we joined forces with the Fédération des chambres de commerce du Québec for an online tour of the province to discuss the circular economy. And why we've partnered with the École de technologie supérieure to speed up the shift. We want to help make practices across different sectors of the economy more responsible and sustainable.

Toward more responsible finance

We're fast-tracking the integration of environmental, social and governance (ESG) factors into our planning and operations. Desjardins Group achieved the highest ESG Assessment score of all entities in Moody's ESG Solutions² industry category "Diversified Banks" in North America.

In 2021, we rolled out an ambitious science-based climate strategy and made strong commitments. By 2040, we plan to reach net zero greenhouse gas emissions in our operations, supply chain, lending activities and equity investments in certain sectors. We've also reviewed our procurement policy to align with our sustainable development commitments and open up access for local small businesses and non-profit organizations.

Desjardins Group was the first Canadian financial institution to join the Business Ambition for 1.5°C developed by the Science Based Targets initiative and the United Nations.

¹ For more information on non generally accepted accounting principles (GAAP) financial measures, see the Non-GAAP and other financial measures section on pages 4 to 8 of the Management's Discussion and Analysis.

² This ESG Assessment was originally conducted by V.E, which is now part of Moody's ESG Solutions, a business unit of Moody's Corporation. By providing trusted data, analysis, analytical tools and intelligence, the group enables organizations to identify ESG risks and opportunities, strengthen sustainability action plans and communicate with key stakeholders.

In January 2021, we contributed³ to and became the primary financial partner of a new investment platform for the renewable energy sector called the Power Sustainable Energy Infrastructure Partnership. This was our biggest contribution to green infrastructure in Canada and the US to date.

In the fall of 2021, we made our debut issue of \$500 million in sustainable bonds in the Canadian market. The net proceeds will be used to fund projects with environmental or social benefits.

Growing across Canada to support our members and clients

Over the past year, we've stepped up efforts to provide a complete and consistent product and service lineup from coast to coast. We opened a new client relations centre in Mississauga to serve English-speaking members and clients even more efficiently. We also struck up or expanded several partnerships to connect with community needs and share our organization's values.

We joined over 6,000 people at Toronto Newcomer Day to share what kind of support Desjardins can provide to people coming to Canada. To stimulate economic growth in Ontario and the Atlantic and Western regions, we decided to double the dollar amount of each GoodSpark Grant as well as the number of beneficiaries for the next round. A total of \$3 million will be given to 150 small businesses in 2022 to help them invest in innovation, employment and sustainable development.

Equity, diversity and inclusion

At Desjardins, we believe that diversity is a strength and that it has a major role to play in our organization. The entire Desjardins team works together to make equity, diversity and inclusion a priority every day. As a result of our efforts, Desjardins was recognized as one of Canada's Best Diversity Employers by Mediacorp.

We're proud to have created Empowering Women, a Canada-wide network of women and their allies taking women in leadership to the next level, and to be a partner of the Réseau des Femmes d'affaires du Québec, a network for women in business. When the National Day for Truth and Reconciliation was created, we chose to adopt it as a statutory holiday.

Putting young people first

We support young people's goals, projects and initiatives. In 2021, we increased our total budget to support youth to nearly \$80 million, including our flagship Together For Our Youth program. To help kids stay in school and succeed, we awarded 3,377 scholarships totalling \$4.1 million.

We've also continued to work with the Youth Advisory Board. Created in 2016, this board gives members the opportunity to share their ideas with Desjardins Group's president and CEO, board of directors, and management committee. That means these young people can voice their opinions on key business issues and social and environmental challenges.

On top of all that, we renewed our partnership with Academos, whose mission is to help young people choose a career. In addition to being the organization's sponsor, I had the chance to be a mentor. It was an enriching and inspiring experience, and I learned so much about the challenges young people face.

Conclusion

In 2021, the pandemic pushed us to use the strengths and skills of our team to do things differently once again. I'd like to underscore the commitment and exceptional dedication of all of our 2,517 directors and 53,783 employees. Each and every one of them showed an unprecedented ability to adapt without ever losing sight of our mission. I'd like to thank them for everything they do and of course, I'd like to thank our members and clients for their trust.



Guy Cormier
President and CEO
Desjardins Group

³ Together with the Desjardins Group Pension Plan.

Mission, goal and values



Desjardins Group's mission

To contribute to improving the economic and social well-being of people and communities within the compatible limits of our field of activity:

- By continually developing an integrated cooperative network of secure and profitable financial services, owned and administered by our members, as well as a network of complementary financial organizations with competitive returns, controlled by our members
- By educating people, particularly members, officers¹ and employees, about democracy, economics, solidarity, and individual and collective responsibility



Goal

To be everyone's #1 choice



Values

- Money at the service of human development
- Personal commitment
- Democratic action
- Integrity and rigour
- Solidarity with the community
- Intercooperation

¹ Members of the boards of directors of Desjardins caisses and the Fédération des caisses Desjardins du Québec, as well as members of the Board of Ethics and Professional Conduct.

Desjardins Group

2021 key figures

7.5 million

members and clients

2,517

directors

53,783

employees

\$514 million¹

redistributed to
members and the
community

\$24 million

from the
GoodSpark Fund
in 2021 to support

127

projects for
strong, sustainable
communities

717,537

responses to our
customer satisfaction
survey

\$2.9 billion

in surplus earnings
before member
dividends

\$11.9 billion

in insurance premiums²

\$397 billion

in assets

21.1%⁴

Tier 1A capital ratio

\$15.8 billion³

in indivisible shared wealth held in
the caisses' general reserves

¹ For more information on non-GAAP financial measures, see the **Non-GAAP and other financial measures** section on pages 4 to 8 of the Management's Discussion and Analysis.

² Gross written premiums.

³ Included in the \$25.3 billion total reserves presented in Desjardins Group's combined financial statements as at December 31, 2021.

⁴ In accordance with the Adequacy of Capital Base Guideline for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2 "Capital management".

Driven by innovation



Firmly focused on the future

General meetings 100% online

Desjardins Group general meetings are a high point in our cooperative group's democratic life. For the second year in a row, they were held online because of the pandemic. With the new remote, live voting system we introduced in 2021, delegates from across Quebec were able to elect members of the board of directors and the Board of Ethics and Professional Conduct.

In the network, 213 Desjardins caisses in Quebec and Ontario held their annual general meetings (AGMs) online between March 29 and April 25, 2021. We made innovative changes to AccèsD so that in addition to being able to vote on member dividends, members could also elect their caisse's directors. Nearly 3 times more members voted compared to in-person voting at the 2019 AGMs. By innovating and adapting, we were able to protect our underlying democratic values.



Major investments and acquisitions

QScale: A record investment

Desjardins Capital Management Inc. has committed \$60 million—one of the largest investments in its history—to this innovative project that brings together artificial intelligence and the circular economy. QScale is using the circular economy and affordable clean energy to change the landscape of international, high-density data processing centres.

The project involves designing, building and operating a data centre for AI processing and cloud computing. The space will also include IT infrastructure for high-performance computing.

Circular economy principles will then be applied. Heat generated by the data processing centres will be recovered and used to grow fruits and vegetables in greenhouses, creating an independent food supply for Quebec.

Hexavest: A key acquisition

In 2021, we acquired the assets of Hexavest Inc. Prior to the acquisition, this Montreal-based investment firm served some 50 clients, mostly made up of institutional investors in Canada and abroad. Hexavest, a global equity and emerging market investment strategy specialist, had approximately \$5 billion in assets under management and a team of about 30 employees. Not only did the transaction solidify Montreal's position as an asset management hub, but it also made our service offer for institutional clients even better.

HEXAVEST

BY  **Desjardins**
Global Asset Management

Digital innovation for our members and clients



Mortgage pre-approvals in just a few clicks

We've added a new feature in the Home section on AccèsD and in the Desjardins mobile services app so future homeowners can get a mortgage pre-approval in under 5 minutes. Online mortgage pre-approvals mean members can quickly find out how much they can borrow, plus they get a mortgage rate guarantee and a pre-approval certificate and letter.



New Omni mobile app

Omni is our all-in-one app that helps clients manage their insurance and reach their financial goals. With this modern digital solution, they can access their insurance and group retirement savings plans, and make a variety of transactions. Omni gives plan members a better, simpler experience and a wealth of resources to help them manage their health and financial well-being.





Security is our priority

An ambitious investment plan, because security is everyone's business

We continued to uphold our commitment to security by investing over \$350 million in several projects stemming from our security investment plan. We made sure our employees had the tools and accountability needed to implement our robust and thorough security processes—and they were up to the task! We rolled out the Security for Everyone dashboard so each employee can see how they're doing and so managers can see team results. This user-friendly interactive platform makes it easier for our employees to adopt security best practices in their day-to-day work.



New voice recognition technology

We're rolling out new technology in our client relations centres that lets us confirm the identity of callers faster and improve fraud detection. We can use this secure voice recognition technology to confirm a caller's identity, with their consent. It's like a voice fingerprint that's designed to protect members and clients.

SecureKey digital identity services

Interac has acquired exclusive Canadian rights to the digital identity services of fintech SecureKey. As a co-owner of Interac along with 7 other Canadian financial institutions, we helped with the acquisition of SecureKey, which was critical to advancing digital identity in Canada. Through the 7-year agreement reached on October 1, we'll eventually be able to offer current and future members and clients a 100% digital identity verification experience.



Socioeconomic leadership

Driving the recovery

- The **Momentum Fund** provided \$3.9 million to Quebec and Ontario businesses. Up to \$10,000 in non-repayable funding was granted to 587 businesses. Because the pandemic has led to more needs, businesses can now apply for financial support in the following 9 categories: innovation, business succession planning, access to foreign markets, investment in talent, investment in energy-saving equipment, digital transformation, ergonomics and physical distancing, psychological support and business model transformation.
- The **GoodSpark Small Business Grants** provided 75 small businesses in Ontario, Western Canada and Atlantic Canada with up to \$10,000 in non-repayable funding to help jump-start their recovery.
- **Entrepreneuriat féminin** supports female business owners with financing and more. We want to help grow businesses as part of a sustainable economic recovery. One of the ways we're doing this is through our partnership with the Réseau des Femmes d'affaires du Québec. Together, we're launching a platform that provides access to requests for proposals for contracts with large companies.

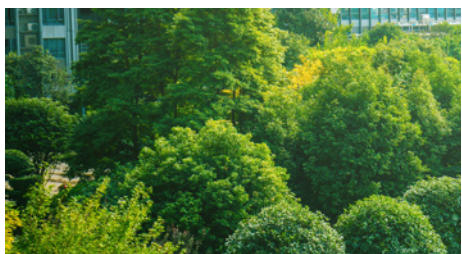


- Through our partnership with La Ruche, we're able to provide an effective, recognized and secure **crowdfunding solution**. Members and the general public can participate in crowdfunding campaigns to support inspiring community initiatives.
- The **Défi Propulsion Desjardins** is a business accelerator for cooperatives. We're working with La Ruche and the Fondation pour l'éducation à la coopération et à la mutualité to encourage cooperative projects and businesses across Quebec. The challenge's 7 finalists received a total of \$29,000 in grants.
- We actively promote buy-local initiatives through our new **Desjardins 100% Members Platform**. This online tool helps Desjardins entities and our 53,783 employees find and support our business members. The platform is good for our members' sales and it helps create and maintain jobs outside urban centres.



Fast-tracking the transition to a green and circular economy

Through our various partnerships, we encourage businesses to move toward sustainable development, by providing them with the tools they need to prosper in this new economy.



We teamed up with Québec Net Positive for **Low Carbon SME**, a series of 5 workshops designed to help Quebec SMEs take profitable and sustainable climate action.

We're a key partner of the Fédération des chambres de commerce du Québec's **circular economy tour**. Training is available to entrepreneurs and organizations specializing in economic development to fast-track the transition to a type of production ecosystem that taps into all the potential of using resources and encourages innovation.

Thanks to our \$2.1 million contribution over 5 years, the École de technologie supérieure's **Center for Intersectoral Studies and Research on the Circular Economy** (CERIEC) set up its first lab geared towards the construction industry in April 2021. CERIEC's goal is to fast-track the transition to a circular economy that makes better use of existing resources to support local economic development and climate action.



\$11.3 million

invested in entrepreneurship in 2021

This amount includes donations, sponsorships, partnerships and commitments through our Créavenir and Desjardins Microcredit to Businesses programs.



Contributing
to community
vitality

GoodSpark Fund

With the **GoodSpark Fund**, we'll be investing **\$250 million** from 2016 to 2024 to fund and promote initiatives aligned with our socioeconomic mission of supporting entrepreneurship, education, social responsibility, sustainable development and community involvement.

Snapshot since the fund's creation:

652
projects
supported

\$147
million
committed

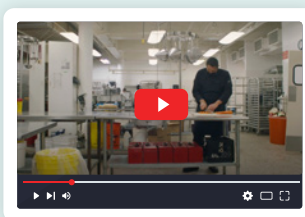
Learn more about how the fund is benefiting people and communities through some of the inspiring initiatives that it has helped to roll out since 2016.

VIDEOS
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in French
only



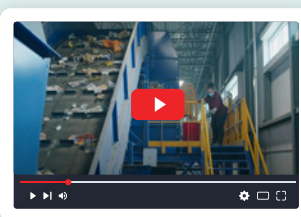
Groupe 3737

By focusing on integration, diversity and inclusion, Groupe 3737 drives economic and social development to promote job creation and the growth of businesses and organizations in communities with diverse backgrounds.



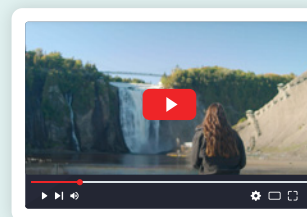
La Cantine pour tous

La Cantine pour tous is a network that rallies social businesses and organizations around the common goal of promoting food security. Together, they offer healthy, affordable meals to people in need.



Société VIA

Société VIA's mission is to create quality jobs for people with functional limitations. The organization helps them join the workforce and get training, while actively contributing to sound waste management.



Vaolo

Vaolo's Expérience Québec program is designed to promote local businesses and tourism across the province. Explorers inspire travellers by sharing their short-stay experiences on the program's platform.

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Camp Le Manoir



Community Development Funds

Our Community Development Funds (CDFs) are just one way caisse members show their generosity. At caisse general meetings, members decide how they want to split the surplus earnings between member dividends and the CDF to support meaningful projects in the community. In 2021, the caisses gave back \$40.9 million to communities.

Our collective generosity leads to a wide range of projects that meet the specific needs of the communities served by our caisses. For example:

- Caisse Desjardins de Limoilou rolled out an eco-friendly fund. This \$1 million fund was set up to support local environmental initiatives.
- Our caisses in the Charlevoix region support Camp Le Manoir, so young campers can broaden their horizons over the summer.

Desjardins Cares and Shares campaign reached new heights

A wave of generosity swept across our organization, helping us raise a record \$7.2 million that will be going directly to community organizations across Canada, wherever we do business.

Active involvement in the vaccination campaign

For several months, the Cité Desjardins de la coopération in Lévis was a vaccination hub. Setting up a vaccination centre was one way we helped limit the spread of COVID-19. Over 10,000 vaccines were administered at the site.

Responsible procurement

Expanded to smaller service providers

In line with our responsible procurement policy, we now have a questionnaire for SMEs that makes it easier for caisses to assess potential suppliers based on their commitment to upholding environmental, social and governance criteria.

Sustainable socioeconomic development

Our solidarity-based finance programs

Through strategic partnerships with community organizations, we continued to expand our solidarity-based finance activities in Quebec and Ontario. In 2021, we invested \$13.9 million in these programs.



Desjardins Mutual Assistance Fund

The Desjardins Mutual Assistance Fund provides individuals experiencing financial hardship with budget counselling and emergency loans, so they can address their short-term budget problems.

In 2021, the fund provided financial guidance and support to 17,432 people.

CRÉAVENIR

The Créavenir Youth Entrepreneurship Program is open to entrepreneurs ages 18 to 35 who are starting a public company or cooperative, or who have been in business for less than 3 years.

2021 snapshot:

- 187 projects supported
- 351 jobs created or maintained
- \$3 million in grants and financing awarded through the program generated \$14.4 million in community investments

Desjardins Microcredit to Businesses

This program provides micro-entrepreneurs and self-employed workers with the support they need to start or grow their business.

2021 snapshot:

- 840 business members supported
- 1,155 jobs created or maintained
- \$1.2 million in loans granted through the program generated \$7.8 million in community investments



See how the program has helped engaged entrepreneurs reach their goals:

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Foubrak

Foubrak successfully transitioned from being a home-based business to opening a small food production facility that makes sweets, pastries and baked goods free of the top 9 allergens.



Studio Jüa

Studio Jüa's founder went from being a fitness buff to managing her own fitness studio.



Les Jardins Taureau & Bélier

Les Jardins Taureau & Bélier is making its mark in biointensive market gardening.

Desjardins Disaster Relief Fund

The Desjardins Disaster Relief Fund provides emergency financial support to members and clients affected by disasters not covered by their insurance. The fund has an annual budget of 1% of Desjardins General Insurance Group's net income.



Impact investing

Through our new partnership with the Montreal Social Value Fund (MSVF), we support Quebec's first student-led impact investment organization. With a budget of over \$400,000, MSVF invests in Montreal-based social purpose organizations, including SMEs, enterprising non-profits and co-ops.

Game-changing generosity



For the second year in a row, we were named Quebec's most generous company in an Épisode poll. This proves we're there for people when it counts.

As a sign of our ongoing commitment to sustainable development, we helped communities through sponsorships, charitable partnerships and grants totalling \$110 million in 2021. Here are a few examples of some of the many initiatives we supported in 2021:

- We made a \$750,000 donation to the Canadian Cancer Society's **Relay for Life Youth program**. The program encourages young people to organize school fundraisers through a variety of activities.
- **L'Appui** helps improve caregivers' quality of life and make their day to day easier. Our \$450,000 donation will help fund the new Caregiver Support line and a French-language game created by the organization.
- During the **Opération Enfant Soleil telethon**, we donated more than \$450,000 toward providing high-quality pediatric care to children across Quebec. Employees, members and clients could also make a donation through AccèsD.
- We teamed up with the Heart and Stroke Foundation of Canada for Ontario's **Jump Rope for Heart** program. Our \$200,000 donation helps support both components of this program that encourages young people to adopt and maintain a healthy lifestyle at home and at school.

Once again this year, we lent a hand to the Red Cross in times of crisis:

- We donated \$100,000 to the **Haiti Earthquake Appeal relief fund** following an earthquake that killed nearly 1,500 people and injured 7,000 more—this cause means a lot to us because we've been active in Haiti for over 30 years through Desjardins International Development.
- We donated \$100,000 to the **India COVID-19 Response Appeal** to help provide much needed support to people and communities affected by the rapidly escalating pandemic in that country.
- We donated \$100,000 to provide urgent aid to people and communities hit hard by flooding and mudslides after **extreme weather in British Columbia**.



\$110 million

in sponsorships, philanthropic partnerships and scholarships in 2021

Firmly committed to helping young people

Record contribution of nearly **\$80 million** to support youth

We're there to help young people with many aspects of their lives. To help young people grow, succeed and achieve their full potential, we focus on education, work, entrepreneurship, health, wellness and community involvement.

Our steadfast commitment to education



The Desjardins Foundation is dedicated to motivating young people to stay in school and helping them succeed academically.

2021 snapshot:

- Nearly \$4.6 million to help young people succeed
- 398,992 young people supported

Desjardins Foundation Prizes

Through the [Desjardins Foundation Prizes](#), we award schools and youth organizations grants of up to \$3,000 for projects for kids in kindergarten through high school. The program provides an engaging way for teachers to motivate their students.

2021 snapshot:

- 510 projects sponsored
- \$1,331,768 awarded
- 89,803 project participants

Circular economy and a school Christmas market

A teacher at École secondaire de l'Escale in Val-des-Sources (in Quebec's Estrie region) assigned her students a circular economy project. For the school's Christmas market, the students fixed up used decorations and toys and sold them online. They decided who would spread the word about the project, who would take pictures, who would set the prices and who would write up the descriptions. The project was a win-win-win: it extended the life of the decorations and toys, it helped young people learn new skills and it raised funds for field trips.



Community snack bar run by teens

Teens and a coordinator at the Maison des jeunes Le Chalet in Sainte-Madeleine (in Quebec's Montérégie region) came up with the idea of opening a local snack bar. Not only does the initiative focus on nutrition, but it also helps the teens learn more about working as a team and running a business. They were given a budget to create a healthy menu, then prepared and froze the food for the snack bar to sell.



Scholarships

2021 was a challenging year for college and university students. To encourage them to stay in school, we awarded 3,377 scholarships totalling \$4,121,225.

- The Desjardins Foundation supported 1,273 students with financial needs, 881 of whom stood out for their perseverance or community involvement, and 392 who had decided to switch careers or go back to school because of the pandemic.
- Desjardins caisses supported 2,104 students through local scholarship programs totalling \$2,148,725.
- A dozen or so of our business partners also awarded close to \$70,000 in scholarships.

Marika found her true calling

Marika is a student at Cégep Garneau who's committed to staying in school. She didn't find her true calling right away, but she didn't lose focus. In her first term, she studied natural sciences. She spent the next 3 terms studying humanities and social sciences. It wasn't until then that she discovered her true calling: police technology. Now she's in her final year of CEGEP and getting ready to apply to the École nationale de police du Québec.

Marika enjoys being involved in her community. She was helping out at a shelter for abused women, but now she's too busy with school to volunteer. When she has more time, she'd really like to help homeless people in Quebec City.

When she received the \$1,000 scholarship recognizing her commitment to staying in school and to her community, here's what she had to say to the donors and the scholarship selection committee:

"Thank you very much for this scholarship. I'm going to use it to pay some of my tuition and for other things I need for school. Your support really means a lot to me. Thank you Desjardins for helping students!"



Donating to organizations that motivate young people to learn

In 2021, the Desjardins Foundation awarded nearly \$1.3 million to 20 or so youth organizations. These partner organizations do work in a variety of areas, all of which can have a significant impact on keeping young people in school.

- The Pacific Institute prevents bullying by teaching kids how to resolve conflicts, manage emotions, be empathetic, listen and adapt.
- Fondation Jeunes en Tête strives to destigmatize mental health and gives teens tools to help them cope with stress.
- Éducaloi promotes work/school balance.
- Academos helps young people discover careers that spark their passion for learning.
- Youth Fusion works to keep kids in school with a focus on entrepreneurial education projects in elementary and high schools in Ontario and Quebec.
- Alloprof Parents makes content available so parents can help their elementary and high school-aged children with their school work.

Active promotion of financial literacy for young people

School Caisse

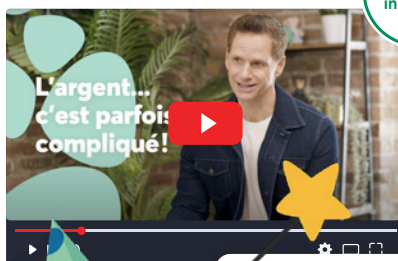
Since 1907, we've been working with parents and schools to educate children about saving. Together, we teach elementary students the basics of saving, the economy and cooperation.

New!

Since the fall of 2021, the School Caisse program has been available to all elementary school students in Quebec and Ontario, regardless of whether or not their school participates. Any parent can now enroll their child in the School Caisse online or at the caisse. Financial literacy for kids has never been so modern!

Want to find out what today's kids think about savings and interest? Check out these videos featuring François Morency from our **Money doesn't have to be a mystery! campaign.**

VIDEOS
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Finance Labs

Finance Labs are business projects set up in high schools. They operate like cooperatives. Despite the pandemic, 19 Finance Labs kept working through 2021, providing services to 14,529 students across Quebec. While managing Finance Labs, young people acquired valuable knowledge by helping their initiative grow and making democratic decisions during board meetings.

PERSONAL FINANCE: I'M IN CHARGE® EDUCATIONAL PROGRAM



Personal Finance: I'm in Charge!® is a financial literacy program for young adults ages 16 to 25 and newcomers to Canada. The program's 17 modules cover practical topics like high debt levels, social pressure to spend and financial literacy. The caisses worked with partner organizations to provide online and in-person classes, depending on interest, needs or current circumstances.

2021 snapshot:

- Nearly \$3.6 million invested
- 66,497 registrations, for a total of 407,134 since 2013
- 194 participating caisses in Quebec and Ontario
- 114 partner organizations

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A youth-focused approach



360^d locations

We've developed a one-of-a-kind concept in North America for young people: **360^d**. These 8 hip, friendly financial service centres work with caisses to serve young members and workers ages 18 to 30 on university campuses. In April 2021, a new 360^d location officially opened at the École de technologie supérieure in Montreal.



Student profile section on AccèsD

We've added a new section on AccèsD where students can create a profile so they can get products adapted to their needs and personalized advice on how to manage their money.

Young people and climate action

We pledged \$2.2 million to support 4 organizations: **Coop FA**, **Lab22**, **Futur simple** and **Fondation Monique-Fitz-Back**. Through these partnerships, we provide tools to help young people address eco-anxiety. We also encourage them to develop initiatives to inform, motivate and spur other young people and schools to take action.

[Learn more >](#)



Top employer





53,783

employees enjoy great work conditions,
training opportunities and benefits.

A work environment where employees can thrive

At Desjardins, we're committed to helping our employees make a real difference in the lives of people and communities. Our 53,783 employees enjoy great work conditions, training opportunities and benefits.

When you work for us, you have access to a world of career possibilities and a huge community of passionate professionals and leaders who want to see you get ahead. You're also part of a vibrant cooperative financial group that values diversity and inclusion.



New ways of working

In 2021, we continued to have as many employees as possible work from home to keep everyone safe. The ways we work will continue to evolve based on the public health measures in place.

Before COVID-19, about 5% of our employees were already working from home full time. But once the pandemic hit, we quickly adapted so that more than 80% of our employees could work from home to limit the spread of COVID-19. When the public health measures are lifted, our employees will have access to new work arrangements based on their responsibilities and the organization's needs. Our new work arrangements mean greater flexibility about where employees will be working. There will be 3 work arrangements: 100% in the office, 100% at home and a combination of working in the office and at home. Not only will the new work arrangements ensure a better work/life balance for our employees, but they will help us do our part to protect the environment by reducing travel.



Equity, diversity and inclusion



New Equity, Diversity and Inclusion office and chief officer

At Desjardins, we're committed to being a supportive, forward-thinking employer when it comes to equity, diversity and inclusion (EDI). That's why we've created a new EDI office and named a chief officer to head it up.

Encouraging women in leadership

Empowering Women

In February 2021, we introduced Empowering Women, a Canada-wide network of women and their allies within our ranks. This network gives Desjardins's female employees and directors an opportunity to grow, connect, stay informed and share their stories.

Our flagship Female Empowerment Program

Developed in partnership with [The A Effect](#), this program is available to all women who want to tap into their full potential. Since the program was rolled out, over 2,000 women have completed the learning path.



Focus on Indigenous Peoples

September 30: National Day for Truth and Reconciliation

On this national holiday created by the Government of Canada, we honour residential school victims and survivors. All our employees now have this day off to remember the harm suffered by these communities.

Raising awareness about Indigenous realities

To help us reflect on and better understand the history and realities of Indigenous Peoples, we invited 2 guest speakers so our employees could learn more.

Inspiring Indigenous voices

We asked [4 inspiring Indigenous individuals](#) to share their unique and motivating experiences. They've chosen different paths, but are all driven by the same desire: to promote their Indigenous heritage, defend the rights and interests of people who face discrimination and build bridges among communities.



Mélanie Paul

a rallying force



Mikisiw Awashish

a hockey player and aspiring engineer



Katie Plante

a social justice advocate



Laura Niquay

a nomadic messenger

Showing our support for Black people



Since signing the BlackNorth Initiative in July 2020, we've taken steps to uphold our commitment. We've also been setting ethnocultural minority targets, including one to ensure representation in senior management positions.

Black History Month

In February 2021, we rolled out activities to mark Black History Month. We kicked off the month with a talk by BlackNorth Initiative's Executive Director, Dahabo Ahmed Omer. A true role model for members of all Black communities, she has played a key role in improving the lives of Black Canadians. Throughout Black History Month, employees were invited to share what they know and what they've learned about Black history and culture.



Remembering George Floyd

In May 2021, we marked the anniversary of George Floyd's death with a round-table discussion. We invited distinguished guests for an open discussion on the impact this tragic event has had here in Canada.

Our commitment to a greener, fairer world

Signatory of important commitments

Business Ambition for 1.5°C coalition

In keeping with our net zero emissions climate ambition, we became the first Canadian financial institution to join Business Ambition 1.5°C, a UN-led global coalition of over 1,000 businesses. We're committed to setting targets for reducing greenhouse gas emissions using the most recent scientific data and having the data approved by an independent third party.



Net Zero Asset Managers initiative

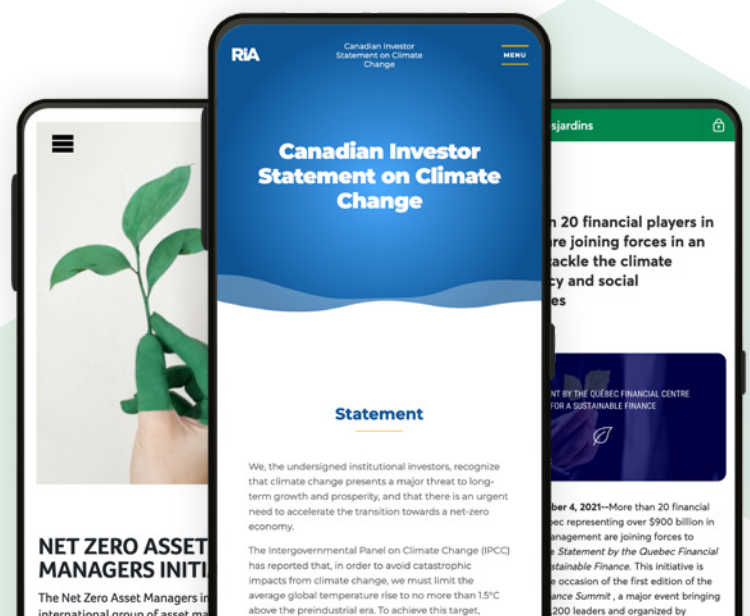
Through Desjardins Global Asset Management Inc., we became a signatory of the Net Zero Asset Managers (NZAMI) initiative in October 2021. This international group of asset managers is committed to supporting the goal of net zero greenhouse gas emissions by 2050. Founded in December 2020, NZAMI has 236 signatories and US\$57.5 trillion in assets under management.

Canadian Investor Statement on Climate Change

We're one of the 36 founding signatories representing more than \$5.5 trillion in assets under management. Coordinated by the Responsible Investment Association, the statement expresses Canadian financial institutions' commitment to climate action through their investment practices.

Statement by the Quebec Financial Centre for a Sustainable Finance

Along with about 20 other financial players in Quebec representing over \$900 billion in assets under management, we're committed to strengthening the sustainable finance ecosystem to make Quebec a world-renowned centre of excellence in this field. The signatories share a common goal and have the tools they need to tackle the climate crisis and reduce the gaps created by the pandemic.



Climate action plan

In response to the growing expectations of our members and clients, we announced that we'd be implementing an ambitious action plan to achieve net zero emissions by 2040 in our extended operations and in our lending activities and own investments in 3 carbon-intensive sectors: energy, transportation and real estate.

2025 targets: Taking action now to achieve our 2040 goal

Reducing our operational emissions by 41% by 2025

After announcing our net zero by 2040 climate plan and joining the Business Ambition for 1.5°C coalition, in October we unveiled our first science-based target for 2025. We've committed to reducing greenhouse gas emissions from our operations to 41% below 2019 levels by 2025.

This target includes emissions from buildings, business travel and paper consumption. In 2021, which was also impacted by the pandemic, our emissions stood at 17,547 metric tons of CO₂ equivalent, down 30% from 2020 and 57% from the 2019 benchmark. With the economy now starting to reopen, we can continue to strive for our goal of reducing emissions by 41%.

Investing \$2 billion in renewables by 2025

In January 2021, we became a strategic anchor investor in a new investment platform dedicated to the North American renewable energy sector, through a partnership with alternative asset manager Power Sustainable. We contributed \$330 million,¹ representing a third of this \$1 billion platform.

As at September 30, 2021, we had invested \$1.48 billion¹ in the renewable energy infrastructure sector. That's approximately 45% of our infrastructure portfolio.

Supporting electric transportation

- We continued to install electric charging stations at caisse and credit union locations across Quebec and eastern Ontario. To date, 302 charging stations have been installed, including 279 that are available to the general public.
- As a key partner of Propulsion Québec, we support all the cluster's efforts and initiatives to promote the growth and expansion of Quebec's intelligent and electric transportation ecosystem. We also sponsored a study on private funding in the intelligent and electric transportation industry. The study was conducted to get an overview of funding in this industry, based on the growth phases of businesses.
- Desjardins Capital Management Inc., Desjardins Business and Export Development Canada invested \$1.8 million in BEQ Technology, Canada's largest sales and installation network for electric charging stations.



¹ Together with the Desjardins Group Pension Plan

Responsible finance



Responsible investment

Investing responsibly: An increasingly popular choice

We offer close to 50 responsible investment (RI) product options, making us a responsible investment leader in Canada. As at December 31, 2021, we had almost \$12.3 billion in RI assets under management.

- **38% of Desjardins Funds unitholders** now hold **SocieTerra** funds or portfolios, up from 29% in 2020.
- **SocieTerra** fund and portfolio assets under management **rose \$3.1 billion** in 2021, bringing our total assets under management to more than \$8.1 billion, up 63% from the year before.

AVAILABLE
in French
only



Marion et l'investissement
responsable



A growing responsible investment product offer

New Desjardins RI Emerging Markets – Low CO₂ Index ETF

This exchange-traded fund (ETF) mainly invests in emerging-market companies selected from among the best in their industry for their environmental, social and governance (ESG) practices. This investment product rounds out our range of RI ETFs, which already has 9 low-carbon ETFs and 1 fossil-fuel free ETF.

New market-linked guaranteed investments

- The Responsible Option Guaranteed Portfolio (Balanced or Aggressive) is for members who want to invest in a turnkey solution that brings together companies from a variety of economic sectors and regions around the globe that have been carefully selected for their ESG commitments. We're the only Canadian financial institution to offer an ESG portfolio with capital guaranteed at maturity.
- The Opportunity Guaranteed Investment – Electric Transportation is a Desjardins exclusive that includes 20 companies from around the world that are involved in manufacturing and powering electric vehicles.
- The Women's Impact Guaranteed Investment has been replaced with the Diversity Guaranteed Investment. For us to select a company's securities, the company must have an in-house diversity policy and at least 30% female representation on their board of directors.



Partnership with the Chaire Desjardins en finance responsable (Université de Sherbrooke)

Created in 2016 through a major donation from Desjardins, the Chaire Desjardins en finance responsable (the Chaire) is committed to promoting responsible finance. It boasts a unique research program focused on integrating social and economic responsibilities into financial management practices. Since the Chaire was created, 55 students have benefited from guidance and support—that's twice as many as what was initially projected. In 2021, we renewed our support for the Chaire by agreeing to donate \$200,000 per year until 2027, for a total of \$1 million over 5 years.



Sustainable bonds

Last September, we made our [debut issue of \\$500 million in sustainable bonds](#) in the Canadian market. The net proceeds will be used to fund projects with environmental or social benefits.

[Learn more >](#)

Awards and recognition

Desjardins Group

- For the 2nd year in a row, we were named Quebec's **most generous company** in an Épisode poll.
- We rose to #157 on Léger Marketing's ranking of Quebec's most reputable companies—the **highest climb** in the rankings (+27 places).
- In the annual ranking of the *Top 1000 World Banks*, we came in at **#2 in the Canadian field for financial performance** in 2020. This ranking by *The Banker* is a testament to our strong performance, especially in terms of asset quality, soundness and leverage.
- We finished 2nd in the Market Education category at the **Responsible Investment Association (RIA) Leadership Awards**. This prestigious award celebrates RIA members that educate industry players on responsible investment.
- We were recognized for our **quality customer service** and **banking services** in Quebec with one of BrandSpark's annual Most Trusted Awards.
- In a ranking of the largest cooperative groups published in the International Cooperative Alliance's World Cooperative Monitor report, we ranked **#5 in the world and #1 in North America**.

The Banker



Award-winning products

- Standout year, with **18 wins** at Fundata's annual **FundGrade A+®** Awards ceremony. 7 mutual funds, 9 guaranteed investment funds and 2 exchange-traded funds won awards for excellent performance in 2021. And for the first time in our history, our responsible investment funds took home some hardware, taking the top prize in 8 categories.



FUNDGRADE A+®
ACHIEVED FOR THE YEAR 2021

- At the 10th Americas Structured Products & Derivatives Awards ceremony, we took home the top prize—the prestigious **Best House, Canada award**—for the second year in a row. This award recognizes the Canadian financial institution with the best structured products. The Zenitude Aggressive Guaranteed Portfolio also earned the **Deal of the Year, Americas** award.
- For the third year in a row, we were a **Refinitiv Lipper Fund Awards** winner for best Canadian mutual fund in the International Equity category. Out of 66 funds, the Desjardins Overseas Equity Growth Fund (F-Class) came out on top. The Desjardins SocieTerra Cleantech Fund also received its first award in the Best Global Small/Mid Cap Equity category.

Employer

- Mediagroup ranked us one of Canada's Top 100 Employers for the 11th straight year.
- We were ranked one of Canada's Best **Diversity** Employers, Top Employers for **Young People** and Top **Family-Friendly** Employers by Mediagroup Canada.
- Mediagroup has recognized us as one of Canada's **Greenest** Employers every year since 2015.
- We were ranked one of **Canada's 100 best employers** in 2021 according to *Forbes* and distinguished ourselves within the banking and financial services industry, placing 2nd in that category just behind the Bank of Canada. We were #93 on *Forbes'* list of the **World's Best Employers** and #61 on their list of the World's Top **Female-Friendly** Companies.
- In 2021, the Desjardins Mentorship Program won a **bronze medal** from the Brandon Hall Group for leadership development in the **Best Advance in Coaching and Mentoring** category.
- For the 4th time, we were recognized by Women in Governance with **Gold Parity Certification** for the steps we're taking toward achieving equal representation of women at every level of the organization.
- We came in at **#12 in LinkedIn's annual ranking** of ability to advance, skills growth, company stability, company affinity, gender diversity and educational background.



Sustainable development

- Desjardins Group achieved the **highest ESG Assessment score** of all entities in **Moody's ESG Solutions**¹ industry category "Diversified Banks" in North America. Of the 1,289 companies, banks, cooperatives and even states that were analyzed, we ranked 9th in North America.
- We were also ranked **#5 out of the 31** largest property and casualty and life and health insurers in the world by **ShareAction**, for the progress our insurers (Desjardins General Insurance Group and Desjardins Financial Security) and our asset manager (Desjardins Global Asset Management) have made in integrating ESG factors.
- For the 8th year in a row, we're on *Corporate Knights* magazine's list of the **Best 50 Corporate Citizens in Canada**.
- In Year 3 of **BOMA Québec's Building Energy Challenge**, 5 Desjardins buildings were recognized for significantly reducing their energy consumption over the previous 12 months. Our building located at 200 Rue Des Commandeurs earned BOMA BEST Gold certification. BOMA BEST Sustainable Buildings certification recognizes excellence in energy performance and environmental management in commercial real estate.

¹ This ESG Assessment was originally conducted by V.E, which is now part of Moody's ESG Solutions, a business unit of Moody's Corporation. By providing trusted data, analysis, analytical tools and intelligence, the group enables organizations to identify ESG risks and opportunities, strengthen sustainability action plans and communicate with key stakeholders.

Our people

- **Benaaz Irani**, Vice-President, Desjardins Agent Network, was named to *Insurance Business Canada's* Top 25 Leaders of Change in 2021.
- **Louise Boivin**, Vice-President, Project Management Office and Banking Modernization, was a finalist for the Leadership Award at the Association of Quebec Women in Finance's 16th annual Les Talentueuses Gala.
- 2 of our employees were recognized for project management excellence in PMI-Montréal's Elixir Contest: **Émilie Polonovski** was a finalist in the Emerging Professional category and **Louis Gilbert** took the top spot in the Project Management Professional category.



Enriching the lives of people and communities

That's what drives us each and every day. Want to learn more about just how we do it? Read about our achievements and initiatives in our [Social and Cooperative Responsibility Report](#).



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 Management Discussion and Analysis (MD&A), the Financial Statements as well as in "Supplemental Financial Information" report and "Pillar 3 Report", which are available on Desjardins Group's website at www.desjardins.com/ca/about-us/investor-relations. The "Supplemental Financial Information" report and "Pillar 3 Report" are not incorporated by reference in the 2021 MD&A.

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

Type of risk	Recommendation	Disclosure	2021 Annual Report	Supplemental Financial Information	Pillar 3 Report
General	1	Summary of risk information	Current page		
	2	Risk terminology, risk measures and key parameters	65-71, 117-124	11	83-85
	3	Top and emerging risks	54, 55, 62-64, 71-97		
	4	New regulatory ratios	54-57, 90, 93, 94, 209, 210		
Risk governance, risk management and business models	5	Organizational risk management structure	65-71		
	6	Risk management culture	67-71		
	7	Risks from business model and risk appetite	14, 32, 36, 40, 44, 54, 58-59, 65-72		
	8	Stress testing	54, 66, 71, 86-88		
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	54, 55		11-13, 76, 77
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	56-58, 209, 210		15, 16, 24, 76
	11	Movements in regulatory capital	56-58		
	12	Capital management and planning	53-60		
	13	Risk-weighted assets by business segments	59, 72		6-9
	14	Breakdown of capital requirements by type of risk and by calculation method	58-60, 73, 74, 77, 78, 86-88		6-8, 10
	15	Credit risk	58-60		52, 55, 56, 59
	16	Movements in risk-weighted assets by type of risk	59, 60		6-10, 52
	17	Back testing and validation of credit models	77		53, 54, 59
Liquidity	18	Management of liquidity needs and reserve	90-94		78
Funding	19	Encumbered and unencumbered assets	91-93, 95-97, 214-216		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	94, 95, 216-220		
	21	Funding sources and strategies	53, 90, 95, 96		
Market risk	22	Reconciliation of market risk measures to balance sheet	85, 86		
	23	Market risk factors	85-89, 192-196		
	24	Assumptions, limitations and validation procedures for market risk models	86-88		
	25	Extreme loss measures	54, 66, 86-88		
Credit risk	26	Credit risk profile	52, 64, 66, 77, 78, 80-84	6-10	26-59
	27	Policy for identifying gross credit-impaired loans	79, 136-155		
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	52, 79-84, 136-155, 168-175		32, 42-51
	29	Counterparty risk related to derivatives	84, 198-207		60-69
	30	Credit risk mitigation techniques	78, 84, 198-207		34, 35, 37, 38
Other risks	31	Management of other risks	58-60, 62-64, 69-72, 98-103		
	32	Publicly known risk events	98, 99, 214-216		

Desjardins Group

Management's Discussion and Analysis

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

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

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

Additional information about Desjardins Group is available on the SEDAR website at www.sedar.com (under the Desjardins Capital Inc. profile for the years ended prior to December 31, 2021 and, since first quarter of 2021, under the *Fédération des caisses Desjardins du Québec* profile). The Annual Information Form of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can be found on SEDAR as well. More information is available on the Desjardins website at www.desjardins.com/ca/about-us/investor-relations. None of the information presented on these sites is incorporated by reference into this MD&A.

The Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). Desjardins Group amended certain accounting policies following the adoption of Phase 2 amendments to IFRS 9, "Financial Instruments", IAS 39, "Financial Instruments: Recognition and Measurement" and IFRS 7, "Financial Instruments: Disclosures" on January 1, 2021. These amendments supplement the amendments adopted on January 1, 2020 arising from Phase 1 of the interest rate benchmark reform. For more information about the accounting policies used and the changes in accounting policies, see Note 2, "Significant accounting policies", to the Combined Financial Statements.

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

The forward-looking statements include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and financial markets, as well as the outlook for the Québec, Canadian, U.S. and global economies, and the possible impact of the COVID-19 pandemic on its operations, its results and its financial position, as well as on economic conditions and financial markets. Such forward-looking statements are typically identified by words or phrases such as "target", "objective", "believe", "expect", "count on", "anticipate", "intend", "estimate", "plan", "forecast", "aim", "propose", "should" and "may", words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. Desjardins Group cautions readers against placing undue reliance on forward-looking statements since a number of factors, many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the assumptions, predictions, forecasts or other forward-looking statements in this MD&A. It is also possible that these assumptions, predictions, forecasts or other forward-looking statements, as well as Desjardins Group's objectives and priorities, may not materialize or may prove to be inaccurate and that actual results differ materially. Furthermore, the uncertainty created by the COVID-19 pandemic has greatly increased this risk by adding to the difficulty of making assumptions, predictions, forecasts or other forward-looking statements compared to previous periods.

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

Such factors also include those related to the COVID-19 pandemic, security breaches, government, corporate and household indebtedness, technological advancement and regulatory developments, interest rate fluctuations, climate change, and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; monetary policies; the critical accounting estimates and accounting standards applied by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; geographic concentration; acquisitions and joint arrangements; credit ratings and reliance on third parties. Other factors include interest rate benchmark reform, changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts on operations, public health crises, such as pandemics and epidemics, or any other similar disease affecting the local, national or global economy, as well as Desjardins Group's ability to anticipate and properly manage the risks associated with these factors despite a disciplined risk management environment. Additional information about these factors is found in Section 4.0, "Risk management", and under "COVID-19 pandemic" in Section 1.3, "Significant events", of this MD&A.

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

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

The significant economic assumptions underlying the forward-looking statements in this MD&A are described in Section 1.5, "Economic environment and outlook" of this MD&A. These assumptions may also be updated in the "Economic environment and outlook" section of the quarterly MD&As. Readers are cautioned to consider the foregoing factors when reading this section. When relying on forward-looking statements to make decisions about Desjardins Group, they should carefully consider these factors, as well as other uncertainties and contingencies. To develop our economic growth forecasts, in general and for the financial services sector, we mainly use historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies. Given the evolution of the COVID-19 pandemic and its impact on the global economy and financial market conditions, as well as on the business operations, financial results and financial position of Desjardins Group, there is greater uncertainty associated with our economic assumptions compared with periods prior to the onset of the pandemic as these assumptions are based on uncertain future developments and it is difficult to predict the extent of the pandemic's long-term effects.

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

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

Non-GAAP measures

Non-GAAP financial measures used by Desjardins Group, and which do not have a standardized definition, are not directly comparable to similar measures used by other companies, and may not be directly comparable to any GAAP measures. Investors, among others, may find these non-GAAP financial measures useful in analyzing Desjardins Group's overall performance or financial position. They are defined as follows:

Adjusted surplus earnings of Desjardins Group before member dividends

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

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

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

Table 1 – Adjusted surplus earnings of Desjardins Group before member dividends

For the years ended December 31

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

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

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

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

Table 2 – Adjusted surplus earnings before member dividends – Personal and Business Services segment

For the years ended December 31

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

Giving back to members and the community

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities. The amounts returned to members and the community are in the form of member dividends, sponsorships, donations and bursaries, as well as payments under the Desjardins Member Advantages program.

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

Income

Operating income

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

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

Investment income

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

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

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

For the years ended December 31

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

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

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

Non-GAAP ratio

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

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

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

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

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

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

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

For the years ended December 31

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

⁽¹⁾ Amounts before income taxes.

Productivity index

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

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

Table 5 – Productivity index

For the years ended December 31

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

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

Net interest margin

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

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

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

Return on equity

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

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

Table 6 – Return on equity

For the years ended December 31

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

⁽¹⁾ Return on equity is considered a supplementary financial measure.

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

Loss ratio – Expense ratio – Combined ratio

These ratios are used to measure and analyze the performance of the Property and Casualty Insurance segment's operations, and more specifically:

- Loss ratio: Used as a measure of business quality.
- Expense ratio: Used as a measure of the effectiveness of non-interest expense management.
- Combined ratio: Used as a measure of business profitability excluding the impact of investment income.

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

The loss ratio is comprised of the following ratios:

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

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

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

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

Table 7 – Loss ratio - Expense ratio - Combined ratio

For the years ended December 31

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

⁽¹⁾ Due mainly to investment management expenses.

Supplementary financial measures

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

REGULATORY ENVIRONMENT

Regulatory environment

The Act respecting financial services cooperatives and other applicable legislation

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

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

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

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

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

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

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

Regulatory capital requirements

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

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

Regulatory governance requirements

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

Risk management information

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

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

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

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

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

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

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

Furthermore, the AMF's *Total Loss Absorbing Capacity Guideline* (the TLAC Guideline) applies to and establishes standards for Desjardins Group. Under the TLAC Guideline, beginning April 1, 2022, Desjardins Group will be required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the prescribed criteria or regulatory capital instruments to support its recapitalization in the event of a failure. Additional information can be found in Section 3.2, "Capital management", on page 54.

U.S. regulations

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

Changes in the regulatory environment

Desjardins Group closely monitors regulations for financial products and services, as well as new developments in fraud, corruption, tax evasion, protection of personal information, money laundering, terrorist financing and domestic and international economic sanctions in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Further information on regulatory capital developments is provided in Section 3.2, "Capital management".

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

The final version of the amendments to the PCMLTFA and its regulations, tabled in June 2018, was published by the Department of Finance Canada on July 10, 2019. These amendments came into force in three phases, on July 10, 2019, June 1, 2020 and on June 1, 2021. In February 2020, the Department of Finance Canada published new proposed regulatory changes, which were commented by Desjardins. The final publication of these regulatory changes on June 10, 2020 had to do in particular with ongoing monitoring of business relationships. Following the publication of the regulatory changes, a project was implemented to make the changes required by the amended regulation to Desjardins Group's business line systems, processes and procedures.

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

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

Financial reforms in the U.S.

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

Protection of data confidentiality and security

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

Pillar 3 disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These Pillar 3 requirements aim to enhance comparability with other financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group has issued a Pillar 3 Report since December 31, 2018 in order to comply with it. On January 1, 2020, the Pillar 3 financial disclosure requirements were included by the AMF in a separate document entitled *Pillar 3 Disclosure Requirements Guideline*, which features new requirements that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. In November 2021, the AMF launched a public consultation for an update of the *Pillar 3 Disclosure Requirements Guideline*. The update, effective January 1, 2022, clarifies the implementation of the provisions that will apply by January 1, 2024 and incorporates new requirements that address, in particular, risk-weighted asset modelling, encumbered assets and compensation. As at December 31, 2021, Desjardins Group met the disclosure threshold of the systemic risk indicator table. The table, which aims to present an assessment of Desjardins's relative size within the global financial system, will be issued annually, starting in the first quarter of 2022.

Report on Ontario's auto insurance system

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

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

On June 25, 2020, the Canadian Securities Administrators (CSA) launched a consultation on the regulatory framework for the operations of self-regulatory organizations (SROs). The CSA is seeking input on whether the current SRO framework best serves the interests of Canadian investors and the securities industry, in light of the evolution of the financial services industry. On August 3, 2021, the CSA issued a Position Paper confirming the establishment of a New SRO and the consolidation of the two existing investor protection funds into a single protection fund which will be independent from the New SRO. This Position Paper also outlines the regulatory framework for the New SRO. The CSA working group is currently reviewing the comments received and, is continuing to work on implementing the New SRO. Desjardins Group continues to analyze the potential impact of the New SRO regulatory framework on its operations.

Client focused reforms

In October 2019, the CSA adopted new obligations for brokerage firms and investment dealers, called the Client Focused Reforms. The new obligations have to do in particular with "know your client" and "know your product", the suitability of recommendations and dealing with conflicts of interest. The CSA also developed a new fundamental requirement for registrants, namely that clients' interests come first in terms of suitability of investments. On July 15, 2021, the CSA announced the adoption of additional requirements to enhance the protection of elderly and vulnerable customers in relation to issues of financial abuse and diminished mental capacity. The effective date was scheduled for December 31, 2021. Desjardins Group has rolled out projects to review its processes and procedures in order to comply with regulatory requirements within the prescribed timeframe.

Interest rate benchmark reform

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

Guideline on Information and Communications Technology Risk Management

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

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

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

Minimum qualifying rate for mortgages

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

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

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

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

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

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

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

1.0 Desjardins Group

1.1 Profile and structure

WHO WE ARE

Desjardins Group is the largest financial cooperative group in North America, with assets of \$397.1 billion. As at December 31, 2021, the organization brought together 214 caisses in Québec and the Caisse Desjardins Ontario Credit Union Inc., the *Fédération des caisses Desjardins du Québec* and its subsidiaries and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association, and Desjardins Florida Branch.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 53,700 employees and the commitment of over 2,500 directors in the caisse network.

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

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

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

WHAT MAKES US DIFFERENT

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

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

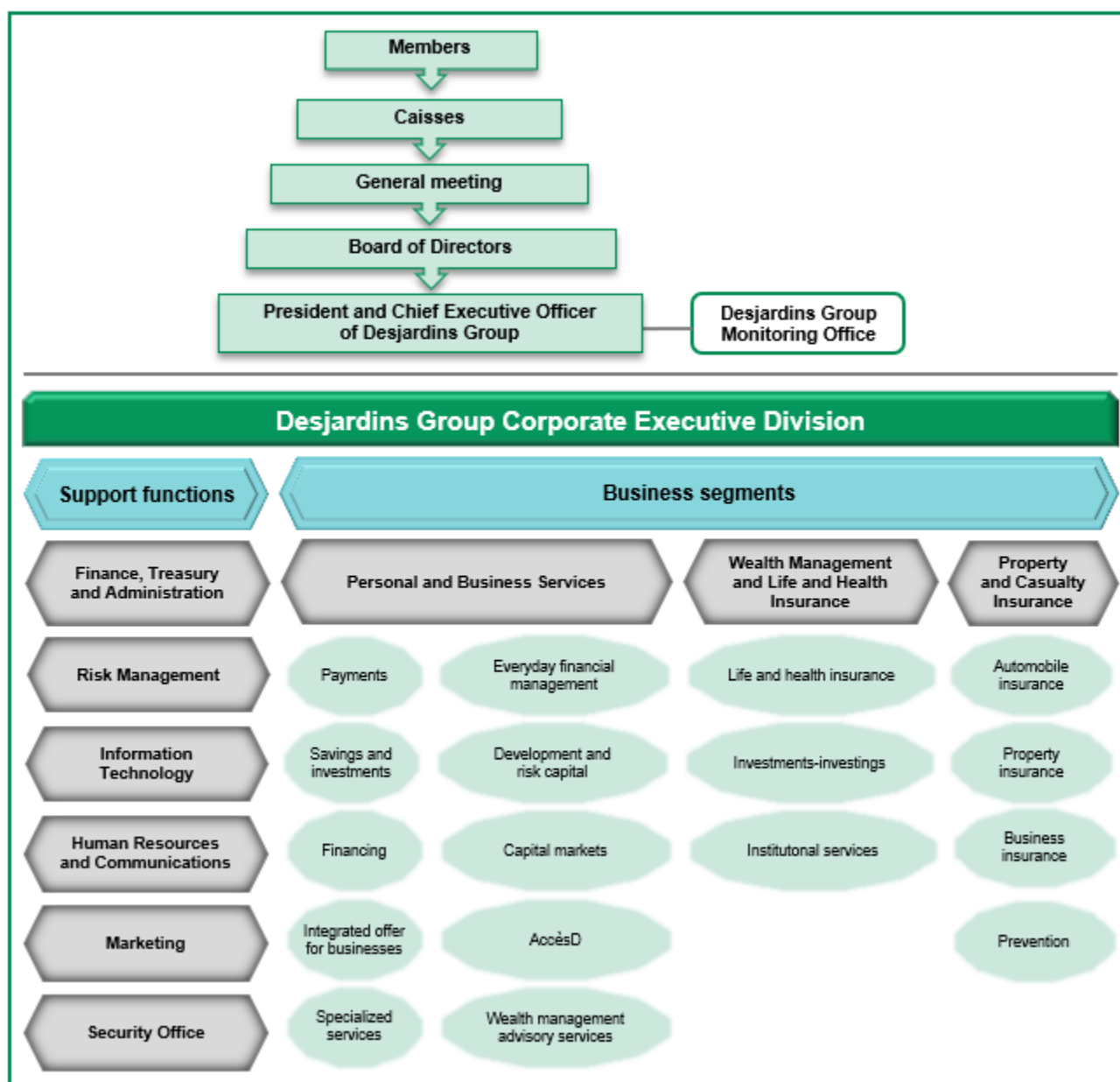
Desjardins Group's goal is to be everyone's #1 choice. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best meet members'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

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

STRUCTURE OF DESJARDINS GROUP

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

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



1.2 Financial highlights

Table 8 – Financial highlights

As at and for the years ended December 31

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

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

⁽²⁾ The breakdown by line item is presented in Note 31, "Segmented information", to the Combined Financial Statements.

⁽³⁾ Including \$41 million from the caisses' Community Development Fund (\$35 million in 2020).

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

⁽⁵⁾ For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

⁽⁶⁾ In accordance with the *Liquidity Adequacy Guideline* issued by the AMF. See Section 4.0, "Risk management" ».

⁽⁷⁾ In accordance with the *Adequacy of Capital Base Guideline* for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2 "Capital management".

2021 Desjardins Group highlights

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

Comparison of 2021 to 2020

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

Other highlights

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

EAG highlights

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

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

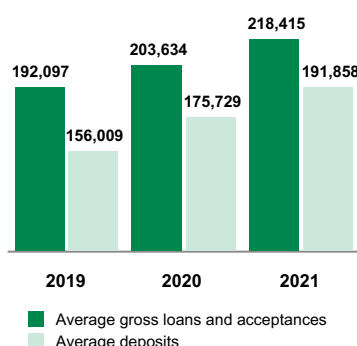
⁽²⁾ For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

2021 segment highlights

Personal and Business services

Average gross loans and acceptances and average deposits⁽¹⁾

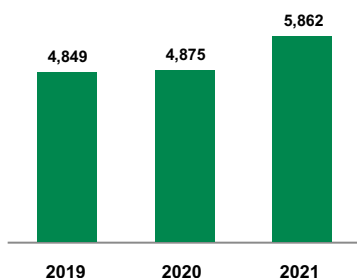
(in millions of dollars)



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

Gross written premiums⁽¹⁾

(in millions of dollars)

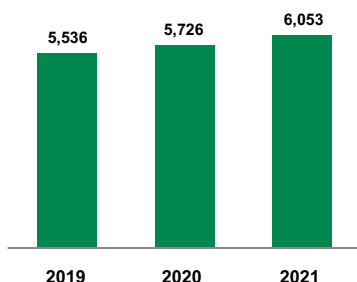


- No. 5 life and health insurer in Canada and No. 3 in Québec (based on gross written premiums in 2020).
- No. 1 in Canada and in Québec for market-linked guaranteed investments (based on 2020 assets under management).
- 2nd place in the Responsible Investment Association Leadership Awards in the Market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

Property and Casualty Insurance

Gross written premiums⁽¹⁾

(in millions of dollars)



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

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

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

1.3 Significant events

Entry into service of a new executive vice-presidency

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

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

Privacy breach

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

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

Acquisition of the investment firm Hexavest Inc.'s assets

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

COVID-19 pandemic

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

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

Main measures for the benefit of members and clients

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

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

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

Products			
	Number of requests	Total loans - relief granted	Loan balance as at December 31, 2021
Financing			
Residential mortgages and consumer loans	181,528	\$20.1 billion	\$2.3 billion
Credit card and other personal loans	168,416	\$1.7 billion	\$4 million
Business loans	35,673	\$17.3 billion	\$0.8 billion
Insurance	Number	Value of refund	
Automobile insurance premium refund in 2020	2,151,000	\$155 million	

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

- **Canada Emergency Business Account (CEBA):**
 - Under this program, implemented in collaboration with Export Development Canada (EDC), Desjardins Group granted loans of up to \$60,000 interest-free until December 31, 2023 (and at a rate of 5% thereafter), funded by the federal government, to small businesses and not-for-profits to help them cover their operating expenses during a time when their revenue has been temporarily reduced. Loans granted under this program are derecognized from Desjardins Group's Combined Balance Sheets as the program meets the criteria for transfer of cash flows and of substantially all the risks and rewards of ownership of the loans to the government. Members and clients were able to take advantage of this program until June 30, 2021. At the end of the CEBA program, 149,100 loans for a total of \$5.0 billion had been granted to Desjardins Group members and clients under the program.
- **Business Development Bank of Canada (BDC) Co-Lending Program:**
 - Under this program, set up through the Business Credit Availability Program (BCAP), Desjardins Group granted term loans for which the maximum amount was calculated based on sales, with conditions tailored to the business' needs, for up to \$6.25 million (\$18.75 million per borrower group). BDC and Desjardins Group entered into a joint facility under which BDC automatically acquired an 80% interest in term loans granted to eligible Desjardins Group members and clients. Members and clients could take advantage of this program until December 31, 2021. At the end of the program, 146 loans for a total of \$90 million had been granted to Desjardins Group members and clients under this joint facility program.
- **BDC Highly Affected Sectors Credit Availability Program (HASCAP) Guarantee:**
 - Under the HASCAP, the BDC provides a guarantee for 100% of a financial institution's residual loss for term loans to businesses in sectors highly affected by the pandemic. The loans were for amounts ranging from \$25,000 to \$1 million (up to a maximum of \$6.25 million for an enterprise operating several business sites, as defined under the program). Members and clients can take advantage of this program until March 31, 2022. As at December 31, 2021, 200 loans for a total of \$42 million had been granted to Desjardins Group members and clients.
- **Loan guarantees for small- and medium-sized enterprises (EDC):**
 - Under the BCAP, EDC also offers a guarantee of up to 80% of the financial institution's residual loss for new operating lines of credit and new term loans of up to \$6.25 million for small and medium-sized enterprises (SMEs). Members and clients were able to take advantage of this program until December 31, 2021. At the end of the program, 140 loans totalling \$88 million had been granted to Desjardins Group's members and clients.
- **Concerted temporary action program for businesses (PACTE) with Investissement Québec:**
 - Investissement Québec (IQ) offers a guarantee of up to 70% of the financial institution's residual loss for new operating lines of credit and new term loans (minimum of \$71,500) for funding needs over a period of up to 12 months, for businesses operating in Québec, including cooperatives and other social economy enterprises with commercial operations. Applications for financial assistance under this program may be submitted no later than four weeks after the public health emergency has been lifted. As at December 31, 2021, 213 loans totalling \$77 million had been granted to Desjardins Group members and clients since the start of the PACTE program.

Capital and liquidity measures

In view of the COVID-19 pandemic, the AMF introduced a series of measures to support Québec's financial system. For an update on the measures put in place by Desjardins Group in this regard, please see Section 3.2, "Capital management", of this MD&A.

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

Impact of the pandemic

As mentioned in Section 1.5, "Economic environment and outlook", of this MD&A, the spread of COVID-19 has had a disruptive impact on the countries and Canadian provinces where Desjardins Group operates, and on the global economy in general, while triggering higher volatility on financial markets. Should the COVID-19 pandemic be prolonged or should subsequent waves of the pandemic occur, or should other variants or diseases appear with similar effects, the adverse impact on the global economy could be exacerbated and lead to declines on financial markets. The impact of the COVID-19 pandemic could have a negative impact on Desjardins Group's operations, operating results, profitability, reputation and financial position for an undetermined, considerable period of time. Desjardins Group is continuing to monitor developments in the COVID-19 pandemic and the potential detrimental effects on its operations. The pandemic's repercussions on the economy, markets and Desjardins's operations and financial position depend on highly uncertain future developments that are difficult to foresee given the uncertainty about the magnitude, gravity and duration of the pandemic, the size of the current wave in Québec and the rest of Canada, long-term vaccine efficiency as well as the possibility of subsequent waves or the emergence of new variants that could shut down certain sectors of the economy, or result in additional closures or a tightening of confinement measures by government authorities.

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

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

1.4 Strategic orientations and financial objectives

STRATEGIC ORIENTATIONS AND FOUNDATIONS

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

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

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

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

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

FINANCIAL OBJECTIVES

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

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

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

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

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

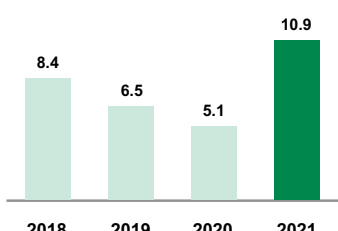
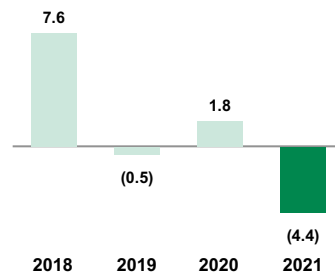
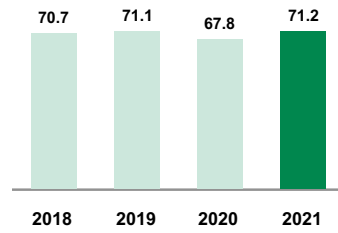
The following table presents the medium-term financial objectives for the 2021-2024 Strategic Plan, as well as the results achieved in 2021 for each of the indicators.

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

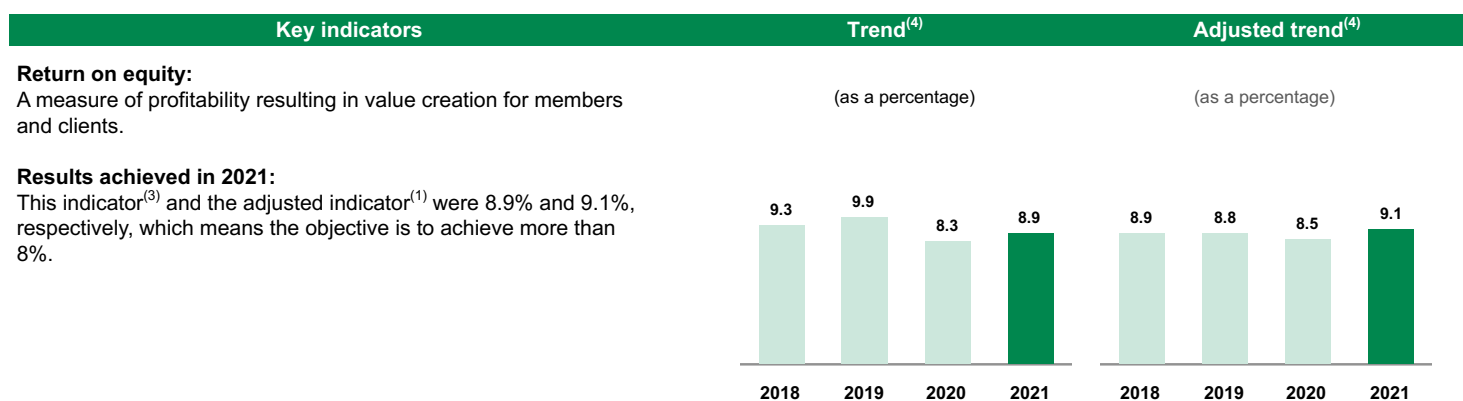
Footnotes to this table are presented on page 22.

Overall performance in 2021

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

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

Footnotes to this table are presented on page 22.



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

⁽²⁾ In accordance with the *Adequacy of Capital Base Guideline* for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, "Capital management".

⁽³⁾ For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

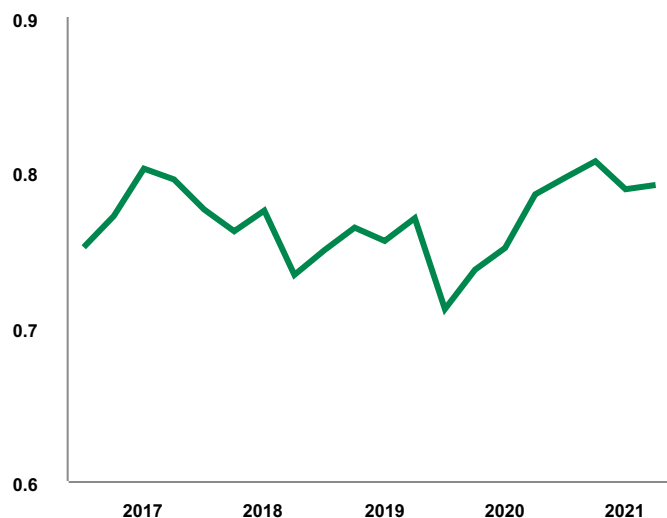
⁽⁴⁾ The information for 2018 was based on the standards in effect before the adoption by Desjardins Group of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

FINANCIAL OUTLOOK

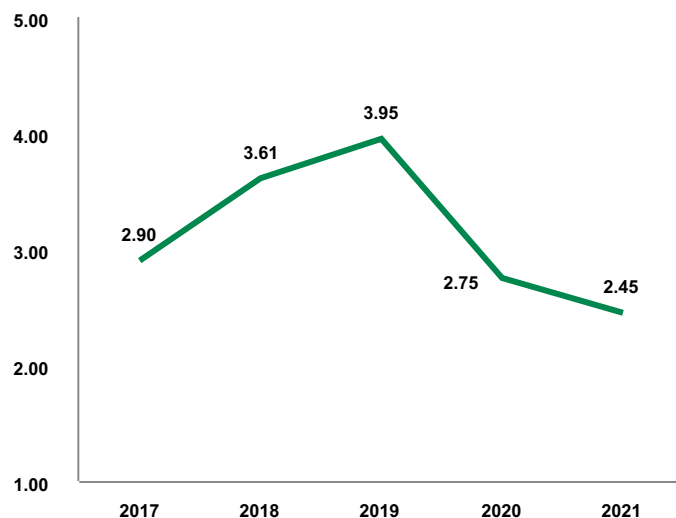
Desjardins Group will continue fiscal 2022 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry. There is still some uncertainty about the full impact of COVID-19 on Desjardins Group's operations and results, and the economy will be down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

1.5 Economic environment and outlook

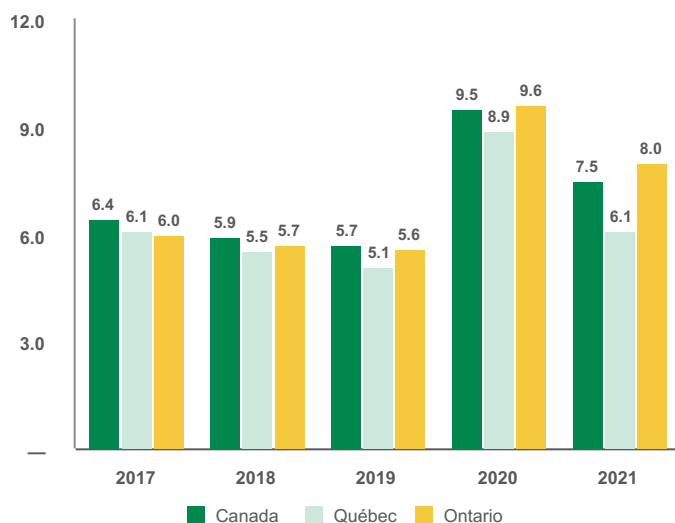
Changes in the Canadian dollar vs. the U.S. dollar (at quarter end)
(in U.S. dollars / Canadian dollars)



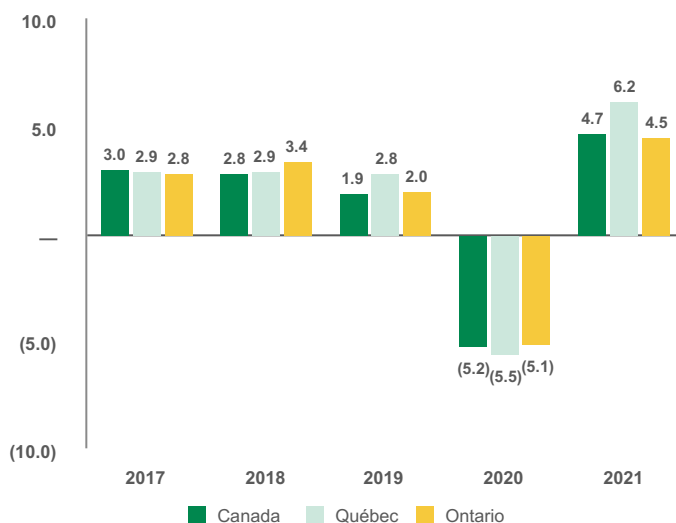
Changes in the prime rate (annual average)
(as a percentage)



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



Annual growth in GDP
(as a percentage)



Global economy

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

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

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

United States

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

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

Canada

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

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

Québec

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

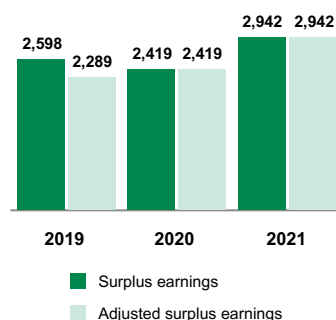
Although the Québec economy rallied strongly from the shock induced by the arrival of the pandemic, growth will be less sustained going forward. With the recovery now behind us, real GDP is expected to grow by approximately 2.0% in 2022, compared to over 6.0% in 2021. The uncertainties around the pandemic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

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

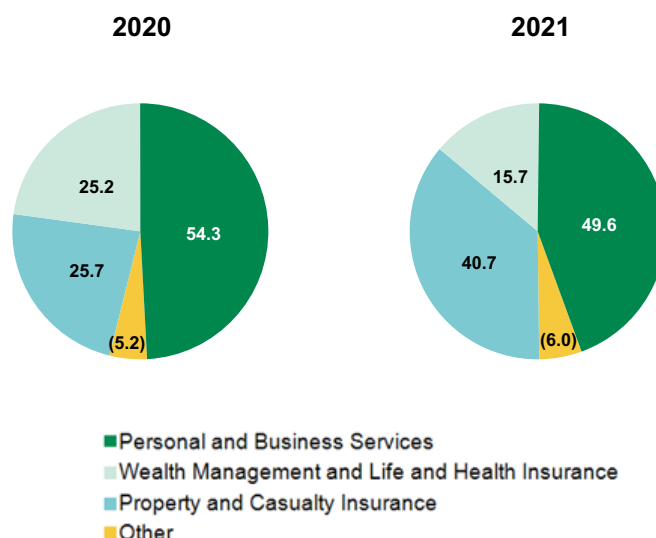
2.0 Review of financial results

2.1 Analysis of 2021 results

Surplus earnings before member dividends
(in millions of dollars)



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



2021 Surplus earnings

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

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

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

Contribution of business segments to surplus earnings:

- Personal and Business Services: Surplus earnings of \$1,459 million**, up \$145 million, or 11.0%, compared to 2020. This increase was essentially the result of the following:
 - Lower provision for credit losses in 2021 than in 2020, reflecting the deterioration in the economic outlook as a result of the COVID-19 pandemic.
 - Increase in net interest income and other operating income.⁽¹⁾
 - Offset by higher non-interest expense, mainly because of the larger amounts invested in Desjardins-wide strategic projects.
- Wealth Management and Life and Health Insurance: Surplus earnings of \$463 million**, down \$146 million, or 24.0%, mainly because of the following items:
 - Overall unfavourable effect from revisions of actuarial assumptions in the normal course of business.
 - Lower gains on disposal of securities and real estate investments than in 2020.
 This decrease was partially offset by the following:
 - Impact on the cost of claims in the provision and travel insurance claims in 2020, related to the COVID-19 pandemic.
 - The markets' positive impact on guaranteed investment funds while they had been unfavourably affected in 2020.
- Property and Casualty Insurance: Surplus earnings of \$1,197 million**, up \$575 million compared to 2020, due to the following:
 - Decrease in cost of claims, in particular due to the favourable trend in prior-year claims essentially in automobile insurance.
 - Increase in net premiums, including the impact of \$155 million in automobile insurance premium refunds granted to members and clients as a relief measure to support them during the COVID-19 pandemic in 2020.
- Return on equity was 8.9 %**, compared to 8.3% for 2020.
- Adjusted return on equity was 9.1%**, compared to 8.5% for 2020, mainly due to the increase in surplus earnings, as previously explained.

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

OPERATING INCOME

Table 9 – Operating income

For the years ended December 31

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

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

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

Net interest income

Net interest income is the difference between interest income earned on assets, such as loans and securities, and the interest expense related to liabilities, such as deposits and subordinated notes. It is affected by interest rate fluctuations, funding and matching strategies, as well as the composition of interest-bearing or non-interest-bearing financial instruments. For analysis purposes, Table 10 shows the changes in net interest income for the main asset and liability classes, while Table 11 details how net interest income was affected by changes in volume and interest rates for the different assets and liabilities.

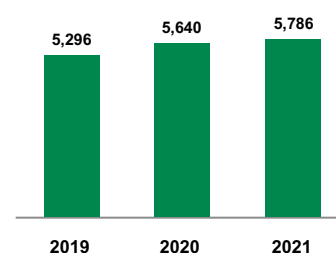
Net interest income totalled \$5,786 million, up \$146 million, or 2.6%, as a result of the following items:

- Growth in average residential mortgages outstanding.
- Lower average cost of funds, resulting in lower interest expense, despite a higher volume of deposits.

This increase was partially offset by the following:

- Decrease in average consumer and credit card loan outstandings.
- Lower average return on loans due to decrease in interest rates.

(in millions of dollars)



- **Net interest margin of 2.06%** in 2021, as a percentage of average interest-bearing assets, down 32 basis points compared to 2020, mainly because of an increase in securities and liquidities generating a lower net interest margin, as well as a decrease in interest rates.
- **Interest income of \$7,401 million**, down \$365 million, or 4.7%, essentially due to the following:
 - A decrease in the average return on total interest-bearing assets, mainly loans, which reduced income by \$1,350 million.
 - Offset by a \$985 million increase in interest income related to growth in the average volume of total interest-bearing assets, mainly loans.
- **Interest expense of \$1,615 million**, down \$511 million, or 24.0%, primarily as a result of the following:
 - A decrease in the average cost of funds, mainly from deposits, reduced this expense by \$841 million.
 - Offset by growth in the average volume of total interest-bearing liabilities, mainly from deposits, leading to a \$330 million increase in interest expense.

Table 10 – Net interest income on average assets and liabilities

For the years ended December 31

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

⁽¹⁾ Data have been reclassified to conform to the current year's presentation.⁽²⁾ For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.⁽³⁾ For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 4 to 8.**Table 11 – Impact of changes in volumes and rates on net interest income**

For the years ended December 31

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

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

Net premium⁽¹⁾

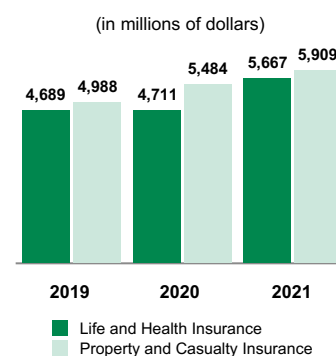
Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, **totalled \$11,278 million**, up \$1,358 million, or 13.7%, compared to 2020, due to items from the following segments:

Wealth Management and Life and Health Insurance

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

Property and Casualty Insurance

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



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

Other operating income

Table 12 – Other operating income

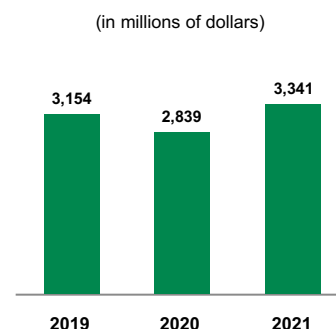
For the years ended December 31

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

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

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

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

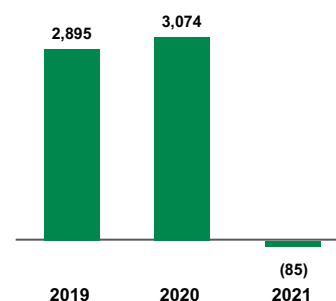


INVESTMENT INCOME⁽¹⁾

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

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

(in millions of dollars)



TOTAL INCOME

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

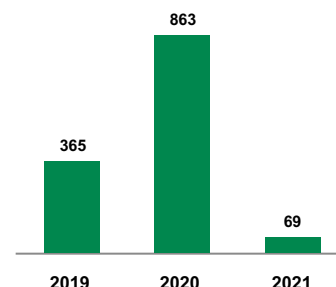
PROVISION FOR CREDIT LOSSES

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

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

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

(in millions of dollars)



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

Table 13 – Credit loss provisioning rate

For the years ended December 31

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

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

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

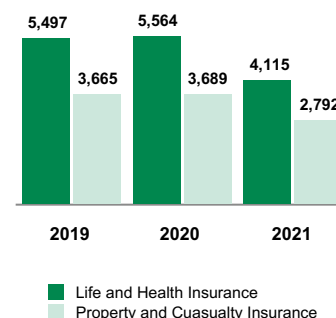
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES⁽¹⁾

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

Wealth Management and Life and Health Insurance segment

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

(in millions of dollars)



Property and Casualty Insurance segment

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

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

NON-INTEREST EXPENSE AND PRODUCTIVITY INDEX

Table 14 – Non-interest expense

For the years ended December 31

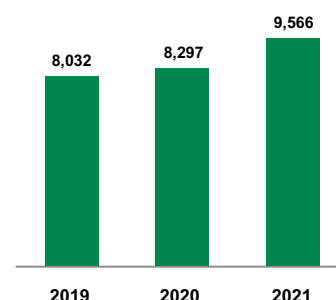
(in millions of dollars and as a percentage)	2021	2020	2019
Salaries and fringe benefits			
Salaries	\$ 3,553	\$ 3,101	\$ 2,970
Fringe benefits	857	777	676
	4,410	3,878	3,646
Premises, equipment and furniture, including depreciation	939	878	772
Service agreements and outsourcing	257	265	361
Communications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

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

(in millions of dollars)

Non-interest expense totalled \$9,566 million for 2021, up \$1,269 million, or 15.3%, compared to 2020. This increase was essentially due to the following:

- Higher salaries due to growth in operations and indexing.
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, information protection, security and improving business processes.
 - Growth in payment activities, including expenses related to the rewards program.
- **Salaries and fringe benefits of \$4,410 million**, up \$532 million, or 13.7%, compared to 2020, mainly because of higher salaries due to growth in operations, and strategic projects in digital transformation, security and indexing.
 - This expense item represented 46.1% of total non-interest expense, namely a percentage slightly lower than 46.7% in 2020.
 - The ratio of fringe benefits to total base compensation⁽¹⁾ was 24.1% in 2021, slightly down from 25.1% in 2020.
 - **Expenses related to premises, equipment and furniture (including depreciation) of \$939 million**, up \$61 million, or 6.9%, compared to 2020, mainly due to the increase in investments, particularly in digital transformation and security.
 - **Service agreements and outsourcing of \$257 million**, down \$8 million, or 3.0% compared to 2020.
 - **Communication expenses of \$306 million**, up \$49 million, or 19.1%, compared to 2020, due to advertising.
 - **Other expenses of \$3,654 million**, up \$635 million, or 21.0%, compared to 2020, essentially because of the following:
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, information protection, security and improving business processes.
 - Growth in payment activities, including expenses related to the rewards program.
 - **Productivity index at 71.2% for 2021**, compared to 67.8% for 2020, particularly because of the larger amounts invested in strategic projects.



INCOME TAXES ON SURPLUS EARNINGS AND INDIRECT TAXES

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

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

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

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

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

2.2 Analysis of business segment results

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

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

2.2.1 Personal and Business Services

PROFILE

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

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

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

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

SERVICES

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

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

2021 ACHIEVEMENTS

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

INDUSTRY

• Canadian market:

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

• Québec market:

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

• Competition in Québec for financial services to individuals and businesses:

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

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

2022 STRATEGIES AND PRIORITIES

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

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

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

ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

Table 15 – Personal and Business Services – Segment results

For the years ended December 31

(in millions of dollars and as a percentage)

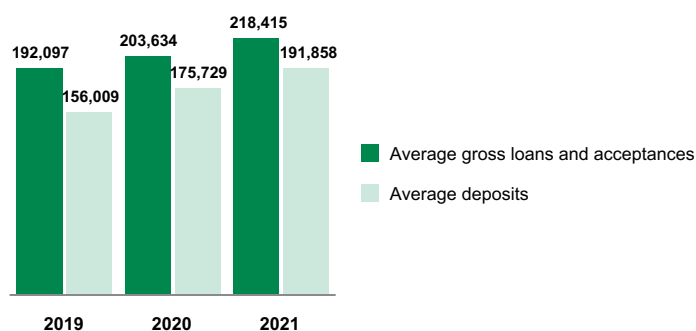
	2021	2020	2019
Net interest income	\$ 5,005	\$ 4,970	\$ 4,859
Other operating income ⁽¹⁾	2,684	2,366	2,829
Operating income⁽¹⁾	7,689	7,336	7,688
Investment income ⁽¹⁾	241	276	59
Total income	7,930	7,612	7,747
Provision for credit losses	75	867	368
Non-interest expense	5,886	4,987	4,869
Income taxes on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

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

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

Average gross loans and acceptances and average deposits

(in millions of dollars)



COMPARISON OF 2021 AND 2020 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of \$1,459 million**, up \$145 million, or 11.0%, compared to 2020. This increase is essentially due to the following:
 - The lower provision for credit losses in 2021 compared to 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
 - Higher net interest income and other operating income⁽¹⁾.
 - Offset by an increase in non-interest expense mainly as a result of larger amounts invested in Desjardins-wide strategic projects.
- **Operating income⁽¹⁾ of \$7,689 million**, up \$353 million, or 4.8%.

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

- **Net interest income totalled \$5,005 million**, up \$35 million, or 0.7%, mainly because of:
 - Growth in average residential mortgages outstanding.
 - A decrease in the average cost of funds, resulting in lower interest expense despite an increase in deposit volume.
 This increase was partly offset by the following:
 - Drop in average consumer and credit card loans outstanding.
 - Decline in the average return on loans due to lower interest rates.
- **Other operating income⁽¹⁾ of \$2,684 million**, up \$318 million, or 13.4%, mainly due to the following:
 - Higher income from securities brokerage activities as a result of growth in assets under management.
 - Growth in business volumes from Desjardins Card Services payment activities.
 - Growth in sales by the caisse network of various Desjardins Group products designed by the subsidiaries, such as investment funds.
 - Higher income from deposit and payment service charges. Relief measures had been granted to members in 2020.
- **Investment income⁽¹⁾ of \$241 million**, down \$35 million, or 12.7%, basically as a result of the following:
 - Losses on the disposal of securities carried out in 2021 compared to gains in 2020.
 - Lower trading income as a result of developments on financial markets.
 - Offset by positive changes in activities related to derivative financial instruments.
- **Total income of \$7,930 million**, up \$318 million, or 4.2%.
- **Provision for credit losses of \$75 million**, down \$792 million compared to 2020. This decrease mainly reflects the improved macroeconomic outlook and borrowers' credit quality, whereas the 2020 decrease reflected the significant negative impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic. The provision for credit losses for 2021 also reflects decreases in net write-offs compared to 2020, especially in the credit card portfolio.
- **Non-interest expense of \$5,886 million**, up \$899 million, or 18.0%, essentially due to:
 - Increase in investments, particularly related to the digital shift and security.
 - Growth in activities aimed at enhancing the service offer to members and clients, including offers related to wealth management advisory services and *AccèsD* services.
 - Growth in payment activities, including expenses related to the rewards program.

2.2.2 Wealth Management and Life and Health Insurance

PROFILE

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

The segment designs several lines of individual insurance (life and health) coverage as well as investment solutions. It also includes asset management and trust services for institutional clients. This segment is a Canadian leader in responsible investing.

One of the greatest strengths of the Wealth Management and Life and Health Insurance segment is its vast and diversified Canada-wide distribution network, including:

- Desjardins caisse network.
- Desjardins agent network.
- Desjardins Financial Security Life Assurance Company partner networks.
- External insurance and investment solution networks.
- Actuarial consulting firms and brokers.

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

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

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

SERVICES

- **Insurance for individuals:**

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

Wealth Management

- **Investments-investings:**

- Includes various investment solutions for individuals and businesses, as well as group retirement savings service proposals for company employees or members of any other group.
- The wide array of investment solutions offered, which includes market-linked guaranteed investments (MLGI), mutual funds, guaranteed investment funds, notes and exchange traded funds (ETF) with a number of responsible investment products, allow individuals and businesses to find the one best suited to their needs, whether for preparing for retirement, planning a trip or any other financial goal.

- **Institutional services:**

- Services for institutional clients, namely pension funds, foundations, investment funds and insurers.
- Asset management: Investment solutions are proposed by a group of investment experts to institutional clients in order to obtain competitive returns and an attractive risk-return trade-off for them.
- Trust services: Services related to the custody and administration of securities on North American and international markets and fiduciary services for businesses.

2021 ACHIEVEMENTS

Supporting our members and clients: Our priority!

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

Life and Health Insurance

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

Wealth Management

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

INDUSTRY

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

- **Canadian market:**
 - Wealth Management: At the end of 2020, financial assets of close to \$5,556 billion were held by Canadian households in various investment solutions. Assets were up 11.8% in 2020, growing annually at 7.1% on a compound basis over the past 10 years. Stock markets continued to grow in 2021, fuelled by investor optimism and the investment of the savings accumulated in 2020.
 - Life and Health Insurance: Premium income totalled \$123 billion in life and health insurance and in annuities in 2020, growing an average 3.5% per annum over the last five years. More than 29 million Canadians are financially protected, and \$97 billion in benefits were paid out in 2020. Despite the COVID-19 crisis, the industry resumed growth in 2021 and the rise in bond rates at the beginning of the year was favourable for the industry as a whole.
- **Competition in Canada:**
 - Wealth Management: A division of all major banking groups, life and health insurance companies and investment funds. Competition is fierce, and players try to outdo one another in terms of ingenuity in order to win over clients and build their loyalty.
 - Life and Health Insurance: Based on 2020 statistics, there are more than 150 insurers doing business in Canada. Five insurers account for 77.6% of the market. Desjardins Financial Security Life Assurance Company ranks fifth in Canada, with gross written premiums of \$4.9 billion in 2020.
- **Developments and expectations of members and clients:**
 - Members' and clients' expectations are constantly changing. They want easy, fast, holistic, digital, customized offers of products and services that are highly cost-efficient and focused on advisory services, education, protection, prevention and well-being. The industry is increasingly adjusting and positioning itself to meet these expectations.

2022 STRATEGIES AND PRIORITIES

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

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

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

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

Table 16 – Wealth Management and Life and Health Insurance – segment results

For the years ended December 31

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

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

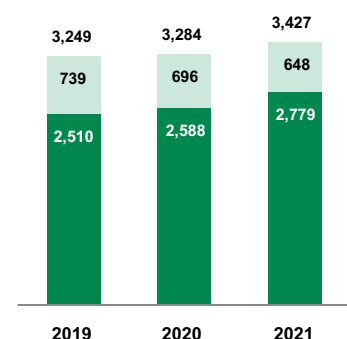
⁽²⁾ For further information about supplementary financial measures, see the Glossary on pages 117 to 124.

Table 17 – Claims, benefits, annuities and changes in insurance contract liabilities

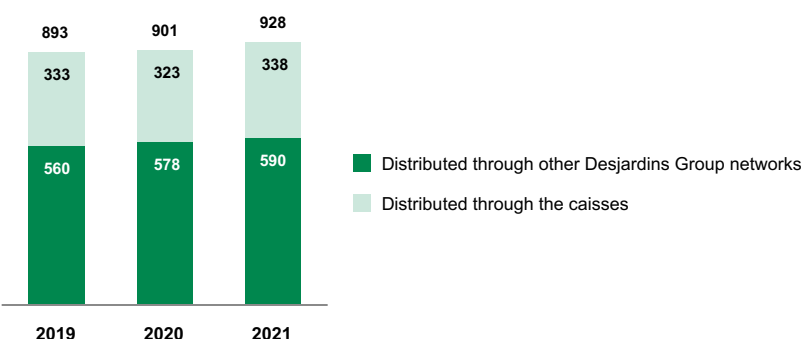
For the years ended December 31

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

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



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



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

- **Net surplus earnings of \$463 million**, down \$146 million, or 24.0%, mainly on account of the following:

- Overall unfavourable effect of revisions of actuarial assumptions in the normal course of business.
- Smaller gains on disposal of securities and real estate investments than in 2020.

This decrease was mitigated in part by the following:

- Impact on the cost of claims in the provision and travel insurance claims in 2020, in connection with the COVID-19 pandemic.
- Markets' positive impact on guaranteed investment funds, whereas the funds had been unfavourably affected in 2020.

- **Operating income⁽¹⁾ of \$7,154 million**, up \$1,149 million, or 19.1%.
- **Net premiums of \$5,667 million**, up \$956 million, or 20.3%, due to the following:
 - Increase of \$786 million essentially in group annuity premiums primarily in connection with business growth. This growth is reflected in a similar change in actuarial liabilities included under “Claims, benefits, annuities and changes in insurance contract liabilities”.
 - Increase of \$143 million from group insurance and of \$27 million from individual insurance.
- **Other operating income⁽¹⁾ of \$1,487 million**, up \$201 million, or 15.6%, mainly as a result of the growth in assets under management.
- **Loss of \$55 million presented under “Investment income (loss)”⁽¹⁾**, compared to income of \$2,404 million in 2020 primarily due to:
 - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
 - Change mostly due to fluctuations in the fair value of the bond portfolio mainly as a result of higher market interest rates whereas they were lower in 2020.
 - It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.
 - Lower gains on the disposal of securities and real estate investments compared to 2020.
- **Total income of \$7,099 million**, down \$1,310 million, or 15.6%.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$4,115 million**, down \$1,449 million, or 26.0%, basically due to:
 - Decrease of \$1,662 million in actuarial liabilities under “Insurance contract liabilities”, which included the effect of the decrease in the fair value of matched investments, presented under “Investment income (loss)”, offset in part by the unfavourable effect of revisions of actuarial assumptions and by business growth.
 - Decrease related to the impact on the cost of claims in the provision and travel insurance claims in 2020, in connection with the COVID-19 pandemic.
 - Offset by the increase in benefits under health insurance claim applications.
- **Non-interest expense of \$2,448 million**, up \$348 million, or 16.6%, mainly because of:
 - Increase in amounts invested for the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.
 - Higher administration costs to improve services for members and clients.
 - Higher expenses as a result of the growth in assets under management.

2.2.3 Property and Casualty Insurance

PROFILE

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

Desjardins General Insurance Group Inc., which has more than 3.5 million clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner.

SERVICES

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

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

2021 ACHIEVEMENTS

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

INDUSTRY

- **Canadian market:**
 - The P&C insurance industry offers insurance coverage for motor vehicles, personal and commercial property, and public liability.
 - A mature market, with an average annual premium growth rate of 7.6% over the past five years.
 - In 2020, direct premiums written on the Canadian market totalled \$64.0 billion, up 8.7%, particularly as a result of high rates on the Canadian P&C insurance market, which was partially offset by a temporary slowdown in growth in automobile insurance due to changes in driving habits caused by the pandemic.
 - Individual insurance accounts for 60.3% of the market, and business insurance, for 39.7%.
- **State of the industry in 2021:**
 - The COVID-19 pandemic contributed to structural changes in society, in particular to changing driving habits, resulting in a decline in the frequency of auto insurance claims. However, over the last few months, there was a slight increase in frequency during the more restrictive periods of confinement.
 - After several years of significant repair cost increases due to the new technologies being put into motor vehicles, the change in the average cost of automobile claims stabilized in 2021. However, a semi-conductor chip shortage is affecting the entire automobile industry and could lead to a rise in repair costs and vehicle replacements. This shortage is already having a significant impact in the U. S. market.
 - The Desjardins Group P&C Insurance segment continues to be proactive with regard to these challenges and continues to implement its action plan in order to continue to better control business profitability.
 - According to the Insurance Bureau of Canada, the hailstorm and heavy precipitation in Calgary in the summer of 2021 cost insurers \$247 million.
 - The Desjardins Group P&C Insurance segment processed more than 2,500 claims connected with this event. To support customers, the claims team reacted proactively by implementing the exceptional situation management procedure and sending appraisers from Québec and Ontario out to Alberta.
- **Industry trends:**
 - Insurers' proposals are being increasingly developed through digital channels.
 - The Canadian market has been continuing to develop quickly in recent years, driven by technological innovations, changes in expectations and consumer behaviour as well as the advent of new business models. Insurers are starting to position themselves in response to new trends such as *InsurTech* or the sharing economy.
 - Since the beginning of the COVID-19 pandemic, the Desjardins Group P&C Insurance segment has seen a sharp increase in telematics programs in the industry.
 - The impact of climate change is a major factor affecting the P&C insurance industry.
 - The Desjardins Group P&C Insurance segment is proactive vis-à-vis these new trends by, for instance, modernizing IT systems and working to speed up the digital shift.

2022 STRATEGY AND PRIORITIES

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

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

ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

Table 18 – Property and Casualty Insurance – Segment results

For the years ended December 31

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

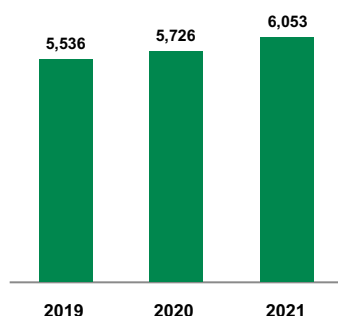
⁽¹⁾ For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 4 to 8.

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

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

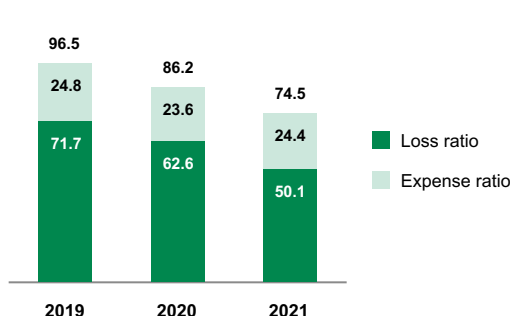
Gross written premiums

(in millions of dollars)



Combined ratio

(as a percentage of net premiums)



COMPARISON OF 2021 AND 2020 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of \$1,197 million**, up \$575 million compared to 2020, due to the following:
 - Lower cost of claims, particularly on account of the favourable change in prior year claims, chiefly in automobile insurance.
 - Increase in net premiums, including the impact of \$155 million in automobile insurance premium refunds granted to members and clients as a relief measure to support them during the COVID-19 pandemic in 2020.
- **Operating income⁽¹⁾ of \$5,731 million**, up \$407 million, or 7.6%.
- **Net premiums of \$5,909 million**, up \$425 million, or 7.7%, essentially as a result of:
 - Growth in the average premium, particularly in property insurance.
 - In the second quarter of 2020, \$155 million in automobile insurance premium refunds were granted to members and clients as a relief measure to support them during the COVID-19 pandemic.
 - Business growth.
- **Loss of \$178 million, presented under “Other operating income (loss)”⁽¹⁾**, compared to loss of \$160 million in 2020, due to the change in investment funds that benefited groups having signed agreements under The Personal banner. It should be mentioned that this change was offset by the results of these groups.
- **Investment income⁽¹⁾ of \$120 million**, down \$377 million, essentially because of the decrease in the fair value of matched bonds compared to an increase in fair value in 2020, mainly on account of the higher market interest rates in 2021, whereas market interest rate had fallen in 2020. It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.
- **Total income of \$5,851 million**, up \$30 million, or 0.5%.
- **Cost of claims totalling \$2,792 million**, down \$897 million, or 24.3%, as a result of the following:
 - Loss ratio of 50.1%, compared to 62.6% in 2020.
 - More favourable ratio of changes in prior year claims than in 2020, i.e. (12.1%) vs. (5.3 %), mainly in automobile insurance.
 - Lower current year loss ratio compared to 2020: namely 60.8% vs. 65.4%, mainly in automobile insurance and in property insurance.
 - Lower loss ratio related to catastrophes and major events than in 2020, i.e. 1.4% vs. 2.5%. 2021 was marked by one catastrophe and one major event while 2020 was marked by one catastrophe and three major events.
 - Favourable impact of the increase in the discount rates used to measure the provision for claims, whereas an unfavourable impact had been recorded in 2020. It should be mentioned that this impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under “Investment Income”.
 - Offset by business growth, resulting in an increase in the cost of claims.
- **Non-interest expense of \$1,460 million**, up \$157 million, or 12.0%, due primarily to the larger amounts invested for the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.

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

2.2.4 Other category

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

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

Table 19 – Other category

For the years ended December 31

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

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

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

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

2.3 Analysis of fourth quarter results and quarterly trends

Table 20 – Results for the previous eight quarters

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

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

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

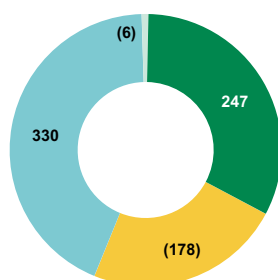
⁽³⁾ In accordance with the *Adequacy of Capital Base Guideline* for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, "Capital management".

FOURTH QUARTER COMBINED RESULTS

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

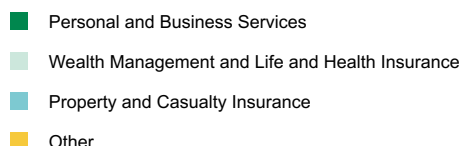
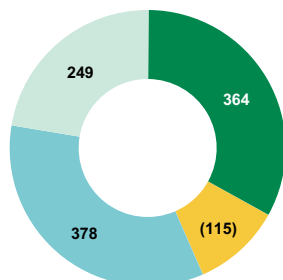
2021 surplus earnings before member dividends
(in millions of dollars)

\$393 million



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

\$876 million



Contribution of business segments to surplus earnings:

- **Personal and Business Services: Surplus earnings of \$247 million**, down \$117 million, or 32.1%, compared to the same period in 2020, as a result of:
 - Increase in non-interest expense due primarily to the larger amounts invested in Desjardins-wide strategic projects.
 - Offset by the lower provision for credit losses in the fourth quarter of 2021 than in the corresponding quarter of 2020, which reflected the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
- **Wealth Management and Life and Health Insurance: Deficit of \$6 million** compared to surplus earnings of \$249 million in the fourth quarter of 2020, due to:
 - Negative effect of revisions of actuarial assumptions in the normal course of business, whereas they had a positive impact on surplus earnings in 2020.
 - Higher level of expenses than in 2020, in particular administration expenses to enhance services to caisse members and clients.
- **Property and Casualty Insurance: Surplus earnings of \$330 million**, down \$48 million, or 12.7%, compared to the fourth quarter of 2020, due to:
 - Decrease in investment income.
 Offset partially by the following:
 - Increase in net premiums due to the higher average premium and to business growth.
 - Lower loss experience, due to more favourable developments in prior-year claims than in the fourth quarter of 2020, essentially in automobile insurance.
- **Return on equity of 4.3%**, compared to 11.4% for the fourth quarter of 2020, primarily due to the lower surplus earnings, as explained earlier.
- **Operating income⁽¹⁾ of \$5,503 million**, up \$673 million, or 13.9%.
- **Net interest income of \$1,455 million**, i.e. the same amount as in the fourth quarter of 2020.
- **Net premiums of \$3,201 million**, up \$575 million, or 21.9%.
 - **Wealth Management and Life and Health Insurance segment:** Net insurance and annuity premiums of \$1,766 million, up \$526 million, or 42.4%, compared to the same period in 2020, as a result of:
 - Increase of \$495 million in group annuity premiums related, in particular, to business growth. This growth is reflected in a similar change in actuarial liabilities included under "Claims, benefits, annuities and changes in insurance contract liabilities".
 - Growth of \$21 million in group insurance premiums and of \$10 million in individual insurance premiums.
 - **Property and Casualty Insurance segment:** Net premiums of \$1,513 million, up \$57 million, or 3.9%, compared to the same period in 2020, due essentially to:
 - Growth in the average premium, mainly in property insurance.
 - Business growth.
- **Other operating income⁽¹⁾ of \$847 million**, up \$98 million, or 13.1%, mainly due to:
 - Higher income from growth in assets under management.
 - Change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.
 - Higher business volume from Desjardins Card Services payment activities.
 - Offset by a larger increase, than in the fourth quarter of 2020, in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm) and arising from the favourable developments in claims taken over.

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

- **Investment income⁽¹⁾ of \$868 million**, up \$334 million, or 62.5%, essentially as a result of:
 - Increase in the fair value of assets backing liabilities related to life and health insurance operations.
 - Change mostly due to fluctuations in the fair value of the bond portfolio primarily as a result of a slight decrease in long-term market interest rates in the fourth quarter of 2021, whereas they were higher in the corresponding quarter of 2020.
 - It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.
 - This was partially offset by the following:
 - Loss on the disposal of securities in 2021 compared to gains in 2020.
 - Decrease in activities related to derivative financial instruments.
 - Larger decrease in the fair value of matched bonds in the Property and Casualty Insurance segment compared to the corresponding quarter of 2020, mainly due to an increase in market interest rates during the fourth quarter of 2021 that was higher than in the same quarter of 2020. It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.
- **Total income of \$6,371 million**, up \$1,007 million, or 18.8%.
- **Provision for credit losses of \$16 million**, down \$153 million, compared to the same period in 2020. The provision for credit losses for the fourth quarter of 2020 reflected the impact of the deterioration of the economic outlook and the anticipated effects on credit quality because of the COVID-19 pandemic. In addition, during the fourth quarter of 2021, the provision for credit losses reflected the decrease in net write-offs compared to the corresponding period of 2020.

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

- Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.47%, compared to 0.62% as at December 31, 2020.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$3,185 million**, up \$1,404 million, or 78.8%.
 - **Wealth Management and Life and Health Insurance segment:** Cost of claims totalling \$2,527 million, up \$1,479 million, compared to the same period in 2020, essentially as a result of:
 - Increase of \$1,420 million in actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of an increase in the fair value of matched investments, presented under "Investment income (loss)", as well as the negative effect of the revisions of actuarial assumptions and business growth.
 - Increase in benefits under health insurance claim applications.
 - **Property and Casualty Insurance segment:** Cost of claims totalling \$661 million, down \$80 million, or 10.8%, due to the following:
 - Loss ratio of 46.7% for the fourth quarter of 2021, compared to 50.8% for the corresponding quarter of 2020.
 - More favourable ratio of changes in prior year claims than in the same quarter of 2020, i.e. (12.4%) vs. (4.2%), mainly in automobile insurance.
 - Offset by the higher current year loss ratio compared to the same period of 2020: namely 57.5% vs. 53.5%, mainly in automobile insurance.
 - Favourable impact of the increase in the discount rates used to measure the provision for claims, whereas an unfavourable impact had been recorded in the fourth quarter of 2020. It should be mentioned that this impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under "Investment income".
 - Offset by business growth, resulting in an increase in the cost of claims.
- **Non-interest expense of \$2,736 million**, up \$404 million, or 17.3%, compared to the fourth quarter of 2020 due to:
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.
 - Increase in salaries related to growth in operations and indexing.
 - Growth in payment activities, including expenses related to the rewards program.
- **Productivity index at 85.9% for the fourth quarter of 2021**, compared to 65.1% for the same period in 2020, due in particular to the larger amounts invested in strategic projects.
- **Income taxes on surplus earnings before member dividends of \$41 million**, down \$165 million compared to the corresponding period in 2020.
 - Effective tax rate⁽²⁾ of 9.4% for the fourth quarter of 2021, down from 19.0% for the corresponding period of 2020, due primarily to the tax recovery on the higher remuneration of capital stock in the fourth quarter of 2021 compared to the fourth quarter of 2020.

QUARTERLY TRENDS

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

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

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

Combined surplus earnings

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

Combined results

- **Operating income – Upward trend for 2021 quarters, compared to 2020 quarters.**
 - Higher net interest income, in particular due to:
 - Growth in average residential mortgages outstanding.
 - A decrease in the average cost of funds, resulting in lower interest expense despite a larger deposit volume.
 - Offset in part by the following items:
 - A drop in average consumer and credit card loans outstanding.
 - A decrease in the average return on loans due to lower interest rates.
 - Growth in the average premium during the past eight quarters in property and casualty insurance.
 - Increase in premiums from group annuities, due in particular to business growth.
 - Growth in business volumes from Desjardins Card Services payment activities since the second quarter of 2021.
 - Increase in income from securities brokerage activities on account of growth in assets under management.
 - Increase in income from growth in assets under management.
 - In the third quarter of 2021, a smaller increase than in the same period of 2020 in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm arising from the favourable developments in claims taken over.
- **Investment income – Fluctuations mainly a result of market volatility leading to changes in the fair value of assets backing liabilities related to life and health insurance operations.** As a result of the matching strategy, these fluctuations were offset by a change in provisions, the effect of which was reflected in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- **Provision for credit losses – 2021 quarters down compared to 2020 quarters.**
 - Improvement in the macroeconomic outlook and in borrowers' credit quality for all quarters in 2021, leading to declines in the low allowance for expected credit losses.
 - Net write-offs down compared to the 2020 quarters, especially in the credit card portfolio.
 - In 2020, the significant deterioration in the economic outlook as a result of the COVID-19 pandemic and the anticipated effects on credit quality led to large increases in the loss allowance for expected credit losses, mainly in the first and second quarters of 2020.
 - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, slightly down for the 2021 quarters compared to the 2020 quarters. Desjardins Group has continued to have a quality loan portfolio.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
 - Business growth leading to an increase in the cost of claims.
 - Expenses mainly affected by a change in the fair value of investments associated with life and health insurance activities and property and casualty insurance activities.
 - Unfavourable effect of revisions of actuarial assumptions in the normal course of business in the fourth quarter of 2021, whereas the second quarter of 2021 and the fourth quarter of 2020 had been favourably affected.
 - In connection with the COVID-19 pandemic, impact on the cost of claims in the provision and travel insurance claims based on recorded and expected volumes, affecting the claims experience of group insurance and direct insurance in 2020.
 - Expenses affected by the change in P&C Insurance loss ratios:
 - More positive developments in prior-year claims in automobile insurance since second quarter of 2021.
 - The third quarter of 2021 and the second quarter of 2020 were affected respectively by one catastrophe.
 - Fiscal 2021 was affected by one major event compared to three in fiscal 2020.
 - Lower loss experience in automobile insurance from the second quarter of 2020 until the third quarter of 2021, as well as in property insurance in the second and third quarters of 2021.
- **Non-interest expense – Up when 2021 and 2020 quarters are compared.**
 - Increase in salaries and fringe benefits related to growth in operations and indexing.
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.
 - Growth in payment activities, including expenses related to the rewards program.

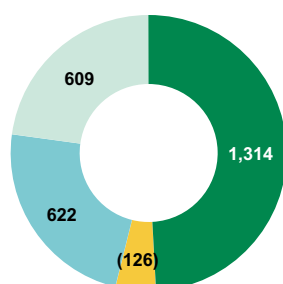
Surplus earnings from business segments

- **Surplus earnings before member dividends in the Personal and Business Services segment – Upward trend since first quarter of 2021 despite the impact of the increase in non-interest expense in the third and fourth quarters of 2021.**
 - Increase in net interest income resulting mainly from the growth in average residential mortgages outstanding and the decrease in the average cost of funds, partially offset by the drop in average consumer and credit card loans outstanding and the decline in the average return on loans due to lower interest rates.
 - Decrease in the provision for credit losses in 2021 compared to 2020, reflecting the impact of the significant deterioration in the economic outlook because of the COVID-19 pandemic.
 - Increase in business volumes from Desjardins Card Services payment activities since second quarter of 2021.
 - Higher securities brokerage income on account of growth in assets under management.
 - Lower trading income since second quarter of 2021 due to developments on financial markets.
 - Increase in non-interest expense, due primarily to the larger amounts invested in Desjardins-wide strategic projects.
 - Higher expenses related to growth in operations aimed at enhancing the service offer to members and clients, including offers related to Wealth Management advisory services and *AccèsD* services.
- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the previous eight quarters.**
 - In connection with the COVID-19 pandemic, effect of the travel insurance provisions recognized in first quarter of 2020, in spite of their revision in the second and third quarters of 2020, affecting the claims experience of group insurance and direct insurance in 2020.
 - Positive impact of markets on guaranteed investment funds in 2021, whereas they had been negatively impacted in first quarter of 2020, in spite of improvement in the results for the last three quarters of 2020.
 - Higher income from growth in assets under management.
 - Higher gains on the disposal of securities and real estate investments in 2020, mainly in the first quarter.
 - Lower surplus earnings in fourth quarter of 2021 primarily due to the unfavourable effect of revisions of actuarial assumptions in the normal course of business, whereas the second quarter of 2021 and the fourth quarter of 2020 had been favourably affected by such revisions.
 - Higher level of expenses in 2021 compared to 2020 quarters.
- **Net surplus earnings of the Property and Casualty Insurance segment - Up when 2021 and 2020 quarters are compared, except for fourth quarter of 2021.**
 - Growth in net premiums over the past eight quarters, including the impact of the automobile insurance premium refunds of \$155 million granted in the second quarter of 2020 to members and clients as a relief measure to support them during the COVID-19 pandemic.
 - More positive developments in prior-year claims in automobile insurance since the second quarter of 2021.
 - The third quarter of 2021 and the second quarter of 2020 were affected respectively by one catastrophe, namely a hailstorm in Alberta in both cases.
 - Lower current-year claims in auto insurance from the second quarter of 2020 to the third quarter of 2021, as well as in property insurance in the second and third quarters of 2021.
 - Impact of investment income, excluding the change in the fair value of matched bonds:
 - Positive impact in first quarter of 2021 and in fourth quarter of 2020.
 - Negative impact in first quarter of 2020.

2.4 Comparison of 2020 and 2019

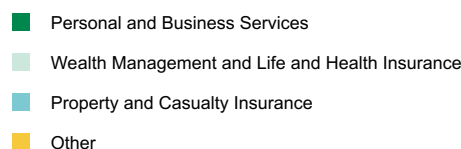
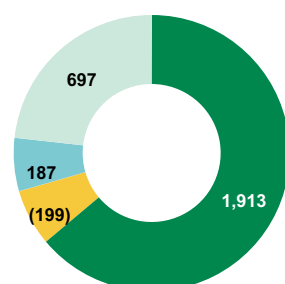
2020 surplus earnings before member dividends
(in millions of dollars)

\$2,419 million



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

\$2,598 million



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

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

Segment results

- **Personal and Business Services: Surplus earnings of \$1,314 million in 2020**, down \$599 million, and adjusted surplus earnings⁽¹⁾, down \$290 million compared to 2019, essentially due to the following:
 - Increase in the provision for credit losses due mainly to the significant deterioration in the economic outlook and the anticipated effects on credit quality as a result of the COVID-19 pandemic.
 - Increase in investments, particularly in the digital shift and security.
 - Decrease in business volumes from payment and financing activities at Desjardins Card Services during the COVID-19 pandemic.
 This decrease was partially offset by:
 - Higher net interest income chiefly as a result of the lower average cost of funds, derived essentially from deposits, and growth in business volume.
 - Higher trading income.
 - Higher gains on the disposal of securities.
 - Growth in income from new capital market issues.
- **Wealth Management and Life and Health Insurance: Surplus earnings of \$609 million in 2020**, down \$88 million compared to 2019, essentially due to the following items partly connected to the COVID-19 pandemic:
 - Increase in the current and expected volume of claim applications for trip cancellations, leading to an increase of \$43 million in payouts for travel insurance benefits.
 - Higher level of expenses than in 2019, particularly administration expenses to improve services to members and clients.
 - The markets' negative impact on guaranteed investment funds.
 - Less favourable effects than in 2019 from changes in actuarial assumptions in the normal course of business.
 - Offset by higher gains on the disposal of securities and real estate investments than in 2019.
- **Property and Casualty Insurance: Surplus earnings of \$622 million in 2020**, up \$435 million compared to 2019, due to:
 - Increase in net premiums, mitigated by the automobile insurance premium refunds of \$155 million granted to members and clients as a relief measure to support them during the pandemic.
 - Lower current year loss ratio compared to 2019, due to the following items:
 - Lower loss experience in auto insurance, in particular because of changes in driving habits due to the COVID-19 pandemic.
 - Lower loss experience, in particular because of more favourable weather conditions.

Combined results

- **Operating income⁽¹⁾ of \$18,399 million in 2020**, up \$537 million compared to 2019.
 - Net interest income of \$5,640 million in 2020, up \$344 million compared to 2019, mainly because of growth in average loans outstanding, particularly residential mortgages, loans to medium-sized businesses and large corporations, and higher interest income from the securities portfolio related to treasury activities. In addition, the lower average cost of funds, derived mainly from deposits, resulted in lower interest expense. This increase in net interest income was also mitigated by a decrease in average consumer and credit card loans outstanding related to the decline in purchases as well as the prevention and relief measures and lower interest rates on certain credit cards introduced to support members and clients during the COVID-19 pandemic.
 - Net premiums rose \$508 million in 2020.
 - Wealth Management and Life and Health Insurance segment: Net insurance and annuity premiums up \$22 million in 2020, due to the following:
 - Group insurance up \$35 million, and individual insurance up \$8 million.
 - Offset by a \$21 million decrease mainly from individual annuities.
 - Property and Casualty Insurance: Net premiums up \$496 million, because of:
 - Growth in the average premium due to higher rates, reflecting the trend in the Canadian property and casualty insurance market.
 - End of the cession of premiums for new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of the Canadian operations of State Farm.
 - Offset by the automobile insurance premium refunds of \$155 million granted to members and clients as a relief measure to support them during the pandemic.
 - Other operating income⁽¹⁾ stood at \$2,839 million, for a decrease of \$315 million in 2020, essentially due to the following:
 - Gain related to Monetico in 2019.
 - Decrease in income following the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand.
 - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.
 - Decrease in income from deposit and payment service charges on account of the relief measures granted to members in 2020.
 - Change in investment funds that benefited groups having signed agreements under The Personal banner.
 This decrease was partly offset by the following:
 - The smaller increase than in 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations arising from the favourable developments in claims taken over.
 - Growth in income from assets under management.
 - Growth in income from new capital market issues.
 - Higher income from securities brokerage activities.

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

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

This increase was partially offset by the following items:

 - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
 - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to interest rate variations partly as a result of the COVID-19 pandemic.
 - It should be mentioned that this change in the fair value of bonds was offset by the change on the cost of claims due to matching.
 - Decrease in the fair value of derivative financial instruments due in particular to financial market volatility and credit spreads during 2020 as a result of the COVID-19 pandemic.
- **The provision for credit losses totalled \$863 million in 2020**, up \$498 million compared to 2019, mainly as a result of:
 - The significant deterioration in the economic outlook as a result of the COVID-19 pandemic, particularly the unemployment rate and the GDP growth rate, and the anticipated effects on credit quality.
 - The increase in the provision related to credit-impaired loans in business loan portfolios.
 - In 2019, refining the methodology for assessment of the risk parameters for non-credit-impaired loans related to the lifespan of revolving exposures such as credit cards and lines of credit ended up reducing the provision for credit losses. This negative impact was mitigated, however, by a migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.

Desjardins Group continued to have a quality loan portfolio in 2020.

 - The credit loss provisioning rate was 0.41% for 2020, up compared to 0.18% in 2019 due to the significant increase in the provision for credit losses as a result of the COVID-19 pandemic, as explained earlier.
 - The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.62% compared to 0.56% as at December 31, 2019.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$9,233 million**, up \$122 million in 2020.
 - Wealth Management and Life and Health Insurance segment: Cost of claims up \$67 million in 2020. This was the result of:
 - Increase in provisions for dividends and experience refunds mainly as a result of the favourable experience in group insurance due to the decrease in claim applications related to the COVID-19 pandemic.
 - Higher payouts for benefits essentially as a result of the larger number of travel insurance claim applications related to the COVID-19 pandemic.
 - Offset by a decrease of \$65 million in actuarial liabilities under "Insurance contract liabilities", which includes the effect of the decrease in the fair value of matched investments, partially offset by the less favourable effects than in 2019 of changes in actuarial assumptions in the normal course of business.
 - Property and Casualty Insurance segment: Cost of claims up \$24 million in 2020. This was the result of:
 - Growth in business, which led to a higher cost of claims.
 - Effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
 - Unfavourable impact of a larger decrease in the discount rates used to measure the provision for claims compared to 2019. It should be mentioned that this increase in the cost of claims was partially offset by an increase in matched bonds.
 - Loss ratio of 62.6% for 2020, compared to 71.7% in 2019: This lower ratio helped to mitigate the increase in the cost of claims.
 - Lower current year loss ratio compared to 2019: namely 65.4% vs. 79.9%, due to the following items:
 - Lower loss experience in automobile insurance related to changes in driving habits, as mentioned earlier.
 - Lower loss experience, in particular because of more favourable weather conditions.
 - Offset by less favourable developments in the loss ratio for prior-year claims than in 2019: (5.3)% vs. (10.5)%.
- **Non-interest expense totalling \$8,297 million**, up \$265 million in 2020, essentially as a result of:
 - Higher salaries and fringe benefits due to growth in operations and indexing, as well as the increase in pension expense.
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular for creating innovative technology platforms, protection of information, security and improving business processes.
 - Offset by contraction in advertising expenses and in payment and financing activities at Desjardins Card Services mainly due to the COVID-19 pandemic situation.
- **Income taxes on surplus earnings before member dividends of \$661 million**, up \$10 million compared to 2019.
 - Effective tax rate⁽²⁾ of 21.5% for the year ended December 31, 2020, compared to 20.0% for 2019.
 - If the specific item is excluded, the effective tax rate would have been 21.5% for 2020, compared to 21.1% for 2019.

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

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

3.0 Balance sheet review

3.1 Balance sheet management

Table 21 – Combined Balance Sheets

As at December 31

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

ASSETS

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

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

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

Table 22 – Loans and acceptances

As at December 31

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

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

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

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

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

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

LIABILITIES

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

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

Table 23 – Deposits

As at December 31

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

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

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

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

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

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

Other liabilities fell \$71 million, or 0.4%.

EQUITY

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

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

Table 24 – Information about member dividends, remuneration and dividends

For the years December 31

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

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

3.2 Capital management

Capital management is crucial to the financial management of Desjardins Group. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients and creditors, and regulators' expectations and requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group.

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

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

Desjardins Group's Integrated Capital Management Framework

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

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

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

Regulatory framework and internal policies

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

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

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

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

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

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

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

Under the TLAC Guideline, the AMF expects Desjardins Group to maintain a risk-based TLAC capital ratio of at least 21.5% of risk-weighted assets as well as a TLAC leverage ratio of at least 6.75% as of the second quarter of 2022. Desjardins Group started issuing TLAC-eligible debt on October 1, 2019 and expects to be able to meet the minimum requirements when they take effect.

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

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

Table 25 – Summary of ratios regulated by the AMF under Basel III⁽¹⁾⁽²⁾

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs ⁽³⁾⁽⁴⁾	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at December 31, 2021
Tier 1A capital ratio	> 4.5 %	2.5 %	> 7.0 %	1.0 %	> 8.0 %	21.1 %
Tier 1 capital ratio	> 6.0	2.5	> 8.5	1.0	> 9.5	21.1
Total capital ratio	> 8.0	2.5	> 10.5	1.0	> 11.5	22.1
Leverage ratio	> 3.5	N/A	> 3.5	N/A	> 3.5	8.5

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

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

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

⁽⁴⁾ The AMF may also, at its discretion, set higher target ratios when circumstances warrant. In this regard, since March 31, 2019, the AMF has been able to activate the countercyclical buffer if it considers that excessive credit growth is associated with a systemic build-up of risk. In this assessment, a countercyclical buffer requirement of between 0% and 2.5% of total risk-weighted assets (RWA) would be imposed if the situation justified it. The requirement would be lifted when the risk either materialized or dissipated.

Adjustments to capital requirements related to the COVID-19 pandemic

Since March 31, 2020, the AMF has issued a series of measures to minimize the impact of the COVID-19 pandemic and support Québec's financial system. For the calculation of capital ratios and the leverage ratio as at December 31, 2021, Desjardins Group introduced the following measures:

- Inclusion in Tier 1A capital of a portion of the loss allowance for expected credit losses that would otherwise have been included in Tier 2 capital. This adjustment of Tier 1A capital is measured dynamically each quarter as the increase in the Stage 1 and Stage 2 allowances compared to the baseline amount. The baseline amount is the amount of the Stage 1 and Stage 2 allowances for the quarter ended December 31, 2019. This increased amount is adjusted for tax effects and subject to a scaling factor that decreases over time. The factor was set at 70% for fiscal 2020, at 50% for 2021 and will be set at 25% for 2022. Since the amounts attributable to portfolios treated using the Internal Ratings-Based Approach show a deficit in expected losses during the transition, they are not eligible for this treatment. For more information about the Stage 1 and Stage 2 allowances, see Note 2, "Significant accounting policies", to the Combined Financial Statements.
- Temporary exclusion of reserves with central banks and securities issued by sovereign borrowers that meet the eligibility criteria for high-quality liquid assets in the total exposure used when calculating the leverage ratio. Since January 1, 2022, eligible securities issued by sovereign borrowers have been reintegrated into the leverage ratio exposure measure, while reserves in central banks will remain excluded until further notice.
- The temporary reduction of the stressed Value-at-Risk multiplier under market risk from 3 to 1 ended on May 1, 2021.

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

Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS) and to assess their impact on the capital ratios and the leverage ratio.

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

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

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

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

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

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

Compliance with requirements

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

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

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at December 31, 2021.

Regulatory capital

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

Table 26 – Main capital components

Total capital			
Tier 1 capital			Tier 2 capital
	Tier 1A ⁽¹⁾	Tier 1B ⁽¹⁾	
Eligible items	<ul style="list-style-type: none"> 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⁾ 	<ul style="list-style-type: none"> Non-controlling interests⁽²⁾ 	<ul style="list-style-type: none"> General allowance NVCC subordinated notes⁽³⁾ Eligible qualifying shares
Regulatory adjustments	<ul style="list-style-type: none"> Goodwill Software Other intangible assets Deferred tax assets essentially resulting from loss carryforwards Shortfall in allowance 		
Deductions	<ul style="list-style-type: none"> Mainly significant investments in financial entities⁽⁵⁾ 	<ul style="list-style-type: none"> Investment in preferred shares of a component deconsolidated for regulatory capital purposes 	<ul style="list-style-type: none"> Investment in preferred shares of a component deconsolidated for regulatory capital purposes Subordinated financial instrument

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

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

⁽³⁾ These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the guideline. To be eligible, the notes must include a clause requiring the full and permanent conversion into a Tier 1A capital instrument at the point of non-viability.

⁽⁴⁾ On March 31, 2020, the AMF published transitional provisions stipulating that a portion of the general allowance initially included in Tier 2 capital could be included in Tier 1A capital. For more information, see "Adjustments to capital requirements related to the COVID-19 pandemic" in this section.

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

Table 27 – Regulatory capital

As at December 31

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

⁽¹⁾ Including capital shares held in the Trust Fund of the Federation.⁽²⁾ Deductions from Tier 1A are comprised of regulatory adjustments (\$1,078 million, \$1,215 million en 2020), significant investments (\$2,913 million, \$1,784 million in 2020) and elements that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers (\$131 million, \$138 million in 2020).⁽³⁾ No Tier 1B capital instrument has been issued to date.⁽⁴⁾ Corresponds to eligible qualifying shares and NVCC subordinated notes. For further information, see "Template CCA – Main features of regulatory capital instruments and other TLAC-eligible instruments" in the Pillar 3 Report.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013, as prescribed. In accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% until January 1, 2022. These instruments include permanent shares and surplus shares issued before September 12, 2010. As at December 31, 2021, the balance of permanent shares and surplus shares was \$84 million.

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

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

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

Table 28 – Change in regulatory capital

For the years ended December 31

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

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

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

Credit risk

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

Market risk

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

Operational risk

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

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

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

Table 29 – Risk-weighted assets

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

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

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

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

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

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

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

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

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

Movements in risk-weighted assets

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

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

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

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

Table 30 – Change in risk-weighted assets

As at December 31

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

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

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

3.3 Off-balance sheet arrangements

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, guarantees, and structured entities, including securitization.

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

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

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

Table 31 – Assets under management and under administration

As at December 31

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

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

CREDIT INSTRUMENTS

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

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

GUARANTEES

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

STRUCTURED ENTITIES

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

Securitization of Desjardins Group's financial assets

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

4.0 Risk management

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

4.1 Risk factors that could impact future results

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

Main risks and emerging risks

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

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

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

Other risk factors that could impact future results

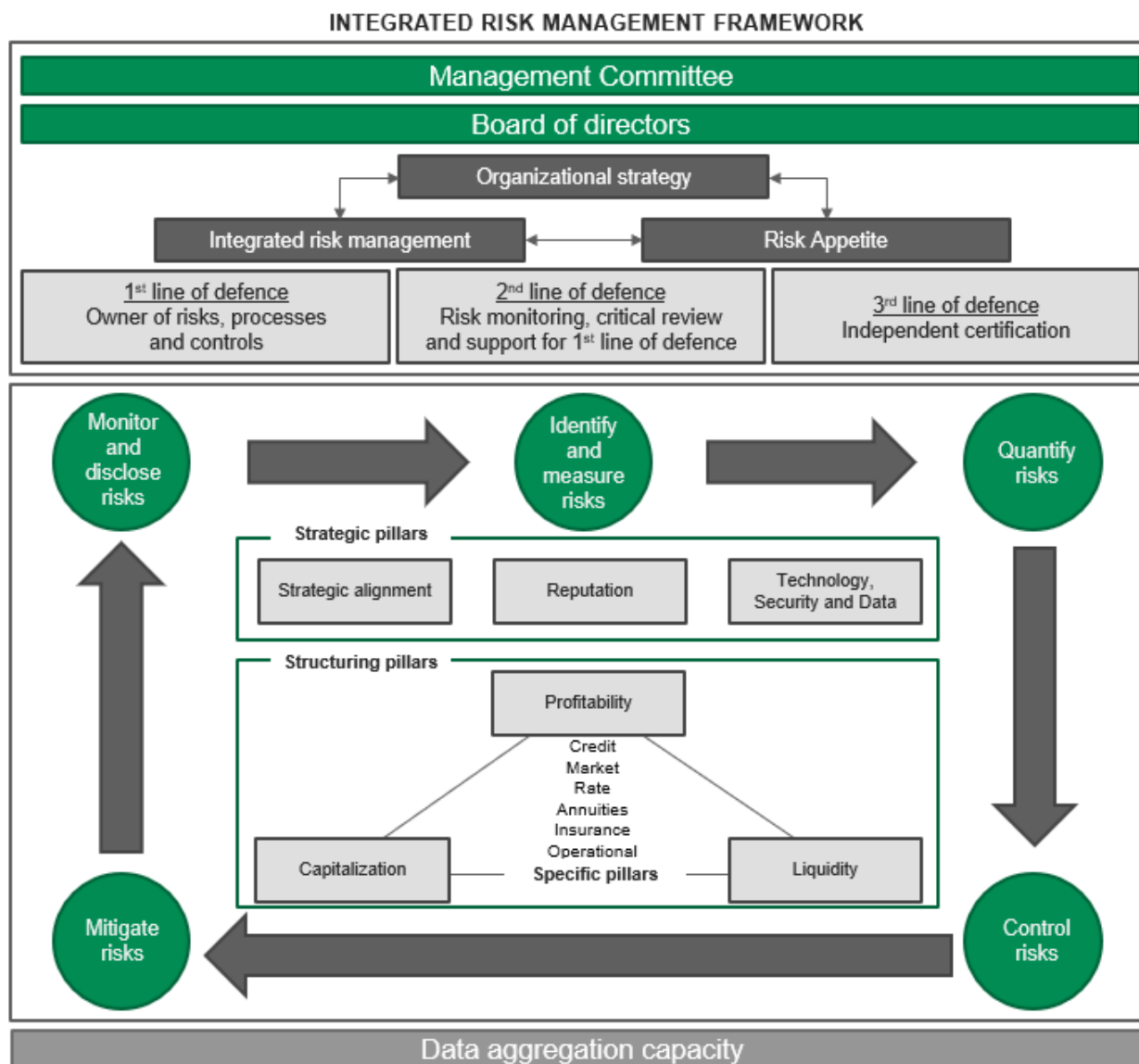
	Description
General economic and business conditions in regions in which Desjardins Group operates	<p>General economic and business conditions in the regions where Desjardins Group operates may significantly affect its income and surplus earnings. These conditions include short- and long-term interest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

	Description
Geographic concentration	<p>Although Desjardins Group is diversified through its insurance operations, its banking operations are heavily concentrated in Québec. As at December 31, 2021, its loans to Québec members and clients therefore accounted for 91.2% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results are largely depend on economic conditions in Québec. Any deterioration in these conditions could adversely impact:</p> <ul style="list-style-type: none"> • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; • the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	<p>Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in the approval of transactions by regulators or their imposing of additional conditions, the inability to apply the strategic plan in its original form, difficulties in integrating or retaining clients, an increase in regulatory costs, unexpected expenses, or changes in the economic and competitive environment. As a result, synergies, higher income, cost savings, increased market share and other expected benefits may not materialize or may be delayed, thereby impacting Desjardins Group's future surplus earnings.</p>
Credit ratings	<p>The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. These ratings may be revised or withdrawn at any time by the agencies. In addition, a significant downgrade to various ratings could push up Desjardins Group's cost of funding, reduce its access to financial markets, and increase additional obligations required by its counterparties.</p>
Dependency on third parties	<p>We need to rely on third parties in order to provide top-quality, secure services. These third parties play a major role in supporting Desjardins Group's operations as well as in implementing technological innovations that allow Desjardins to improve the services it offers to members and clients (IT, office automation, telecommunications, cloud and other providers and suppliers). Using third parties can, however, generate certain risks. Desjardins recognizes the importance of these risks and is putting in place all the necessary measures to mitigate them. Inadequate management of third-party risk could affect Desjardins Group's ability to provide the services that members and clients need. This type of risk could have an impact on information security, business continuity, as well as on other types of risks, such as reputational risk. The oversight process used for outsourcing, together with the incident management process, allow Desjardins to adequately prevent and handle third-party risk.</p>
Other factors	<p>Other factors that may have an impact on Desjardins Group's future results include interest rate benchmark reform (for further information, see Note 2, "Significant accounting policies", to the Combined Financial Statements), changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact, on operations, of international conflicts, public health crises, such as pandemics and epidemics or any other similar disease affecting the local, national or global economy, as well as Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment.</p> <p>Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.</p>

4.2 Risk management

Integrated Risk Management Framework

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



RISK IDENTIFICATION

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

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

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

RISK MEASUREMENT

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

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

Desjardins-wide integrated stress testing

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

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

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

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

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

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

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

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

Governance and model validation

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

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

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

RISK DISCLOSURE

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

RISK APPETITE

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

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

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

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

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

PROACTIVE RISK MANAGEMENT APPROACH

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

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

Other methods used to support the proactive risk management approach and to promote accountability for risk include:

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

Risk management and the Integrated Risk Management Framework are based on the following guidelines that provide in particular for:

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

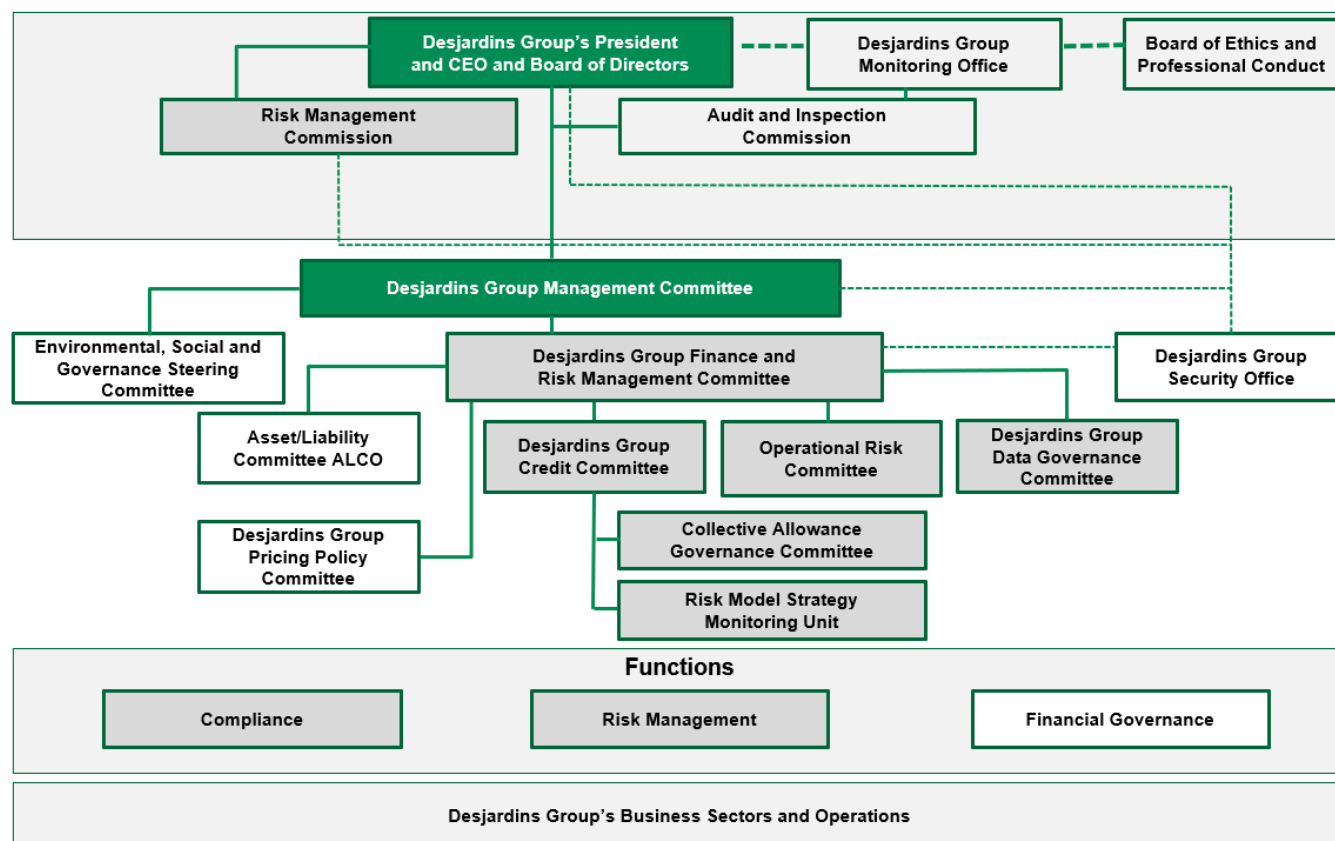
Compensation in relation to risk management

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

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

RISK MANAGEMENT GOVERNANCE

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



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

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

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

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

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

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

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

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

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

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

Operations management approach based on the Three Lines of Defence model

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

THREE LINES OF DEFENCE MODEL	
First line	
Owner of processes, risks and controls	<ul style="list-style-type: none"> Identifies and analyzes its operational risks and manages gaps between its processes, practices and controls, and framework statements. Coaches and trains employees on how to apply processes and controls and makes them accountable. Establishes practices to ensure the sustainability of compliance maintenance capabilities over time. Develops, deploys and validates processes and controls to close gaps. Measures and monitors the performance of the processes and controls deployed. Adjusts processes and controls as required. Upon request, demonstrates compliance with frameworks, including risk appetite. Triggers the escalation process defined in the framework if one of the triggers is activated. Ensures that employees adopt and apply the processes and controls.
Second line	
Framework, critical monitoring and support for the first lines of defence	<ul style="list-style-type: none"> Establishes the objectives, scope, principles and structure of the oversight framework. Establishes expectations of the first line, the escalation processes and the triggers for its activation. Has the framework approved by the appropriate organizational authority. Provides complementary expertise, a cross-functional vision, assurance, monitoring and constructive criticism to risk management. Monitors the risk levels of the processes and controls deployed. Monitors compliance with the frameworks and reports to the various stakeholders (senior management, authorities and regulators) as set forth in the framework.
Third line	
Independent assurance	<ul style="list-style-type: none"> Gives an independent and objective opinion on the effectiveness of governance, risk management and internal controls and issues findings to improve effectiveness. Provides objective assurance to the Management Committee and the Board of Directors concerning the overall effectiveness of governance, risk management and internal controls.

1st Line of Defence

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

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

2nd Line of Defence

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

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

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

3rd Line of Defence

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

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

BASEL CAPITAL ACCORD

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

The Basel III framework is essentially based on three pillars:

- the first pillar sets out the requirements for risk-weighted regulatory capital;
- the second pillar deals with the supervisory review process;
- the third pillar stipulates financial disclosure requirements.

Credit risk

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

Market risk

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

Operational risk

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

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

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

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

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

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

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

As at December 31, 2021

(in millions of dollars and as a percentage)

<div>Desjardins Group</div>		Economic capital		Risk-weighted assets				
		Banking activities		Credit risk \$ 117,168				
		Credit risk	49.0 %	Market risk 2,874				
		Market risk	1.7	Operational risk 14,476				
		Operational risk	5.1	RWA floor adjustment —				
		Other risks ⁽¹⁾	(3.1)					
		Total banking activities	52.7					
		Insurance activities		41.3				
		Risk related to goodwill and other intangible assets ⁽²⁾		6.0				
Business segment	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other	
Balance sheet⁽³⁾	Assets		Assets		Assets		Assets	
	\$ 306,878		\$ 56,891		\$ 16,574		\$ 16,742	
Economic capital	Proportion of total for Desjardins Group 37.0 %		Proportion of total for Desjardins Group 24.3 %		Proportion of total for Desjardins Group 15.4 %		Proportion of total for Desjardins Group 23.3 %	
	Banking activities		Banking activities		Banking activities		Banking activities	
	Credit risk	68.9	Credit risk	2.2	Credit risk	—	Credit risk	61.1
	Market risk	2.4	Market risk	—	Market risk	—	Market risk	2.8
	Operational risk	12.1	Operational risk	—	Operational risk	—	Operational risk	—
	Other risks ⁽⁴⁾	16.5	Other risks ⁽⁴⁾	—	Other risks ⁽⁴⁾	—	Other risks ⁽⁴⁾	31.3
	Total banking activities	99.9	Total banking activities	2.2	Total banking activities	—	Total banking activities	95.2
	Insurance activities ⁽⁵⁾	—	Insurance activities ⁽⁵⁾	92.0	Insurance activities ⁽⁵⁾	90.7	Insurance activities ⁽⁵⁾	—
	Risk related to goodwill and other intangible assets ⁽²⁾	0.1	Risk related to goodwill and other intangible assets ⁽²⁾	5.8	Risk related to goodwill and other intangible assets ⁽²⁾	9.3	Risk related to goodwill and other intangible assets ⁽²⁾	4.8
Risk-weighted assets	Credit risk \$ 91,816		Credit risk \$ 5,664		Credit risk \$ 4,726		Credit risk \$ 14,962	
	Market risk 2,142		Market risk 43		Market risk —		Market risk 689	
	Operational risk 10,580		Operational risk 204		Operational risk —		Operational risk 3,692	
Risk profile	Desjardins Group is exposed to credit risk, market risk, operational risk and other risks, including in particular liquidity risk, interest rate risk, strategic risk, reputation risk and insurance risk.							

⁽¹⁾ Includes defined benefit plan risk, liquidity risk, interest rate risk, strategic risk, reputation risk and the diversification effect.⁽²⁾ The economic capital amount for the risk related to goodwill and other intangible assets is the carrying amount of these assets. It is considered that in a worst-case scenario for economic capital, the value of these assets would become nil.⁽³⁾ The different adjustments required to prepare the Combined Financial Statements as well as intersegment balance eliminations are classified in the asset amount of the Other category.⁽⁴⁾ Includes liquidity risk, interest rate risk, strategic risk and reputation risk. The risk related to other credit assets and deferred tax assets, defined benefit plan risk and the diversification effect are not allocated to business segments.⁽⁵⁾ For insurance operations, economic capital is the total amount of economic capital calculated for life and health and P&C insurance activities.

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

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

Credit risk

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

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

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

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

CREDIT RISK MANAGEMENT

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

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

Framework

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

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

Assessment of regulatory capital

The AMF has authorized two credit risk assessment approaches to be included in calculating regulatory capital, namely the Standardized Approach and the Internal Ratings-Based Approach. The calculation of risk-weighted assets (RWA) is used to measure Desjardins Group's credit risk, market risk and operational risk. Desjardins has adopted the Internal Ratings-Based Approach for credit risk. In order to apply this method, Desjardins Group had to make internal estimates to calculate the probability of default (PD), loss given default (LGD) and exposure at default (EAD). Desjardins uses the Standardized Approach to measure the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are not significant in terms of amount and perceived risk profile.

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

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

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

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

Differences between the parameters used for accounting and regulatory capital purposes

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

	Regulatory capital	IFRS 9
PD	<ul style="list-style-type: none"> Estimated using a long-term average for a full economic cycle. Projected over the next 12 months. Definition of default associated with an instrument for which payments have been past due for over 90 days, plus certain other criteria. 	<ul style="list-style-type: none"> Estimated at a point in time for the next 12 months or for the lifetime of the instrument. Based on past experience, current conditions and relevant forward-looking information. Corresponds to the definition of default used for regulatory capital purposes.
LGD	<ul style="list-style-type: none"> Based on losses that would be expected during an economic downturn. Subject to certain regulatory floors. Takes into account all direct and indirect recovery costs. Discounted to account for the recovery period until default using the discount rate required for regulatory capital purposes. 	<ul style="list-style-type: none"> Based on past experience, current conditions and relevant forward-looking information. Excessive conservatism and floors are excluded. Takes into account only direct recovery costs. Discounted to account for the recovery period until default using the initial effective interest rate.
EAD	<ul style="list-style-type: none"> Corresponds to drawn amounts plus expected use of undrawn amounts before default. 	<ul style="list-style-type: none"> Based on the expected balance of amounts in default projected over the next 12 months or the lifetime of the instrument based on forward-looking expectations.
Discounting	<ul style="list-style-type: none"> No discounting between the date of default and the reporting date. 	<ul style="list-style-type: none"> Discounting from the date of default to the reporting date using the initial effective interest rate.

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

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

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

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

Table 33 – Risk exposure by asset class (Exposure at default) [EAD]^{(1)*}

As at December 31

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

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

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

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

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

As at December 31

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

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

⁽¹⁾ After using credit risk mitigation (CRM) techniques, including collateral, guarantees and credit derivatives.

⁽²⁾ A reclassification has been made from the "Utilities" sector to the "Public administrations" sector.

Credit granting

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

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

Retail loans

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

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

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

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

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

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

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

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

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

More specifically for PD, such back testing takes the form of various statistical tests to assess the following criteria:

- the model's discriminating power;
- the calibration of the model;
- the stability of model results.

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

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

Loans to businesses, sovereign borrowers and financial institutions

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

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

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

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

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

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

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

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

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

Other segments

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

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

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

Credit risk mitigation

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

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

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

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

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

Loan debt relief

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

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

File monitoring and management of higher risk files

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

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

Default situations

Identification of default

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

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

These criteria are applicable to all clients.

Impact of default

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

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

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

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

Removing default

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

Monitoring of portfolio and reporting

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

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

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

Breakdown of loans and acceptances

As at December 31, 2021
(as a percentage)



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

Table 37– Loans by borrower category and by industry

As at December 31

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

⁽¹⁾ Including loans to governments.

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

Table 38 – Loans by geographic distribution

As at December 31

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

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

Table 39 – Gross loans past due but no credit-impaired

As at December 31

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

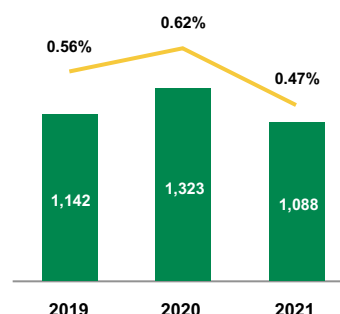
(in millions of dollars)	2020				
	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 1,305	\$ 150	\$ 31	\$ 1	\$ 1,487
Consumer, credit card and other personal loans	551	138	55	46	790
Business and government	192	98	14	1	305
	\$ 2,048	\$ 386	\$ 100	\$ 48	\$ 2,582

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

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

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

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



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

Table 40 – Gross credit-impaired loans by borrower category

As at December 31

(in millions of dollars and as a percentage)

	2021					2020		2019	
	Gross carrying amount			Allowance for credit losses on credit-impaired loans		Gross credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans
	Gross loans and acceptances	Gross credit-impaired loans ⁽¹⁾							
Residential mortgages	\$ 149,695	\$ 209	0.14 %	\$ 20	\$ 189	\$ 374	\$ 345	\$ 326	\$ 302
Consumer, credit and other personal loans	24,386	148	0.61	80	68	212	86	276	133
Business and government	57,668	731	1.27	179	552	737	556	540	436
Total	\$ 231,749	\$ 1,088	0.47 %	\$ 279	\$ 809	\$ 1,323	\$ 987	\$ 1,142	\$ 871

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

Table 41 – Change in gross credit-impaired loans

For the years ended December 31

(in millions of dollars)

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

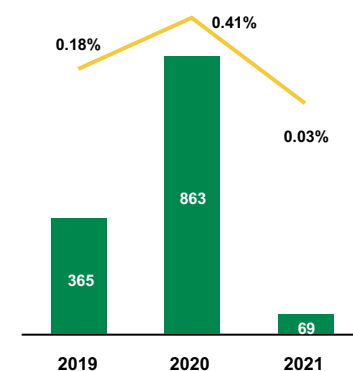
Desjardins Group's provision for credit losses totalled \$69 million for 2021, down \$794 million compared to 2020. This decline mainly reflects the improved macroeconomic outlook and the credit quality of borrowers, whereas the 2020 provision reflected the significant negative impact of a deteriorating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

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

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

Provision for credit losses and credit loss provisioning rate⁽¹⁾

(in millions of dollars and as a percentage)



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

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

Table 42 – Residential mortgage portfolio⁽¹⁾⁽²⁾

Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.⁽³⁾

As at December 31

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

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

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

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

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

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

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

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

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

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

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

Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.⁽²⁾

For the years ended December 31

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

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

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

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

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

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

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

Table 44 – Remaining amortization period for residential mortgage loans⁽¹⁾

Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.⁽²⁾

As at December 31

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

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

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

Counterparty and issuer risk

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

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

A large proportion of Desjardins Group's risk exposure is to the different levels of government in Canada, Québec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. Apart from its U.S. sovereign debt holdings and its commitments to major international banks, Desjardins Group's exposure to foreign entities is low. Growth in Desjardins Group's securities portfolio increases exposure to economic losses when credit spreads widen. This exposure impacts net income.

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

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

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

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

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

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

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

Market risk

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

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

GOVERNANCE

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

Link between market risk and the Combined Balance Sheets

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

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

As at December 31, 2021

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

See next page for footnotes.

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

As at December 31, 2020

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

⁽¹⁾ Trading activity positions for which the risk measure is VaR and SVaR.⁽²⁾ The amounts reported in trading activities reflect intercompany eliminations.⁽³⁾ Positions mainly related to non-trading banking activities and insurance activities.

MANAGEMENT OF MARKET RISK RELATED TO TRADING ACTIVITIES - VALUE AT RISK

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

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

In addition to aggregate VaR, Desjardins Group calculates an aggregate stressed VaR (SVaR). It is calculated in the same way as aggregate VaR, except for the use of historical data. Therefore, instead of using the interval of the past year, the aggregate SVaR takes into account the historical data for a crisis period of one year, which includes the 2008 financial crisis. However, a ratio of aggregate SVaR to VaR is calculated on a daily basis to ensure that the stress period selected is still adequate. In addition, this stress period is reviewed periodically, as well as stress testing.

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

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

Table 46 – Market risk measures for the trading portfolio*

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

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

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

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

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

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

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

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

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

Back testing

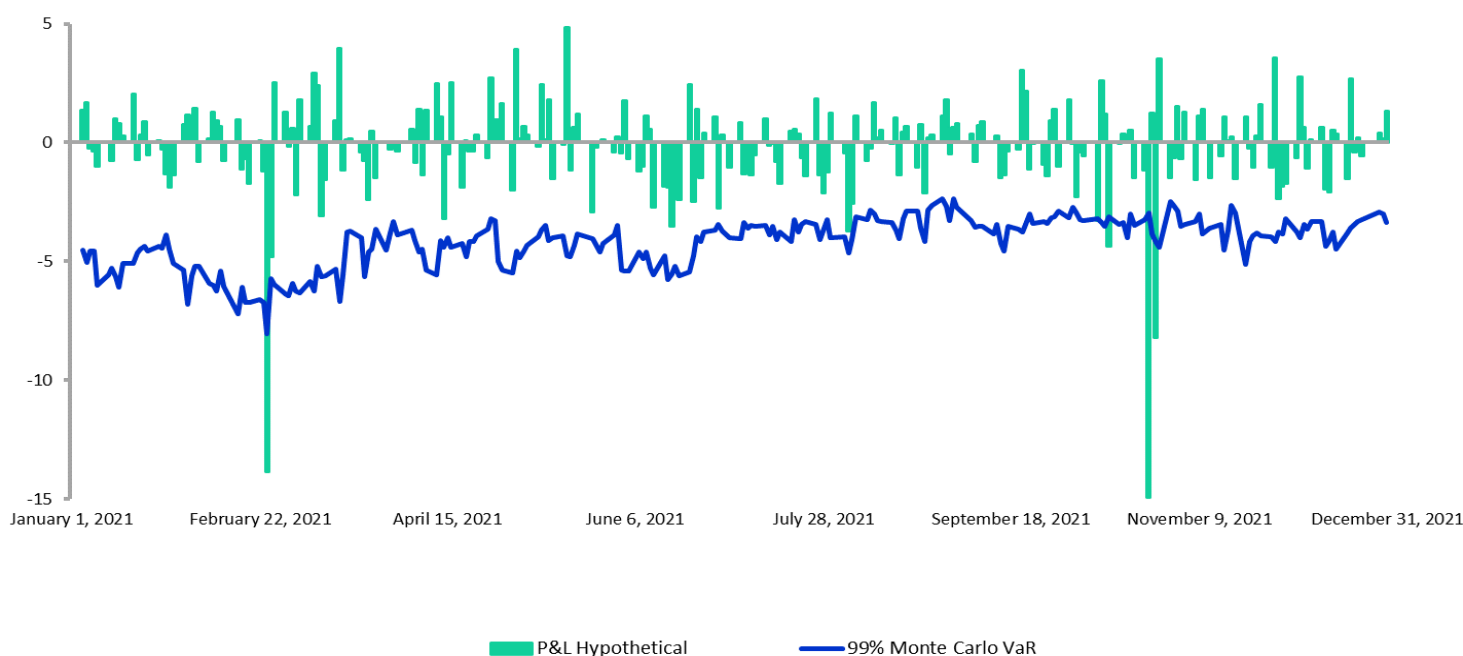
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the model every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

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

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

VaR compared to hypothetical P&L for trading activities

(in millions of dollars)



Stress testing

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

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

STRUCTURAL INTEREST RATE RISK MANAGEMENT

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

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

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

In addition to the total sensitivity gap, the main structural interest rate risk factors are:

- the trend in interest rate level and volatility;
- the changes in the shape of the interest rate curve;
- member and client behaviour in their choice of products;
- the financial intermediation margin;
- the optionality of the various financial products offered.

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

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

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

Table 47 – Interest rate sensitivity (before income taxes)^{(1)*}

As at December 31

(in millions of dollars)	2021		2020	
	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾
Impact of a 100-basis-point increase in interest rates	\$ 17	\$ (160)	\$ 30	\$ (168)
Impact of a 25-basis-point decrease in interest rates ⁽⁴⁾	(1)	37	7	39

⁽¹⁾ Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a \$218 million decrease in the economic value of equity before taxes as at December 31, 2021, and a \$165 million decrease as at December 31, 2020. A 25-basis-point decrease in interest rates would result in an increase of \$53 million in the economic value of equity before taxes as at December 31, 2021, and a \$49 million increase as at December 31, 2020. Additional information is provided in the "Interest rate risk management" section of Note 16, "Insurance contract liabilities", to the Combined Financial Statements.

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

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

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

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

PRICE RISK MANAGEMENT

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

Management of price risk related to real estate activities

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

Management of price risk related to stock markets

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

Liquidity risk

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

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

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

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

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

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

Desjardins Group's average LCR was 140% for the quarter ended December 31, 2021, compared to 150% for the previous quarter. The AMF stipulates that this ratio is not to be less than the minimum requirements of 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

Liquid assets

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

Table 48 – Liquid assets⁽¹⁾

As at December 31, 2021

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

As at December 31, 2020

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

⁽¹⁾ Excluding assets held by insurance subsidiaries.

⁽²⁾ The data for 2020 have been adjusted to conform to the current year's presentation because of a refinement in methodology.

Table 49 – Unencumbered liquid assets by entity⁽¹⁾

As at December 31

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

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

⁽²⁾ The data for 2020 have been adjusted to conform to the current year's presentation because of a refinement in methodology.

Liquidity risk indicators

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

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

Encumbered assets

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

Table 50 – Encumbered assets

As at December 31, 2021

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

As at December 31, 2020

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

⁽¹⁾ Assets that cannot be used for legal or other reasons.

⁽²⁾ "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.

⁽³⁾ The data for 2020 have been adjusted to conform to the current year's presentation because of a refinement in methodology.

Liquidity coverage ratio

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

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

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

Table 51 – Liquidity coverage ratio⁽¹⁾

	For the quarter ended December 31, 2021		For the quarter ended September 30, 2021
	Total non-weighted ⁽²⁾ value (average ⁽⁴⁾)	Total weighted ⁽³⁾ value (average ⁽⁴⁾)	Total weighted ⁽³⁾ value (average ⁽⁴⁾)
(in millions of dollars and as a percentage)			
High-quality liquid assets			
Total high-quality liquid assets	N/A	\$ 44,895	\$ 47,336
Cash outflows			
Retail deposits and small business deposits, including:	\$ 102,807	6,792	6,695
Stable deposits	49,842	1,495	1,497
Less stable deposits	52,965	5,297	5,198
Unsecured wholesale funding, including:	40,440	19,619	19,306
Operational deposits (all counterparties) and deposits in cooperative bank networks	11,289	2,703	2,743
Non-operational deposits (all counterparties)	20,671	8,436	8,357
Unsecured debt	8,480	8,480	8,206
Secured wholesale funding	N/A	156	27
Additional requirements, including:	14,909	3,142	3,917
Outflows related to exposures on derivatives and other collateral required	1,251	1,133	1,182
Outflows related to funding loss on debt products	123	123	888
Credit and liquidity facilities	13,535	1,886	1,847
Other contractual funding liabilities	3,824	2,019	1,795
Other contingent funding liabilities	99,454	2,513	2,501
Total cash outflows	N/A	\$ 34,241	\$ 34,241
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	\$ 5,757	\$ 363	\$ 169
Inflows related to completely effective exposures	3,610	1,805	1,689
Other cash inflows	—	—	846
Total cash inflows	\$ 9,367	\$ 2,168	\$ 2,704
		Total adjusted value⁽⁵⁾	Total adjusted value⁽⁵⁾
Total high-quality liquid assets		\$ 44,895	\$ 47,336
Total net cash outflows		32,073	31,537
Liquidity coverage ratio		140 %	150 %

⁽¹⁾ Excluding the insurance subsidiaries.

⁽²⁾ The non-weighted values of cash inflows and outflows represent unpaid balances either maturing or falling due and payable within 30 days.

⁽³⁾ Weighted values are calculated after the "haircuts" prescribed for high quality liquid assets and the rates prescribed for cash inflows and outflows have been applied.

⁽⁴⁾ The ratio is presented based on the average of daily data for the quarter.

⁽⁵⁾ The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

Net stable funding ratio

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

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

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

Table 52– Net Stable Funding Ratio⁽¹⁾

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

⁽¹⁾ Excluding the insurance subsidiaries.

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

Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. For more information on contractual maturities, see the table "Contractual maturities of on-balance sheet items and off-balance sheet commitments" in Note 30, "Financial instrument risk management" to the Combined Financial Statements. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to \$238.4 billion as at December 31, 2021, up \$13.1 billion since December 31, 2020. Additional information on deposits is presented in Section 3.1, "Balance sheet management", of this MD&A.

Funding programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, and these strategies are regulated by policies. In 2021, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional funding and the contribution of the caisse network. Short-term wholesale funding is used to finance very liquid assets while long-term wholesale funding is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

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

Table 53 – Main financing programs

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

⁽¹⁾ Includes the sustainable bonds program.

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

Table 54 – Remaining contractual term to maturity of wholesale funding

As at December 31

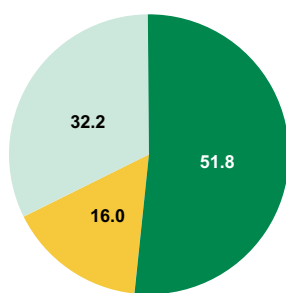
(in millions of dollars)	2021								2020
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total - Less than 1 year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	\$ 1,242	\$ 1,142	\$ 7	\$ 23	\$ 2,414	\$ —	\$ —	\$ 2,414	\$ 3,833
Commercial paper	3,835	6,092	126	217	10,270	—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

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

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

Wholesale funding by currency

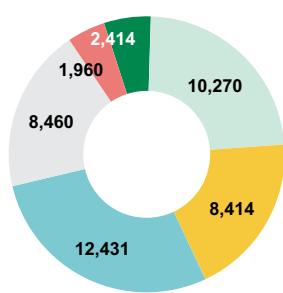
As at December 31, 2021
(as a percentage)



■ Canadian dollars
■ U.S. dollars
■ Other

Wholesale funding by category

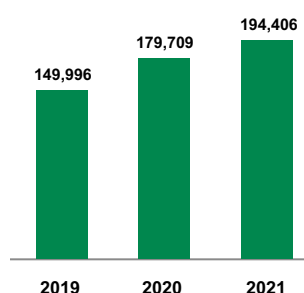
As at December 31, 2021
(in millions of dollars)



■ Bearer discount notes
■ Commercial paper
■ Medium-term notes
■ Mortgage securitization
■ Covered bonds
■ Subordinated notes

Member deposits

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



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

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

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

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

CREDIT RATING OF SECURITIES ISSUED AND OUTSTANDING

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

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

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

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

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

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

Table 55 – Credit ratings of securities issued and outstanding

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

⁽¹⁾ Represents Moody's long-term deposit rating and counterparty risk rating, S&P's issuer credit rating, DBRS's long-term deposit rating, and Fitch's long-term issuer default rating, long-term deposit rating and derivative counterparty rating.

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

⁽³⁾ Includes senior medium- and long-term debt issued on or after March 31, 2019, which qualifies for the recapitalization (bail-in) regime applicable to Desjardins Group.

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

Operational risk

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

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

OPERATIONAL RISK MANAGEMENT FRAMEWORK

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

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

GOVERNANCE

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

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

INFORMATION TECHNOLOGY AND SECURITY RISK

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

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

THIRD PARTY RISK

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

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

BUSINESS CONTINUITY RISK

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

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

Approaches to identifying, measuring and monitoring operational risk

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

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

Insurance risk

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

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

Insurance risk for the life and health insurance subsidiaries is composed of the following elements:

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

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

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

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

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

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

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

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

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

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

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

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

Strategic risk

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

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

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

Reputation risk

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

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

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

Pension plan risk

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

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

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

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

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

Environmental or social risk

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

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

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

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

GOVERNANCE

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

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

Highlights for 2021 are as follows:

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

STRATEGY

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

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

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

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

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

The main achievements in 2021 are as follows:

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

RISK MANAGEMENT

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

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

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

The achievements in 2021 in climate-related risk management are:

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

METRICS AND TARGETS

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

In 2021, Desjardins Group took the following actions:

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

Legal and regulatory risk

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

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

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

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

5.0 Additional information

5.1 Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Desjardins Group management caused an adequate internal control over financial reporting process to be designed and has maintained it. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Combined Financial Statements for external purposes in accordance with IFRS. Internal control over financial reporting (ICFR) includes, in particular, those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Combined Financial Statements in accordance with IFRS, and that cash receipts and payments are being made only in accordance with authorizations of management and directors;
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets that could have a significant impact on the Annual Combined Financial Statements or Interim Financial Reports.

Because of its inherent limitations, ICFR may not prevent or detect all misstatements on a timely basis. Management's assessment of the controls provides only reasonable, not absolute, assurance that all the problems related to control which could give rise to material misstatements have been detected.

Desjardins Group management, in collaboration with the President and CEO, and the CFO, have assessed the design and effectiveness of ICFR. This assessment was performed in accordance with the 2013 Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for financial controls and in accordance with the Control Objectives for Information and Related Technologies (COBIT) framework for IT general controls.

Based on the results of the assessment, the President and CEO, and the CFO, concluded that as at December 31, 2021, ICFR was adequately designed and effective.

The DCPs and ICFR set forth in Regulation 52-109 are applied in the Federation's Annual Information Form prepared in accordance with Regulation 51-102, and for the purposes of certifying Desjardins Group under Regulation 52-109, the Federation's information form is considered to be Desjardins Group's Annual Information Form.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2021, Desjardins Group did not make any changes to its policies, procedures and other processes with regard to internal control that had materially affected, or may materially affect, ICFR.

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the 2021 Desjardins Group Annual Report.

5.2 Related party disclosures

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

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

Desjardins Group's key management personnel are the members of its Board of Directors and its Management Committee. They are responsible for the planning, management and control of Desjardins Group's operations, and have the authority to perform their duties.

Desjardins Group has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's-length transactions and in compliance with the legislative framework for its various components.

Additional information about related party transactions is presented in Note 32, "Related party disclosures", to the Combined Financial Statements.

5.3 Critical accounting policies and estimates

A description of the accounting policies used by Desjardins Group is essential to understanding the Combined Financial Statements as at December 31, 2021. The significant accounting policies are described in Note 2, "Significant accounting policies", to the Combined Financial Statements. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

The context of the COVID-19 pandemic continues to generate sources of uncertainty that have an impact on judgments as well as significant estimates and assumptions made by management in preparing the Combined Financial Statements. This particularly affects the loss allowance for expected credit losses. For more information about significant judgments made to estimate the loss allowance for expected credit losses, see Note 7, "Loans and allowance for credit losses", to the Combined Financial Statements.

STRUCTURED ENTITIES

A structured entity is consolidated when it is controlled by a Desjardins Group entity. Management must make significant judgments when it assesses the various elements and all related facts and circumstances as a whole to determine whether control exists, especially in the case of structured entities.

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

Additional information about structured entities is presented in Note 13, "Interests in other entities", to the Combined Financial Statements.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value measurement of financial instruments is determined using a three-level hierarchy, reflecting the importance of the inputs used for the measurements. Level 1 denotes measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities, while level 2 designates valuation techniques based primarily on observable market data. Level 3 concerns valuation techniques not based primarily on observable market data.

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

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

Loans

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

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 20, "Derivative financial instruments and hedging activities", to the Combined Financial Statements describes the type of derivative financial instruments held by Desjardins Group.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements", "Clients' liability under acceptances", "Amounts receivable from clients, brokers and financial institutions", some items included in "Other assets – Other", "Acceptances", "Commitments related to securities lent or sold under repurchase agreements", "Amounts payable to clients, brokers and financial institutions" and some items included in "Other liabilities – Other".

Additional information on the fair value of financial instruments is presented in Note 4, "Fair value of financial instruments", to the Combined Financial Statements. Note 2, "Significant accounting policies" to the Combined Financial Statements provides information on the classification and measurement of financial assets and financial liabilities.

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

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

Additional information about the derecognition of financial assets is presented in Note 8, "Derecognition of financial assets", to the Combined Financial Statements.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

Determination of significant increases in credit risk

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

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

Definition of default and credit impaired financial asset

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

Measurement of the loss allowance for expected credit losses

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

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

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. It may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters.

For credit-impaired financial assets that are individually material, measuring the loss allowance for expected credit losses does not require using credit risk parameters. It is instead based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions.

Key date and assumptions

Estimating the loss allowance for expected credit losses under IFRS 9 is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions, and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

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

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

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the loss allowance for expected credit losses. Changes in the credit risk rating may increase or decrease the loss allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the allowance, while an improvement results in a decrease in the allowance.

Determination of significant increases in credit risk

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

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

Significant judgments had to be made to estimate the negative impact of the unprecedented current COVID-19 pandemic situation on the risk of default by the different types of borrowers and, consequently, on the determination of significant increases in credit risk and the measurement of the allowance.

Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine the loss allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios are reviewed quarterly.

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

The major uncertainty resulting from the COVID-19 pandemic continues to add significantly more complexity to the task of determining reasonable and supportable assumptions concerning changes in macroeconomic variables for the various scenarios and the related probability of occurrence. This uncertainty required management to make significant judgments to revise the assumptions concerning forward-looking information. Considering the unusual nature of the current economic crisis, management continues to apply expert credit judgment in assessing the loss allowance for expected credit losses. This expert judgment is applied to the degree of correlation between input data related to forward-looking indicators and expected credit losses in order to take into consideration the impact of this unprecedented environment. Expert judgment also continues to be applied when considering the impact of government support measures, which are at an unprecedented level and have been continuously evolving since the onset of the pandemic.

Estimated life of revolving credit facilities

The expected life of most financial instruments is equal to the maximum contractual term during which Desjardins Group is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans, for which their life must be estimated. To determine the life of revolving credit facilities, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions. This estimate takes into account the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

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

Additional information about loans and the allowance for credit losses, in particular a sensitivity analysis of the allowance for credit losses, is presented in Note 7, "Loans and allowance for credit losses" to the Combined Financial Statements.

IMPAIRMENT OF “AVAILABLE-FOR-SALE” SECURITIES UNDER IAS 39 CONSIDERED FOR THE OVERLAY APPROACH

Desjardins Group elected to designate certain eligible insurance operations financial assets for the overlay approach permitted by IFRS 4, “Insurance Contracts”, to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, “Financial Instruments”, and IFRS 17, “Insurance Contracts”.

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

In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers, in particular, the impairment of “Available-for-sale” securities under IAS 39, which requires the significant use of judgment.

Under IAS 39, “Available-for-sale” securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, major financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring and the disappearance of an active market for the asset in question. Debt securities are assessed individually to determine whether there is any objective evidence of impairment. For equity securities, objective evidence of impairment would also include a significant or prolonged decline in fair value below cost.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

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

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

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

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

Property and casualty insurance contract liabilities

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

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

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

Note 16, “Insurance contract liabilities”, to the Combined Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

Additional information is presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

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

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

Note 28, "Income taxes on surplus earnings", to the Combined Financial Statements provides additional information on income taxes on surplus earnings.

MEMBER DIVIDENDS

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

Member dividends are calculated on the basis of average balances maintained in the following product families: Accounts, Loans and lines of credit, Savings and investments, and Funds. For credit card volumes, the dividend calculation is based on net purchases for the year concerned. For the insurance product family, dividends are calculated on the premium paid covering the year concerned. The provision for member dividends is mainly allocated to the Personal and Business Services segment.

FRINGE BENEFITS

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

Group pension plans are plans whose risks are shared by entities under common control. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a pro rata basis of 35% and 65%, respectively.

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

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

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

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

Note 17, "Employee benefits – Pension and post-retirement benefit plans", to the Combined Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2020 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, "INSURANCE CONTRACTS"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", to replace the current standard, IFRS 4, "Insurance Contracts". IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 proposes a general model for the measurement of insurance contracts, as well as a simplified approach for contracts of one year or less, and a specific method for insurance contracts with direct participation features. The general model, which is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows. It takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

The provisions of IFRS 17 will apply retrospectively to each group of insurance contracts. When retrospective application is impracticable, the modified retrospective approach or the fair value approach may be used for annual reporting periods beginning on or after January 1, 2023.

Desjardins Group is currently assessing the impact of adopting this standard, which will be effective for annual periods beginning on or after January 1, 2023.

5.5 Additional information required pursuant to the AMF's decision No. 2021-FS-0091

In addition to the entities comprising the Desjardins Cooperative Group (as defined in Section 1.1, "Profile and structure") and the subsidiaries of such entities, Desjardins Group's Combined Financial Statements include the Caisse Desjardins Ontario Credit Union Inc. (CDO). The CDO's financial information compared to that of Desjardins Group is presented in the table below.

Table 56 - CDO's financial information

As at December 31 or for the years ended December 31

(in millions of dollars and as a percentage)	2021			2020			2019		
	CDO	Desjardins Group Combined Balance Sheets	% proportion	CDO	Desjardins Group Combined Balance Sheets	% proportion	CDO	Desjardins Group Combined Balance Sheets	% proportion
Total assets	\$ 9,864	\$ 397,085	2.5 %	\$ 8,463	\$ 362,035	2.3 %	\$ 7,272	\$ 312,996	2.3 %
Total liabilities	9,047	363,559	2.5	7,803	331,772	2.4	6,645	285,567	2.3
Total equity	817	33,526	2.4	660	30,263	2.2	627	27,429	2.3

(in millions of dollars and as a percentage)	2021			2020			2019		
	CDO	Desjardins Group Combined Statements of Income	% proportion	CDO	Desjardins Group Combined Statements of Income	% proportion	CDO	Desjardins Group Combined Statements of Income	% proportion
Total income	\$ 268	\$ 20,320	1.3 %	\$ 181	\$ 21,473	0.8 %	\$ 177	\$ 20,757	0.9 %
Surplus earnings before member dividends	133	2,942	4.5	59	2,419	2.4	70	2,598	2.7
Net surplus earnings for the period after member dividends	125	2,658	4.7	51	2,174	2.3	63	2,366	2.7

5.6 Five-year statistical review

Table 57 – Combined Balance Sheets

As at December 31

(in millions of dollars)	2021	2020	2019	2018 ⁽¹⁾	2017 ⁽¹⁾⁽²⁾
ASSETS					
Cash and deposits with financial institutions	\$ 16,328	\$ 12,126	\$ 3,709	\$ 3,384	\$ 2,435
Securities					
Securities at fair value through profit of loss	39,772	34,960	35,168	36,916	31,654
Available-for-sale securities	N/A	N/A	N/A	N/A	24,934
Securities at fair value through other comprehensive income	53,286	52,679	22,909	21,395	N/A
Securities at amortized cost	41	29	1,616	1,621	N/A
	93,099	87,668	59,693	59,932	56,588
Securities borrowed or purchased under reverse repurchase agreements	12,019	9,658	10,032	11,934	8,674
Loans					
Residential mortgage	149,695	136,208	126,757	120,113	113,146
Consumer, credit card and other personal loans	24,386	25,310	27,022	26,210	24,044
Business and government	57,400	51,015	49,988	44,906	40,738
	231,481	212,533	203,767	191,229	177,928
Allowance for credit losses	(970)	(1,112)	(685)	(719)	(438)
	230,511	211,421	203,082	190,510	177,490
Segregated fund net assets	22,804	19,093	17,026	13,234	13,379
Other assets					
Clients' liability under acceptances	268	328	380	160	31
Premiums receivable	2,839	2,803	2,686	2,376	2,095
Derivative financial instruments	5,828	5,820	4,246	3,743	3,206
Amounts receivable from clients, brokers and financial institutions	2,557	2,499	2,229	1,315	1,554
Reinsurance assets	1,582	1,962	2,001	1,958	2,202
Right-of-use assets	530	565	566	N/A	N/A
Investment property	926	924	957	958	832
Property, plant and equipment	1,531	1,541	1,471	1,424	1,411
Goodwill	157	156	121	121	121
Intangible assets	497	424	381	389	466
Investments in companies accounted for using the equity method	1,380	1,189	1,034	907	515
Deferred tax assets	789	1,154	1,292	1,174	992
Other	3,440	2,704	2,090	1,946	2,223
Assets of the disposal group held to be transferred	—	—	—	—	881
	22,324	22,069	19,454	16,471	16,529
TOTAL ASSETS	\$ 397,085	\$ 362,035	\$ 312,996	\$ 295,465	\$ 275,095

See the next page for footnotes.

Table 57 – Combined Balance Sheets (continued)

As at December 31

(in millions of dollars)	2021	2020	2019	2018 ⁽¹⁾	2017 ⁽¹⁾⁽²⁾
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	\$ 136,332	\$ 127,928	\$ 111,665	\$ 105,298	\$ 100,578
Business and government	101,644	96,853	81,556	77,574	70,737
Deposit-taking institutions	379	455	697	286	271
	238,355	225,236	193,918	183,158	171,586
Other liabilities					
Acceptances	268	328	380	160	31
Commitments related to securities sold short	11,342	9,353	10,615	10,829	9,112
Commitments related to securities lent or sold under repurchase agreements	31,177	19,152	10,562	16,845	10,229
Derivative financial instruments	5,500	4,884	4,278	2,816	3,094
Amounts payable to clients, brokers and financial institutions	7,938	6,810	5,552	4,105	4,247
Lease liabilities	596	633	624	N/A	N/A
Insurance contract liabilities	34,762	34,827	31,595	28,740	28,272
Segregated fund net liabilities	22,796	19,089	17,002	13,212	13,354
Net defined benefit plan liabilities	1,048	3,107	3,068	2,537	2,624
Deferred tax liabilities	301	372	281	214	155
Other	7,516	6,488	6,294	5,822	5,568
Liabilities of the disposal group held to be transferred	—	—	—	—	662
	123,244	105,043	90,251	85,280	77,348
Subordinated notes	1,960	1,493	1,398	1,378	1,388
TOTAL LIABILITIES	363,559	331,772	285,567	269,816	250,322
EQUITY					
Capital stock	4,982	5,021	5,134	5,350	5,361
Share capital	—	—	—	5	90
Undistributed surplus earnings	1,546	1,874	2,352	3,649	1,360
Accumulated other comprehensive income	765	1,302	211	(23)	445
Reserves	25,321	21,316	18,959	15,920	16,707
Equity - Group's share	32,614	29,513	26,656	24,901	23,963
Non-controlling interest	912	750	773	748	810
TOTAL EQUITY	33,526	30,263	27,429	25,649	24,773
TOTAL LIABILITIES AND EQUITY	\$ 397,085	\$ 362,035	\$ 312,996	\$ 295,465	\$ 275,095

⁽¹⁾ In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

⁽²⁾ In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

Table 58 – Combined Statements of Income

For the years ended December 31

(in millions of dollars)	2021	2020 ⁽¹⁾	2019	2018 ⁽²⁾	2017 ⁽²⁾⁽³⁾
Interest income					
Loans	\$ 6,928	\$ 7,278	\$ 7,709	\$ 6,862	\$ 5,902
Securities	473	488	412	390	323
	7,401	7,766	8,121	7,252	6,225
Interest expense					
Deposits	1,508	2,010	2,618	2,195	1,678
Subordinated notes and other	107	116	207	163	93
	1,615	2,126	2,825	2,358	1,771
Net interest income	5,786	5,640	5,296	4,894	4,454
Net premiums	11,278	9,920	9,412	8,823	8,049
Other income					
Deposit and payment service charges	424	388	431	433	458
Lending fees and credit card service revenues	735	628	774	697	660
Brokerage and investment fund services	1,108	954	886	905	1,030
Management and custodial service fees	732	617	582	545	483
Net investment income	319	3,116	3,087	206	1,689
Overlay approach adjustment for insurance operations financial assets	(404)	(42)	(192)	523	N/A
Foreign exchange income	121	103	64	91	77
Other	221	149	417	195	250
	3,256	5,913	6,049	3,595	4,647
Total income	20,320	21,473	20,757	17,312	17,150
Provision for credit losses	69	863	365	384	349
Claims, benefits, annuities and changes in insurance contract liabilities	6,883	9,233	9,111	6,557	6,663
Non-interest expense					
Salaries and fringe benefits	4,410	3,878	3,646	3,407	3,452
Premises, equipment and furniture, including depreciation	939	878	772	701	727
Service agreements and outsourcing	257	265	361	338	319
Communications	306	257	288	261	284
Other	3,654	3,019	2,965	2,802	2,669
	9,566	8,297	8,032	7,509	7,451
Operating surplus earnings	3,802	3,080	3,249	2,862	2,687
Income taxes on surplus earnings	860	661	651	536	536
Surplus earnings before member dividends	2,942	2,419	2,598	2,326	2,151
Member dividends	387	330	317	253	202
Tax recovery on member dividends	(103)	(85)	(85)	(68)	(54)
Net surplus earnings for the year after member dividends	\$ 2,658	\$ 2,174	\$ 2,366	\$ 2,141	\$ 2,003
Of which:					
Group's share	\$ 2,515	\$ 2,090	\$ 2,320	\$ 2,100	\$ 1,960
Non-controlling interests' share	143	84	46	41	43

⁽¹⁾ Data have been reclassified to conform to the current year's presentation.⁽²⁾ In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.⁽³⁾ In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

Table 59 – Selected Financial measures

As at December 31 or for the years ended December 31

(in millions of dollars and as a percentage)	2021	2020	2019	2018 ⁽¹⁾	2017 ⁽¹⁾⁽²⁾
Tier 1A capital ratio ⁽³⁾	21.1 %	21.9 %	21.6 %	17.3 %	18.0 %
Tier 1 capital ratio ⁽³⁾	21.1	21.9	21.6	17.3	18.0
Total capital ratio ⁽³⁾	22.1	22.6	21.6	17.6	18.4
Leverage ratio ⁽³⁾	8.5	8.5	8.8	8.3	8.5
Liquidity coverage ratio ⁽⁴⁾	140	157	130	122	121
Net Stable Funding Ratio ⁽⁴⁾	129	N/A	N/A	N/A	N/A
Net interest margin ⁽⁵⁾	2.06	2.38	2.47	2.45	2.39
Return on equity ⁽⁶⁾	8.9	8.3	9.9	9.3	9.1
Productivity index ⁽⁵⁾	71.2	67.8	69.0	69.8	71.0
Credit loss provisioning rate ⁽⁶⁾	0.03	0.41	0.18	0.21	0.20
Gross credit-impaired loans ⁽⁷⁾ /gross loans and acceptances ratio ⁽⁶⁾	0.47	0.62	0.56	0.54	0.25
Assets under administration ⁽⁶⁾	\$ 482,911	\$ 458,177	\$ 437,000	\$ 374,178	\$ 423,574
Assets under management ⁽⁶⁾	91,258	77,474	67,553	57,448	58,220
Average assets ⁽⁶⁾	383,204	342,354	307,220	287,593	269,938
Average net loans and acceptances ⁽⁶⁾	221,317	207,727	196,628	183,822	171,361
Average deposits ⁽⁶⁾	234,571	214,148	189,889	178,658	169,219
Risk-weighted assets ⁽³⁾	134,518	120,101	113,861	129,474	116,487

⁽¹⁾ In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

⁽²⁾ In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

⁽³⁾ In accordance with the guideline on adequacy of capital base standards for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, "Capital Management".

⁽⁴⁾ In accordance with the Liquidity Adequacy Guideline issued by the AMF, see Section 4.0, "Risk Management".

⁽⁵⁾ For more information on non-GAAP ratios, see the section "Non-GAAP and other financial measures" on pages 4 to 8.

⁽⁶⁾ For more information on supplementary financial information, see the Glossary on pages 117 to 124.

⁽⁷⁾ Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

Glossary

Acceptance

Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

Actuarial liabilities

Amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses.

Allowance for credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Amortized cost

For a financial asset or a financial liability, represents the historical cost at initial recognition, decreased or increased by amortization and any differences that made it fluctuate from initial recognition to maturity.

Annuity premium

Amount invested by a policyholder in order to receive annuity payments, immediately or after an accumulation period.

Assets under administration

Assets administered by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of such assets are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions.

Assets under management

Assets managed by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of assets under management include selecting investments and offering investment advice. Assets under management may also be administered by the financial institution. In such case, they are included in assets under administration.

Autorité des marchés financiers (AMF)

Organization whose mission is to enforce the laws governing the financial industry in Québec, particularly in the areas of insurance, securities, deposit-taking institutions and financial product and service distribution.

Average assets

Average of assets presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average deposits

Average of deposits presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average equity before non-controlling interests

Average of equity before non-controlling interests presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average gross loans and acceptances

Average of loans, including clients' liability under acceptances, presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average net loans and acceptances

Average of loans, including clients' liability under acceptances, net of the allowance for credit losses presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Basis point

Unit of measure equal to one one-hundredth of a percent (0.01%).

Bond

Certificate evidencing a debt under which the issuer promises to pay the holder a specified amount of interest for a specified period of time, and to repay the borrowing at maturity. Generally, assets are pledged as security for the borrowing, except in the case of government or corporate bonds. This term is often used to describe any debt security.

Capital ratios

Ratio determined by dividing regulatory Tier 1A capital, Tier 1 capital or total regulatory capital by risk-weighted assets. These measures are defined in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF.

Catastrophe and notable event– Catastrophe

In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the cost is deemed significant since it reaches a minimum threshold, established annually Desjardins Group's management, for the reinsurance program retention.

- Natural catastrophes can take many forms and include, but are not limited to, hurricanes, tornados, windstorms, hailstorms, heavy rainfalls, ice storms, floods, extreme weather conditions and wildfires.
- Catastrophes other than natural catastrophes include, but are not limited to, terrorist acts, riots, explosions, crashes, train wrecks, large-scale cyber attacks.

– Notable event

In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the impact on the loss ratio and claims frequency is deemed significant by Desjardins Group's management.

Commitment– Direct commitment

Any agreement entered into by a Desjardins Group component with a natural or legal person creating a on- or off-balance sheet exposure, either disbursed or non-disbursed, revocable or irrevocable, with or without condition, that may lead to losses for the component if the debtor is unable to meet its obligations.

– Indirect commitment

Any financial receivable creating a credit exposure that is acquired by a Desjardins Group component in connection with a purchase on the market or the delivery of a financial asset pledged as collateral by a client or a counterparty, whose value may change in particular as a result of the deterioration of the creditworthiness of the counterparty associated to this receivable or changes in market prices.

Counterparty and issuer risk

Credit risk related to different types of securities, derivative financial instruments and securities lending transactions.

Covered bond

Full recourse on-balance sheet bond issued by a financial institution and secured by assets, comprised mainly of mortgage loans, over which investors enjoy a priority claim in the event of an issuer's insolvency or bankruptcy. These assets are separated from the issuer's assets in the event of the issuer's insolvency or bankruptcy and belong to a bankruptcy remote structured entity that guarantees the bond.

Credit commitment

Unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit, whose primary purpose is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Credit instrument

Credit facility offered in the form of a loan or other financing vehicle recognized in the Combined Balance Sheets or in the form of an off-balance sheet product. Credit instruments include credit commitments, documentary letters of credit as well as guarantees and standby letters of credit.

Credit loss provisioning rate

Provision for credit losses expressed as a percentage of average gross loans and acceptances.

Credit risk

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

Credit valuation adjustment

Adjustment representing the market value of a potential loss on over-the-counter derivatives due to counterparty risk.

Defined benefit pension plan

Pension plan guaranteeing each participant a defined level of retirement income that is often based on a formula set by the plan in terms of the participant's salary and years of service.

Derivative financial instrument, or derivative

Financial contract whose value fluctuates based on an underlying asset, but that does not require holding or delivering the underlying asset itself. Derivatives are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and financial indexes.

Desjardins Group (Desjardins) component

Cooperative or subsidiary that is part of Desjardins Group.

Documentary letter of credit

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

Economic capital

Amount of capital that an institution must maintain, in addition to anticipated losses, to ensure its solvency over a certain horizon and at a high confidence level.

Effective interest rate

Rate determined by discounting total future cash flows, including those related to commissions paid or received, premiums or discounts and transaction costs.

Effective tax rate

Income tax expense on surplus earnings expressed as a percentage of operating surplus earnings.

Environmental or social risk

Risk that the impact of an environmental or social event or issue in connection with Desjardins Group's operations or its financing, investing or insurance activities could result in financial losses or damage Desjardins Group's reputation.

Exposure at default

Estimate of the amount of a given exposure at time of default. For balance sheet exposures, it corresponds to the balance as at observation time. For off-balance sheet exposures, it includes an estimate of additional draws that may be made between observation time and default.

Fair value

Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date.

Fair value measurement

Measurement to determine the approximate value at which financial instruments could be traded in a current transaction between willing parties.

Foreign exchange risk

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

Forward contract

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are tailored and traded over the counter.

Forward exchange contract

Contractual commitment to sell or purchase a fixed amount of foreign currency on a specified future date and at a predetermined exchange rate.

Futures contract

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are standardized and exchange-traded.

Gross credit-impaired loan

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated cash flows of that financial asset have occurred. A financial asset is therefore considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant. The definition of default is associated with an instrument for which contractual payments are 90 days past due, in addition to certain other criteria.

Gross credit-impaired loans/gross loans and acceptances

Gross credit-impaired loans expressed as a percentage to total gross loans and acceptances.

Gross premiums written

In property and casualty insurance, the premiums stipulated in insurance policies issued during the year. In life and health insurance, insurance or annuity premiums for the policies or certificates issued during the year.

Group insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance. The premium is directly proportional to the number of insured persons and the coverage chosen by the policyholder.

Guarantee and standby letter of credit

Irrevocable commitment by a financial institution to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans.

Hedge fund

Investment fund offered to accredited investors. A hedge fund manager enjoys great latitude with respect to the investment strategies to be used, which may include selling short, leverage, program trading, swaps, arbitrage and derivatives.

Hedging

Transaction designed to reduce or offset Desjardins Group's exposure to one or more financial risks that involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

Incremental risk charge (IRC)

Additional capital charge related to default and migration risks of positions with issuer risk in trading portfolios.

Indemnification commitment related to securities lending

Commitment made to members and clients with whom Desjardins Group entered into securities lending agreements and intended to ensure that the fair value of the securities lent will be reimbursed if the borrower does not return the borrowed securities or if the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

Individual insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The cost of insurance portion of the premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance contract liabilities

Provision representing the amount of an insurance company's commitments toward all insureds and beneficiaries, established to guarantee the payment of benefits.

Insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance risk

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

Insurance sales

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to annualized gross new premiums under group and individual insurance policies.

Internal Model Method

Approach used to calculate, with internal models, risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on different risk measures, such as Value at Risk, stressed Value at Risk and the incremental risk charge (IRC).

Internal Ratings-Based Approach

Approach under which risk weighing is based on the type of counterparty (individuals, small or medium-sized business, large corporation, etc.) and risk-weighting factors determined using internal parameters: the borrower's probability of default, loss given default, effective maturity and exposure at default.

Large loss

In property and casualty insurance, single claim having a significant cost.

Legal and regulatory risk

Risk associated with the non-compliance by Desjardins Group with obligations arising from the interpretation or application of a legislative or regulatory provision or a contractual commitment, which could have an impact on the conduct of its operations, its reputation, its strategies and its financial objectives.

Leverage ratio

Ratio determined by dividing Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items.

Liquidity coverage ratio

Basel III metric representing a liquidity standard that measures the sufficiency of high quality liquid assets available to face net short-term financial obligations over a 30 day period in an acute liquidity stress scenario.

Liquidity risk

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

Loss given default

Economic loss that may be incurred should the borrower default, expressed as a percentage of exposure at default.

Market risk

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

Master netting agreement

Standard agreement developed to reduce the credit risk of multiple derivative transactions by creating a legal right to set off the obligations of a counterparty in the event of default.

Matching

Process of adjusting asset, liability and off-balance sheet item maturities in order to reduce risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

Member dividend

As a cooperative financial group, Desjardins Group distributes to its members a portion of its surplus earnings for a given year, taking into account its financial capacity. This distribution, called member dividend, is paid by the caisses and tailored to each member based on the use they make of their cooperative's financial services.

Morbidity rate

Probability that a person of a given age will suffer an illness or disability. The accident/health insurance premium paid by a person belonging to a particular age group is based on this group's morbidity rate.

Mortality rate

Rate of death in a particular group of persons. The life insurance premium paid by a person belonging to a particular age group is based on this group's mortality rate.

Mortgage-backed security

Security created through the securitization of a pool of residential mortgage loans under the *National Housing Act*.

Net interest income

Difference between what a financial institution receives on assets such as loans and securities and what it pays out on liabilities such as deposits and subordinated bonds.

Net premiums

In property and casualty insurance, premiums earned for a given period, net of reinsurance premiums. In life and health insurance, comprise insurance premiums and annuity premiums, net of reinsurance premiums.

Net sales of savings products

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to sales of group and individual savings products manufactured and distributed by segment entities, and is comprised of on- or off-balance sheet deposits, less redemptions.

Notional amount

Reference amount used to calculate payments for instruments such as forward rate agreements and interest rate swaps. This amount is called "notional" because it does not change hands.

NVCC subordinated notes

Securities that meet the non-viability contingent capital (NVCC) requirements set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, in particular securities issued by the *Fédération des caisses Desjardins du Québec* (the Federation) with a clause providing for their automatic conversion into capital shares of the Federation upon the occurrence of a trigger event as defined in the guideline.

Off-balance sheet exposure

Includes guarantees, commitments, derivatives and other contractual agreements whose total notional amount may not be recognized on the balance sheet.

Office of the Superintendent of Financial Institutions (OSFI)

Organization whose mission is to enforce all laws governing the financial industry in Canada, particularly as concerns banks, insurance companies, trust companies, loan companies, cooperative credit associations, fraternal companies and private pension plans subject to federal oversight.

Operational risk

Risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses or failure to achieve objectives and takes into account the impact of failures on the achievement of the strategic objectives of the relevant component or Desjardins Group, as the case may be.

Option

Contractual agreement that grants the right, but not the obligation, to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

Other retail client exposures

In accordance with the regulatory capital framework, risk category that includes all loans granted to individuals except for exposures related to residential mortgage loans and qualifying revolving retail client exposures.

Pension plan

Contract under which participants receive retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made either by the employer alone or by both the employer and the participants.

Pension plan risk

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

Permanent share or capital share

Equity security offered to Desjardins caisse members.

Price risk

Risk of potential loss resulting from a change in the market value of assets (shares, commodities, real estate properties, index-based assets) but not resulting from a change in interest or foreign exchange rates or in the credit quality of a counterparty.

Probability of default

Probability that a borrower defaults on his obligations over a period of one year.

Qualifying revolving retail client exposures

In accordance with the regulatory capital framework, risk category that includes credit card loans and unsecured credit margins granted to individuals.

Ratio of fringe benefits to total base compensation

Fringe benefits expressed as a percentage of salaries.

Regulatory capital

In accordance with the definition set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, the regulatory capital under Basel III comprises Tier 1A capital, Tier 1 capital and Tier 2 capital. The composition of these various tiers is presented in the "Capital management" section of the Management's Discussion and Analysis.

Regulatory funds

Funds needed to cover unexpected losses, calculated according to parameters and methods prescribed by regulatory authorities.

Reinstatement premium

Premium payable to restore the original reinsurance coverage limit that has been reduced by the occurrence of a catastrophe. Reinstatement premiums are recognized in net premiums.

Reinsurance treaty

Agreement whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the treaty, the original insurer remains fully liable to its policyholders for the insurance obligations.

Repurchase agreement

Agreement involving both the sale of securities for cash and the repurchase of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Reputation risk

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

Return on equity / Adjusted return on equity

Return on equity is equal to surplus earnings before member dividends, excluding the non-controlling interests' share, expressed as a percentage of average equity before non-controlling interests.

Adjusted return on equity is equal to surplus earnings before member dividends, excluding the non-controlling interests' share and specific items, expressed as a percentage of average equity before non-controlling interests and excluding specific items.

Reverse repurchase agreement

Agreement involving both the purchase of securities for cash and the sale of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Risk-weighted assets

Assets adjusted based on a risk-weighting factor prescribed by regulations to reflect the level of risk associated with items presented in the Combined Balance Sheets. Some assets are not weighted, but rather deducted from capital. The calculation method is defined in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF. For more details, see the "Capital management" section of the Management's Discussion and Analysis.

Scaling factor

Adjustment representing 6.0% of assets valued according to the Internal Ratings-Based Approach, applied to credit exposures in compliance with section 1.3 of the AMF guideline on the capital adequacy standards applicable to financial services cooperatives.

Securitization

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities.

Security borrowed or purchased

Security typically borrowed or purchased to cover a short position. The borrowing or purchase usually requires that an asset, taking the form of cash or highly rated securities, be pledged as collateral by the borrower.

Security lent or sold

Security typically lent or sold to cover a short position of the borrower. The loan or sale usually requires that an asset, taking the form of cash or highly rated securities, be pledged as collateral by the borrower.

Security sold short

Commitment by a seller to sell a security it does not own. Typically, the seller initially borrows the security to deliver it to the purchaser. At a later date, the seller buys an identical security to replace the borrowed security.

Segregated fund

Type of fund offered by insurance companies through a variable contract that provides the contract holder with a number of guarantees, such as principal repayment upon death. Segregated funds encompass a range of categories of securities and are designed to meet a variety of investment objectives. Segregated fund deposits represent amounts invested by clients. Segregated funds are comprised of investment funds with capital guaranteed upon death or at maturity.

Segregated fund deposits

Amounts paid by annuity contract holders in order to invest in segregated funds. Individual annuity contracts provide for a guarantee of the principal on death or at maturity.

Standardized Approach- Credit risk

Default approach used to calculate risk-weighted assets. Under this method, the financial institution uses valuations performed by external credit assessment institutions recognized by the AMF to determine the risk-weighting factors related to the various exposure categories.

- Market risk

Default approach used to calculate risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on predefined rules such as those on the size and nature of the financial instruments held.

- Operational risk

Risk measurement approach used to assess the capital charge for operational risk. For this measurement, activities are divided into predefined business lines for a financial institution. The capital charge is calculated by multiplying each business line's gross income by a specific factor. The total capital charge represents the three-year average of the summation of the capital charges across each of the business lines in each year.

Strategic risk

Risk of loss of value attributable to the occurrence of external and internal events or the implementation of inadequate strategies that might prevent the relevant component or Desjardins Group from achieving its strategic objectives.

Stressed Value at Risk (VaR)

Value calculated in the same way as the Value at Risk, except for the historical data used, which are for a one-year stress period.

Structural interest rate risk

Risk related to the potential impact of interest rate fluctuations on net interest income and the economic value of equity.

Structured entity

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

Subordinated note

Unsecured note whose repayment in the event of liquidation is subordinated to the prior repayment of certain other creditors.

Subsidiary

Company controlled by the Federation.

Swap

Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

TLAC leverage ratio

Ratio determined by dividing the sum of regulatory capital, as previously defined, and instruments that meet the eligibility criteria set out in the *Total loss absorbing capacity* guideline issued by the AMF (the TLAC guideline) by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items.

TLAC ratio

Ratio determined by dividing total regulatory capital, as previously defined, and instruments that meet the eligibility criteria set out in the *Total loss absorbing capacity* guideline issued by the AMF (the TLAC guideline) by risk-weighted assets.

Underwriting experience

In life and health insurance, the difference between actual results and actuarial assumptions used to determine premiums or actuarial liabilities, as applicable.

Unused exposure

Amount of credit authorizations offered in the form of margins or loans that is not yet used.

Used exposure

Amount of funds invested in or advanced to a member or client.

Value at Risk (VaR)

Estimate of the potential loss over a certain period of time at a given confidence level, calculated using historical data for a one-year interval.

COMBINED FINANCIAL STATEMENTS

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Management's Responsibility for Financial Reporting

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

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

Federation management is responsible for the accuracy of Desjardins Group's Combined Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. These controls are designed to provide reasonable assurance that the financial accounts are complete and accurate, assets are protected and records are kept appropriately. They include an organizational structure that ensures effective segregation of duties, a code of professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices. In our capacities as Chief Executive Officer and Chief Financial Officer of Desjardins Group, we have overseen the process to assess financial information communication procedures and controls as well as internal control over financial reporting. As at December 31, 2021, we concluded that information communication procedures and controls and internal control over financial reporting were effective.

The AMF examines the affairs of Desjardins Group under its authority on a regular basis.

For the purposes of approving the financial information contained in the Desjardins Group Annual Report, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The commission is mandated by the Board of Directors to review Desjardins Group's Combined Financial Statements and its Management's Discussion and Analysis. The Audit and Inspection Commission has six independent directors who are members of the Board of Directors of the Federation, four who are elected and two who are co-opted by the Board of Directors. In addition, it has two representatives of the insurance subsidiaries and two observers, who help ensure the necessary alignment with the Risk Management Commission, insurance subsidiaries and the caisse network. The Audit and Inspection Commission exercises an oversight role for management to develop and implement adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

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

Guy Cormier
President and Chief Executive Officer
Desjardins Group

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

Lévis, Québec
February 23, 2022

Annual report by the Audit and Inspection Commission

The role of the Audit and Inspection Commission (AIC) is to support the Board of Directors of the *Fédération des caisses Desjardins du Québec* (the Federation) in its oversight, control and reporting responsibilities for Desjardins Group. It also oversees the organization's cultural shift, where the focus is on doing what's best for members and clients. The AIC's mandate consists primarily of:

- Analyzing the financial statements and Management's Discussion and Analysis and their presentation
- Ensuring the quality and integrity of financial reporting and the use of accepted accounting practices
- Overseeing the management of significant financial risks
- Ensuring that an effective internal control system is in place
- Overseeing the work of the internal auditor and independent auditor

The AIC reviews Desjardins Group's interim and annual financial statements, related press releases and the associated Management's Discussion and Analysis. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, safeguarding of assets and fraud detection. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the caisse network and Desjardins Group. The AIC analyzes the information resulting from this financial governance process every quarter.

The AIC also examines various files relating to developments in the caisse network, including information on the financial position of the caisses and any special circumstances detected, follow-up measures, credit losses, and the application of certain accounting policies and practices, such as the method of managing the allowance for credit losses.

The independent auditor is under the authority of the AIC. To fulfill its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence and objectivity by authorizing all of its non-audit services, by recommending its appointment or reappointment to the Federation's Board of Directors, by setting and recommending auditor compensation; by conducting annual auditor evaluations. In addition, the AIC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual audit plan, its reports, its letter to management and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor; (b) governance procedures that must be followed before mandates can be awarded; and (c) responsibilities of key stakeholders. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each Desjardins Group entity.

The AIC works with the Federation's Board of Ethics and Professional Conduct (BEPC) to ensure the independence and objectivity of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC must issue an annual notice to the BEPC confirming that the Chief Monitoring Officer performed their internal audit duties without any obstruction from management. The AIC also works with the BEPC on the process to recommend the appointment or removal of the Chief Monitoring Officer as head of the internal audit function to the Federation's Board of Directors. The AIC analyzes the internal audit plan as well as the internal audit team's responsibilities and objectivity. It ensures the plan is carried out, reviews the internal audit results and, if necessary, takes appropriate follow-up action. As part of these duties, the AIC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management.

With respect to Desjardins Group's relations with the *Autorité des marchés financiers* (AMF) in Québec, the AIC reviews and follows up on the inspection reports issued by the AMF and reviews the financial reports that are submitted each quarter to the AMF.

The AIC meets privately with: the independent auditor; the Senior Executive Vice-President and Chief Operating Officer of Desjardins Group; the Executive Vice-President of Finance, Treasury and Administration and Chief Financial Officer of Desjardins Group; and the Chief Monitoring Officer of Desjardins Group. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, every two years the AIC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

The AIC is made up of six independent directors who are members of the Board of Directors of the Federation, four of whom are elected and two of whom are co-opted by the Board of Directors. There are also two representatives of the insurance subsidiaries: the chairs of the audit and risk management committees of Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc.; and two observers: the chair of the Federation's Risk Management Commission and a caisse general manager who sits on the Federation's Board of Directors. Except for this general manager, none of the AIC members receives direct or indirect compensation from Desjardins Group for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entities, including their committees and commissions.

The AIC members attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards, information security, new regulations and issues related to the COVID-19 pandemic. All AIC members possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AIC's charter.

The AIC held seven meetings and one training session for its members in fiscal 2021. As at December 31, 2021, the six independent directors who are members of the AIC are: Michel Magnan, FCPA, FCA; Lisa Baillargeon, CPA, CMA; Louis Babineau; Luc Bachand; Jordan Baril-Furino and Stéphane Corbeil. The two representatives of the insurance subsidiaries are: Robert St-Aubin, FCPA, FCA and Clarence Turgeon, FCPA, FCA; and the two observers are Kathleen Bilodeau and Michel Doré. Johanne Charbonneau, FCPA, FCGA, Sonia Corriveau, Jean-François Laporte and Benoit Bélanger also participated in the AIC's activities before taking on new roles at other Desjardins Group governing bodies or until the end of their mandate in 2021.

Michel Magnan, FCPA, FCA

Chair

Montréal, Québec
February 18, 2022

Independent auditor's report

To the members of the *Fédération des caisses Desjardins du Québec*

Our opinion

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Desjardins Group as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Desjardins Group's combined financial statements comprise:

- the combined balance sheets as at December 31, 2021 and 2020;
- the combined statements of income for the years then ended;
- the combined statements of comprehensive income for the years then ended;
- the combined statements of changes in equity for the years then ended;
- the combined statements of cash flows for the years then ended; and
- the notes to the combined financial statements, which include significant accounting policies and other explanatory information.

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

Basis for opinion

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

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

Independence

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.⁽¹⁾

⁽¹⁾ CPA auditor, CA, public accountancy permit No. A111799

Montréal, Québec
February 23, 2022

Combined Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2021	As at December 31, 2020
ASSETS			
Cash and deposits with financial institutions		\$ 16,328	\$ 12,126
Securities	6		
Securities at fair value through profit or loss		39,772	34,960
Securities at fair value through other comprehensive income		53,286	52,679
Securities at amortized cost		41	29
		93,099	87,668
Securities borrowed or purchased under reverse repurchase agreements		12,019	9,658
Loans	7 and 8		
Residential mortgages		149,695	136,208
Consumer, credit card and other personal loans		24,386	25,310
Business and government		57,400	51,015
		231,481	212,533
Allowance for credit losses	7	(970)	(1,112)
		230,511	211,421
Segregated fund net assets	9	22,804	19,093
Other assets			
Clients' liability under acceptances		268	328
Premiums receivable		2,839	2,803
Derivative financial instruments	20	5,828	5,820
Amounts receivable from clients, brokers and financial institutions		2,557	2,499
Reinsurance assets		1,582	1,962
Right-of-use assets	10	530	565
Investment property	11	926	924
Property, plant and equipment	11	1,531	1,541
Goodwill		157	156
Intangible assets	12	497	424
Investments in companies accounted for using the equity method	13	1,380	1,189
Deferred tax assets	28	789	1,154
Other	14	3,440	2,704
		22,324	22,069
TOTAL ASSETS		\$ 397,085	\$ 362,035
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	15		
Individuals		\$ 136,332	\$ 127,928
Business and government		101,644	96,853
Deposit-taking institutions		379	455
		238,355	225,236
Other liabilities			
Acceptances		268	328
Commitments related to securities sold short		11,342	9,353
Commitments related to securities lent or sold under repurchase agreements		31,177	19,152
Derivative financial instruments	20	5,500	4,884
Amounts payable to clients, brokers and financial institutions		7,938	6,810
Lease liabilities	10	596	633
Insurance contract liabilities	16	34,762	34,827
Segregated fund net liabilities	9	22,796	19,089
Net defined benefit plan liabilities	17	1,048	3,107
Deferred tax liabilities	28	301	372
Other	18	7,516	6,488
		123,244	105,043
Subordinated notes	19	1,960	1,493
TOTAL LIABILITIES		363,559	331,772
EQUITY			
Capital stock	22	4,982	5,021
Undistributed surplus earnings		1,546	1,874
Accumulated other comprehensive income	24	765	1,302
Reserves		25,321	21,316
		32,614	29,513
Equity - Group's share		32,614	29,513
Non-controlling interests	13	912	750
TOTAL EQUITY		33,526	30,263
TOTAL LIABILITIES AND EQUITY		\$ 397,085	\$ 362,035

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

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

Guy Cormier
Chair of the Board

Johanne Charbonneau, FCPA, FCGA
Vice-Chair of the Board

Combined Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	2021	2020
INTEREST INCOME			
Loans		\$ 6,928	\$ 7,278
Securities		473	488
		7,401	7,766
INTEREST EXPENSE			
Deposits		1,508	2,010
Subordinated notes		65	57
Other		42	59
		1,615	2,126
NET INTEREST INCOME	26	5,786	5,640
NET PREMIUMS	16	11,278	9,920
OTHER INCOME			
Deposit and payment service charges		424	388
Lending fees and credit card service revenues		735	628
Brokerage and investment fund services		1,108	954
Management and custodial service fees		732	617
Net investment income	26	319	3,116
Overlay approach adjustment for insurance operations financial assets		(404)	(42)
Foreign exchange income		121	103
Other		221	149
		3,256	5,913
TOTAL INCOME		20,320	21,473
PROVISION FOR CREDIT LOSSES	7	69	863
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	16	6,883	9,233
NON-INTEREST EXPENSE			
Salaries and fringe benefits		4,410	3,878
Premises, equipment and furniture, including depreciation		939	878
Service agreements and outsourcing		257	265
Communications		306	257
Other	27	3,654	3,019
		9,566	8,297
OPERATING SURPLUS EARNINGS		3,802	3,080
Income taxes on surplus earnings	28	860	661
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS		2,942	2,419
Member dividends		387	330
Tax recovery on member dividends	28	(103)	(85)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		\$ 2,658	\$ 2,174
of which:			
Group's share		\$ 2,515	\$ 2,090
Non-controlling interests' share	13	143	84

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

Combined Statements of Comprehensive Income

For the years ended December 31

(in millions of Canadian dollars)	2021	2020
Net surplus earnings for the year after member dividends	\$ 2,658	\$ 2,174
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan assets and liabilities	1,381	16
Share of associates and joint ventures accounted for using the equity method	6	—
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	(1)	4
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	2	(3)
	1,388	17
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	(455)	825
Net unrealized gains (losses)	10	(262)
Reclassification of net (gains) losses to the Combined Statements of Income	(445)	563
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains	422	60
Reclassification of net gains to the Combined Statements of Income	(114)	(25)
	308	35
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(321)	524
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	(61)	(24)
	(382)	500
	(519)	1,098
Total other comprehensive income, net of income taxes	869	1,115
COMPREHENSIVE INCOME FOR THE YEAR	\$ 3,527	\$ 3,289
of which:		
Group's share	\$ 3,348	\$ 3,194
Non-controlling interests' share	179	95

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

Income taxes on other comprehensive income

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

For the years ended December 31

(in millions of Canadian dollars)	2021	2020
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan assets liabilities	\$ 493	\$ 6
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	—	(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)
	494	3
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	(160)	292
Net unrealized gains (losses)	5	(94)
Reclassification of net (gains) losses to the Combined Statements of Income	(155)	198
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains	123	15
Reclassification of net gains to the Combined Statements of Income	(27)	(8)
	96	7
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(114)	187
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	(20)	(7)
	(134)	180
	(193)	385
Total income tax expense	\$ 301	\$ 388

Combined Statements of Changes in Equity

For the years ended December 31

	Capital stock (Note 22)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 24)	Reserves				Equity - Group's share	Non-controlling interests (Note 13)	Total equity
				Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves			
(in millions of Canadian dollars)										
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 year after member dividends	—	2,090	—	—	—	—	—	2,090	84	2,174
Other comprehensive income for the year	—	13	1,091	—	—	—	—	1,104	11	1,115
Comprehensive income for the year	—	2,103	1,091	—	—	—	—	3,194	95	3,289
Redemption of shares of capital stock	(113)	—	—	—	—	—	—	(113)	—	(113)
Transactions related to non-controlling interests	—	—	—	—	—	—	—	—	(93)	(93)
Loss on dilution of non-controlling interest	—	—	—	—	—	(14)	(14)	(14)	—	(14)
Remuneration on capital stock	—	(209)	—	(1)	—	—	(1)	(210)	—	(210)
Dividends	—	—	—	—	—	—	—	—	(25)	(25)
Transfer between surplus earnings to be distributed and reserves	—	(2,372)	—	—	181	2,191	2,372	—	—	—
BALANCE AS AT DECEMBER 31, 2020	\$ 5,021	\$ 1,874	\$ 1,302	\$ 795	\$ 1,159	\$ 19,362	\$ 21,316	\$ 29,513	\$ 750	\$ 30,263
Net surplus earnings for the year after member dividends	—	2,515	—	—	—	—	—	2,515	143	2,658
Other comprehensive income for the year	—	1,370	(537)	—	—	—	—	833	36	869
Comprehensive income for the year	—	3,885	(537)	—	—	—	—	3,348	179	3,527
Redemption of shares of capital stock	(39)	—	—	—	—	—	—	(39)	—	(39)
Transactions related to non-controlling interests	—	—	—	—	—	—	—	—	8	8
Remuneration on capital stock	—	(208)	—	—	—	—	—	(208)	—	(208)
Dividends	—	—	—	—	—	—	—	—	(25)	(25)
Transfer between surplus earnings to be distributed and reserves	—	(4,005)	—	—	53	3,952	4,005	—	—	—
BALANCE AS AT DECEMBER 31, 2021	\$ 4,982	\$ 1,546	\$ 765	\$ 795	\$ 1,212	\$ 23,314	\$ 25,321	\$ 32,614	\$ 912	\$ 33,526

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

Combined Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)	2021	2020
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	\$ 3,802	\$ 3,080
Non-cash adjustments ⁽¹⁾ :		
Depreciation of right-of-use assets, property, plant and equipment and investment property, and amortization of intangible assets	385	363
Amortization of premiums and discounts	447	280
Net change in insurance contract liabilities	(65)	3,232
Provision for credit losses	69	863
Net realized (gains) losses on securities classified as at fair value through other comprehensive income	24	(343)
Net (gains) losses on disposal of property, plant and equipment, intangible assets and investment property	10	(113)
Overlay approach adjustment for insurance operations financial assets	404	42
Other	(59)	(62)
Change in operating assets and liabilities ⁽¹⁾ :		
Securities at fair value through profit or loss	(4,812)	208
Securities borrowed or purchased under reverse repurchase agreements	(2,361)	374
Loans	(19,159)	(9,202)
Derivative financial instruments, net amount	953	(336)
Net amounts receivable from and payable to clients, brokers and financial institutions	1,070	989
Deposits	13,119	31,318
Commitments related to securities sold short	1,989	(1,262)
Commitments related to securities lent or sold under repurchase agreements	12,025	8,590
Other	925	(369)
Payment of the contingent consideration	(105)	(206)
Income taxes paid on surplus earnings	(1,107)	(543)
Payment of member dividends	(333)	(312)
	7,221	36,591
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	998	997
Repayment of subordinated notes	(500)	(899)
Purchase of debt securities and subordinated notes to (from) third parties on the market	(13)	(4)
Repayment of lease liabilities	(92)	(55)
Redemption of shares of capital stock	(39)	(113)
Remuneration on capital stock	(208)	(210)
Transactions related to non-controlling interests	8	(107)
Dividends paid	(25)	(25)
	129	(416)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	(31,901)	(70,611)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	23,553	24,238
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	5,799	19,045
Payment of the contingent consideration recognized at acquisition date	—	(2)
Business acquisition, net of cash and cash equivalents acquired	—	(57)
Acquisitions of property, plant and equipment, intangible assets and investment property	(436)	(390)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	30	157
Acquisitions of joint ventures and associates accounted for using the equity method	(193)	(138)
	(3,148)	(27,758)
Net increase in cash and cash equivalents	4,202	8,417
Cash and cash equivalents at beginning of year	12,126	3,709
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 16,328	\$ 12,126
Supplemental information on cash flows from (used in) operating activities		
Interest paid	\$ 1,643	\$ 2,117
Interest received	8,320	8,177
Dividends received	234	193

⁽¹⁾ An amount of \$226 million has been reclassified from non-cash adjustments to change in operating assets and liabilities to conform to the current year's Combined Financial Statements presentation.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Nature of operations

Desjardins Group is made up of the Desjardins caisses in Québec and Ontario, 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 various business segments in which Desjardins Group operates are described in Note 31, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

Combined Financial Statements

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

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

Statement of compliance

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

The Combined Financial Statements for the year ended December 31, 2021 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 23, 2022.

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

Significant judgments, estimates and assumptions

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

The COVID-19 pandemic continues to give rise to sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Combined Financial Statements. This specifically affects the allowance for expected credit losses. For more information on significant judgments made to estimate the allowance for expected credit losses, see Note 7, "Loans and allowance for credit losses".

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Scope of the Group

The Combined Financial Statements of Desjardins Group include the assets, liabilities, operating results and cash flows of the Desjardins caisses in Québec, the Federation, CDO and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The financial statements of all Group entities have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

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

Subsidiaries

An entity is considered as a subsidiary when it is controlled by a Group entity. A Group entity controls an investee if and only if it has all the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of its returns.

Structured entities

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

Non-controlling interests

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

Associates

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

Joint arrangements

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

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:

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

Presentation and functional currency

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

CHANGES IN ACCOUNTING POLICIES

Interest rate benchmark reform

On January 1, 2021, Desjardins Group adopted amendments to IFRS 9, “Financial Instruments”, IAS 39, “Financial Instruments: Recognition and Measurement” and IFRS 7, “Financial Instruments: Disclosures” in connection with Phase 2 of the interest rate benchmark reform (IRBR) 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 IRBR 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 IRBR. 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 impact on Desjardins Group’s profit or loss or financial position.

Progress and risks arising from the interest rate benchmark reform

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

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

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

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

The Desjardins IRBR Working Group also monitors closely the evolution of the expected timeframe for the cessation of certain interest rate benchmarks, which started on May 17, 2021 with the cessation of the 6-month and 12-month Canadian Dollar Offered Rate (CDOR). In addition, on March 5, 2021, regulatory authorities announced that the publication of LIBOR would officially cease after December 31, 2021 for all currencies except for some USD LIBOR, for which the publication will cease after June 30, 2023. Subsequently, on July 29, 2021, the USD LIBOR administrators formally recommended using the forward-looking Secured Overnight Financing Rate (SOFR) term rates for loans, which completed the final step of the transition plan launched to promote the use of SOFR rates. On December 16, 2021, the Canadian Alternative Reference Rate (CARR) working group published a White Paper in which it recommends ceasing publication of CDOR after June 30, 2024. However, the decision to cease CDOR ultimately rests solely with its administrator. Consequently, CARR’s working group recommendation does not constitute an official statement with respect to the cessation of CDOR.

The work of the Desjardins IRBR Working Group continues to progress in accordance with the timeline set out in the Desjardins Group’s transition plan.

The following table presents quantitative information about exposures for financial instruments and commitments subject to the reform that have yet to transition to risk-free benchmark rates and mature after June 30, 2023⁽¹⁾.

As at December 31, 2021	USD LIBOR
	Maturing after June 30, 2023
Non-derivative financial assets ⁽²⁾	\$ 1,939
Derivative financial instruments ⁽³⁾	15,162
Loan commitments ⁽⁴⁾	2,554

⁽¹⁾ This table excludes exposures to interest rate benchmarks for which no cessation plans have been announced, including CDOR for all tenors except the 6-month and 12-month CDOR, EURIBOR (Euro Interbank Offered Rate) and BBSW (Australian Bank Bill Swap Rate).

⁽²⁾ Non-derivative financial assets include the gross carrying amount of loans and the carrying amount of securities.

⁽³⁾ Derivative financial instruments include the notional amount of interest rate contracts and foreign exchange contracts.

⁽⁴⁾ Include loan commitments for which it is possible to draw amounts in several currencies.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date Desjardins Group becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

Classification and measurement

Financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

Contractual cash flow characteristics

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset, the cash flows from this asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally the fair value of the financial asset at initial recognition. Interest consists mainly of consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, but it may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, as well as a certain profit margin.

Business models

Desjardins Group's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how Desjardins Group manages its financial assets in order to generate cash flows. They therefore reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence that is available to Desjardins Group at the date of the assessment.

Desjardins Group's business models are defined as follows:

- Held to collect contractual cash flows: The objective of holding financial assets is achieved by collecting contractual cash flows.
- Held to collect contractual cash flows and sell: The objective is achieved by both collecting contractual cash flows and selling financial assets.
- Other business models: The objective is not consistent with any of the above-mentioned business models.

The classification and measurement of financial assets can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial assets	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	At fair value through other comprehensive income (iv)	Classified as at fair value through other comprehensive income (v)	Fair value	Fair value
		Designated as at fair value through other comprehensive income (vi)	Fair value	Fair value
	Amortized cost (vii)		Fair value	Amortized cost

(i) Financial assets included in the "At fair value through profit or loss" class comprise financial assets "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of financial assets included in this class are recorded under "Net investment income" in the Combined Statements of Income.
- Interest income calculated using the effective interest method and dividend income from securities included in the "At fair value through profit or loss" class of the Personal and Business Services segment and the Other category are recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net investment income".

(ii) Financial assets "Classified as at fair value through profit or loss" include the following:

- Debt instruments that are managed for trading purposes or on a fair value basis or do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- Equity instruments.
- Derivative financial instruments.

Section n), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

Certain financial assets "Classified as at fair value through profit or loss" are designated for the overlay approach. For more information, see the "Application of the overlay approach to insurance operations financial assets" section of this note.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

- (iii) Financial assets “Designated as at fair value through profit or loss” are debt securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset.

Desjardins Group's financial assets included in this measurement category comprise mainly securities (debt instruments) that back the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims.

- (iv) Financial assets included in the “At fair value through other comprehensive income” class comprise financial assets “Classified as at fair value through other comprehensive income” and “Designated as at fair value through other comprehensive income”. Therefore:
- Changes in fair value of financial assets included in this class, except for changes related to the allowance for expected credit losses and exchange gains and losses on financial assets “Classified as at fair value through other comprehensive income”, are recorded in the Combined Statements of Comprehensive Income as net unrealized gains and losses. For financial assets “Classified as at fair value through other comprehensive income”, gains and losses are reclassified to the Combined Statements of Income when the asset is derecognized, while for financial assets “Designated as at fair value through other comprehensive income”, gains and losses are never reclassified subsequently to the Combined Statements of Income and are reclassified immediately to undistributed surplus earnings.
 - Premiums and discounts on the purchase of financial assets “At fair value through other comprehensive income” are amortized over the life of the securities using the effective interest method and recognized under “Interest income – Securities” for the Personal and Business Services segment and the Other category. For the other segments, they are mainly recognized under “Net investment income”.
- (v) Financial assets “Classified as at fair value through other comprehensive income” include debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- (vi) Financial assets “Designated as at fair value through other comprehensive income” include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that are held on a long-term basis.
- (vii) Securities included in the “Amortized cost” class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

Securities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the “Amortized cost” class is presented under “Interest income – Loans” in the Combined Statements of Income when it is recognized by the Personal and Business Services segment and the Other category. For the other segments, it is recognized mainly under “Net investment income”.

Financial assets are not reclassified following their initial recognition, except when the business model for managing those financial assets is changed.

Application of the overlay approach to insurance operations financial assets

Desjardins Group elected to designate certain eligible financial assets for the overlay approach to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, “Financial Instruments”, and IFRS 17, “Insurance Contracts”. To be eligible, a financial asset must meet the following criteria:

- It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39, “Financial Instruments: Recognition and Measurement”.
- It is held in respect of an activity connected with contracts within the scope of IFRS 4, “Insurance Contracts”.

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported if Desjardins Group had continued to apply IAS 39. As a result, net surplus earnings related to designated financial instruments reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39.

Reclassifications under the overlay approach are presented under “Overlay approach adjustment for insurance operations financial assets” in the Combined Statements of Income and under “Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets” in the Combined Statements of Comprehensive Income. The overlay approach may be used for the years beginning before January 1, 2023 or until the adoption of IFRS 17, if earlier.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers the following accounting policies as well as foreign currency fair value hedge accounting for equity instruments under IAS 39:

“Available-for-sale” securities under IAS 39

Under IAS 39, “Available-for-sale” securities are initially recognized at fair value. They are subsequently measured at fair value, and gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Combined Statements of Comprehensive Income until the financial asset is derecognized. Premiums and discounts on the purchase of “Available-for-sale” securities as well as transaction costs are amortized using the effective interest method and recognized in the Combined Statements of Income. Foreign exchange gains and losses on securities included in this class are recognized in the Combined Statements of Income, except for unrealized foreign exchange gains and losses on non-monetary financial instruments, which are recognized in the Combined Statements of Comprehensive Income.

Impairment of “Available-for-sale” securities under IAS 39

Under IAS 39, “Available-for-sale” securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring an impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring, and the disappearance of an active market for the asset.

Debt securities are assessed individually to determine whether there is any objective evidence of impairment. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss has been recognized in the Combined Statements of Income, the impairment loss is reversed through the Combined Statements of Income.

For equity securities, when evidence of impairment exists, the cumulative loss is transferred out of other comprehensive income and recognized in the Combined Statements of Income. Impairment losses on equity securities are not reversed to the Combined Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded in other comprehensive income. Any impairment loss on securities previously impaired is directly recognized in the Combined Statements of Income.

Financial liabilities are classified based on their characteristics and the intention of management upon their issuance.

The classification and measurement of financial liabilities can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial liabilities	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Amortized cost (iv)		Fair value	Amortized cost

(i) Financial liabilities included in the “At fair value through profit or loss” class comprise financial liabilities “Classified as at fair value through profit or loss” and “Designated as at fair value through profit or loss”. Therefore:

- Changes in fair value of financial liabilities included in this class are mainly recorded under “Net investment income” in the Combined Statements of Income. However, for financial liabilities designated as at fair value, the change in fair value that is attributable to Desjardins Group’s own credit risk is recognized in other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and is reclassified immediately to undistributed surplus earnings.
- Interest expense related to financial liabilities included in the “At fair value through profit or loss” class is recognized under “Interest expense” in the Combined Statements of Income for the Personal and Business Services segment and the Other category. For the other segments, interest expense is recognized under “Net investment income” in the Combined Statements of Income.

(ii) Financial liabilities “Classified as at fair value through profit or loss” are securities held for trading and include debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments are also classified as held for trading.

Section n), “Derivative financial instruments and hedging activities”, of this note specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

- (iii) Financial liabilities “Designated as at fair value through profit or loss” are designated as such by management upon initial recognition, on an instrument-by-instrument basis, and are essentially debt securities. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial liability, if a group of financial liabilities is managed and its performance is evaluated on a fair value basis, or if the liabilities are hybrid financial liabilities containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Financial liabilities included in this measurement category comprise deposits containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

- (iv) Financial liabilities that are not in the “At fair value through profit or loss” class are included in the “Amortized cost” class.

Financial liabilities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the “Amortized cost” class is recognized under “Interest expense” in the Combined Statements of Income for the Personal and Business Services segment and the Other category. Interest expense for the other segments is recognized mainly under “Net investment income” in the Combined Statements of Income.

Determination of the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There is little subjectivity in the determination of the fair value of financial instruments, especially securities and commitments related to securities sold short, obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other valuation techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques rely on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is made in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

Loans

The fair value of performing loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and reflects estimated prepayments, adjusted to take into account credit losses on the loan portfolio. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount.

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and reflects estimated prepayments. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 20, “Derivative financial instruments and hedging activities”, specifies the nature of derivative financial instruments held by Desjardins Group.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: “Cash and deposits with financial institutions”; “Securities borrowed or purchased under reverse repurchase agreements”; “Clients’ liability under acceptances”; “Amounts receivable from clients, brokers and financial institutions”; some items included in “Other assets – Other”, “Acceptances”; “Commitments related to securities lent or sold under repurchase agreements”; “Amounts payable to clients, brokers and financial institutions”; and some items included in “Other liabilities – Other”.

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method. However, for financial instruments classified or designated as “At fair value through profit or loss”, these costs are expensed as incurred.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and Desjardins Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

A financial asset is derecognized from the Combined Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but Desjardins Group has the obligation to pay them to a third party under certain conditions, or when Desjardins Group transfers the contractual rights to receive the cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by Desjardins Group, such asset is not derecognized from the Combined Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, Desjardins Group derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Balance Sheets to the extent of its continuing involvement in that asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates Desjardins Group’s exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Combined Statements of Income.

b) Cash and deposits with financial institutions

“Cash and deposits with financial institutions” includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions—including net amounts receivable related to cheques and other items in the clearing process—as well as certain fixed-income securities. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

c) Securities

The classification and measurement of securities are determined using the criteria stated in section a), “Financial assets and liabilities”, above.

Securities purchased under reverse repurchase agreements and securities borrowed

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under “Securities borrowed or purchased under reverse repurchase agreements” in the Combined Balance Sheets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

As part of securities borrowings, Desjardins Group pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Combined Balance Sheets. When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of ownership of these securities are retained.

Securities sold under repurchase agreements and securities lent

Securities sold under repurchase agreements and securities lent are not derecognized from the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets.

As part of securities loans, Desjardins Group receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets. When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Securities sold short

Securities sold short as part of trading activities, which represent Desjardins Group's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized under "Net investment income" in the Combined Statements of Income.

d) Loans

Loans are recorded at amortized cost, net of the allowance for credit losses, using the effective interest method.

Fees collected and direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loans. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities, shares, etc.) or cash.

Restructured loans are loans for which Desjardins Group renegotiated the initial terms by granting concessions to the borrower in the context of financial difficulties or to prevent a failure by the borrower to meet its initial obligations. Once the terms of the loan have been renegotiated and accepted by the borrower, the loan is considered as restructured.

When the modification of the terms of a loan has no significant impact on contractual cash flows, the renegotiated loan is not derecognized. At the date of restructuring, the loan is reduced to the amount of the estimated net cash flows receivable under the modified terms, discounted at the effective interest rate (prior to the restructuring), which may result in a gain or loss on modification.

When the modification of the terms of a loan has a significant impact on contractual cash flows, the initial loan should be derecognized, which may result in a gain or loss on derecognition. In addition, a new loan should be recognized based on the new contractual terms.

When the modification of the terms of a loan does not result in the derecognition of such loan, the date of initial recognition of the loan remains unchanged for purposes of applying the impairment model. The default risk based on the modified contractual terms is then compared to the default risk based on the initial terms to determine whether there has been a significant increase in credit risk since initial recognition.

When the modification of the terms of a loan results in the derecognition of such loan and the recognition of a new loan, the date of the modification should become the date of initial recognition of the new loan for purposes of applying the impairment model. A new loan is usually considered as being in Stage 1 of the impairment model, but it may have to be considered as credit-impaired upon origination.

e) Impairment of financial instruments

At each reporting date, Desjardins Group recognizes a allowance for expected credit losses for debt instruments classified as at amortized cost or as at fair value through other comprehensive income, as well as certain off-balance sheet items, namely loan commitments and financial guarantees, which are not measured at fair value through profit or loss. This allowance is estimated based on an impairment model that comprises three stages:

- Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered as credit-impaired financial assets, an allowance for credit losses amounting to 12-month expected credit losses is recognized.
- Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition but are not considered as credit-impaired financial assets, an allowance for credit losses amounting to the lifetime expected credit losses is recognized.
- Stage 3: For financial instruments considered as credit impaired, an allowance for credit losses amounting to the lifetime expected credit losses continues to be recognized.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the change in credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Group bases its assessment on the change in default risk over the expected life of the financial instrument, which requires significant judgment.

To this end, Desjardins Group compares the probability of default (PD) of the financial instrument at the reporting date with its PD at the date of initial recognition. In addition, it considers reasonable and supportable information indicating a significant increase in credit risk since initial recognition, including qualitative information and information about future economic conditions to the extent that it affects the assessment of the instrument's PD. The criteria used to determine a significant increase in credit risk vary depending on the groups of financial instruments with shared credit risk characteristics and are mainly based on a relative change combined with an absolute change in the PD. They also include absolute PD thresholds and certain other criteria. All instruments that are more than 30 days past due are transferred to Stage 2 of the impairment model.

For securities at "Amortized cost" or "Classified as at fair value through other comprehensive income", Desjardins Group elected to use the low credit risk exemption. Consequently, when credit risk is equivalent to the credit risk of the "investment grade" category at the reporting date, the credit risk on the securities is deemed to not have significantly increased since initial recognition.

Definition of default and credit-impaired financial asset

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes and for regulatory purposes. It considers relevant quantitative and qualitative factors. In particular, a loan is in default when contractual payments are over 90 days past due. A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant.

Measurement of the allowance for expected credit losses

The allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of the contract, and total cash flows that Desjardins Group expects to receive. For credit-impaired financial assets, expected credit losses are calculated based on the difference between the gross carrying amount of the asset and estimated cash flows.

The measurement of the allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. The LGD of certain loans and off-balance sheet items is estimated at 0% due to the nature of the credit enhancement obtained. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics. The following table presents the main aggregation variables for the applicable parameters.

PD	LGD	EAD
<i>Loans, loan commitments and financial guarantees:</i> <ul style="list-style-type: none"> Type of clients Risk level Type of instrument Industry 	<i>Loans, loan commitments and financial guarantees:</i> <ul style="list-style-type: none"> Type of clients Type of collateral Type of guarantor Risk level Type of instrument Industry 	<i>Loans:</i> <ul style="list-style-type: none"> No aggregation⁽¹⁾ <i>Loan commitments and financial guarantees⁽²⁾:</i> <ul style="list-style-type: none"> Type of clients Risk level Utilization rate Authorized amount Type of product Industry

⁽¹⁾ No aggregation variable is required to determine the EAD for loans, as it represents the anticipated balance of each loan.

⁽²⁾ To determine the EAD for loan commitments and financial guarantees, a credit conversion factor is applied.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

The allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios (base, upside and downside) to determine the allowance for expected credit losses and assigns to each scenario a probability of occurrence. Desjardins Group may also make adjustments to take into account the relevant information that affects the measurement of the allowance for credit losses and that has not been incorporated into the credit risk parameters. Incorporating forward-looking information is based on a set of assumptions and methodologies specific to credit risk and economic projections and therefore requires a high degree of judgment.

For credit-impaired financial assets that are individually material, measuring the allowance for expected credit losses does not require using credit risk parameters. It is instead based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions. In some cases, Desjardins Group may not recognize any allowance for credit losses when the probability of the collateral realization scenario is 100% and the estimated realizable value of the collateral exceeds the gross carrying amount of the loan.

Expected life

The expected life of most financial instruments is equal to the maximum contractual term during which Desjardins Group is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans. Their life is estimated as being the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions.

Recognition of the allowance for expected credit losses

The allowance for expected credit losses on loans is recorded under "Allowance for credit losses" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The allowance for expected credit losses on loan commitments and financial guarantees is recorded under "Other liabilities – Other" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The allowance for expected credit losses on securities at "Amortized cost" is recorded against "Securities – Securities at amortized cost" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income. The allowance for expected credit losses on securities "Classified as at fair value through other comprehensive income" is recognized under "Net unrealized gains on debt securities classified as at fair value through other comprehensive income" in the Combined Statements of Comprehensive Income and under "Provision for credit losses" in the Combined Statements of Income.

Foreclosed assets

Assets foreclosed to settle credit-impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount of the loan and the fair value recorded for the foreclosed assets is recognized under "Provision for credit losses".

Loan write-off

A loan is written off, in whole or in part, when recovery is no longer reasonably expected, which is when all attempts at restructuring or collection have been made and, based on an assessment of the file in its entirety, there are no other means to recover the loan. For secured loans, balances are generally written off once the collateral has been realized. Loans for which a consumer proposal or bankruptcy proceedings are ongoing but for which Desjardins Group has no reasonable expectation of recovery are written off, but they may continue to be subject to recovery measures by an insolvency trustee. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days. These balances could however still be subject to enforcement activity during a certain period after they have been written off. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Combined Statements of Income.

f) Leases

Desjardins Group analyzes contracts newly entered into or modified to assess whether they are, or contain, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The manner in which a lease is accounted for differs depending on whether Desjardins Group is the lessee or the lessor.

Lessee

Desjardins Group mainly leases premises that are used in the normal course of its operations. A right-of-use asset and a lease liability are recognized in the Combined Balance Sheets at the commencement date of the lease, except for short-term and low-value leases. The commencement date of the lease is the date on which the lessor makes the leased asset available for use by the lessee. Desjardins Group elected to apply the exemption provisions for short-term and low-value leases. Accordingly, lease payments associated with those leases are recognized as a lease expense in the Combined Statements of Income based on the terms of the lease. In addition, Desjardins Group applies the practical expedient which allows not to separate non-lease components from lease components for a contract.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liability, plus prepaid lease payments less lease incentives received. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shortest of the lease term and the useful life of the underlying asset. The lease term is the non-cancellable period and includes any renewal options if Desjardins Group is reasonably certain to exercise those options and any termination options if Desjardins Group is reasonably certain not to exercise those options. The right-of-use asset is periodically adjusted to reflect certain reassessments of the lease liability.

Right-of-use assets are presented in the Combined Balance Sheets and the depreciation of right-of-use assets is recognized under "Non-interest expense – Premises, equipment and furniture, including depreciation" in the Combined Statements of Income.

The lease liability is initially measured at the present value of the lease payments for the lease term that have not yet been paid, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Desjardins Group uses its incremental borrowing rate as discount rate. Payments included in the measurement of the lease liability comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, based on the index or the rate as at the commencement date of the lease, an estimated amount for any guaranteed residual value as well as amounts Desjardins Group is reasonably certain to pay for the exercise price of a purchase option or a termination penalty.

The lease liability is subsequently adjusted to reflect interest on the lease liability and lease payments made. It is remeasured when there is a change in future lease payments mainly as a result of a change in an index or a rate, or a change in the amounts expected to be payable by Desjardins Group under a residual value guarantee, when there are lease modifications, or when Desjardins Group revises its assessment of the potential exercise of a purchase, renewal or termination option.

Lease liabilities are presented in the Combined Balance Sheets and interest expense on lease liabilities is recognized under "Interest expense" in the Combined Statements of Income.

Lessor

Leases in which Desjardins Group is the lessor are leases for premises. Desjardins Group classifies the leases in which it is the lessor as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not. Desjardins Group mainly enters into operating leases.

When Desjardins Group is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under "Net investment income" and the leased asset remains recognized in the Combined Balance Sheets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent is recognized in profit or loss in the year during which it is earned.

g) Property, plant and equipment and investment property

Property, plant and equipment

Property, plant and equipment consists of land, buildings, computer hardware, furniture, fixtures and other items as well as leasehold improvements. They are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under "Non-interest expense – Premises, equipment and furniture, including depreciation" in the Combined Statements of Income.

Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the "Investment property" category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the "Investment property" category to the "Buildings" category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by Desjardins Group becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

The depreciation expense for investment properties is recognized under "Net investment income" in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	3 to 10 years
Furniture, fixtures and other	1 to 20 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

Derecognition

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains and losses on the disposal or sale of buildings are recognized in the Combined Statement of Income for the year in which they are realized under "Premises, equipment and furniture, including depreciation" for property, plant and equipment and under "Net investment income" for investment property.

h) Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method.

At the acquisition date, each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

Intangible assets

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

Desjardins Group assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and client relationships and are amortized using the straight-line method over their estimated useful lives, which do not exceed 40 years.

Gains or losses resulting from the derecognition of an intangible asset correspond to the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under "Non-interest expense – Other" in the Combined Statements of Income upon derecognition of the asset.

i) Impairment of non-financial assets

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Combined Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Combined Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Goodwill

Goodwill is tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill is performed based on the recoverable amount of each CGU (or each group of CGUs) to which goodwill is allocated. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each CGU.

When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statement of Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of the impairment loss to the assets of the CGU (or group of CGUs) must however not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

j) Acceptances and clients' liability under acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our clients and that we guarantee for a fee. The potential liability of Desjardins Group under acceptances is recognized under "Acceptances", in "Other liabilities". Desjardins Group has equivalent offsetting claims against its clients in the event of a call on these commitments, which are recognized under "Clients' liability under acceptances", in "Other assets". Fees are recognized under "Other income – Other".

k) Insurance contract liabilities

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by these subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries. They are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM) in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

Under CALM, actuarial liabilities of the life and health insurance subsidiaries are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Combined Statement of Income for the year in which the revision occurs. The provisions for claims and adjustment expenses are reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the contract holder to participate in the profitability related to their contract. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health insurance subsidiaries elected not to recognize the participating portion of these contracts separately.

Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Combined Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under "Reinsurance assets" in the Combined Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These assets comprise the reinsurers' share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers' share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

l) Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by one of the life and health insurance subsidiaries for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Combined Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section a), "Financial assets and liabilities". In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to contract holders' rights to the segregated fund net assets is also recognized separately.

m) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing or amount. A provision is recognized when Desjardins Group has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant uncertainties and risks. Management must make significant judgments in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflow of resources. Desjardins Group regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in profit or loss under the items corresponding to the nature of the expenditures covered.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Desjardins Group or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably.

n) Derivative financial instruments and hedging activities

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of Desjardins Group's derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 20, "Derivative financial instruments and hedging activities".

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recognized at fair value on the Combined Balance Sheets. Changes in fair value of embedded derivatives required to be accounted for separately are recognized under "Net investment income" in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Hybrid financial instruments

When a hybrid contract contains a host that is an asset within the scope of IFRS 9, the entire hybrid contract is classified and recognized based on the characteristics of the hybrid contract.

An embedded derivative is separated from the host and accounted for separately as a derivative when the host is not an asset within the scope of IFRS 9 and the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid contract is not measured at fair value with changes in fair value recognized in the Combined Statements of Income.

Objectives of holding derivatives

Desjardins Group uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of members and clients, and to allow Desjardins Group to generate income on its own trading activities. These instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under “Net investment income” in the Combined Statements of Income.

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. They enable Desjardins Group to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Combined Balance Sheets, as well as firm commitments and forecasted transactions.

Hedging activities

Desjardins Group elected to continue applying the requirements of IAS 39 for hedge accounting instead of adopting the provisions of IFRS 9.

Desjardins Group mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, Desjardins Group must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows of the hedged item attributable to the risk being hedged.

Desjardins Group may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting.

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or Desjardins Group terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

Fair value hedges

In a fair value hedge transaction, changes in fair value of the hedging derivative financial instrument are recognized under “Net investment income” in the Combined Statements of Income, as are changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized under “Net investment income” in the Combined Statements of Income.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Previously recorded adjustments to the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Combined Statements of Income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under “Net investment income” in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Cash flow hedges

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized under "Net gains (losses) on derivative financial instruments designated as cash flow hedges", in other comprehensive income, until the hedged item is recognized in the Combined Statements of Income, at which time such changes are recognized in net interest income in the Combined Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized under "Net investment income" in the Combined Statements of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues hedge accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Combined Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under "Net investment income".

o) Financial guarantees

A financial guarantee is a contract that could contingently require Desjardins Group to make specified payments to the guaranteed party to repay a loss that such party incurred as a result of a default by a specified third party to make a payment upon maturity in accordance with the original or modified terms and conditions of a debt security.

Financial guarantees are initially recognized as liabilities in the Combined Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, except in cases where it must be measured at fair value through profit or loss, the guarantee is measured at the higher of the following amounts:

- (i) The amount initially recorded less, when appropriate, accumulated amortization recognized in the Combined Statements of Income;
- (ii) The amount of the allowance for credit losses.

If a financial guarantee meets the definition of a derivative, it is measured at fair value through profit or loss at each reporting date and presented as a derivative financial instrument. Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument.

The carrying amount of guarantees does not reflect the maximum potential amount of future payments under guarantees. Desjardins Group considers the difference between these two amounts as off-balance sheet credit instruments.

p) Reserves

Reserves included in equity are mainly from the caisses. They are based on the balance of the reserves as at December 31 of the prior year and the surplus earnings distribution plans for such year, which must be approved by the general meeting of each caisse within the first four months following year end.

The stabilization reserve of a caisse and the Federation's stabilization reserve consist of amounts appropriated from the surplus earnings for the year by the caisse or the Federation, as appropriate. Amounts appropriated to the stabilization reserve of a caisse are essentially used to pay interest on permanent shares issued by that caisse. Amounts appropriated to the Federation's stabilization reserve are essentially used to pay interest on F capital shares it issued.

The reserve for future member dividends is made up of amounts appropriated by the caisses. Amounts appropriated to this reserve are used to pay member dividends and to appropriate amounts to the Community Development Fund.

The general reserve is essentially made up of amounts appropriated by the caisses, the Federation and the *Fonds de sécurité Desjardins*. This reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on permanent shares, surplus shares and capital shares.

Other reserves are mainly made up of amounts appropriated by the caisses that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized by the caisses.

q) Revenue recognition

In addition to the items mentioned in section a), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

Recognition criteria

Revenue is recognized when Desjardins Group has transferred control of a good or service (the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net interest income

Interest income and expense are mainly earned or incurred by the Personal and Business Services segment and the Other category. They are recognized using the effective interest method for all financial instruments measured at "Amortized cost", for interest-bearing financial assets "Classified as at fair value through other comprehensive income" and for financial instruments included in the "At fair value through profit or loss" class.

The effective interest method is used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

When calculating the effective interest rate, Desjardins Group estimates cash flows considering all contractual terms of the financial instruments, but it does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders' fees, are assimilated to supplemental interest.

For financial assets that are not considered credit-impaired (Stages 1 and 2), interest income is calculated on the gross carrying amount of the financial instrument. For credit-impaired financial assets (Stage 3), interest income is calculated by applying the effective interest rate to the amortized cost of the asset, which corresponds to the gross carrying amount less the allowance for expected credit losses.

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as they are recognized, an actuarial provision is established and recognized under "Insurance contract liabilities". Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Combined Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. They are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Combined Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under "Insurance contract liabilities" in the Combined Balance Sheets.

Service charges, commissions, brokerage fees and other

Desjardins Group earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its members and clients.

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under "Deposit and payment service charges" and "Brokerage and investment fund services" in the Combined Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by Desjardins Group is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under "Lending fees and credit card service revenues" in the Combined Statements of Income.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party—such as the arrangement of share or other securities acquisitions or business purchases or sales—are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under "Brokerage and investment fund services" in the Combined Statements of Income. Income from lending fees and credit card service revenue is recorded under "Lending fees and credit card service revenues" in the Combined Statements of Income.

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under "Management and custodial service fees" in the Combined Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under "Management and custodial service fees" in the Combined Statements of Income.

Dividend income is recognized when Desjardins Group's right to receive payment of the dividend is established.

r) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Combined Balance Sheets of Desjardins Group. Income from these management services is recognized under "Management and custodial service fees" in the Combined Statements of Income when the service is provided.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

s) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized under "Foreign exchange income" in the Combined Statements of Income. However, the following items are presented in other comprehensive income in the Combined Statements of Comprehensive Income:

- Translation gains and losses on financial assets "Designated as at fair value through other comprehensive income".
- Gains and losses on derivatives designated as cash flow hedging instruments.

t) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish the assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that Desjardins Group expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting dates.

Deferred income taxes

Deferred taxes are recognized, using the balance sheet liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Combined Balance Sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

- When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).
- For taxable temporary differences associated with investments in subsidiaries, when the date at which the difference reverses can be controlled and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these differences, tax loss carryforwards and tax credits can be utilized, except in the following cases:

- When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).
- For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the difference will reverse in the foreseeable future and that a taxable profit will be available against which such difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of a deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

u) Member dividends

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends take into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Integrated Financial Plan, which provides for member dividends based on Desjardins Group's financial capacity and capitalization. The difference between the amount of member dividends actually paid following the general meetings held by the caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

Member dividends are calculated based on averages balances maintained in the following product families: Accounts, Loans and Lines of Credit, Savings and Investments and Funds. For credit card volumes, member dividends are calculated based on net purchases for the relevant year. For the Insurance product family, member dividends are calculated based on the premium paid for the relevant year. Member dividends are recognized under "Member dividends" in the Combined Statements of Income.

v) Employee benefits

Short-term benefits

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

Post-employment benefits

Pension and post-retirement benefit plans

Desjardins Group offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Combined Statements of Income and includes current service cost, past service cost and net interest on net defined benefit plan assets or liabilities. Past service cost resulting from a plan amendment or curtailment is immediately recognized in the Combined Statements of Income.

Remeasurements of net defined benefit plan assets or liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and are immediately reclassified to undistributed surplus earnings. These remeasurements include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Combined Statements of Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets or liabilities are equal to the present value of the plans' obligation, calculated using the projected unit credit method, less the fair value of plan assets. The value of any net defined benefit plan asset is, when appropriate, limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

The net assets of certain pension plans are reported under "Other assets – Other" in the Combined Balance Sheets. The net liabilities of certain pension plans and the net liabilities of other post-retirement benefit plans are recognized under "Net defined benefit plan liabilities" in the Combined Balance Sheets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

FUTURE ACCOUNTING CHANGES

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2021 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, “Insurance Contracts”

In May 2017, the IASB issued IFRS 17, “Insurance Contracts”, which will replace the current standard, IFRS 4, “Insurance Contracts”. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 provides a general model for measuring insurance contracts, but also includes a simplified method for contracts with a period of one year or less as well as a specific method for insurance contracts with direct participation features. The general model, which is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

IFRS 17 will be applied retrospectively to each group of insurance contracts. If retrospective application is impracticable, the modified retrospective approach or the fair value approach could be applied to the financial statements for the annual periods beginning on January 1, 2023.

Desjardins Group is currently assessing the impact of adopting this standard, which will apply to annual periods beginning on January 1, 2023.

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		Amortized cost ⁽²⁾	Total
	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		
As at December 31, 2021						
Financial assets						
Cash and deposits with financial institutions	\$ 1	\$ 353	\$ 735	\$ —	\$ 15,239	\$ 16,328
Securities	18,890	20,882	53,214	72	41	93,099
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	12,019	12,019
Loans	—	—	—	—	230,511	230,511
Other financial assets						
Clients' liability under acceptances	—	—	—	—	268	268
Derivative financial instruments ⁽³⁾	5,828	—	—	—	—	5,828
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	2,557	2,557
Other	—	—	—	—	1,895	1,895
Total financial assets	\$ 24,719	\$ 21,235	\$ 53,949	\$ 72	\$ 262,530	\$ 362,505
Financial liabilities						
Deposits ⁽⁴⁾⁽⁵⁾⁽⁶⁾	\$ —	\$ 351	\$ —	\$ —	\$ 238,004	\$ 238,355
Other financial liabilities						
Acceptances	—	—	—	—	268	268
Commitments related to securities sold short	11,342	—	—	—	—	11,342
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	31,177	31,177
Derivative financial instruments ⁽³⁾	5,500	—	—	—	—	5,500
Amounts payable to clients, brokers and financial institutions	—	—	—	—	7,938	7,938
Other	147	—	—	—	3,660	3,807
Subordinated notes	—	—	—	—	1,960	1,960
Total financial liabilities	\$ 16,989	\$ 351	\$ —	\$ —	\$ 283,007	\$ 300,347

⁽¹⁾ An amount of \$3,767 million corresponds to financial assets designated for the overlay approach.

⁽²⁾ As at December 31, 2021, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled \$4 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

⁽³⁾ Include derivative financial instruments designated as hedging instruments amounting to \$126 million in assets and \$105 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 20, "Derivative financial instruments and hedging activities".

⁽⁴⁾ The maturity amount that Desjardins Group will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

⁽⁵⁾ As at December 31, 2021, the cumulative amount of change in fair value attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss was \$3 million.

⁽⁶⁾ The amount recognized in other comprehensive income attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss that was realized at derecognition during the year was \$1 million.

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		At fair value through other comprehensive income		Amortized cost ⁽²⁾	Total
	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		
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 ⁽⁴⁾⁽⁵⁾⁽⁶⁾	\$ —	\$ 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 7, "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. Detailed information on derivatives designated as hedging instruments is presented in Note 20, "Derivative financial instruments and hedging activities".

⁽⁴⁾ The maturity amount that Desjardins Group will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

⁽⁵⁾ As at December 31, 2020, the cumulative amount of change in fair value attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss was \$5 million.

⁽⁶⁾ The amount recognized in other comprehensive income attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss that was realized at derecognition during the year was insignificant.

During the years ended December 31, 2021 and 2020, there were no material reclassifications of financial instruments.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

Fair value measurement is determined using the following three-level fair value hierarchy:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based primarily on observable market data;
- Level 3 – Valuation techniques not based primarily on observable market data.

Transfers between levels

Transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following tables present the hierarchy for financial instruments measured at fair value in the Combined Balance Sheets.

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	\$ —	\$ 354	\$ —	\$ 354
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	8,321	—	—	8,321
Provincial governmental entities and municipal corporations in Canada	16,944	684	—	17,628
School or public corporations in Canada	15	84	—	99
Foreign public administrations	567	—	—	567
Other securities				
Financial institutions	—	1,545	9	1,554
Other issuers	1	4,790	591	5,382
Equity securities	4,764	29	1,428	6,221
	30,612	7,132	2,028	39,772
Derivative financial instruments				
Interest rate contracts	—	950	—	950
Foreign exchange contracts	—	350	—	350
Other contracts	—	4,528	—	4,528
	—	5,828	—	5,828
Total financial assets at fair value through profit or loss	30,612	13,314	2,028	45,954
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	—	735	—	735
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,761	7,370	—	15,131
Provincial governmental entities and municipal corporations in Canada	28,131	3,642	—	31,773
School or public corporations in Canada	—	28	—	28
Foreign public administrations	16	—	—	16
Other securities				
Financial institutions	19	5,166	—	5,185
Other issuers	—	1,017	64	1,081
Equity securities	—	3	69	72
	35,927	17,226	133	53,286
Total financial assets at fair value through other comprehensive income	35,927	17,961	133	54,021
Financial instruments of segregated funds	7,685	14,760	360	22,805
Total financial assets	\$ 74,224	\$ 46,035	\$ 2,521	\$ 122,780
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	\$ —	\$ 351	\$ —	\$ 351
Other liabilities				
Commitments related to securities sold short	10,617	725	—	11,342
Other	—	—	147	147
	10,617	1,076	147	11,840
Derivative financial instruments				
Interest rate contracts	—	594	—	594
Foreign exchange contracts	—	643	—	643
Other contracts	—	4,263	—	4,263
	—	5,500	—	5,500
Total financial liabilities	\$ 10,617	\$ 6,576	\$ 147	\$ 17,340

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 years ended December 31, 2021 and 2020, no material transfers attributable to changes in the observability of market data were made between Level 1 and Level 2 of the hierarchy for instruments measured at fair value. Transfers of financial instruments into or out of Level 3 reflect changes in the availability of observable inputs due to changes in market conditions.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE

The carrying amount of certain financial instruments measured at amortized cost does not equal fair value. The following tables present those instruments by hierarchy level.

As at December 31, 2021	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	\$ 41	\$ 41	\$ —	\$ 41	\$ —
Loans	230,511	229,566	—	—	229,566
Financial liabilities					
Deposits	238,004	238,465	—	238,465	—
Subordinated notes	1,960	2,009	—	2,009	—

As at December 31, 2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	\$ 29	\$ 29	\$ —	\$ 29	\$ —
Loans	211,421	213,920	—	1,247	212,673
Financial liabilities					
Deposits	225,030	227,307	1,616	225,691	—
Subordinated notes	1,493	1,592	—	1,592	—

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

The most significant financial instruments categorized within Level 3 that are held by Desjardins Group are mortgage bonds, equity securities and the financial liability related to contingent considerations resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

For mortgage bonds, Desjardins Group developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

Desjardins Group measures the majority of equity securities and other debt securities based on net values published by the fund administrator. If needed, these values are adjusted based on more recent information, when such information is available and appropriate. These models are examined and approved by Desjardins Group.

In connection with the acquisition of the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), Desjardins Group recognized a contingent consideration resulting from the price adjustment clause of the agreement. Under such clause, State Farm will compensate Desjardins Group for 95% of the unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contracts transferred as part of the acquisition, while Desjardins Group will give State Farm 90% of the favourable development of such provision.

Sensitivity of financial instruments categorized within Level 3

Desjardins Group performs sensitivity analyses to measure the fair value of financial instruments categorized within Level 3. Changing unobservable inputs to one or more reasonably possible alternative assumptions does not significantly change the fair value of financial instruments categorized within Level 3.

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.

	Balance at beginning of year	Realized gains / losses recognized in profit or loss ⁽¹⁾	Unrealized gains / losses recognized in profit or loss ⁽²⁾	Unrealized gains / losses recognized in other comprehensive income ⁽³⁾	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
For the year ended December 31, 2021								
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	—	(26)	—	—	—	(143)	499
Other debt securities	67	—	3	—	—	29	(7)	92
Equity securities	964	—	136	—	—	361	(33)	1,428
Total financial assets at fair value through profit or loss	1,709	—	112	—	—	390	(183)	2,028
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	69	—	—	(2)	—	—	(3)	64
Equity securities	64	—	—	(1)	—	6	—	69
Total financial assets at fair value through other comprehensive income	133	—	—	(3)	—	6	(3)	133
Financial instruments of segregated funds	127	1	7	—	142	115	(32)	360
Total financial assets	\$ 1,969	\$ 1	\$ 119	\$ (3)	\$ 142	\$ 511	\$ (218)	\$ 2,521
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent considerations	\$ 155	\$ (10)	\$ 96	\$ —	\$ —	\$ 11	\$ (105)	\$ 147
Total financial liabilities	\$ 155	\$ (10)	\$ 96	\$ —	\$ —	\$ 11	\$ (105)	\$ 147

⁽¹⁾ Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income", while realized gains or losses on financial liabilities "Classified as at fair value through profit or loss" are recognized under "Other income – Other".

⁽²⁾ Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income", while unrealized gains or losses on financial liabilities "Classified as at fair value through profit or loss" are recognized under "Other income – Other".

⁽³⁾ Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized 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)

	Balance at beginning of year	Realized gains / losses recognized in profit or loss ⁽¹⁾	Unrealized gains / losses recognized in profit or loss ⁽²⁾	Unrealized gains / losses recognized in other comprehensive income ⁽³⁾	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
For the year ended December 31, 2020								
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	—	25	—	—	—	(67)	668
Other debt securities	61	2	(1)	—	—	9	(4)	67
Equity securities	794	(2)	49	—	—	137	(14)	964
Total financial assets at fair value through profit or loss	1,620	—	73	—	—	146	(130)	1,709
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	70	—	—	2	—	—	(3)	69
Equity securities	57	—	—	3	—	4	—	64
Total financial assets at fair value through other comprehensive income	127	—	—	5	—	4	(3)	133
Financial instruments of segregated funds	81	—	1	—	—	50	(5)	127
Total financial assets	\$ 1,828	\$ —	\$ 74	\$ 5	\$ —	\$ 200	\$ (138)	\$ 1,969
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	\$ 268	\$ —	\$ 95	\$ —	\$ —	\$ —	\$ (208)	\$ 155
Total financial liabilities	\$ 268	\$ —	\$ 95	\$ —	\$ —	\$ —	\$ (208)	\$ 155

⁽¹⁾ Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income".

⁽²⁾ Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income", while unrealized gains or losses on financial liabilities "Classified as at fair value through profit or loss" are recognized under "Net investment income" and "Other income – Other", respectively.

⁽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)

Valuation techniques and inputs used to measure the fair value of financial instruments categorized within Level 3

The following tables present the main techniques and inputs used to measure the fair value of the significant financial instruments categorized within Level 3.

As at December 31, 2021	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges		
Financial assets						
Securities						
Mortgage bonds	\$ 572	Discounted cash flows	Credit spread ^(B,C) Comparable inputs ^(B,C)	0 bp 10 bp	to to	15 bp 155 bp
	1,437	Adjusted net value	Adjusted net value ^(A,C)	-	-	(1)
	69	Recent transactions	Paid bid price	-	-	(1)
Equity securities and other debt securities	78	Discounted cash flows	Discount rate ^(B,C) Liquidity premium ^(B,C)	9.0% 10.0%	to to	9.8% 40.0%
Financial instruments of segregated funds	360	Adjusted net value	Adjusted net value ^(A,C)	-	-	(1)
Other financial assets	5					
Total financial assets	\$ 2,521					
Financial liabilities						
Other liabilities - Other						
Financial liability related to the contingent considerations	147	Actuarial techniques ⁽²⁾	Provision for claims and adjustment expenses ^(B)	-	-	(1)
Total financial liabilities	\$ 147					

As at December 31, 2020	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges		
Financial assets						
Securities						
Mortgage bonds	\$ 747	Discounted cash flows	Credit spread ^(B,C) Comparable inputs ^(B,C)	0 bp 10 bp	to to	15 bp 153 bp
	956	Adjusted net value	Adjusted net value ^(A,C)	-	-	(1)
	64	Market prices for comparable instruments	Business value / revenue ratio ^(B,C)	-	-	(1)
Equity securities and other debt securities	69	Discounted cash flows	Discount rate ^(B,C) Liquidity premium ^(B,C)	6.6% 10.0%	to to	9.6% 40.0%
Financial instruments of segregated funds	127	Adjusted net value	Adjusted net value ^(A,C)	-	-	(1)
Other financial assets	6					
Total financial assets	\$ 1,969					
Financial liabilities						
Other liabilities - Other						
Financial liability related to the contingent consideration	155	Actuarial techniques ⁽²⁾	Provision for claims and adjustment expenses ^(B)	-	-	(1)
Total financial liabilities	\$ 155					

(1) Due to the nature of these financial instruments, no input value range is presented.

(2) The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the "Actuarial assumptions" section of Note 16, "Insurance contract liabilities".

Fair value sensitivity to changes in unobservable inputs

(A) An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

(B) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

(C) There is no predictable relationship between this input and other material unobservable inputs.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Combined Balance Sheets when, and only when, Desjardins Group has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Desjardins Group has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements that do not meet the criteria for offsetting in the Combined Balance Sheets as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Combined Balance Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Combined Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, Desjardins Group pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Combined Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the normal course of business.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Combined Balance Sheets.

The following tables present information about financial assets and liabilities that are set off and not set off in the Combined Balance Sheets and are subject to a master netting agreement or a similar agreement.

			Net amounts presented in the	Associated amounts not set off in the Combined Balance Sheets ⁽¹⁾		
	Gross recognized amounts	Set off amounts	Combined Balance Sheets ⁽²⁾	Financial instruments ⁽³⁾	Financial collateral held / pledged	Residual amounts not set off
As at December 31, 2021						
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	\$ 17,716	\$ 5,697	\$ 12,019	\$ 7,816	\$ 4,203	\$ —
Derivative financial instruments	5,819	—	5,819	1,061	4,570	188
Amounts receivable from clients, brokers and financial institutions and other	41	34	7	4	—	3
Total financial assets	\$ 23,576	\$ 5,731	\$ 17,845	\$ 8,881	\$ 8,773	\$ 191
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	\$ 36,874	\$ 5,697	\$ 31,177	\$ 7,816	\$ 23,342	\$ 19
Derivative financial instruments	1,380	—	1,380	1,061	1	318
Amounts payable to clients, brokers and financial institutions	149	34	115	4	—	111
Total financial liabilities	\$ 38,403	\$ 5,731	\$ 32,672	\$ 8,881	\$ 23,343	\$ 448

⁽¹⁾ Any over-collateralization is excluded from the table.

⁽²⁾ The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

⁽³⁾ Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

The following table presents information about financial assets and liabilities that are set off and not set off in the Combined Balance Sheets and are subject to a master netting agreement or a similar agreement *(continued)*.

			Net amounts presented in the	Associated amounts not set off in the Combined Balance Sheets ⁽¹⁾		
	Gross recognized amounts	Set off amounts	Combined Balance Sheets ⁽²⁾	Financial instruments ⁽³⁾	Financial collateral held / pledged	Residual amounts not set off
As at December 31, 2020						
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	\$ 14,328	\$ 4,670	\$ 9,658	\$ 5,771	\$ 3,887	\$ —
Derivative financial instruments	5,754	—	5,754	1,858	3,698	198
Amounts receivable from clients, brokers and financial institutions and other	41	20	21	5	—	16
Total financial assets	\$ 20,123	\$ 4,690	\$ 15,433	\$ 7,634	\$ 7,585	\$ 214
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	\$ 23,822	\$ 4,670	\$ 19,152	\$ 5,771	\$ 13,379	\$ 2
Derivative financial instruments	2,242	—	2,242	1,858	116	268
Amounts payable to clients, brokers and financial institutions	60	20	40	5	—	35
Total financial liabilities	\$ 26,124	\$ 4,690	\$ 21,434	\$ 7,634	\$ 13,495	\$ 305

⁽¹⁾ Any over-collateralization is excluded from the table.

⁽²⁾ The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

⁽³⁾ Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 6 – SECURITIES

MATURITIES OF SECURITIES

The following tables present an analysis of the maturities of Desjardins Group's securities.

	Terms to maturity						Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	
As at December 31, 2021							
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	\$ 1,916	\$ 1,196	\$ 1,169	\$ 2,442	\$ 1,598	\$ —	\$ 8,321
Provincial governmental entities and municipal corporations in Canada	752	1,887	1,649	2,851	10,489	—	17,628
School or public corporations in Canada	1	—	5	5	88	—	99
Foreign public administrations	289	5	17	1	255	—	567
Other securities							
Financial institutions	101	427	400	313	313	—	1,554
Other issuers	212	440	464	983	3,279	4	5,382
Equity securities	—	—	—	32	—	6,189	6,221
Total financial assets at fair value through profit or loss	3,271	3,955	3,704	6,627	16,022	6,193	39,772
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	607	6,586	7,425	513	—	—	15,131
Provincial governmental entities and municipal corporations in Canada	813	4,756	9,291	16,085	828	—	31,773
School or public corporations in Canada	28	—	—	—	—	—	28
Foreign public administrations	16	—	—	—	—	—	16
Other securities							
Financial institutions	1,656	2,603	646	268	12	—	5,185
Other issuers	43	217	192	584	45	—	1,081
Equity securities	—	—	—	—	—	72	72
Total financial assets at fair value through other comprehensive income	3,163	14,162	17,554	17,450	885	72	53,286
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by:							
Provincial governmental entities and municipal corporations in Canada	2	2	2	5	1	—	12
Foreign public administrations	—	—	1	2	26	—	29
Total financial assets at amortized cost	2	2	3	7	27	—	41
Total securities	\$ 6,436	\$ 18,119	\$ 21,261	\$ 24,084	\$ 16,934	\$ 6,265	\$ 93,099

NOTE 6 – SECURITIES (continued)

MATURITIES OF SECURITIES (continued)

The following table presents an analysis of the maturities of Desjardins Group's securities (continued).

As at December 31, 2020	Terms to maturity					No specific maturity	Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years		
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	\$ 834	\$ 844	\$ 1,438	\$ 1,310	\$ 1,272	\$ —	\$ 5,698
Provincial governmental entities and municipal corporations in Canada	753	1,750	1,672	2,499	10,882	—	17,556
School or public corporations in Canada	—	—	4	8	99	—	111
Foreign public administrations	190	12	5	19	22	—	248
Other securities							
Financial institutions	100	246	418	284	240	—	1,288
Other issuers	252	474	298	912	3,124	63	5,123
Equity securities	—	—	—	7	4	4,925	4,936
Total financial assets at fair value through profit or loss	2,129	3,326	3,835	5,039	15,643	4,988	34,960
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	1,047	5,615	6,517	236	—	—	13,415
Provincial governmental entities and municipal corporations in Canada	1,399	7,067	7,727	16,648	738	—	33,579
School or public corporations in Canada	17	—	—	—	—	—	17
Foreign public administrations	11	—	—	—	—	—	11
Other securities							
Financial institutions	1,796	2,075	574	258	3	—	4,706
Other issuers	73	127	243	412	30	—	885
Equity securities	—	—	—	—	—	66	66
Total financial assets at fair value through other comprehensive income	4,343	14,884	15,061	17,554	771	66	52,679
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by:							
Provincial governmental entities and municipal corporations in Canada	1	3	2	6	1	—	13
Foreign public administrations	—	—	1	3	12	—	16
Total financial assets at amortized cost	1	3	3	9	13	—	29
Total securities	\$ 6,473	\$ 18,213	\$ 18,899	\$ 22,602	\$ 16,427	\$ 5,054	\$ 87,668

NOTE 7 – 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. Since December 31, 2021, credit quality has been reported based on the risk levels defined in section 4.0, "Risk Management", of the 2021 Annual Management's Discussion and Analysis. Comparative figures have been adjusted to conform with the presentation for the current year. For more information on credit quality according to risk levels, see table 35, "Probabilities of default of retail clients by risk level", and Table 36, "Probabilities of default businesses, financial institutions and sovereign borrowers by risk level", in section 4.0, "Risk Management", of the 2021 Annual Management's Discussion and Analysis.

Loans

As at December 31, 2021	Non-credit impaired		Credit-impaired ⁽¹⁾	
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	\$ 50,281	\$ 27	\$ —	\$ 50,308
Very low	65,459	2,391	—	67,850
Low	18,139	8,916	—	27,055
Moderate	1,200	2,285	—	3,485
High	5	652	—	657
Default	—	131	209	340
Total gross residential mortgages	\$ 135,084	\$ 14,402	\$ 209	\$ 149,695
Allowance for credit losses	(72)	(70)	(20)	(162)
Total net residential mortgages	\$ 135,012	\$ 14,332	\$ 189	\$ 149,533
Consumer, credit card and other personal loans				
Excellent	\$ 5,731	\$ —	\$ —	\$ 5,731
Very low	6,314	14	—	6,328
Low	7,609	1,268	—	8,877
Moderate	1,241	756	—	1,997
High	7	1,229	—	1,236
Default	—	69	148	217
Total gross consumer, credit card and other personal loans	\$ 20,902	\$ 3,336	\$ 148	\$ 24,386
Allowance for credit losses	(113)	(251)	(80)	(444)
Total net consumer, credit card and other personal loans	\$ 20,789	\$ 3,085	\$ 68	\$ 23,942
Business and government loans⁽²⁾				
Acceptable risk				
Investment grade	\$ 20,307	\$ 616	\$ —	\$ 20,923
Other than investment grade	27,475	4,747	—	32,222
Under watch	1,453	2,258	—	3,711
Default	—	81	731	812
Total gross business and government loans	\$ 49,235	\$ 7,702	\$ 731	\$ 57,668
Allowance for credit losses	(105)	(80)	(179)	(364)
Total net business and government loans	\$ 49,130	\$ 7,622	\$ 552	\$ 57,304
Total gross loans and acceptations	\$ 205,221	\$ 25,440	\$ 1,088	\$ 231,749
Allowance for credit losses	(290)	(401)	(279)	(970)
Total net loans and acceptances	\$ 204,931	\$ 25,039	\$ 809	\$ 230,779

⁽¹⁾ As at December 31, 2021, 94.9% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

⁽²⁾ Includes clients' liability under acceptances.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (*continued*)EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS (*continued*)Loans (*continued*)

As at December 31, 2020	Non-credit impaired		Credit-impaired ⁽¹⁾	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Excellent	\$ 45,585	\$ —	\$ —	\$ 45,585
Very low	37,472	1,435	—	38,907
Low	29,655	16,771	—	46,426
Moderate	1,112	2,793	—	3,905
High	2	813	—	815
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	\$ 5,504	\$ —	\$ —	\$ 5,504
Very low	5,641	4	—	5,645
Low	9,129	1,607	—	10,736
Moderate	847	884	—	1,731
High	8	1,415	—	1,423
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⁽²⁾				
Acceptable risk				
Investment grade	\$ 17,009	\$ 970	\$ —	\$ 17,979
Other than investment grade	19,956	8,598	—	28,554
Under watch	1,178	2,769	—	3,947
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
Total gross loans and acceptances	\$ 173,098	\$ 38,440	\$ 1,323	\$ 212,861
Allowance for credit losses	(260)	(516)	(336)	(1,112)
Total net loans and acceptances	\$ 172,838	\$ 37,924	\$ 987	\$ 211,749

⁽¹⁾ As at December 31, 2020, 94.7% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

⁽²⁾ Includes clients' liability under acceptances.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (*continued*)EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS (*continued*)Off-balance sheet items⁽¹⁾

As at December 31, 2021	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages, consumer, credit card and other personal loans				
Excellent	\$ 51,740	\$ 1	\$ —	\$ 51,741
Very low	21,756	73	—	21,829
Low	6,395	2,336	—	8,731
Moderate	1,618	645	—	2,263
High	5	461	—	466
Default	—	2	50	52
Total	\$ 81,514	\$ 3,518	\$ 50	\$ 85,082
Allowance for credit losses	(46)	(17)	—	(63)
Total, net of allowance for credit losses	\$ 81,468	\$ 3,501	\$ 50	\$ 85,019
Business and government				
Acceptable risk				
Investment grade	\$ 31,397	\$ 120	\$ —	\$ 31,517
Other than investment grade	9,611	1,899	—	11,510
Under watch	198	448	—	646
Default	—	4	119	123
Total	\$ 41,206	\$ 2,471	\$ 119	\$ 43,796
Allowance for credit losses	(7)	(2)	—	(9)
Total, net of allowance for credit losses	\$ 41,199	\$ 2,469	\$ 119	\$ 43,787
Total off-balance sheet items	\$ 122,720	\$ 5,989	\$ 169	\$ 128,878
Allowance for credit losses	(53)	(19)	—	(72)
Total off-balance sheet items, net of allowance for credit losses	\$ 122,667	\$ 5,970	\$ 169	\$ 128,806

⁽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		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages, consumer, credit card and other personal loans				
Excellent	\$ 39,353	\$ —	\$ —	\$ 39,353
Very low	28,667	29	—	28,696
Low	9,881	2,885	—	12,766
Moderate	387	738	—	1,125
High	4	594	—	598
Default	—	—	77	77
Total	\$ 78,292	\$ 4,246	\$ 77	\$ 82,615
Allowance for credit losses	(52)	(17)	—	(69)
Total, net of allowance for credit losses	\$ 78,240	\$ 4,229	\$ 77	\$ 82,546
Business and government				
Acceptable risk				
Investment grade	\$ 29,045	\$ 277	\$ —	\$ 29,322
Other than investment grade	6,851	3,715	—	10,566
Under watch	248	549	—	797
Default	—	10	171	181
Total	\$ 36,144	\$ 4,551	\$ 171	\$ 40,866
Allowance for credit losses	(6)	(3)	—	(9)
Total, net of allowance for credit losses	\$ 36,138	\$ 4,548	\$ 171	\$ 40,857
Total off-balance sheet items	\$ 114,436	\$ 8,797	\$ 248	\$ 123,481
Allowance for credit losses	(58)	(20)	—	(78)
Total off-balance sheet items, net of allowance for credit losses	\$ 114,378	\$ 8,777	\$ 248	\$ 123,403

⁽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 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (*continued*)

ALLOWANCE FOR CREDIT LOSSES

The following tables present the changes in the balance of the allowance for expected credit losses on loans and off-balance sheet items.

For the year ended December 31, 2021	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Balance at beginning of year	\$ 65	\$ 102	\$ 29	\$ 196
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	71	(66)	(5)	—
Stage 2	(14)	26	(12)	—
Stage 3	—	(4)	4	—
Net remeasurement due to transfers ⁽²⁾	(19)	24	13	18
Changes in risks, parameters and models ⁽³⁾	(75)	(1)	(5)	(81)
New originations or acquisitions ⁽⁴⁾	57	22	—	79
Derecognition and maturities ⁽⁵⁾	(14)	(26)	(11)	(51)
Net drawdowns (repayments) ⁽⁶⁾	2	(4)	1	(1)
Other	—	—	3	3
	8	(29)	(12)	(33)
Write-offs and recoveries	—	—	3	3
Balance at end of year	\$ 73	\$ 73	\$ 20	\$ 166
Consumer, credit card and other personal loans				
Balance at beginning of year	\$ 177	\$ 306	\$ 126	\$ 609
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	268	(252)	(16)	—
Stage 2	(66)	131	(65)	—
Stage 3	(1)	(32)	33	—
Net remeasurement due to transfers ⁽²⁾	(37)	55	144	162
Changes in risks, parameters and models ⁽³⁾	(212)	80	105	(27)
New originations or acquisitions ⁽⁴⁾	70	48	—	118
Derecognition and maturities ⁽⁵⁾	(33)	(57)	(52)	(142)
Net drawdowns (repayments) ⁽⁶⁾	(8)	(14)	(8)	(30)
	(19)	(41)	141	81
Write-offs and recoveries	—	—	(187)	(187)
Balance at end of year	\$ 158	\$ 265	\$ 80	\$ 503
Business and government				
Balance at beginning of year	\$ 76	\$ 128	\$ 181	\$ 385
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	54	(52)	(2)	—
Stage 2	(16)	29	(13)	—
Stage 3	—	(9)	9	—
Net remeasurement due to transfers ⁽²⁾	(7)	8	35	36
Changes in risks, parameters and models ⁽³⁾	(85)	(30)	42	(73)
New originations or acquisitions ⁽⁴⁾	102	31	—	133
Derecognition and maturities ⁽⁵⁾	(27)	(29)	(48)	(104)
Net drawdowns (repayments) ⁽⁶⁾	16	6	7	29
Other	(1)	—	—	(1)
	36	(46)	30	20
Write-offs and recoveries	—	—	(32)	(32)
Balance at end of year	\$ 112	\$ 82	\$ 179	\$ 373
Total balances at end of year	\$ 343	\$ 420	\$ 279	\$ 1,042
Composed of:				
Loans	\$ 290	\$ 401	\$ 279	\$ 970
Off-balance sheet items ⁽⁷⁾	53	19	—	72

⁽¹⁾ Represent transfers between stages before the remeasurement of expected credit losses.

⁽²⁾ Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.

⁽³⁾ Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risks levels, parameters and models, after transfers between stages.

⁽⁴⁾ Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

⁽⁵⁾ Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

⁽⁶⁾ Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.

⁽⁷⁾ The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (*continued*)ALLOWANCE FOR CREDIT LOSSES (*continued*)

For the year ended December 31, 2020	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Balance at beginning of year	\$ 27	\$ 27	\$ 24	\$ 78
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	56	(54)	(2)	—
Stage 2	(25)	34	(9)	—
Stage 3	—	(5)	5	—
Net remeasurement due to transfers ⁽²⁾	(20)	29	19	28
Changes in risks, parameters and models ⁽³⁾	(9)	77	1	69
New originations or acquisitions ⁽⁴⁾	42	20	—	62
Derecognition and maturities ⁽⁵⁾	(8)	(18)	(9)	(35)
Net drawdowns (repayments) ⁽⁶⁾	2	(7)	1	(4)
Other	—	(1)	1	—
	38	75	7	120
Write-offs and recoveries	—	—	(2)	(2)
Balance at end of year	\$ 65	\$ 102	\$ 29	\$ 196
Consumer, credit card and other personal loans				
Balance at beginning of year	\$ 139	\$ 202	\$ 143	\$ 484
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	270	(251)	(19)	—
Stage 2	(78)	161	(83)	—
Stage 3	(1)	(42)	43	—
Net remeasurement due to transfers ⁽²⁾	(36)	40	251	255
Changes in risks, parameters and models ⁽³⁾	(148)	208	212	272
New originations or acquisitions ⁽⁴⁾	65	46	—	111
Derecognition and maturities ⁽⁵⁾	(22)	(39)	(75)	(136)
Net drawdowns (repayments) ⁽⁶⁾	(12)	(19)	(12)	(43)
Other	—	—	1	1
	38	104	318	460
Write-offs and recoveries	—	—	(335)	(335)
Balance at end of year	\$ 177	\$ 306	\$ 126	\$ 609
Business and government				
Balance at beginning of year	\$ 37	\$ 20	\$ 104	\$ 161
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	33	(32)	(1)	—
Stage 2	(37)	51	(14)	—
Stage 3	(1)	(9)	10	—
Net remeasurement due to transfers ⁽²⁾	(7)	17	95	105
Changes in risks, parameters and models ⁽³⁾	(7)	75	63	131
New originations or acquisitions ⁽⁴⁾	56	22	—	78
Derecognition and maturities ⁽⁵⁾	(10)	(19)	(28)	(57)
Net drawdowns (repayments) ⁽⁶⁾	12	3	13	28
Other	—	—	(2)	(2)
	39	108	136	283
Write-offs and recoveries	—	—	(59)	(59)
Balance at end of year	\$ 76	\$ 128	\$ 181	\$ 385
Total balances at end of year	\$ 318	\$ 536	\$ 336	\$ 1,190
Composed of:				
Loans	\$ 260	\$ 516	\$ 336	\$ 1,112
Off-balance sheet items ⁽⁷⁾	58	20	—	78

(1) Represent transfers between stages before the remeasurement of expected credit losses.

(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.

(3) Represent the change in the allowance due to changes in risk resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.

(4) Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.

(7) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (*continued*)

KEY DATA AND ASSUMPTIONS

Estimating the allowance for expected credit losses is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

- Changes in the borrowers' credit risk rating (or PD);
- Determination of significant increases in credit risk;
- Incorporation of forward-looking information;
- Estimated life of revolving credit facilities.

The development of the COVID-19 pandemic and its future resolution continue to give rise to uncertainty. Management therefore had to make complex judgments to estimate the allowance for expected credit losses in the current situation, which increases the risk of adjustments in future periods.

Changes in the borrowers' credit risk rating or probability of default

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. For more information about these models, see section 4.0, "Risk Management", of the Management's Discussion and Analysis. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the allowance for expected credit losses.

Changes in the borrowers' credit risk rating may increase or decrease the allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the allowance, while an improvement results in a decrease in the allowance.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Group bases its assessment on the change in default risk over the expected life of the financial instrument. As this assessment takes into account forward-looking information at time of granting and at the reporting date, a significant increase in credit risk may be caused by a deterioration in economic forecasts integrated into the prospective evaluation, a deterioration in the borrower's situation or a combination of both of these factors.

The determination of significant increases in credit risk since initial recognition may have a significant upward or downward impact on the allowance for expected credit losses as the amount of the allowance for expected credit losses for loans in Stage 1 is equal to 12-month expected credit losses, while the amount of the allowance for expected credit losses for loans in Stage 2 is equal to the lifetime expected credit losses.

Significant judgments had to be made to estimate the negative impact of the unprecedented current COVID-19 pandemic situation on the risk of default by the different types of borrowers and, consequently, on the determination of significant increases in credit risk and the measurement of the allowance.

Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine the allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the allowance for credit losses for expected credit losses. The models vary depending on the portfolios and include one or several of the main variables presented in the table below. The macroeconomic variable projection and the determination of the probabilities of occurrence are reviewed quarterly.

The incorporation of forward-looking information may increase or decrease the allowance for expected credit losses. Generally, an improvement in the outlook will give rise to a decrease in the allowance, while a deterioration will result in an increase in the allowance.

The major uncertainty resulting from the COVID-19 pandemic continue to make it significantly more complex to determine reasonable and supportable assumptions concerning the change in macroeconomic variables for the various scenarios and the related probability of occurrence. Therefore, it requires management to make significant judgments to revise the assumptions concerning forward-looking information. Considering the atypical nature of the current economic crisis, management continues to apply expert credit judgment in measuring the allowance for expected credit losses. This expert judgment is applied with respect to the degree of correlation between input data related to forward-looking indicators and expected credit losses to consider the impact of this unprecedented situation. It also continues 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.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

KEY DATA AND ASSUMPTIONS (continued)

Incorporation of forward-looking information (continued)

The macroeconomic scenarios developed for calculating the allowance for expected credit losses include the following value ranges over the projection horizon for the most significant variables for credit risk parameters:

	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
As at December 31, 2021						
Macroeconomic variables⁽¹⁾						
Gross domestic product (annualized change)	2.4 %	1.6 %	5.6 %	2.0 %	0.7 %	0.7 %
Unemployment rate (average)	4.9 %	4.4 %	4.2 %	3.2 %	5.8 %	5.9 %
Consumer Price Index (annualized change)	1.8 %	2.2 %	4.0 %	2.3 %	1.7 %	1.5 %
Housing prices (annualized change)	(5.0)%	0.1 %	8.2 %	1.6 %	(17.7)%	(1.7)%
Corporate credit spread ⁽²⁾ (average)	114 bp	115 bp	95 bp	90 bp	143 bp	149 bp
S&P/TSX stock index ⁽²⁾ (annualized change)	7.0 %	4.8 %	14.0 %	5.6 %	(11.6)%	1.6 %

⁽¹⁾ All macroeconomic variables relate to the Québec economy, unless otherwise noted.

⁽²⁾ Macroeconomic variables related to the Canadian economy.

	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
As at December 31, 2020						
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 bp	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.

As at December 31, 2021, the COVID-19 pandemic continued to give rise to much uncertainty, in particular with respect to the progression of the Omicron variant and the loss of efficacy of vaccines. To this is added the uncertainty surrounding supply chains and the hike in inflation. The year-end situation led to a downward revision in the economic forecast for the beginning of 2022.

After an exceptional year when real GDP growth in Québec exceeded 6%, the base scenario forecasts that economic growth will be less than 3% for 2022. The pace would then converge to a level close to potential GDP growth, which is approximately 1.5% per year. The unemployment rate, which is already under 5% in Québec, should rise temporarily due to health measures. As a result of demographic changes, the unemployment rate should stand below 4.5% over the next few years, causing many businesses to continue to feel the impact of labour scarcity. Under this scenario, inflation should reach a peak at the beginning of 2022 and ease back towards the 2% target by the end of 2022 or the beginning of 2023 if most constraints affecting supply subside. This scenario also forecasts an increase in key interest rates that should help reducing inflation pressures and have a moderating impact on the housing market, even reducing slightly house prices.

In the downside scenario, real GDP would decrease further in the first quarter of 2022, with unemployment rising even more. There would be a rebound in spring 2022, but it would be less robust than in the base scenario. In addition, supply problems might last longer, which would keep inflation in 2022 at a level that is almost as high as in the base scenario. Interest rates hikes would still be announced, but they would have a more significant negative impact on the economy, especially in 2023, when a new recession could possibly occur. The downside scenario assumes also a more significant correction in house prices of approximately 25%.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

KEY DATA AND ASSUMPTIONS (continued)

Incorporation of forward-looking information (continued)

The upside scenario essentially assumes a swifter economic recovery than in the base scenario. This recovery would be supported by a quicker withdrawal of health restrictions and a faster resolution of supply problems. The unemployment rate could drop to close to 3% over the next few years under this scenario. Inflationary pressures would still be significant, but they would result this time from strong demand and not from supply constraints. More key interest rate increases are assumed under this scenario, which would eventually limit growth in house prices after a robust 2022.

The development of the economic outlook after December 31, 2021 will be considered in estimating the allowance for expected credit losses in future periods.

Estimated life of revolving credit facilities

To determine the life of revolving credit facilities, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management action. In making this estimate, Desjardins Group considers the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

The determination of the estimated life of revolving credit facilities has a significant impact on estimating the allowance for expected credit losses, mainly for revolving credit facilities in Stage 2 of the impairment model. Generally, an increase in the estimated life of revolving credit facilities gives rise to an increase in expected credit losses.

SENSITIVITY ANALYSIS OF THE ALLOWANCE FOR CREDIT LOSSES ON NON-CREDIT IMPAIRED LOANS

Scenarios

The amount of the allowance for expected credit losses depends on the probability of occurrence associated with each scenario. The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items at the reporting dates, which takes into account the probability weighting for the three scenarios, with the allowance for credit losses that would have been obtained if a weighting of 100% had been assigned to each scenario individually.

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2021	As at December 31, 2020
Under IFRS 9	\$ 763	\$ 854
Weighting of 100% assigned to the scenario:		
Base	\$ 650	\$ 740
Upside	610	699
Downside	1,156	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 December 31, 2021	As at December 31, 2020
Under IFRS 9	\$ 763	\$ 854
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	\$ 675	\$ 765

NOTE 8 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of its liquidity and capital management strategy, Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program. Under this program, Desjardins Group creates pools of residential mortgage loans insured by Canada Mortgage and Housing Corporation (CMHC) that back mortgage-backed securities. These mortgage-backed securities are issued under the *National Housing Act* (NHA MBSs). Desjardins Group originates from time to time such securities and retains them as holder or transfers them from time to time to the Canada Housing Trust (CHT) or third parties. NHA MBSs give their holders a property right on the pools of loans backing them.

The terms and conditions of the program giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and Desjardins Group to allow the monthly receipt of all cash flows related to the mortgage loans underlying the NHA MBSs. Desjardins Group pays the CHT an amount corresponding to the interest payable to the holders of CMBs, the difference between these amounts being considered as excess interest margin. As part of these swaps, Desjardins Group must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

However, in these transactions, Desjardins Group retains substantially all the risks, including prepayment and interest rate risks. These loans therefore continue to be recognized in the Combined Balance Sheets. Furthermore, Desjardins Group treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under “Deposits – Business and government” in the Combined Balance Sheets. The CHT funds these purchases by issuing Canada Mortgage Bonds (CMBs) to investors.

Securities lent or sold under repurchase agreements

As part of transactions involving securities lent or sold under repurchase agreements, Desjardins Group transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Combined Balance Sheets as Desjardins Group retains substantially all the risks and rewards related to these assets.

The following table presents the carrying amount and the fair value of financial assets transferred by Desjardins Group but not derecognized as well as the related liabilities recognized in the Combined Balance Sheets.

	As at December 31, 2021		As at December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	\$ 12,828	\$ 12,945	\$ 12,295	\$ 12,674
Securities sold under repurchase agreements	4,694	4,694	1,202	1,202
Securities lent	8	8	12	12
	\$ 17,530	\$ 17,647	\$ 13,509	\$ 13,888
Related liabilities	\$ 17,124	\$ 17,007	\$ 13,298	\$ 13,533

FINANCIAL ASSETS TRANSFERRED AND DERECOGNIZED

Canada Emergency Business Account federal program

Desjardins Group participates in the Canada Emergency Business Account (CEBA) federal program, implemented in collaboration with Export Development Canada (EDC) in response to the COVID-19 pandemic. Under this program, Desjardins Group granted loans that were funded by the government. It was determined that these loans qualified for derecognition as all cash flows are remitted to EDC and, in addition, substantially all the risks and rewards of ownership of the loans have been transferred. Desjardins Group has a continued involvement with these derecognized loans at it services them. As at December 31, 2021, loans outstanding amounting to \$4.3 billion have been granted to Desjardins Group's members and clients under the CEBA program (\$3.6 billion as at December 31, 2020).

NOTE 9 – SEGREGATED FUNDS

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	As at December 31, 2021	As at December 31, 2020
Investments		
Bonds	\$ 628	\$ 607
Shares and mutual fund units	22,139	18,463
Money market securities	38	30
Derivative financial instruments	—	1
Securities borrowed or purchased under reverse repurchase agreements	14	12
Other assets	129	116
Commitments related to securities lent or sold under repurchase agreements	(6)	(8)
Other liabilities	(96)	(90)
Net assets held for segregated fund contract holders	\$ 22,846	\$ 19,131
Assets held for the insurer	(42)	(38)
Total segregated fund net assets⁽¹⁾	\$ 22,804	\$ 19,093

⁽¹⁾ The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Group scope of Desjardins Group. These eliminations amounted to \$8 million as at December 31, 2021 (\$4 million as at December 31, 2020).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. Desjardins Group classifies these instruments using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 4, "Fair value of financial instruments".

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Securities borrowed or purchased under reverse repurchase agreements", "Other assets", "Commitments related to securities lent or sold under repurchase agreements" and "Liabilities".

The following tables present the financial instruments included in segregated fund net assets and recognized at fair value.

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Investments				
Bonds	\$ 345	\$ 283	\$ —	\$ 628
Shares and mutual fund units	7,307	14,472	360	22,139
Money market securities	33	5	—	38
Total financial instruments recognized at fair value	\$ 7,685	\$ 14,760	\$ 360	\$ 22,805

As at December 31, 2020	Level 1	Level 2	Level 3	Total
Investments				
Bonds	\$ 317	\$ 290	\$ —	\$ 607
Shares and mutual fund units	6,773	11,563	127	18,463
Money market securities	23	7	—	30
Derivative financial instruments	—	1	—	1
Total financial instruments recognized at fair value	\$ 7,113	\$ 11,861	\$ 127	\$ 19,101

NOTE 9 – SEGREGATED FUNDS (continued)

Derecognition of financial assets

As part of transactions involving securities lent or sold under repurchase agreements, the segregated funds transfer financial assets under terms and conditions providing for their future repurchase. These assets remain recognized in the Combined Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2021, the carrying amount and the fair value of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets were \$6 million and \$6 million respectively (\$7 million and \$7 million as at December 31, 2020).

Financial assets pledged and held as collateral

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities in the normal course of the segregated funds' operations amounted to \$6 million as at December 31, 2021 (\$7 million as at December 31, 2020). The fair value of the financial assets held as collateral that the segregated funds are permitted to sell or repledge in the absence of default totalled \$2 million (\$2 million as at December 31, 2020). No financial assets held as collateral had been sold or repledged in 2021 and 2020. These financial assets were received as collateral in transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

Desjardins Group is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	As at December 31, 2021	As at December 31, 2020
Balance at beginning – Net liabilities to segregated fund contract holders	\$ 19,127	\$ 17,037
Additions		
Amounts received from contract holders	4,338	2,368
Net investment income	2,407	1,915
	6,745	4,283
Deductions		
Withdrawals and redemptions	2,869	2,045
Management fees	165	148
	3,034	2,193
Balance at end – Net liabilities to segregated fund contract holders	\$ 22,838	\$ 19,127
Liabilities to the insurer	(42)	(38)
Total segregated fund net liabilities⁽¹⁾	\$ 22,796	\$ 19,089

⁽¹⁾ The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Group scope of Desjardins Group. These eliminations amounted to \$8 million as at December 31, 2021 (\$4 million as at December 31, 2020).

NOTE 10 – LEASES

LEASES – AS LESSEE

The following table presents the carrying amount of right-of-use assets by class of underlying asset.

	As at December 31, 2021	As at December 31, 2020
Buildings	\$ 521	\$ 556
Other ⁽¹⁾	9	9
	\$ 530	\$ 565

⁽¹⁾ The "Other" category mainly comprises vehicles.

During fiscal 2021, Desjardins Group entered into leases that increased right-of-use assets by \$116 million (\$99 million in 2020).

The following table presents the depreciation of right-of-use assets by class of underlying asset.

	2021	2020
Buildings	\$ 62	\$ 62
Other ⁽¹⁾	3	3
	\$ 65	\$ 65

⁽¹⁾ The "Other" category mainly comprises vehicles.

The following table presents amounts recognized in the Combined Statements of Income for the years ended December 31.

	2021	2020
Interest expense on lease liabilities	\$ 19	\$ 22
Short-term leases	18	16
Variable lease payments not included in the measurement of the lease liability	29	28

LEASES – AS LESSOR

Operating leases

Lease income is presented in Note 11, "Property, plant and equipment and investment property", and includes mainly fixed lease payments.

For the years ended December 31, lease payments to be received under non-cancellable operating leases for premises and equipment are as follows:

	2021	2020
Under 1 year	\$ 79	\$ 70
1 to 2 years	70	66
Over 2 to 3 years	64	59
Over 3 to 4 years	56	53
Over 4 to 5 years	39	45
Over 5 years	260	278
Total future lease payments	\$ 568	\$ 571

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The following tables present the changes in property, plant and equipment and investment property.

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Cost									
As at December 31, 2019	\$ 101	\$ 1,420	\$ 465	\$ 496	\$ 620	\$ 3,102	\$ 221	\$ 1,065	\$ 1,286
Additions	—	46	110	23	73	252	23	24	47
Disposals	—	(10)	(70)	(24)	(16)	(120)	(7)	(77)	(84)
Other	(1)	(14)	(2)	(2)	—	(19)	—	1	1
As at December 31, 2020	\$ 100	\$ 1,442	\$ 503	\$ 493	\$ 677	\$ 3,215	\$ 237	\$ 1,013	\$ 1,250
Additions	—	42	86	26	65	219	5	41	46
Disposals	—	(11)	(57)	(56)	(44)	(168)	(4)	(9)	(13)
Other	(1)	(5)	(8)	(1)	(9)	(24)	—	(3)	(3)
As at December 31, 2021	\$ 99	\$ 1,468	\$ 524	\$ 462	\$ 689	\$ 3,242	\$ 238	\$ 1,042	\$ 1,280

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Accumulated depreciation									
As at December 31, 2019	\$ —	\$ 658	\$ 285	\$ 383	\$ 305	\$ 1,631	\$ —	\$ 329	\$ 329
Depreciation	—	45	72	23	40	180	—	41	41
Disposals	—	(9)	(70)	(21)	(15)	(115)	—	(45)	(45)
Other	—	(21)	—	(1)	—	(22)	—	1	1
As at December 31, 2020	\$ —	\$ 673	\$ 287	\$ 384	\$ 330	\$ 1,674	\$ —	\$ 326	\$ 326
Depreciation	—	45	83	22	43	193	—	34	34
Disposals	—	(9)	(56)	(51)	(35)	(151)	—	(3)	(3)
Other	—	(5)	—	—	—	(5)	—	(3)	(3)
As at December 31, 2021	\$ —	\$ 704	\$ 314	\$ 355	\$ 338	\$ 1,711	\$ —	\$ 354	\$ 354

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Net carrying amount									
As at December 31, 2021	\$ 99	\$ 764	\$ 210	\$ 107	\$ 351	\$ 1,531	\$ 238	\$ 688	\$ 926
As at December 31, 2020	\$ 100	\$ 769	\$ 216	\$ 109	\$ 347	\$ 1,541	\$ 237	\$ 687	\$ 924

As at December 31, 2021, an amount of \$10 million (\$15 million as at December 31, 2020) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to \$110 million (\$71 million as at December 31, 2020) related to buildings.

As at December 31, 2021, the fair value of investment property was \$1,907 million (\$1,791 million as at December 31, 2020). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 4, "Fair value of financial instruments", as it is measured using techniques that are not primarily based on observable market inputs. The fair value of investment property is determined annually by management, mainly by using the work of independent real estate appraisers with recognized and relevant professional qualifications and any other significant information that may be deemed relevant. These appraisers use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on observable and unobservable inputs, involve estimating capitalization rates and adjusted net operating income, in the case of the normalized net income direct discounting method, and estimating discount and capitalization rates and applicable future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2021, lease income from investment property amounted to \$139 million (\$144 million in 2020). Amounts recognized in profit or loss for operating expenses related to investment property that generated lease income during the year totalled \$97 million (\$116 million in 2020), while no amount has been recognized for those that did not generate lease income. These amounts are presented under "Net investment income" in the Combined Statements of Income.

NOTE 12 – INTANGIBLE ASSETS

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software ⁽¹⁾	Client relationships	Other ⁽²⁾	Total
Cost				
As at December 31, 2019	\$ 802	\$ 16	\$ 121	\$ 939
Acquisitions / Additions	101	1	17	119
Disposals / Retirements	(42)	—	(16)	(58)
Other	1	—	—	1
As at December 31, 2020	\$ 862	\$ 17	\$ 122	\$ 1,001
Acquisitions / Additions	162	8	2	172
Disposals / Retirements	(105)	(9)	—	(114)
Other	9	—	—	9
As at December 31, 2021	\$ 928	\$ 16	\$ 124	\$ 1,068

	Software ⁽¹⁾	Client relationships	Other ⁽²⁾	Total
Accumulated amortization				
As at December 31, 2019	\$ 503	\$ 9	\$ 46	\$ 558
Amortization	71	1	5	77
Disposals / Retirements	(42)	—	(16)	(58)
As at December 31, 2020	\$ 532	\$ 10	\$ 35	\$ 577
Amortization	86	2	5	93
Disposals / Retirements	(100)	(1)	—	(101)
Other	2	—	—	2
As at December 31, 2021	\$ 520	\$ 11	\$ 40	\$ 571

	Software ⁽¹⁾	Client relationships	Other ⁽²⁾	Total
Net carrying amount				
As at December 31, 2021	\$ 408	\$ 5	\$ 84	\$ 497
As at December 31, 2020	\$ 330	\$ 7	\$ 87	\$ 424

⁽¹⁾ Software includes purchased software amounting to \$206 million (\$134 million in 2020) and internally developed software amounting to \$202 million (\$196 million in 2020).

⁽²⁾ The "Other" category mainly includes the amount related to the acquisition of insurance contract portfolios and a distribution network.

NOTE 13 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries included in the Group scope of Desjardins Group have been incorporated in Canada and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held by Desjardins Group in each of them.

	Nature of operations	As at December 31, 2021 ⁽¹⁾	As at December 31, 2020 ⁽¹⁾
Desjardins Capital Inc.	Issuance of securities on the markets and financing of the Desjardins caisses	100 %	100 %
Desjardins Financial Holding Inc.	Holding company	100	100
Desjardins Financial Corporation Inc.	Holding company	100	100
Desjardins Global Asset Management Inc.	Asset management	100	100
Desjardins General Insurance Group Inc.	Property and casualty insurance	90	90
Property and casualty insurance subsidiaries ⁽²⁾	Property and casualty insurance	100	100
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	100	100
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	100	100
	Asset custody and trust services	100	100
Desjardins Trust Inc.	Development and maintenance of Desjardins Group's technology	100	100
Desjardins Technology Group Inc.			
Desjardins Securities Inc.	Securities brokerage	100	100
9420-7404 Québec inc. ⁽³⁾	Real estate services	100	100

⁽¹⁾ Represents also the proportion of voting rights held by Desjardins Group in these subsidiaries.

⁽²⁾ Represents a group of six property and casualty insurance subsidiaries.

⁽³⁾ 9420-7404 Québec inc. operates two brands, DuProprio and FairSquare (Purplebricks Canada before December 1, 2021).

Subsidiaries that have material non-controlling interests

As at December 31, 2021 and 2020, Desjardins General Insurance Group Inc. is a subsidiary that has material non-controlling interests.

The following tables present summarized financial information about the subsidiaries that have material non-controlling interests. This information is presented before eliminating intragroup accounts and transactions and has been adjusted to reflect the fair value adjustments made at the time of acquisition.

	As at December 31, 2021	As at December 31, 2020
Assets	\$ 16,528	\$ 15,418
Liabilities	11,533	11,946
Equity	\$ 4,995	\$ 3,472
Non-controlling interests	\$ 903	\$ 750

For the years ended December 31	2021	2020
Total income	\$ 5,836	\$ 5,813
Net surplus earnings for the year after member dividends	1,199	623
Comprehensive income for the year	1,556	730
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	\$ 142	\$ 84
Dividends / distributions paid to holders of non-controlling interests	\$ 25	\$ 25

For the years ended December 31	2021	2020
Cash flows from (used in) operating activities	\$ 1,519	\$ 1,382
Cash flows from (used in) financing activities	(33)	(1,360)
Cash flows from (used in) investing activities	(1,634)	65
Net increase (decrease) in cash and cash equivalents	\$ (148)	\$ 87

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, a structured entity, is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as this entity is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted it financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bonds issued. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by this structured entity. The assets, totalling \$12,687 million as at December 31, 2021 (\$11,622 million as at December 31, 2020), are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to \$7,481 million as at December 31, 2021 (\$6,114 million as at December 31, 2020), are presented under "Deposits – Business and government".

IMMATERIAL JOINT VENTURES AND ASSOCIATES

The following table presents the carrying amount as well as the share of net income and other comprehensive income of joint ventures and associates that are considered individually immaterial.

As at and for the years ended December 31	2021		2020	
	Joint ventures	Associates	Joint ventures	Associates
Carrying amount	\$ 1,185	\$ 164	\$ 1,060	\$ 109
Share of net income	47	6	43	3

UNCONSOLIDATED STRUCTURED ENTITIES

Mutual funds

Desjardins Group holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns as a result of the units it holds in these funds, these units do not give Desjardins Group power over the relevant activities of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

The investments of these funds are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. Desjardins Group's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

NOTE 14 – OTHER ASSETS – OTHER

The following table presents the breakdown of “Other assets – Other”.

	As at December 31, 2021	As at December 31, 2020
Accounts receivable	\$ 1,199	\$ 840
Interest receivable	641	726
Prepaid expenses	290	285
Taxes receivable	474	200
Other	836	653
	\$ 3,440	\$ 2,704

NOTE 15 – DEPOSITS

Deposits consist of demand deposits (payable on demand), notice deposits (payable upon notice) and term deposits (payable on a fixed date). Demand deposits are interest-bearing or non-interest-bearing deposits, primarily accounts with chequing privileges, for which Desjardins Group does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which Desjardins Group has the legal right to require notice prior to withdrawal. Term deposits are interest-bearing deposits, primarily fixed-term deposit accounts, guaranteed investment certificates or other similar instruments, with a term that generally varies from one day to 10 years and mature on a predetermined date.

The following table presents the breakdown of deposits.

	As at December 31, 2021				As at December 31, 2020			
	Payables on demand	Payables upon notice	Payables on a fixed date	Total	Payables on demand	Payables upon notice	Payables on a fixed date	Total
Individuals	\$ 70,756	\$ 5,536	\$ 60,040	\$ 136,332	\$ 64,544	\$ 4,985	\$ 58,399	\$ 127,928
Business and government	52,563	524	48,557	101,644	43,871	473	52,509	96,853
Deposit-taking institutions	344	—	35	379	387	—	68	455
	\$ 123,663	\$ 6,060	\$ 108,632	\$ 238,355	\$ 108,802	\$ 5,458	\$ 110,976	\$ 225,236

NOTE 16 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2021			2020		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Gross premiums	\$ 5,643	\$ 5,938	\$ 11,581	\$ 4,683	\$ 5,519	\$ 10,202
Premiums ceded under reinsurance treaties	(231)	(72)	(303)	(206)	(76)	(282)
Net premiums	\$ 5,412	\$ 5,866	\$ 11,278	\$ 4,477	\$ 5,443	\$ 9,920

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2021	As at December 31, 2020
Insurance contract liabilities		
Actuarial liabilities – Life and health insurance	\$ 23,693	\$ 23,356
Provisions for claims and adjustment expenses – Property and casualty insurance	6,973	7,379
Unearned premiums	3,062	2,990
Policyholder deposits	621	624
Provisions for benefits, policyholder dividends and experience refunds	384	469
Other	29	9
	\$ 34,762	\$ 34,827

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts.

	As at December 31, 2021	As at December 31, 2020
Gross actuarial liabilities		
Non-participating policies	\$ 18,859	\$ 18,334
Participating policies	4,834	5,022
	23,693	23,356
Amounts ceded to reinsurers	(1,132)	(1,227)
Net actuarial liabilities	\$ 22,561	\$ 22,129

	As at December 31, 2021	As at December 31, 2020
Composition of assets backing net actuarial liabilities		
Bonds	\$ 15,017	\$ 15,056
Mortgage and business loans	2,275	2,343
Investment property	1,068	1,188
Equities	2,032	1,631
Other	2,169	1,911
	\$ 22,561	\$ 22,129

The fair value of assets backing net actuarial liabilities was \$23,579 million as at December 31, 2021 (\$23,167 million as at December 31, 2020).

Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by Canadian accepted actuarial practices. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Combined Statements of Income.

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE *(continued)*

Actuarial assumptions *(continued)*

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in the Combined Statements of Income.

Mortality

The life and health insurance subsidiaries determine their mortality assumptions based on the annual studies of their recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, they also take into account industry studies. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance with Canadian accepted actuarial practices.

Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the life and health insurance subsidiaries use industry-developed morbidity tables modified based on current data provided by their studies of their underwriting experience and those of the industry.

Contract cancellation rates

The life and health insurance subsidiaries carry out an annual study of their underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their policy before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on these subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiaries are not sufficiently credible.

Investment return

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The life and health insurance subsidiaries manage the investments backing their actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in their matching policy. CALM is the standard established by the CIA to ensure the compliance of assets backing actuarial provisions. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, they mitigate their sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, cash flows from these assets are matched with cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the allowance for expected credit losses recognized through a write-down of the carrying amount of the assets, a provision amounting to \$318 million as at December 31, 2021 (\$437 million as at December 31, 2020) has been included in actuarial liabilities as a protection against the risk of insufficient return on assets.

Operating expenses and taxes

The operating expense assumptions reflect the projected costs for managing and processing contracts in force, including indirect overhead expenses. The life and health insurance subsidiaries carry out an annual study of operating expenses by major product line, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

NOTE 16 – INSURANCE CONTRACT LIABILITIES (continued)

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE (continued)

Actuarial assumptions (continued)

Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on “Net surplus earnings for the year after member dividends” of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2021	2020
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	\$ (56)	\$ (55)
Products for which a rate decrease increases actuarial liabilities	(28)	(27)
5% increase in future morbidity rates	(94)	(90)
10% negative change in future contract cancellation rates	(178)	(179)
5% increase in future operating expenses	(55)	(48)

Changes in actuarial liabilities

The change in net actuarial liabilities during the years ended December 31 was due to business activities and to changes in actuarial estimates, as follows:

	2021			2020		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	\$ 23,356	\$ (1,227)	\$ 22,129	\$ 20,985	\$ (1,075)	\$ 19,910
Change due to:						
Passage of time	(867)	(47)	(914)	1,620	(41)	1,579
New business	1,481	(34)	1,447	760	(29)	731
Changes in actuarial assumptions	(60)	87	27	(82)	(5)	(87)
	554	6	560	2,298	(75)	2,223
Other changes	(217)	89	(128)	73	(77)	(4)
Balance at end of year	\$ 23,693	\$ (1,132)	\$ 22,561	\$ 23,356	\$ (1,227)	\$ 22,129

Changes in actuarial assumptions

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact of changes made to assumptions on “Net surplus earnings for the year after member dividends” for the years ended December 31.

	2021	2020
Changed assumptions		
Mortality	\$ 153	\$ 33
Morbidity	(11)	(1)
Contract cancellation rates	(205)	(38)
Investment return	109	10
Operating expenses	(59)	(14)
Methods and other	(7)	74
	\$ (20)	\$ 64

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE

Methodology and assumptions

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Methodology and assumptions *(continued)*

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the rate of return for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

Change in provisions for claims and adjustment expenses

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2021			2020		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	\$ 7,379	\$ (729)	\$ 6,650	\$ 6,716	\$ (802)	\$ 5,914
Claims incurred during the year	3,696	(1)	3,695	3,801	(113)	3,688
Development of claims incurred in prior years	(903)	143	(760)	(263)	36	(227)
Changes in discount rates	(153)	9	(144)	251	(23)	228
Claims paid during the year	(3,046)	134	(2,912)	(3,126)	173	(2,953)
Balance at end of year	\$ 6,973	\$ (444)	\$ 6,529	\$ 7,379	\$ (729)	\$ 6,650

In the normal course of its activities, the damage insurance subsidiaries revise certain actuarial assumptions. As at December 31, 2021 and 2020, changes were made to the actuarial assumptions, more specifically on the estimate of claims incurred but not reported for contracts covering civil liability and accidents in Ontario, on the discount rate and on margins for adverse deviations.

Assumption sensitivity analysis

The following table shows the impact on the Combined Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the "Interest rate risk management" section of this note.

	Changes in actuarial assumptions	Impact on "Net surplus earnings for the year after member dividends"	
		2021	2020
Average claims settlement cost	+ 5%	\$ (308)	\$ (302)

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2011 and before	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimated ultimate claims amount												
At the end of the accident year		\$ 1,375	\$ 1,471	\$ 1,536	\$ 2,186	\$ 2,417	\$ 3,158	\$ 3,691	\$ 4,107	\$ 3,758	\$ 3,684	
1 year later		1,322	1,447	2,453	2,168	2,387	3,121	3,656	4,122	3,443		
2 years later		1,328	2,186	2,349	2,165	2,365	3,086	3,705	4,009			
3 years later		1,967	2,086	2,272	2,117	2,349	3,090	3,590				
4 years later		1,839	1,977	2,184	2,089	2,361	2,993					
5 years later		1,769	1,910	2,105	2,050	2,303						
6 years later		1,717	1,872	2,099	2,040							
7 years later		1,694	1,843	2,042								
8 years later		1,672	1,808									
9 years later		1,654										
Cumulative payments to date		1,570	1,700	1,892	1,878	2,050	2,526	2,860	2,943	2,219	1,688	
Net provisions for claims and adjustment expenses	\$ 289	\$ 84	\$ 108	\$ 150	\$ 162	\$ 253	\$ 467	\$ 730	\$ 1,066	\$ 1,224	\$ 1,996	\$ 6,529
Reinsurers' share in provisions for claims and adjustment expenses	2	—	—	—	105	143	75	46	65	8	—	444
Gross provisions for claims and adjustment expenses	\$ 291	\$ 84	\$ 108	\$ 150	\$ 267	\$ 396	\$ 542	\$ 776	\$ 1,131	\$ 1,232	\$ 1,996	\$ 6,973

Insurance risk management

Insurance risk refers to the risk that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that profitability of these products may be affected.

The life and health insurance subsidiaries are exposed to insurance risk through the products they sell. Depending on the insurance product, these subsidiaries may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose these subsidiaries to expenditure risk.

The property and casualty insurance subsidiaries underwrite automobile, home and commercial property insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: underwriting risk, catastrophe risk and reserve risk.

To manage insurance risk, the insurance subsidiaries apply stringent policies and criteria with respect to product and service development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed.

In addition, for the life and health insurance subsidiaries, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims. With respect to catastrophes, the property and casualty insurance subsidiaries have established a governance structure to monitor the various risks caused by such events and use sophisticated tools to simulate the related financial losses and operational impact. Given the unpredictable nature of large-scale catastrophic events, the property and casualty insurance subsidiaries have a catastrophe reinsurance treaty, which is reviewed at least annually.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Insurance risk management *(continued)*

Use of reinsurance

In order to limit their losses, the life and health and property and casualty insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. This reinsurance structure takes into account their respective risk profile and appetite. In addition, these subsidiaries purchase additional reinsurance protection with respect to large-scale catastrophic events. The retention and limit amounts selected for the property and casualty insurance subsidiaries' catastrophe treaty are subject to a detailed annual review based on these subsidiaries' various catastrophe models and the positioning of their competitors in the industry.

In connection with the acquisition of the Canadian businesses of State Farm, the property and casualty insurance subsidiaries signed a share reinsurance treaty under which, over a five-year period, all premiums and claims from new business and renewals to the acquired businesses occurring after the acquisitions are ceded using percentages decreasing from 90% for the 2015 accident year to 10% for the 2019 accident year. The development of these claims continues to be ceded based on the ceded percentage at the time the claim occurred until the final settlement of the claim. Pursuant to the terms and conditions of the reinsurance treaty, amounts payable and receivable under the treaty will be settled on a net basis.

In order to reduce reinsurance risk, the life and health and property and casualty insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release these subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investments in trust so that it can fulfill its reinsurance obligations.

For the years ended December 31, the impact of reinsurance reduced the Combined Statements of Income items presented in the table below by the following amounts:

	2021			2020		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Premiums	\$ 231	\$ 72	\$ 303	\$ 206	\$ 76	\$ 282
Claims, benefits, annuities and changes in insurance contract liabilities	141	(152)	(11)	208	101	309

Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimum guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimum guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of stock market, exchange rate and interest rate fluctuations on the future cost of guarantees. This program covers all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

Interest rate risk management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Combined Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limits of the gap between the duration of liabilities and the duration of the related assets. These subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Combined Statements of Income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Combined Statements of Income of the life and health insurance subsidiaries. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Combined Statements of Income. However, the subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Combined Statements of Income.

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Insurance risk management *(continued)*

The following table shows, for the years ended December 31, the estimated impact on “Net surplus earnings for the year after member dividends” of a change in interest rates on the life and health insurance subsidiaries’ actuarial liabilities and the assets backing these actuarial liabilities.

	2021	2020
1% increase in interest rates	\$ 88	\$ 68
1% decrease in interest rates	(116)	(92)

The interest rate risk management policy of the property and casualty insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the gap compared to the target duration of the consolidated fixed-income portfolio and as well as the limit of the gap between the duration of assets and liabilities to be backed. The property and casualty insurance subsidiaries’ management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

The following table shows, for the years ended December 31, the estimated impact on “Net surplus earnings for the year after member dividends” of a change in interest rates on the property and casualty insurance subsidiaries’ provisions for claims and adjustment expenses and the assets backing these provisions.

	2021	2020
1% increase in interest rates	\$ 4	\$ 10
1% decrease in interest rates	(8)	92

Liquidity risk management

The life and health insurance subsidiaries manage liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet their financial obligations as they become due, in both routine and crisis situations.

For these subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

For the property and casualty insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities and spreading the collection of insurance premiums throughout the year, which generally supports a large portion of the cash outflows associated with claims and other expenses.

The liquidity risk management policy describes the principles and mechanisms that apply to liquidity risk management. Life and health insurance and property and casualty insurance subsidiaries are responsible, among other things, for measuring, monitoring and controlling the main liquidity indicators that apply to them. This responsibility involves quarterly liquidity monitoring to identify a potential or actual lack of liquidity within the insurance subsidiaries.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Combined Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2021	As at December 31, 2020
Less than 1 year	\$ 3,089	\$ 2,948
1 to 5 years	6,648	6,483
Over 5 years	42,622	38,843
Total	\$ 52,359	\$ 48,274

NOTE 17 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS

Group pension plans

Group pension plans are plans whose risks are shared by entities under common control. Desjardins Group offers a majority of its employees group pension plans and group supplemental pension plans, which provide pension benefits in excess of statutory limits. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a prorata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the consumer price index, up to a maximum of 3% for years of service accumulated before 2013 and 1% for a period of 10 years starting at age 65 for years of service accumulated subsequently.

The DGPP is governed by the *Supplemental Pension Plans Act* (SPPA). The SPPA requires that a retirement committee that assumes the role of administrator and trustee for the plan be formed. The Federation, through its Board of Directors, assumes the responsibilities of the DGPP's sponsor and ensures that the plan is well administered in accordance with the laws and regulations in effect. In addition, the Federation guarantees the obligations resulting from the participation in the plan of all the Desjardins Group employers. The Federation's Board of Directors, acting as the representative for all Desjardins Group employers, is the only governing body with the authority to amend or terminate the plan.

Group post-retirement benefit plan

For employees meeting certain criteria based on age and the number of years of participation in the plan, Desjardins Group also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents through an unfunded defined benefit group plan.

Other plans

The other defined benefit plans offered are pension plans as well as another post-retirement benefit plan that provides medical, dental and life insurance plans whose risks are not shared by entities under common control.

Pension and post-retirement benefit plan risks

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are generally actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to materially differ from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the members' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit decrease the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over a portion of the service lives of employees using accounting policies comparable to those used for defined benefit pension plans.

NOTE 17 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS (continued)

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS (continued)

Risk management

To properly manage the DGPP's risks, the retirement Committee adopted a risk management policy to formalize the framework within which the DGPP's risks are managed and clarify the roles and responsibilities of the parties involved. In addition, delegated to its Investment Management Committee ("IMC") certain powers and responsibilities. The content and accuracy of the risk register is reviewed at least once a year and presented to the IMC and the Retirement Committee, which make comments on them where applicable. The indicators included in the DGPP's risk register are subject to an ongoing oversight and quarterly disclosure through the risk management dashboard, which enables the IMC and the Retirement Committee to ensure that risks are effectively managed and controlled.

The IMC is also responsible for reviewing the investment policy and recommending any changes to it to the Retirement Committee, as well as for adopting any specific investment frameworks. It ensures that such frameworks, including the investment policy, are complied with. Each year, the IMC recommends the asset allocation strategy, adopts the corresponding investment plan and monitors it. It also analyzes investment opportunities presented to it and the related risks. The asset allocation strategy is developed based on strategic indicators representing risk factors, including interest rate risk. A risk factor-based allocation enables complying with risk tolerance in the short term, ensuring adequate risk taking considering the target return and satisfying systematically the plan's obligations.

The investment policy may be amended based on the long-term risk/return relationship on the markets, the DGPP's commitments and financial position, risk tolerance or the legislative environment. This policy provides for market risk mitigation mechanisms. Among other things, the policy establishes limits for each type of investments and limits for the allocation of assets between the various classes, as well as risk parameters for asset allocation. The actual mix of asset portfolios is regularly reviewed, and the rebalancing rules of the investment policy are applied when the actual allocation is outside the allowed limits. Foreign exchange risk is also controlled by the investment policy, which specifies hedging rules.

Funding requirements

The DGPP is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employers' contributions must be equal to the amount that, added to the employees' contributions, is sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan as well as special contributions required to amortize any deficit and cover the stabilization provision. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan. The plan's annual cost comprises contributions for current service, administrative management fees and special contributions required to fund the plans' stabilization provision and deficit, if any.

Pursuant to the SPPA requirements, the DGPP's minimum funding is determined on a going-concern basis. A stabilization provision must be funded through special current service contributions and special amortization payments. Funding and stabilization deficits must be funded over a maximum period of 10 years.

NOTE 17 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS (continued)

RECOGNIZED AMOUNTS

Change in defined benefit plan assets and liabilities

Defined benefit plan assets and liabilities are as follows:

	Group pension plans			Group post-retirement benefit plan	Other plans			Total
	Obligation	Fair value of assets	Total	Obligation	Obligation	Fair value of assets	Total	
As at December 31, 2019	\$ 17,021	\$ 15,064	\$ 1,957	\$ 750	\$ 1,034	\$ 673	\$ 361	\$ 3,068
<i>Amounts recognized in the Combined Statements of Income</i>								
Current service cost	394	—	394	—	38	—	38	432
Net interest expense/income	514	446	68	24	32	21	11	103
Past service cost	(4)	—	(4)	—	—	—	—	(4)
	904	446	458	24	70	21	49	531
<i>Amounts recognized in the Combined Statements of Comprehensive Income</i>								
Difference between the actual return on assets and interest income	—	1,619	(1,619)	—	—	82	(82)	(1,701)
Actuarial gains arising from changes in demographic assumptions	(94)	—	(94)	(6)	(31)	—	(31)	(131)
Actuarial losses arising from changes in financial assumptions	1,499	—	1,499	82	82	—	82	1,663
Experience (gains) losses	137	—	137	11	(1)	—	(1)	147
	1,542	1,619	(77)	87	50	82	(32)	(22)
<i>Other changes</i>								
Participants' contributions	216	216	—	—	—	—	—	—
Employers' contributions	—	400	(400)	—	—	23	(23)	(423)
Benefits paid	(591)	(587)	(4)	(22)	(30)	(18)	(12)	(38)
Other changes	(13)	(4)	(9)	—	(1)	(1)	—	(9)
	(388)	25	(413)	(22)	(31)	4	(35)	(470)
As at December 31, 2020	\$ 19,079	\$ 17,154	\$ 1,925	\$ 839	\$ 1,123	\$ 780	\$ 343	\$ 3,107
<i>Amounts recognized in the Combined Statements of Income</i>								
Current service cost	433	—	433	6	39	—	39	478
Net interest expense/income	432	380	52	17	25	18	7	76
Past service cost	(1)	—	(1)	—	1	—	1	—
	864	380	484	23	65	18	47	554
<i>Amounts recognized in the Combined Statements of Comprehensive Income</i>								
Difference between the actual return on assets and interest income	—	490	(490)	—	—	3	(3)	(493)
Actuarial losses (gains) arising from changes in demographic assumptions	5	—	5	(8)	(3)	—	(3)	(6)
Actuarial gains arising from changes in financial assumptions	(1,572)	—	(1,572)	(83)	(114)	—	(114)	(1,769)
Experience losses	382	—	382	6	6	—	6	394
	(1,185)	490	(1,675)	(85)	(111)	3	(114)	(1,874)
<i>Other changes</i>								
Participants' contributions	236	236	—	—	—	—	—	—
Employers' contributions	—	581	(581)	—	—	186	(186)	(767)
Benefits paid	(624)	(624)	—	(23)	(33)	(20)	(13)	(36)
Other changes	(16)	(18)	2	—	—	—	—	2
	(404)	175	(579)	(23)	(33)	166	(199)	(801)
As at December 31, 2021	\$ 18,354	\$ 18,199	\$ 155	\$ 754	\$ 1,044	\$ 967	\$ 77	\$ 986

NOTE 17 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS (continued)

RECOGNIZED AMOUNTS (continued)

For purposes of reporting on the balance sheet, net defined benefit plan assets and liabilities are presented separately.

	As at December 31, 2021	As at December 31, 2020
Net defined benefit plan assets, included in “Other assets – Other”	\$ 62	\$ —
Net defined benefit plan liabilities	1,048	3,107
	\$ 986	\$ 3,107

Allocation of the main group pension plan assets

The fair value of the main group pension plan assets is detailed as follows:

	As at December 31, 2021 ⁽¹⁾		As at December 31, 2020 ⁽¹⁾	
	Non-quoted in an active market	Quoted in an active market	Non-quoted in an active market	Quoted in an active market
Bonds				
Government of Canada	\$ —	\$ 172	\$ —	\$ 121
Provinces, municipal corporations and other public administrations	48	7,866	60	7,449
Other issuers	4,448	—	4,297	—
Shares	348	4,002	409	3,979
Real estate investments	1,778	—	1,470	—
Infrastructure investments	1,882	—	1,751	—
Cash and money market securities	233	220	194	224
Other	2,143	316	1,753	29
Total	\$ 10,880	\$ 12,576	\$ 9,934	\$ 11,802

⁽¹⁾ Commitments related to securities lent or sold under repurchase agreements deducted from the main group pension plan assets are excluded from the table.

As at December 31, 2021, the DGPP held eligible investments in money market securities issued by Desjardins Group entities and foreign exchange contracts having a total fair value of \$55 million (\$64 million as at December 31, 2020).

NOTE 17 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS (continued)

IMPACT ON CASH FLOWS

Principal actuarial assumptions

The principal actuarial assumptions used to measure the defined benefit plan obligation and cost are as follows:

	As at December 31, 2021		As at December 31, 2020	
	Group pension plans	Group post-retirement benefit plan	Group pension plans	Group post-retirement benefit plan
Discount rate for the obligation ⁽¹⁾	3.30 %	3.20 %	2.70 %	2.60 %
Discount rate for service cost ⁽¹⁾	3.40	3.30	2.85	2.70
Expected rate of salary increases	3.00	3.00	3.00	3.00
Rate used to calculate interest expense on the obligation and assets ⁽¹⁾	2.21	2.02	2.96	2.89
Rate used to calculate interest expense on service cost ⁽¹⁾	2.53	2.33	3.09	3.03
Estimated annual growth rate for covered healthcare cost	—	3.50	—	4.05

⁽¹⁾ Weighted average rate for all plans.

Sensitivity of key assumptions

Because of the long-term nature of employee benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used. The following table shows the impact of a one percentage point change in key assumptions on the defined benefit plan obligation and cost, with all other assumptions remaining constant. In reality, there may be correlations between these assumptions. However, to show the impact of changes in assumptions, they have been modified on an individual basis.

	As at December 31, 2021		As at December 31, 2020	
	Change in obligation	Change in cost recognized	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	\$ (2,763)	\$ (174)	\$ (3,125)	\$ (173)
1% decrease	3,787	247	4,280	245
Expected rate of salary increases				
1% increase	696	89	798	88
1% decrease	(590)	(55)	(678)	(55)
Group post-retirement benefit plan				
Discount rate				
1% increase	(95)	4	(113)	2
1% decrease	119	(6)	144	(3)
Expected rate of salary increases				
1% increase	3	—	4	—
1% decrease	(3)	—	(4)	—
Healthcare costs				
1% increase	51	2	63	2
1% decrease	(43)	(2)	(52)	(2)

Expected contributions for 2022

Desjardins Group expects to contribute \$470 million to its defined benefit pension plans in the next year.

Pension plan obligation maturity profile

For fiscal 2021, the weighted average financial duration was approximately 18 years (19 years in 2020) for the main group pension plan and approximately 14 years (15 years in 2020) for the group post-retirement benefit plan.

NOTE 18 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of “Other liabilities – Other”.

	As at December 31, 2021	As at December 31, 2020
Accounts payable and other accrued liabilities	\$ 3,350	\$ 2,614
Interest payable	855	930
Client contract liabilities	560	496
Taxes payable	462	566
Member dividends payable	387	333
Provisions for risks and expenses	374	379
Borrowings from financial institutions	17	17
Other	1,511	1,153
	\$ 7,516	\$ 6,488

NOTE 19 – SUBORDINATED NOTES

The subordinated notes presented in Desjardins Group's Combined Balance Sheets comprise subordinated notes issued by the Federation. The subordinated notes of the Federation are direct unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors of the Federation. These claims extend to other entities included in the Desjardins Cooperative Group in the event of the dissolution, insolvency, bankruptcy or liquidation of the Federation in accordance with applicable law.

Before December 15, 2021, the subordinated notes also comprised senior notes issued by Desjardins Capital Inc. On December 15, 2021, all outstanding senior notes Series J, amounting to \$500 million, have been called. The gross proceeds of the senior notes issued by Desjardins Capital Inc. was invested in notes issued by the Desjardins caisses in Québec that are subordinated to the claims of depositors and certain other creditors. These senior notes ranked prior, in right of payment, to the subordinated debt securities of Desjardins Capital Inc. and were secured by a hypothec on the subordinated notes issued by the Desjardins caisses in Québec.

Redemptions and cancellations of the notes are subject to the consent and approval of the applicable regulatory authorities. These notes comprise the following items:

	As at December 31, 2021 ⁽²⁾	As at December 31, 2020 ⁽²⁾
Subordinated notes of the Federation (par value of \$1 billion) maturing issued on May 26, 2020 maturing in May 2030, bearing interest at an annual rate of 2.856% for the first 5 years, and for the following 5 years, at an annual rate equal to the 3-month bankers' acceptance plus 2.11%, redeemable at the option of the issuer starting in 2025 ⁽¹⁾	\$ 963	\$ 998
Subordinated notes of the Federation (par value of \$1 billion) issued on May 28, 2021 maturing in May 2031, bearing interest at an annual rate of 1.992% for the first 5 years, and for the following 5 years, at an annual rate equal to the 3-month bankers' acceptance plus 0.60%, redeemable at the option of the issuer starting in 2026 ⁽¹⁾	997	—
Senior notes Series J of Desjardins Capital Inc. (par value of \$500 million), issued on December 15, 2011, bearing interest at an annual rate of 4.954%, called in full during the year	—	495
	\$ 1,960	\$ 1,493

⁽¹⁾ These subordinated notes qualify as Non-Viability Contingent Capital (NVCC). Upon the occurrence of a trigger event, as defined in the regulations governing capital, these notes are automatically and immediately convertible into Class Z-Contingent capital shares of the Federation, the number of which will be equal to (i) the note value multiplied by 1.50 divided by (ii) the conversion price.

⁽²⁾ The carrying amount of subordinated notes includes fair value adjustments when hedge accounting is applied.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

DERIVATIVE FINANCIAL INSTRUMENTS

Desjardins Group's derivative financial instruments include the following types of contracts:

Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. Desjardins Group uses interest rate contracts primarily for asset and liability management purposes.

Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. Desjardins Group uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

Other financial derivative contracts

Other derivative financial contracts used by Desjardins Group include total return swaps and stock index options, which are related to financial index transactions, as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

As at December 31, 2021	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
Designated as hedging instruments⁽¹⁾							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	\$ 193	\$ 1,541	\$ 412	\$ 515	\$ 2,661	\$ 29	\$ 27
Interest rate swaps traded through a clearing house	152	3,666	5,841	15,372	25,031	—	—
Average rate	0.8 %	1.5 %	1.2 %	1.2 %			
	345	5,207	6,253	15,887	27,692	29	27
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	—	948	—	—	948	—	61
CAD-US average rate	—	1.2645	—	—			
	—	948	—	—	948	—	61
Total – Fair value hedges	345	6,155	6,253	15,887	28,640	29	88
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	556	6,056	14	303	6,929	97	17
Interest rate swaps traded through a clearing house	4,780	19,034	10,929	4,000	38,743	—	—
Average rate	1.0 %	1.5 %	1.6 %	1.6 %			
	5,336	25,090	10,943	4,303	45,672	97	17
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	2,262	4,430	7,181	2,045	15,918	—	325
CAD-US average rate	1.2645	—	1.2645	—			
CAD-EUR average rate	—	1.4386	1.4386	1.4386			
	2,262	4,430	7,181	2,045	15,918	—	325
Total – Cash flow hedges	7,598	29,520	18,124	6,348	61,590	97	342
Total – Designated as hedging instruments	\$ 7,943	\$ 35,675	\$ 24,377	\$ 22,235	\$ 90,230	\$ 126	\$ 430

⁽¹⁾ Hedging instruments are presented under “Derivative financial instruments” in the Combined Balance Sheets.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets (continued).

As at December 31, 2021	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
Trading purposes⁽¹⁾							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	\$ 28,653	\$ 35,502	\$ 4,266	\$ 3,711	\$ 72,132	\$ 741	\$ 477
Forward rate agreements	3,009	—	—	—	3,009	32	27
Options purchased	2,690	311	195	—	3,196	16	—
Options written	3,350	283	215	—	3,848	—	17
Contracts traded through a clearing house							
Interest rate swaps	69,771	73,133	63,075	22,314	228,293	—	—
Exchange-traded contracts							
Futures	16,104	3,140	253	—	19,497	—	—
Options purchased	45,197	316	—	—	45,513	34	—
Options written	44,319	316	—	—	44,635	—	30
	213,093	113,001	68,004	26,025	420,123	823	551
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	35,737	1,424	12	—	37,173	259	191
Currency swaps	3,924	523	1	1,178	5,626	71	31
Options purchased	1,364	166	5	—	1,535	21	—
Options written	1,696	155	3	—	1,854	—	35
Exchange-traded contracts							
Futures	5	—	—	—	5	—	—
	42,726	2,268	21	1,178	46,193	351	257
Other contracts⁽²⁾							
Over-the-counter contracts							
Swaps	39	156	313	—	508	3	3
Options purchased	7,142	18,375	10,903	2,302	38,722	4,525	—
Options written	6,928	17,813	10,146	1,696	36,583	—	4,259
Contracts traded through a clearing house							
Swaps	—	—	645	171	816	—	—
Credit default swaps	—	—	379	—	379	—	—
Exchange-traded contracts							
Futures	818	—	—	—	818	—	—
Options purchased	1	2	—	—	3	—	—
	14,928	36,346	22,386	4,169	77,829	4,528	4,262
Total – Trading purposes	\$ 270,747	\$ 151,615	\$ 90,411	\$ 31,372	\$ 544,145	\$ 5,702	\$ 5,070
Total derivative financial instruments before impact of master netting agreements	\$ 278,690	\$ 187,290	\$ 114,788	\$ 53,607	\$ 634,375	\$ 5,828	\$ 5,500
Less:							
Impact of master netting agreements ⁽³⁾	—	—	—	—	—	1,061	1,061
Total derivative financial instruments after impact of master netting agreements	\$ 278,690	\$ 187,290	\$ 114,788	\$ 53,607	\$ 634,375	\$ 4,767	\$ 4,439

⁽¹⁾ As at December 31, 2021, include derivatives with notional amounts totalling \$636 million that would have been designated as hedging instruments if Desjardins Group had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Significant accounting policies".

⁽²⁾ Include contracts related to indexed term savings products.

⁽³⁾ Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

As at December 31, 2020	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
Designated as hedging instruments⁽¹⁾							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the counter interest rate swaps	\$ 229	\$ 2,016	\$ 1,270	\$ 1,057	\$ 4,572	\$ 158	\$ 69
Interest rate swaps traded through a clearing house	134	3,312	5,776	14,541	23,763	—	—
Average rate	0.7 %	1.2 %	1.6 %	1.1 %			
	363	5,328	7,046	15,598	28,335	158	69
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	1,555	3,394	3,217	778	8,944	190	74
CAD-US average rate	—	1.2729	1.2729	—			
CAD-EUR average rate	1.5550	1.5550	1.5550	—			
	1,555	3,394	3,217	778	8,944	190	74
Total – Fair value hedges	1,918	8,722	10,263	16,376	37,279	348	143
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	2,264	4,217	5,755	601	12,837	394	145
Interest rate swaps traded through a clearing house	950	12,697	8,201	1,379	23,227	—	—
Average rate	1.7 %	1.4 %	1.5 %	1.4 %			
Total – Cash flow hedges	3,214	16,914	13,956	1,980	36,064	394	145
Total – Designated as hedging instruments	\$ 5,132	\$ 25,636	\$ 24,219	\$ 18,356	\$ 73,343	\$ 742	\$ 288

⁽¹⁾ Hedging instruments are presented under "Derivative financial instruments" in the Combined Balance Sheets.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets (continued).

As at December 31, 2020	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
Trading purposes⁽¹⁾							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	\$ 37,324	\$ 49,768	\$ 12,486	\$ 4,171	\$ 103,749	\$ 1,979	\$ 1,267
Forward rate agreements	1,773	—	—	—	1,773	11	16
Options purchased	255	479	40	—	774	7	—
Options written	194	406	91	—	691	—	3
Contracts traded through a clearing house							
Interest rate swaps	43,968	46,886	33,159	14,659	138,672	—	—
Exchange-traded contracts							
Futures	5,908	1,640	—	—	7,548	—	—
Options purchased	33,953	—	—	—	33,953	6	—
Options written	32,204	—	—	—	32,204	—	7
	155,579	99,179	45,776	18,830	319,364	2,003	1,293
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	32,277	805	53	—	33,135	252	498
Currency swaps	1,610	39	385	680	2,714	11	102
Options purchased	532	305	—	—	837	12	—
Options written	1,008	304	—	—	1,312	—	38
Exchange-traded contracts							
Futures	4	—	—	—	4	—	—
	35,431	1,453	438	680	38,002	275	638
Other contracts⁽²⁾							
Over-the-counter contracts							
Swaps	9	117	193	—	319	5	5
Options purchased	7,198	15,705	12,398	360	35,661	2,795	—
Options written	6,943	15,138	11,980	210	34,271	—	2,660
Contracts traded through a clearing house							
Swaps	—	—	649	—	649	—	—
Exchange-traded contracts							
Futures	1,049	—	—	—	1,049	—	—
Options purchased	4	2	—	—	6	—	—
	15,203	30,962	25,220	570	71,955	2,800	2,665
Total – Trading purposes	\$ 206,213	\$ 131,594	\$ 71,434	\$ 20,080	\$ 429,321	\$ 5,078	\$ 4,596
Total derivative financial instruments before impact of master netting agreements	\$ 211,345	\$ 157,230	\$ 95,653	\$ 38,436	\$ 502,664	\$ 5,820	\$ 4,884
Less:							
Impact of master netting agreements ⁽³⁾	—	—	—	—	—	1,858	1,858
Total derivative financial instruments after impact of master netting agreements	\$ 211,345	\$ 157,230	\$ 95,653	\$ 38,436	\$ 502,664	\$ 3,962	\$ 3,026

⁽¹⁾ As at December 31, 2020, include derivatives with notional amounts totalling \$470 million that would have been designated as hedging instruments if Desjardins Group had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Significant accounting policies".

⁽²⁾ Include contracts related to indexed term savings products.

⁽³⁾ Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The manner in which Desjardins Group assesses market risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, “Risk Management”, of the Management’s Discussion and Analysis.

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. In addition, when a financial instrument is denominated in a foreign currency, Desjardins Group may enter into fair value hedges by using currency swaps or cross-currency interest rate swaps. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. Desjardins Group uses fair value hedge strategies for its loan, deposit and securities portfolios.

Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. Desjardins Group uses cash flow hedge strategies for its loan, deposit and securities portfolios.

Effectiveness assessment and sources of hedging relationship ineffectiveness

Desjardins Group assesses the effectiveness of a hedging relationship by comparing the change in fair value or cash flows of the hedging instrument with that of the hedged item attributable to the hedged risk to demonstrate the existence of a highly effective correlation between the two instruments. When derivative financial instruments are designated as hedging instruments for a currency risk, only the change in currency risk is taken into account to assess hedge effectiveness.

There is ineffectiveness when the change in fair value of the hedged item attributable to the hedged risk differs from the change in fair value of the hedging instrument. The main sources of ineffectiveness are a difference between the actual and expected repricing dates, a difference between the discounting factors used and a difference between the payment dates for the hedging instrument and the hedged item.

The following table presents information on the ineffectiveness of fair value hedges.

	As at December 31, 2021		As at December 31, 2020	
	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss ⁽¹⁾	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss ⁽¹⁾
Fair value hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	\$ (55)	\$ —	\$ 164	\$ 2
Interest rate swaps traded through a clearing house	686	(13)	91	(1)
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	(368)	14	217	(23)
Total – Fair value hedges	\$ 263	\$ 1	\$ 472	\$ (22)

⁽¹⁾ The hedge ineffectiveness and reclassification adjustment are recognized under “Net investment income”.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*HEDGING ACTIVITIES *(continued)*Effectiveness assessment and sources of hedging relationship ineffectiveness *(continued)*

The following tables present information on the ineffectiveness of cash flow hedges for the years ended December 31.

2021	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss ⁽¹⁾	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss Active hedges ⁽²⁾
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	\$ (174)	\$ (4)	\$ (178)	\$ (45)
Interest rate swaps traded through a clearing house	(268)	4	(275)	(36)
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	(3)	2	18	—
Total – Cash flow hedges	\$ (445)	\$ 2	\$ (435)	\$ (81)

⁽¹⁾ The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

⁽²⁾ The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

2020	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss ⁽¹⁾	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss Active hedges ⁽²⁾
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	\$ 374	\$ 7	\$ 368	\$ (13)
Interest rate swaps traded through a clearing house	349	7	341	(18)
Total – Cash flow hedges	\$ 723	\$ 14	\$ 709	\$ (31)

⁽¹⁾ The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

⁽²⁾ The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

HEDGING ACTIVITIES (continued)

Effectiveness assessment and sources of hedging relationship ineffectiveness (continued)

The following tables present the impact of hedge accounting on balances recognized in the Combined Balance Sheets and in accumulated other comprehensive income.

	Cash flow hedges			Fair value hedges			
	Balance of the cash flow hedge reserve	Balance of the reserve for discontinued hedges	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year
As at December 31, 2021							
Interest rate risk							
Assets							
Securities	\$ 2	\$ 4	\$ 12	\$ 20,645	\$ —	\$ —	\$ (838)
Loans	(118)	144	699	1,283	(3)	—	(33)
Liabilities							
Deposits	\$ 103	\$ (36)	\$ (247)	\$ 6,571	\$ 63	\$ (122)	\$ 210
Subordinated notes	—	—	—	362	12	6	18
Currency risk							
Liabilities							
Deposits	\$ 18	\$ —	\$ 8	\$ 938	\$ 11	\$ (57)	\$ 382

	Cash flow hedges			Fair value hedges			
	Balance of the cash flow hedge reserve	Balance of the reserve for discontinued hedges	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year
As at December 31, 2020							
Interest rate risk							
Assets							
Securities	\$ 14	\$ 7	\$ (15)	\$ 23,429	\$ —	\$ —	\$ 30
Loans	583	232	(900)	1,345	32	—	40
Liabilities							
Deposits	\$ (163)	\$ (40)	\$ 207	\$ 5,527	\$ (190)	\$ (99)	\$ (325)
Currency risk							
Liabilities							
Deposits	\$ —	\$ —	\$ —	\$ 9,082	\$ (151)	\$ —	\$ (240)

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins Group. The manner in which Desjardins Group assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Combined Financial Statements.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
Credit risk equivalent	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by Basel III.
Risk-weighted balance	The balance weighted by the risks related to the creditworthiness of counterparties, determined using methods prescribed by Basel III.

The following table gives an overview of Desjardins Group's derivative financial instruments portfolio and related credit risk, before and after the impact of master netting agreements.

	As at December 31, 2021				As at December 31, 2020			
	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Interest rate swaps	\$ 373,789	\$ 867	\$ 406	\$ 510	\$ 306,820	\$ 2,531	\$ 796	\$ 1,038
Forward rate agreements	3,009	—	64	64	1,773	—	28	24
Futures	19,497	32	1	—	7,548	11	1	—
Options purchased	48,709	50	5	13	34,727	14	8	3
Options written	48,483	—	—	—	32,895	—	—	—
	493,487	949	476	587	383,763	2,556	833	1,065
Foreign exchange contracts								
Forward agreements	37,173	259	390	372	33,135	251	391	330
Futures	5	—	—	—	4	—	—	—
Currency swaps	22,492	71	166	165	11,658	201	125	117
Options purchased	1,535	21	54	93	837	12	31	20
Options written	1,854	—	—	—	1,312	—	—	—
	63,059	351	610	630	46,946	464	547	467
Other contracts								
Swaps	1,324	3	66	40	968	5	16	3
Futures	818	—	—	—	1,049	—	—	—
Options purchased	38,725	4,525	3,300	2,972	35,667	2,795	2,965	2,392
Options written	36,583	—	—	—	34,271	—	—	—
Credit default swaps	379	—	25	—	—	—	—	—
	77,829	4,528	3,391	3,012	71,955	2,800	2,981	2,395
Total derivative financial instruments before impact of master netting agreements	\$ 634,375	\$ 5,828	\$ 4,477	\$ 4,229	\$ 502,664	\$ 5,820	\$ 4,361	\$ 3,927
Less:								
Impact of master netting agreements ⁽¹⁾	—	1,061	—	50	—	1,858	—	82
Total derivative financial instruments after impact of master netting agreements	\$ 634,375	\$ 4,767	\$ 4,477	\$ 4,179	\$ 502,664	\$ 3,962	\$ 4,361	\$ 3,845

⁽¹⁾ Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK *(continued)*

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

	As at December 31, 2021		As at December 31, 2020	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating ⁽¹⁾				
AAA, AA+, AA, AA-	\$ 2,069	\$ 811	\$ 3,559	\$ 828
A+, A, A-	3,491	2,243	2,015	1,835
BBB, B, BB-, BBB-	125	377	90	235
CCC, CC, C	—	—	—	1
Not rated	143	798	156	1,028
	5,828	4,229	5,820	3,927
Less:				
Impact of master netting agreements ⁽²⁾	1,061	50	1,858	82
Total after impact of master netting agreements	\$ 4,767	\$ 4,179	\$ 3,962	\$ 3,845
Type of counterparty				
Financial institutions	\$ 5,541	\$ 3,010	\$ 5,568	\$ 2,680
Other	287	1,219	252	1,247
	5,828	4,229	5,820	3,927
Less:				
Impact of master netting agreements ⁽²⁾	1,061	50	1,858	82
Total after impact of master netting agreements	\$ 4,767	\$ 4,179	\$ 3,962	\$ 3,845

⁽¹⁾ Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group. Although the table presents information by external rating, risk-weighted assets have been calculated using internal ratings.

⁽²⁾ Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – SIGNIFICANT TRANSACTIONS

Year ended December 31, 2021

On September 1, 2021, Desjardins Group, through Desjardins Global Asset Management Inc., a wholly-owned indirect subsidiary of the Federation, acquired the assets of investment firm Hexavest Inc., which serves a primarily institutional clientele located mainly in Canada and also internationally. The transaction represents a business combination, and the purchase price allocation was completed during the year ended December 31, 2021. Closing fees directly attributable to the acquisition were recognized under “Non-interest expenses – Other”.

Year ended December 31, 2020

On July 15, 2020, Desjardins Group acquired, through 9420-7404 Québec inc., the Canadian real estate operations of Purplebricks Group plc for a total amount of \$62 million. 9420-7404 Québec inc. mainly operates two brands, DuProprio and FairSquare (Purplebricks Canada before December 1, 2021). The determination of the fair value of identifiable assets and liabilities acquired, amounting to \$80 million and \$29 million, respectively, was completed during the year ended December 31, 2020. The transaction resulted in the recognition of intangible assets of \$25 million and goodwill of \$35 million. Closing costs directly attributable to the acquisition were recognized under “Non-interest expenses – Other”.

NOTE 22 – CAPITAL STOCK

AUTHORIZED

Capital stock comprises qualifying shares, permanent shares, surplus shares and capital shares.

The caisses may issue an unlimited number of qualifying shares with a par value of \$5, redeemable at the option of the caisses in the cases set forth in the Act. Qualifying shares give their member holder one vote for the caisse that issued them, regardless of the number of qualifying shares of such caisse held.

The Act authorizes the issuance of an unlimited number of permanent and surplus shares with a par value of \$10 and \$1, respectively. These shares do not carry any voting rights and cannot be redeemed except under certain conditions stipulated by the Act. The interest rate on the shares, if any, is determined by the Federation's Board of Directors, which approves annually the surplus earnings that can be appropriated to the payment of interest on such shares. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval.

The Federation may issue an unlimited number of F capital shares and contingent Z-capital shares (Z capital shares) with a par value of \$10. These shares do not carry any voting rights. F capital shares may be issued only to members of Desjardins caisses in Québec, including their auxiliary members. Z capital shares may be issued to any person in accordance with the Act, but only for converting non-viability contingent capital instruments of the Federation or at the discretion of the Federation after such conversion. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, F and Z capital shares if any, at any time. The Federation may also purchase, in whole or in part, F and Z capital shares, if any, by private agreement, at any time, with the authorization of the AMF. The interest rate on F and Z capital shares, if any, is determined by the Federation's Board of Directors, which approves annually the surplus earnings that may be allocated to the payment of interest on these capital shares. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2021	As at December 31, 2020
Qualifying shares	\$ 25	\$ 25
Permanent shares	75	107
Surplus shares	18	24
F capital shares	4,864	4,865
	\$ 4,982	\$ 5,021

REDEMPTION OF SHARES

Permanent shares

In 2018, the AMF authorized, subject to certain conditions, the redemption for cancellation of all permanent shares.

Surplus shares

In 2014, the AMF authorized, subject to certain conditions, the redemption for cancellation of all surplus shares.

NOTE 23 – SHARE CAPITAL

AUTHORIZED

There is an unlimited number of Class A preferred shares, offered only to members of CDO, non-voting, without par value, redeemable at the option of the issuer, i.e. CDO, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative.

There is an unlimited number of Class B preferred shares, non-voting, without par value, redeemable at the option of the issuer, i.e. CDO, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

NOTE 24 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the main components of “Accumulated other comprehensive income” (net of taxes).

	As at December 31, 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 (losses) on debt securities classified as at fair value through other comprehensive income ⁽¹⁾	\$ 233	\$ (1)	\$ 670	\$ 7
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	448	33	166	7
Net gains on derivative financial instruments designated as cash flow hedges	84	—	466	—
Accumulated other comprehensive income	\$ 765	\$ 32	\$ 1,302	\$ 14

⁽¹⁾ Reflects an allowance for credit losses of \$4 million as at December 31, 2021 (\$4 million as at December 31, 2020) on securities classified as at fair value through other comprehensive income.

NOTE 25 – CAPITAL MANAGEMENT

The goal of capital management at Desjardins Group is to ensure that the capital level is consistent with its risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members, clients and creditors, and regulators' expectations and requirements. Capital is managed in accordance with the Desjardins Group capital management policy approved by the Federation's Board of Directors.

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The regulatory capital adequacy and composition of Desjardins Group as a whole are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF, which is derived from the normative framework developed by the Basel Committee on Banking Supervision, and reflect the applicable relief measures implemented by the AMF in response to the COVID-19 pandemic. The guideline requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components. The holding company Desjardins Financial Corporation Inc. is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF. Consequently, for purposes of calculating capital, the holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and partly deducted from capital, in accordance with the significant investments rules set out in the guideline.

Some subsidiaries included in the scope of Desjardins Group are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements. Desjardins Group monitors and manages these entities' capital requirements to ensure capital is effectively used and regulations are complied with on an ongoing basis.

Desjardins Group's capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets (RWA). As it was designated by the AMF as a domestic systemically important financial institution, Desjardins Group is subject to an additional capital surcharge of 1% and must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. These ratios include a 2.5% capital conservation buffer. Desjardins Group is also subject to an RWA floor. When modeled RWA is less than RWA calculated using the Standardized Approach multiplied by a factor determined by the AMF, the difference is added to the denominator for regulatory capital ratios in accordance with the provisions of the guideline.

NOTE 25 – CAPITAL MANAGEMENT (continued)

REGULATORY CAPITAL

The regulatory capital of Desjardins Group differs from the equity disclosed in the Combined Balance Sheets. It comprises the following components:

- (i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1A (core capital) and Tier 1B (additional capital). Tier 1A capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings and accumulated other comprehensive income. Tier 1B capital consists of non-controlling interests. Non-controlling interests are determined, in particular, based on the nature of the operations and the capitalization of the investee.
- (ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It comprises subordinated notes qualified as Non-Viability Contingent Capital (NVCC), eligible qualifying shares and the eligible portion of the collective allowance. Furthermore, all senior notes subject to phase-out have been called on December 15, 2021.

Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3.5%. This ratio is determined by dividing Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet exposures.

The following table presents the regulatory capital balances, risk-weighted assets and capital ratios.

(in millions of dollars and as a percentage)	As at December 31, 2021	As at December 31, 2020
Capital		
Tier 1A capital	\$ 28,437	\$ 26,317
Tier 1 capital	28,437	26,317
Total capital	29,721	27,114
Risk-weighted assets		
Credit risk	117,168	103,658
Market risk	2,874	2,561
Operational risk	14,476	13,705
Total risk-weighted assets before RWA floor	\$ 134,518	\$ 119,924
RWA floor	—	177
Total risk-weighted assets	\$ 134,518	\$ 120,101
Ratios and leverage ratio exposure		
Tier 1A capital	21.1 %	21.9 %
Tier 1 capital	21.1	21.9
Total capital	22.1	22.6
Leverage	8.5	8.5
Leverage ratio exposure	\$ 336,136	\$ 307,925

COMPLIANCE WITH REQUIREMENTS

Desjardins Group and all its components that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2021, as they were in the previous year.

NOTE 26 – NET INTEREST INCOME AND NET INVESTMENT INCOME

NET INTEREST INCOME

The following table presents the breakdown of net interest income according to the classification of financial assets and liabilities.

For the years ended December 31	2021	2020
Interest income on financial assets		
At amortized cost	\$ 6,967	\$ 7,312
At fair value through other comprehensive income	420	443
At fair value through profit or loss	14	11
	7,401	7,766
Interest expense on financial liabilities		
At amortized cost	1,599	2,110
At fair value through profit or loss	16	16
	1,615	2,126
	\$ 5,786	\$ 5,640

NET INVESTMENT INCOME

The following table presents the breakdown of investment income and loss according to the classification of financial assets and liabilities.

For the years ended December 31	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 on financial assets and liabilities						
Classified as at fair value through profit or loss	\$ 333	\$ 525	\$ 858	\$ 276	\$ 274	\$ 550
Designated as at fair value through profit or loss	516	(1,300)	(784)	516	1,338	1,854
Classified as at fair value through other comprehensive income	109	(24)	85	110	343	453
At amortized cost and other	129	31	160	124	135	259
	\$ 1,087	\$ (768)	\$ 319	\$ 1,026	\$ 2,090	\$ 3,116

NOTE 27 – NON-INTEREST EXPENSE – OTHER

For the years ended December 31, “Non-interest expense – Other” presented in the Combined Statements of Income consisted of the following:

	2021	2020
Commissions	\$ 869	\$ 764
Recovery of expenses related to reinsurance	(32)	(27)
Professional fees	1,013	664
Business and capital taxes	459	418
Other employee expenses	132	153
Sponsorships, donations and scholarships	110	72
Amortization of intangible assets	93	77
Expenses related to deposits, services and other	23	27
Other	987	871
	\$ 3,654	\$ 3,019

NOTE 28 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense recognized in the Combined Financial Statements for the years ended December 31 is detailed as follows:

	2021	2020
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	\$ 963	\$ 800
Adjustments for current tax of prior years	(14)	(92)
Current tax recovery on remuneration on capital stock	(55)	(55)
Tax recovery on member dividends	(103)	(85)
	791	568
Deferred income taxes		
Origination and reversal of temporary differences	(36)	(68)
Adjustments for deferred tax of prior years	2	76
	(34)	8
	\$ 757	\$ 576
Combined Statements of Comprehensive Income		
Current income taxes	\$ (26)	\$ 169
Deferred income taxes	327	219
	301	388
Total income tax expense	\$ 1,058	\$ 964

Income taxes on surplus earnings presented in the Combined Statements of Income for the years ended December 31 are detailed as follows:

	2021	2020
Income taxes on surplus earnings	\$ 860	\$ 661
Tax recovery on member dividends	(103)	(85)
Income taxes on surplus earnings	\$ 757	\$ 576

NOTE 28 – INCOME TAXES ON SURPLUS EARNINGS (continued)

TAX RATE RECONCILIATION

The income tax expense on surplus earnings recognized in the Combined Statements of Income for the years ended December 31 differs from the income tax expense determined using the Canadian statutory rate for the following reasons:

	2021	2020
Income taxes at the combined Canadian federal and provincial statutory rate of 26.36% (26.26% in 2020)	\$ 1,003	\$ 810
Tax recovery on member dividends	(103)	(85)
Small business deduction	(12)	(10)
Non-taxable investment income and other items	(92)	(87)
Non-deductible expenses	19	16
Adjustment for current and deferred tax of prior years	(12)	(16)
Tax recovery on remuneration on capital stock	(55)	(55)
Other	9	3
	\$ 757	\$ 576

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		Combined Statements of Income	
	As at December 31, 2021	As at December 31, 2020	2021	2020
Deferred tax assets				
Lease liabilities	\$ 155	\$ 165	\$ 10	\$ (2)
Allowance for credit losses	194	214	20	(54)
Net defined benefit plan liabilities	258	815	38	(10)
Tax losses	209	157	(52)	64
Other	107	83	(25)	5
	923	1,434	(9)	3
Deferred tax liabilities				
Property, plant and equipment, intangible assets and investment property	131	158	(27)	1
Right-of-use assets	148	159	(11)	1
Securities and other financial instruments	47	255	(16)	13
Insurance contract liabilities	109	80	29	(10)
	435	652	(25)	5
Net deferred income tax assets (liabilities)	\$ 488	\$ 782	\$ (34)	\$ 8

For the purposes of presenting the Combined Balance Sheets, deferred tax assets and liabilities are measured by legal entities and presented as follows:

	As at December 31, 2021	As at December 31, 2020
Deferred tax assets ⁽¹⁾	\$ 789	\$ 1,154
Deferred tax liabilities ⁽¹⁾	301	372
	\$ 488	\$ 782

⁽¹⁾ Deferred income taxes will reverse mainly in the long term.

The amount of deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Combined Balance Sheets was \$20 million (\$20 million as at December 31, 2020).

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, Desjardins Group uses credit instruments and off-balance sheet guarantees to meet the financing needs of its members and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that Desjardins Group granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that Desjardins Group could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that Desjardins Group could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater than the amount recognized in the Combined Balance Sheets.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Combined Balance Sheets expose Desjardins Group to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2021	As at December 31, 2020
Commitments		
Credit commitments	\$ 127,460	\$ 122,312
Indemnification commitments related to securities lending	2,382	1,702
Documentary letters of credit	18	132
Financial guarantees		
Guarantees and standby letters of credit	1,400	1,037
Credit default swaps	645	649

Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Indemnification commitments related to securities lending

As part of its asset custody operations, Desjardins Group enters into securities lending agreements with clients. Desjardins Group makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount. There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

Documentary letters of credit

Documentary letters of credit are instruments issued for a member or a client and represent Desjardins Group's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. Desjardins Group is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by Desjardins Group to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans.

Credit default swaps

In the normal course of its investment operations, Desjardins Group entered into credit default swaps and undertook to assume the credit risk for the bonds that constitute the underlying assets for these swaps. The guarantee given is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (continued)

COMMITMENTS AND FINANCIAL GUARANTEES (continued)

Other indemnification agreements

In the normal course of its operations, Desjardins Group enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, Desjardins Group may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that Desjardins Group could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, Desjardins Group enters into asset pledge agreements and receives from its members and clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor's right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of Desjardins Group's financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	As at December 31, 2021	As at December 31, 2020
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	\$ 535	\$ 359
Securities	31,357	20,571
Loans	25,057	27,586
	56,949	48,516
Assets from third parties:		
Assets held as collateral that may be sold or repledged	17,968	14,654
Less: Assets not sold or not repledged	636	839
	17,332	13,815
	\$ 74,281	\$ 62,331
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	\$ 35,806	\$ 23,625
Transactions involving commitments related to securities sold short	10,827	8,808
Securitization transactions	12,828	12,295
Covered bonds	12,687	11,622
Transactions on derivative financial instruments	138	178
Clearing systems, payment systems and depositories ⁽¹⁾	1,324	4,842
Transactions involving provisions for claims and adjustment expenses ⁽²⁾	671	961
	\$ 74,281	\$ 62,331

⁽¹⁾ In the normal course of its operations, Desjardins Group must pledge intraday collateral to the Bank of Canada for the use of the Large Value Transfer System. Such collateral is excluded as it is released back at the end of the daily settlement cycle.

⁽²⁾ Represent securities pledged as collateral in connection with the reinsurance treaty that transferred, at the date of acquisition, the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to Desjardins Group.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

PRIVACY BREACH

On December 16, 2021, Desjardins Group announced that a settlement agreement was concluded with the plaintiffs after they filed class actions in connection with the privacy breach announced in June 2019. The settlement agreement submitted to the Superior Court of Québec for approval allows for a maximum amount of \$201 million to be paid out as individual recovery to eligible individuals who will file a claim following the approval by the Court. The Combined Financial Statements as at December 31, 2021 reflect the financial impact of this settlement.

LITIGATION

In the normal course of its business, Desjardins Group is involved in various litigation matters and legal proceedings. It is not currently possible to predict the outcome of certain of these litigation matters and legal proceedings, the timing of such outcomes, or the potential impact on Desjardins Group's financial position. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and legal proceedings, to the extent that it can be measured, could have an impact on Desjardins Group's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which Desjardins Group assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas and tables marked with an asterisk (*) presented in that section are an integral part of these Combined Financial Statements. In addition, information on credit risk related to the recognition and measurement of expected credit losses are presented in these Combined Financial Statements, mainly in Note 2, "Significant accounting policies", and in Note 7, "Loans and allowance for credit losses".

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS

The following tables present assets and liabilities recorded on the Combined Balance Sheets and off-balance sheet commitments at their carrying amount and classified according to their residual contractual maturities. The classification of maturities is an information source with regard to liquidity and financing risk, but it differs from the analysis performed by Desjardins Group to determine the expected maturity of the items for liquidity risk management purposes. Many factors other than contractual maturity are taken into consideration to measure expected future cash flows and liquidity risk.

The value of credit commitments presented in these tables represents the maximum amount of additional credit that Desjardins Group could be required to grant if the commitments were fully used. The value of guarantees and standby letters of credit correspond to the maximum cash outflows that Desjardins Group could be required to make in the event of complete default of the parties to guarantees, without taking any possible recovery into account. These commitments and guarantees do not necessarily represent future liquidity needs, because a large portion of these instruments will expire or be cancelled without giving rise to any cash outflows.

Note 16, "Insurance contract liabilities", provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2021	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	\$ 15,867	\$ 461	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 16,328
Securities										
Securities at fair value through profit or loss ⁽¹⁾	60	591	1,196	319	1,105	1,726	5,933	22,649	6,193	39,772
Securities at fair value through other comprehensive income ⁽¹⁾	403	665	265	683	1,147	7,353	24,363	18,335	72	53,286
Securities at amortized cost	—	—	1	1	—	1	4	34	—	41
Securities borrowed or purchased under reverse repurchase agreements	10,859	1,103	57	—	—	—	—	—	—	12,019
Loans										
Residential mortgages ⁽²⁾	2,688	3,460	6,964	6,040	7,046	20,561	86,855	9,318	6,763	149,695
Consumer, credit card and other personal loans ⁽²⁾	61	89	186	253	308	1,375	5,450	7,730	8,934	24,386
Business and government ⁽²⁾	12,516	5,665	5,399	4,880	5,341	4,735	10,774	2,527	5,563	57,400
Allowance for credit losses	—	—	—	—	—	—	—	—	(970)	(970)
Segregated fund net assets	—	—	—	—	—	—	—	—	22,804	22,804
Clients' liability under acceptances	233	35	—	—	—	—	—	—	—	268
Premiums receivable	169	64	14	2	—	—	—	—	2,590	2,839
Derivative financial instruments	238	206	421	204	381	1,879	2,207	292	—	5,828
Amounts receivable from clients, brokers and financial institutions	1,769	3	—	—	—	—	—	—	785	2,557
Reinsurance assets	27	48	58	50	47	124	255	973	—	1,582
Right-of-use assets	—	—	—	—	—	—	—	—	530	530
Investment property	—	—	—	—	—	—	—	—	926	926
Property, plant and equipment	—	—	—	—	—	—	—	—	1,531	1,531
Goodwill	—	—	—	—	—	—	—	—	157	157
Intangible assets	—	—	—	—	—	—	—	—	497	497
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,380	1,380
Deferred tax assets	—	—	—	—	—	—	—	—	789	789
Other assets	710	362	185	13	20	21	50	12	2,067	3,440
Total assets	\$ 45,600	\$ 12,752	\$ 14,746	\$ 12,445	\$ 15,395	\$ 37,775	\$ 135,891	\$ 61,870	\$ 60,611	\$ 397,085

For footnotes see next page.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2021	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals ⁽³⁾	\$ 4,858	\$ 4,425	\$ 10,317	\$ 4,962	\$ 7,389	\$ 14,429	\$ 13,352	\$ 390	\$ 76,210	\$ 136,332
Business and government ⁽³⁾	7,622	8,001	2,366	3,411	1,597	6,334	15,431	3,823	53,059	101,644
Deposit-taking institutions ⁽³⁾	20	1	1	3	2	5	4	—	343	379
Acceptances	233	35	—	—	—	—	—	—	—	268
Commitments related to securities sold short ⁽⁴⁾	147	536	133	40	8	1,240	2,637	6,597	4	11,342
Commitments related to securities lent or sold under repurchase agreements	31,177	—	—	—	—	—	—	—	—	31,177
Derivative financial instruments	155	187	377	260	348	1,822	2,198	153	—	5,500
Amounts payable to clients, brokers and financial institutions	1,040	2	—	—	—	—	—	—	6,896	7,938
Lease liabilities	6	10	16	15	15	60	162	303	9	596
Insurance contract liabilities	462	807	1,036	911	856	2,219	4,681	20,728	3,062	34,762
Segregated fund net liabilities	—	—	—	—	—	—	—	—	22,796	22,796
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	1,048	1,048
Deferred tax liabilities	—	—	—	—	—	—	—	—	301	301
Other liabilities	2,933	1,013	677	57	52	149	109	29	2,497	7,516
Subordinated notes	—	—	—	—	—	—	—	1,960	—	1,960
Total equity	—	—	—	—	—	—	—	—	33,526	33,526
Total liabilities and equity	\$ 48,653	\$ 15,017	\$ 14,923	\$ 9,659	\$ 10,267	\$ 26,258	\$ 38,574	\$ 33,983	\$ 199,751	\$ 397,085
Off-balance sheet commitments										
Credit commitments ⁽⁵⁾	\$ 744	\$ 81	\$ 739	\$ 1,002	\$ 742	\$ 2,596	\$ 10,408	\$ 126	\$ 111,022	\$ 127,460
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	2,382	2,382
Documentary letters of credit	7	2	6	1	2	—	—	—	—	18
Guarantees and standby letters of credit	219	224	337	303	200	25	34	41	17	1,400
Credit default swaps	—	—	—	—	—	—	645	—	—	645

⁽¹⁾ Equity securities are classified under "No stated maturity".

⁽²⁾ Amounts repayable on demand are classified under "No stated maturity".

⁽³⁾ Deposits payable on demand or upon notice are considered as having "No stated maturity".

⁽⁴⁾ Amounts are presented by remaining contractual maturity of the underlying security.

⁽⁵⁾ Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)

As at December 31, 2020	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	629	644	625	1,749	6,738	23,207	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	\$ 11,220	\$ 15,310	\$ 13,045	\$ 16,503	\$ 38,662	\$ 119,077	\$ 56,535	\$ 53,874	\$ 362,035

For footnotes see next page.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2020	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 upon notice are considered as having "No stated maturity".

⁽⁴⁾ Amounts are presented by remaining contractual maturity of the underlying security.

⁽⁵⁾ Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion.

NOTE 31 – SEGMENTED INFORMATION

Desjardins Group's financial reporting is grouped by activities, which are defined based on the needs of its members and clients and the markets in which Desjardins Group operates and reflect Desjardins Group's internal management method. Accordingly, Desjardins Group's financial results are grouped in three business segments, namely Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty insurance, plus an "Other" category.

The Personal and Business Services segment offers Desjardins Group's members and clients a comprehensive, integrated offering designed to meet the needs of individuals, businesses, institutions, not-for-profit organizations and cooperatives through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. This offering meets a range of needs including day-to-day transactions, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice and, through its distribution network, life and health and property and casualty insurance products. This segment also offers its products and services through complementary distribution networks and mortgage representatives, by phone, online and via applications for mobile devices, as well as ATMs.

The Wealth Management and Life and Health Insurance segment provides various categories of service offerings aimed at increasing the wealth of members and clients of Desjardins Group and helping them protect their financial security. These offerings are intended for individuals and businesses, while group insurance or savings plans meet the needs of employees through their businesses or those of individuals who are part of any other group. This segment designs several lines of life and health insurance protection and savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private management products. This segment also includes asset management for institutional clients. Its products and services are distributed through employees of the caisse network and Desjardins Business centres, financial security advisors, investment advisors, private managers, exclusive agents, independent partners, actuarial consulting firms and group plan representatives. Certain product lines are also distributed online, via applications for mobile devices and through client care centres. This segment also includes the operations of the interest in Aviso Wealth.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in Québec and outside Québec, online and via applications for mobile devices.

The "Other" category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities and activities related to financial intermediation between surplus liquidity and the liquidity needs of the caisses. This category also includes the results of the support functions provided by the Federation to Desjardins Group as a whole and the operations of Desjardins Capital Inc. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. Since the third quarter of 2020, it also includes the real estate services operations of 9420-7404 Québec inc, which manages two brands, DuProprio and FairSquare (Purplebricks Canada before December 1, 2021). In addition to various adjustments necessary to prepare the Combined Financial Statements, the intersegment balance eliminations are classified in this category.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Combined Financial Statements of Desjardins Group.

NOTE 31 – SEGMENTED INFORMATION (continued)

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of Desjardins Group's financial results by business segment for the years ended December 31.

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net interest income	\$ 5,005	\$ 4,970	\$ —	\$ 8	\$ —	\$ —	\$ 781	\$ 662	\$ 5,786	\$ 5,640
Net premiums	—	—	5,667	4,711	5,909	5,484	(298)	(275)	11,278	9,920
Other income	2,925	2,642	1,432	3,690	(58)	337	(1,043)	(756)	3,256	5,913
Total income	7,930	7,612	7,099	8,409	5,851	5,821	(560)	(369)	20,320	21,473
Provision for credit losses	75	867	—	—	—	—	(6)	(4)	69	863
Claims, benefits, annuities and changes in insurance contract liabilities	—	—	4,115	5,564	2,792	3,689	(24)	(20)	6,883	9,233
Non-interest expense	5,886	4,987	2,448	2,100	1,460	1,303	(228)	(93)	9,566	8,297
Operating surplus earnings	1,969	1,758	536	745	1,599	829	(302)	(252)	3,802	3,080
Income taxes on surplus earnings	510	444	73	136	402	207	(125)	(126)	860	661
Surplus earnings before member dividends	1,459	1,314	463	609	1,197	622	(177)	(126)	2,942	2,419
Member dividends, net of income tax recovery	284	245	—	—	—	—	—	—	284	245
Net surplus earnings for the year after member dividends	\$ 1,175	\$ 1,069	\$ 463	\$ 609	\$ 1,197	\$ 622	\$ (177)	\$ (126)	\$ 2,658	\$ 2,174
of which:										
Group's share	\$ 1,175	\$ 1,069	\$ 463	\$ 609	\$ 1,055	\$ 538	\$ (178)	\$ (126)	\$ 2,515	\$ 2,090
Non-controlling interests' share	—	—	—	—	142	84	1	—	143	84

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at December 31, 2021	\$ 306,878	\$ 56,891	\$ 16,574	\$ 16,742	\$ 397,085
As at December 31, 2020 ⁽¹⁾	\$ 276,630	\$ 51,019	\$ 15,457	\$ 18,929	\$ 362,035

⁽¹⁾ For segment 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 Combined Financial Statements for the current year.

NOTE 32 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and employee benefit plans, as well as certain entities for which the substance of the relationship indicates that they are related to Desjardins Group, including the Desjardins Funds. They also include Desjardins Group's key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH DESJARDINS GROUP'S RELATED PARTIES

Transactions with Desjardins Group's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The main transactions are associated with fund management and custody fees. They are also associated with management income from pension plans and interest expense paid to the Desjardins Group Pension Plan.

These transactions and balances as at the reporting dates are as follows:

	2021			2020		
	Associates / Joint ventures	Other related parties	Total	Associates / Joint ventures	Other related parties	Total
Combined Statements of Income						
Brokerage and investment fund services	\$ 1	\$ 686	\$ 687	\$ 1	\$ 586	\$ 587
Net investment income	3	(14)	(11)	—	13	13
Other income	13	58	71	12	101	113
Other expenses	(7)	(2)	(9)	(6)	(1)	(7)
Combined Balance Sheets						
Securities	\$ 60	\$ 58	\$ 118	\$ 82	\$ 100	\$ 182
Securities borrowed or purchased under reverse repurchase agreements	—	635	635	—	195	195
Loans	122	—	122	113	14	127
Segregated fund net assets	—	3,357	3,357	—	2,939	2,939
Other assets	6	24	30	2	31	33
Deposits	173	280	453	133	298	431
Commitments related to securities lent or sold under repurchase agreements	—	300	300	—	—	—
Other liabilities	1	99	100	—	57	57
Other						
Commitments given	\$ 103	\$ 568	\$ 671	\$ 70	\$ 520	\$ 590
Guarantees given	40	921	961	6	197	203
Guarantees received	—	642	642	—	197	197

KEY MANAGEMENT PERSONNEL COMPENSATION

Desjardins Group's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of Desjardins Group. In the normal course of operations, Desjardins Group carries out financial transactions with its management personnel. In addition to the compensation paid to key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance, and property and casualty insurance transactions with the various Desjardins Group entities. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of Desjardins Group's key management personnel was as follows:

	2021	2020
Short-term benefits	\$ 16	\$ 13
Other long-term and post-employment benefits	8	5
	\$ 24	\$ 18

Cooperative governance that focuses on the future and create value for our members and clients

The values and democratic structure of Desjardins Group (Desjardins) are central to the organization's strategic vision and initiatives to create value for our members and clients through an exceptional product and service lineup. Representatives acting on behalf of caisse members contribute to the organization's governance. The rules for electing and appointing directors are set out in the *Bylaws of the Groupe coopératif Desjardins* (group bylaws) or the Desjardins Group *Policy on the Composition of Boards of Directors of Subsidiaries and Other Components*. A combination of caisse directors and co-opted directors from outside the caisse network sit on the boards of directors of the Fédération des caisses Desjardins du Québec (the Federation) and some of its subsidiaries. Only caisse directors attend Desjardins Group's general meetings. The Desjardins Group Board of Directors also has six co-opted members who are not elected caisse directors (but who are caisse members) to enrich the decision-making process with new perspectives and experiences. The co-optation process was introduced in 2019. The same principles apply to members of some of its subsidiaries' boards. Most directors are from the caisse network, but the boards also benefit from the contribution of directors who aren't, as outlined in the Desjardins Group *Policy on the Composition of Boards of Directors of Subsidiaries and Other Components*.

To prepare for their decision-making responsibilities, caisse directors regularly participate in team-building exercises and they attend the Congress, which is generally held every three years. As representatives of their caisse, these directors delve into the local needs of their members and communities and make sure we're always doing what's best for them. The boards of the Federation and our subsidiaries are also responsible for making sure we're supporting and doing what's best for Desjardins clients and subsidiary shareholders across Canada, the United States and Europe.

In 2021, we continued our efforts to integrate environmental, social and governance (ESG) factors into our governance and business practices. This aspect has become essential in the financial sector. We also continued to show our commitment to climate action and climate change adaptation, two topics that are increasingly important for our boards. Our goals to be everyone's #1 choice and to enrich the lives of people and communities depend on collective efforts to protect resources and the environment. We work with other key players in the civil sector and in government to contribute to a sustainable, responsible economy.

Governance highlights

2021 was our second consecutive year dealing with the impact of the COVID-19 pandemic, running our organization's main democratic events online and updating the Desjardins Group Board of Directors' governance practices to meet the Board's needs and comply with the requirements and recommendations made by the Autorité des marchés financiers (the AMF).

The main highlights are:

1. Continuing the cultural shift

The cultural shift, an initiative launched by the President's Office in 2017, ended 2021 on a high note. We reached our goal of introducing over 52,000 employees to the Desjardins Fundamentals, a training program that helps employees understand how the organization's objectives fit into their work on a daily basis. The goal of the cultural shift is to make sure our employees feel accountable for always doing what's best for members and clients, in line with our cooperative nature. With the pandemic still very present, 2021 was an opportunity to reaffirm that cooperative nature by continuing to support our members and clients.

2. Updating membership for the Federation's Board of Directors

We're always looking for opportunities to improve our governance structures. Here are a few examples:

- The Board of Directors now has 22 members, 21 of whom are independent members. After the annual general meeting of March 25 and 26, 2022, there will be 19 members, 18 of whom are independent, following the decision to reduce the number of members to make the Board more efficient.
- Members of the Board will be elected or co-opted for terms of four years. The extended term will give them more time to gain a deeper understanding of Desjardins business.
- The Vice-Chair of the Board and Lead Director will be chosen from independent directors who are not caisse directors, given the fact that the Chair of the Board also serves as Chief Executive Officer of Desjardins.
- The two positions reserved for caisse general managers have been abolished to increase the Board's independence.

3. Strengthening skills aligned with the requirements for a domestic systemically important financial institution

At the end of 2020, the Board adopted targets for key skills required for a domestic systemically important financial institution. In 2021, to start working toward these targets, the Board of Directors co-opted directors whose profiles contributed to the targets and covered the key skills it had identified. The Board is working to balance these skills.

4. Implementing a rigorous and comprehensive director selection and election process

To reap the full benefits of the principle of democratic action, we have processes and mechanisms in place to ensure rigour and integrity when electing and co-opting members for the Desjardins Group Board of Directors and the Board of Ethics and Professional Conduct, as well as when appointing members for our subsidiaries' boards. We created the Nomination and Election Committee, which is responsible for reviewing candidates based on the enhanced group profiles of the boards in question, their priority areas and the ethics- and skills-based criteria set out in an internal policy. The Board of Directors and the Board of Ethics and Professional Conduct rely on this committee's analyses to make their recommendations at the annual general meeting for the elections. The committee also reviews candidates for the process of co-opting members who are not elected caisse directors. This committee is supported by an advisory firm that specializes in filling board of director positions.

5. Holding caisse, subsidiary and Federation annual general meetings online

All 212 Desjardins caisses in Quebec and the Caisse Desjardins Ontario Credit Union Inc. held their annual general meetings online between March 29 and April 25, 2021. Nearly 30,000 members attended their caisse's annual general meeting, and over 87,000 members voted—that's three times more than at the in-person annual general meetings in 2019. For the Federation, 1,051 registered voting delegates from Desjardins caisses across Quebec and Ontario attended the annual general meeting. The subsidiaries who had to hold their annual general meetings online did so in respect of public health recommendations.

6. Committing to responsible finance, climate action and climate change adaptation

The year was highlighted by:

- [We were the first Canadian financial institution to sign the Business Ambition for 1.5°C commitment. This global coalition, which is overseen by the United Nations, brings together nearly 1,000 leading companies that are committed to limiting global warming.](#)
- We launched our climate ambition and committed to achieving net zero emissions by 2040 in our extended operations (business travel, paper, rented or owned buildings and procurement), our lending activities and our own investments in three key carbon-intensive sectors: energy, transportation and real estate. We've committed to cut emissions from internal operations by 41% compared to 2019 by 2025.

When it comes to integrating environmental, social and governance factors, we've actively pursued our commitment to responsible finance as shown in our Social and Cooperative Responsibility Report, which follows internationally recognized best practices for reporting.

Governance structure

At Desjardins, the primary purpose of our governance practices is to support our purpose of contributing to improving the economic and social well-being of people and communities. The Federation oversees the development and application of the Desjardins-wide governance framework, which takes into account our cooperative nature, our sustainable development and responsible finance objectives, the complexity of our operations and the AMF's guidelines and other regulatory requirements. This framework covers the activities of the Federation, the Desjardins Security Fund, our subsidiaries, Quebec caisses and Caisse Desjardins Ontario Credit Union Inc. As certain components are subject to specific laws and regulations, the structure largely complies with all applicable rules, including those of the Canadian Securities Administrators and the Office of the Superintendent of Financial Institutions, as well as industry best practices.

Mandate of the Board of Directors

1. Administration of the Federation

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Board is responsible for managing the affairs of the Federation, with support from its commissions and committees. It ensures that the necessary mechanisms and structures are in place for the Federation to fulfill its role as the organization that guides, plans, coordinates, monitors and controls all Desjardins operations. As part of its responsibilities, it makes the necessary decisions and coordinates the components' actions to support our organization over the long term. The organizational structure, which is built around the business segments and support functions, serves to optimize overall performance, streamline the organization and improve financial and risk management. The Board's responsibilities include the following:

a. Corporate culture

The Board is responsible for promoting the corporate culture based on Desjardins's values: money at the service of human development, democratic action, personal commitment, integrity and rigour in the cooperative enterprise, solidarity with the community and intercooperation, with a view to earning the trust of the public and ensuring members and clients have confidence in their financial services cooperative. The Board is responsible for respecting and enforcing the *Desjardins Code of Professional Conduct* while the Board of Ethics and Professional Conduct is responsible for ensuring that ethical rules are followed and for obtaining the required accountability.

At the heart of this ever-evolving culture is the strategic framework defined by the Board, which is based on Desjardins's purpose: *At Desjardins, we enrich the lives of people and communities through our members and clients.* All our decision-making and actions regarding our strategic priorities are guided by our goal of becoming everyone's #1 choice by always doing what's best for our members and clients.

The Federation has a Board of Ethics and Professional Conduct (BEPC) whose members are independent from management and from the Board. We also have a policy for reporting violations of regulations and of the *Desjardins Code of Professional Conduct*. This policy is combined with a confidential reporting mechanism that protects the anonymity of those who use it. We regularly remind employees of the existence of this governance mechanism.

The *Desjardins Code of Professional Conduct*, which is available to the public on [Desjardins.com](https://www.desjardins.com), applies to all Desjardins components. It includes a section on ethics and Desjardins's mission and values, and a section that describes the principles and all the rules of professional conduct. In relation to the first principle of *Desjardins Code of Professional Conduct*, the information regarding the respect of others is available to the public in Section 3 of the *Social and Cooperative Responsibility Report*. All Desjardins employees and directors must sign an annual acknowledgement that they have read and agree to uphold the Desjardins Code of Professional Conduct. The BEPC obtains a report and follows up on this.

b. Strategic and financial planning process

The Board has an ongoing strategic and financial planning process for Desjardins that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. This process is the basis for all other plans for Desjardins components and focuses on maintaining continuity, setting priorities and fostering commitment. The Board adopts a strategic plan that is updated periodically. For this process, it requests the participation of the caisses, Desjardins Group's democratic bodies and business segments, as well as the decision-making bodies of its subsidiaries.

The strategic planning process periodically calls on the Congress, which is an assembly of more than 1,000 caisse delegates. Mechanisms are in place to ensure that all components are aligned with key strategic directions. For example, the general incentive plan is used to set shared objectives that revolve around always doing what's best for members and clients and promoting unity, equity and synergy within the organization. These shared objectives encourage all managers and employees to put members and clients first.

The Board plays a supervisory, monitoring and control role in this process, with support from the Desjardins Group Management Committee (DGMC). The DGMC produces regular reports using a variety of mechanisms and tools such as the performance review so the Board can monitor the progress made on Desjardins's strategic plan and business plans, and make changes as needed.

c. Identification and management of main risks

The Board is responsible for identifying the main risks facing Desjardins, approving the organization's appetite for these risks and ensuring that management sets up the required systems to manage these risks in a sound and prudent manner. The Board is supported in these tasks by the Risk Management Executive Division. Backed by the Risk Management Commission (RMC), the Board works with the Audit and Inspection Commission (AIC), which is responsible for risks related to the financial reporting process. The DGMC also supports the Board in carrying out its responsibilities in this area. All RMC sessions include closed-door meetings with the Risk Management Executive Division, as well as closed-door meetings which are not attended by management.

A detailed presentation of the risk management principles applied at Desjardins can be found in the "Risk Management" section of the Management's Discussion and Analysis on page 62.

The mandates and lists of members of the commissions and committees that support the Federation's Board of Directors are available on our website at [desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp](https://www.desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp). Additional information specifically about the RMC and its governance practices can also be found there.

d. Succession planning

The Board oversees the senior management succession and development program with the support of the Human Resources Commission (HRC), which is chaired by an independent director, and the Human Resources and Communications Executive Division. The HRC runs the program and reports to the Board, making recommendations as needed. This program is an important tool for the DGMC, as it promotes personal development, supports succession planning and helps protect the organization against human resources-related risks.

Talent development, succession planning and hiring processes promote professional competency and diversity among Desjardins staff.

President and CEO

In keeping with Desjardins's cooperative nature, the President and CEO is chosen by an electoral college made up of representatives from all caisses in Quebec and Ontario, meaning the successful candidate is backed by the majority, ensuring their ability to lead, align and unite the organization. The maximum tenure is eight years (two four-year terms). Although the Board of Directors does not have the power to appoint the President and CEO, it does play a role in succession planning, mainly through the senior management succession program and skills development for directors of local caisses, subsidiaries and the Federation. The Board is also responsible for ensuring smooth transitions between mandates by adopting the major parameters of each four-year plan, which becomes the base for the next strategic plan, and by updating the President and CEO profile based on Desjardins's status as a domestic systemically important financial institution.

The electoral process is governed by the group bylaws and the *Desjardins Code of Professional Conduct* and is overseen by the Nomination and Election Committee made up of at least five members appointed by the Board who reflect the enhanced group profile the Board has adopted. The committee is responsible for establishing the rules of the electoral process and the rules of conduct applicable to the electoral college, candidates, employees and directors from local caisses, assessing how the candidates fit the profile and recommending that the Board of Directors remove candidates who do not meet the minimum requirements. This committee also makes sure that the electoral college has the tools it needs to assess the candidates who do meet the requirements. The BEPC is responsible for issuing notices for any violations of the *Desjardins Code of Professional Conduct* submitted by the committee.

Considering the fact that risk management for Desjardins's leadership transition process is the responsibility of the Federation's Board, the bylaws also allow for the following: when someone new assumes the role of President and CEO, it happens promptly and there is a structured transition process lasting up to six months, under the Board's supervision.

Senior Executive Vice-President and COO

To bolster independence, stability and succession planning, the Board approves the appointment of the Senior Executive Vice-President and COO, who assumes, for the purposes of the law and the group bylaws, the role of general manager of the Federation. The Senior Executive Vice-President and COO also recommends a working organizational structure for Federation and Desjardins senior executives to the President and CEO.

e. Integrity of internal control and management reporting systems

The Board, backed by the AIC, ensures the implementation of effective control systems and obtains the required reporting information from management. The Board is supported in this responsibility by Desjardins's Chief Monitoring Officer, whose internal audit plan is approved by the AIC. A rigorous financial governance process is applied throughout Desjardins to properly support the Executive Vice-President of Finance and CFO who, together with Desjardins's President and CEO, is responsible for certifying Desjardins's combined financial statements.

Desjardins discloses financial information in compliance with CSA *National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109)*. However, unlike the Federation, Desjardins is not, on a combined basis, a reporting issuer according to the National Instrument or any other applicable securities regulations. In accordance with the decision issued by the Autorité des marchés financiers (AMF) on April 23, 2021, Desjardins Group's combined financial statements and management report are now submitted by the Federation instead of the Federation's combined financial statements and management report in order to satisfy the financial disclosure obligations that apply to the Federation as a reporting issuer. Further, the Federation maintains controls and procedures for Desjardins Group's combined financial statements and management report in accordance with *NI 52-109*. Since April 23, 2021, in accordance with the decisions of the AMF and the CSAs, the Federation has been using Desjardins Group's combined financial statements and management report for all relevant purposes as set out in the applicable securities regulations. Information about the controls and procedures for Desjardins Group's combined financial statements and management report is presented in section 5.0 "Additional Information" of the 2021 management report.

We continuously monitor our internal control system to make sure it's effective, efficient and tailored to our organization's needs. This system is designed to provide the boards of directors of Desjardins components with reasonable assurance that the components are achieving their business objectives in compliance with regulatory requirements.

The Board of Directors ensures that the DGMC provides the Board and its commissions and committees with information that is accurate, timely and adapted to the specific needs of its directors so they can take advantage of business opportunities and measure the risks involved. Board members are invited to assess the quality of documents used in the decision-making process. This is a recurring segment on the agenda to ensure continuous improvement.

The Board benefits from the information used by each business segment to effectively monitor key performance indicators, meaning the Board can quickly obtain strategic information pertinent to the decision-making process.

At least once a quarter, Board members receive financial reports, operating reports so they can assess Desjardins's situation and status reports on the Federation's projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of these reports.

To effectively carry out its duties, the Board holds regular meetings on a predetermined schedule. Board members receive the meeting agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process. The Board constantly seeks to increase its efficiency and focus its efforts on strategic issues by optimizing meeting agendas and by delegating certain operational responsibilities to the DGMC. The DGMC's mandate, which clarifies how responsibilities are divided between the Board and senior management, is reviewed annually.

Directors have access to technological tools so they can easily and securely access all meeting-related documentation and framework governing Desjardins's operations. They are required to comply with Desjardins's information security policy.

f. Strategic communications

The Board adopts a communications policy and strategic communications priorities for Desjardins, in line with the Desjardins Group's strategic and financial plans, including actions to be taken and targets. The Federation also draws up internal and external communications plans or strategies in order to better manage relations with the caisses and their members; the business segments and their clients; employees; socioeconomic, community and non-governmental organizations; opinion makers; the public; the media; rating agencies; and the government. It ensures consistent, quality communications across Desjardins, helps promote Desjardins's cooperative nature, contributes to the promotion, development and growth of the Desjardins brand; and listens to internal and external audiences.

The Federation oversees the financial reporting process and the disclosure of any major changes that may affect Desjardins's financial position. It uses different teams and various channels to communicate effectively with its stakeholders.

These teams and channels include: the Office of the Ombudsman, the Desjardins ethics and professional conduct support team and the caisse complaint-handling procedure; as well as, within Desjardins: the annual general meetings, the collaboration forum, the disclosure of quarterly financial results, publications (including our annual report and the Social and Cooperative Responsibility Report), toll-free telephone numbers, intranet portals for employees and for caisse directors, the website (which includes information on the Co-opme program on education, cooperation and dialogue with our members and clients, as well as a Member Relations section and an Investor Relations section), the Federation's member services team, the procedure for reporting violations of regulations and of the *Desjardins Code of Professional Conduct*, newsletters and social media (Facebook, YouTube, LinkedIn, Twitter and Instagram).

In addition, the Federation maintains relations with international rating agencies and coordinates Desjardins's relationships with the different levels of government in compliance with applicable lobbying legislation. In 2021, the Federation created the Regulatory Activities Coordination and Advisory Services Administrative Department and adopted the *Policy on the Management of Regulatory Authority Findings and Action Plans*. Because of the complexity of its operations, Desjardins works with over 80 regulatory authorities. The purpose of this new unit is to help build effective and efficient relationships between Desjardins and regulators.

2. Composition of the Board of Directors

In 2021, the Federation's Board of Directors consisted of 22 members, 21 of whom are independent directors. Currently, its members include 15 elected directors, six directors who are not caisse directors, and the President and CEO. During the special general meeting of Federation members held on October 13, 2021, delegates voted in favour of reducing the number of directors from 22 to 19. After the Federation's 2022 annual general meeting on March 25 and 26, 2022, the board of directors will consist of the President and CEO, 12 caisse directors elected by the general assembly and six co-opted directors, who are not caisse directors, with complementary skills and backgrounds. There are also two caisse general managers who have observer status and the right to speak.

Additionally, the following members of management support the Board with its roles and responsibilities by attending its meetings: the Senior Executive Vice-President and COO; the Executive Vice-President, Finance and CFO; the Secretary General and Vice-President, Governance and Sustainable Development; and the Vice-President, President's Office, Cooperation and Director Support.

3. Nomination process

In accordance with Desjardins's democratic structure and the principle of delegation, in 2021 there were 5 members of the board elected by the delegates of the Federation member caisses during the annual general meeting of March 26 and 27, 2022. The Federation therefore benefits from having independent directors who represent its cooperative foundations and have in-depth knowledge of their community and the activities of Desjardins. Their knowledge of the organization and its culture is one of the considerable advantages of Desjardins's democratic structure. The five members of Board of Ethics Professional Conduct are also elected at the annual general meeting.

The six co-opted members of the Board of Directors are chosen through a selection process overseen by the Nomination and Election Committee.

The last seat is reserved for the President and CEO of Desjardins Group, who is elected by a different electoral college than the other members of the Board, consisting of one representative from each Desjardins caisse. The President and CEO never votes to select other members of the Board, which helps the Board and senior management remain independent.

Member of the Board and the BEPC have four-year renewable terms, and each year around one-quarter of the Board and BEPC members are outgoing.

Board membership is also based on an enhanced group profile, in accordance with the group bylaws. The Board adopts and updates, as needed, this enhanced group profile, which it strives to achieve, and which takes into account the following criteria: interpersonal skills and expertise related to the individual qualities required to be a member of the Board; the skills required to handle the strategic and fiduciary responsibilities of a domestic systemically important financial institution; and representation from diverse communities, members and clients. The Federation has designed tools to help electors understand what is expected of directors, so they can make an informed choice when they vote. The Board's role is to put in place strategies to fulfill all of the responsibilities required by its enhanced group profile and to present candidates who contribute to reaching the required skillset mix at the annual general meeting. The BEPC plays the same role for that governing body, which is independent from the Board of directors. The general meeting's role is to elect people who meet the requirements set by the Board or the BEPC.

Desjardins adopted a gender parity priority for the boards of directors of its caisses, subsidiaries and the Federation. Parity is taken into account in the electoral, co-optation and nomination processes. Our goal is to reach parity by 2024.

4. Definition of independent director

In line with the notion of independence defined in *CSA National Instrument 52-110 – Audit Committees* and the *AMF Governance Guideline*, a director is independent if they do not have a significant relationship, directly or indirectly, with Desjardins that, in the opinion of the Board, may affect the independence of their judgment and their ability to act in the best interests of the organization.

The only non-independent member of the Board of Directors is Desjardins's President and CEO, who is a member of Federation management⁽¹⁾. The directors do not have any business or personal, professional or financial ties to any other members of the Board or to members of the DGMC or anyone reporting to them, nor do they have any interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of the Groupe coopératif Desjardins, or any interests of any other nature which, in the opinion of the Board, could reasonably be perceived as harmful. As a result, the members of the Board, both individually and collectively, are able to exercise objective and impartial judgment on Desjardins business free of undue influence from senior management or third parties. However, given that directors could also have similar roles on the boards of other companies, under certain circumstances a real or potential conflict of interest may arise due to their duties to the Federation and to the other companies. One member of the Board is in this situation. Marie-Eve Tremblay sits on the Boards of Directors for the Federation and Desjardins Trust Inc. while also serving as a director at Fondation, an investment fund whose main activity is providing loans to Quebec businesses. This could lead to her having a potential conflict of interest with regard to Desjardins's venture capital activities.

For guidance in these matters, the Board of Directors refers to the provisions of the *Desjardins Code of Professional Conduct* and the *Conflict of Interest Management Policy* which govern the actions of its directors, and to the declarations of interests filed annually by the directors. To make sure the assessment follows Basel Committee recommendations, the declaration of interests form include the disclosure of personal, professional and financial ties to other members of the Board or to members of the DGMC and anyone reporting to them. Directors are subject to rules of professional conduct that require them to avoid putting themselves in real or perceived conflict of interest situations. They need to declare any such situation to the governing bodies in question or to their superior and abstain from voting, making any decisions concerning the situation or influencing any votes or decisions.

Two members of the Federation's Board, Marie-Josée Lamothe and Luc Bachand, sit on the Board of public companies.

Independent directors

In the opinion of the Board, and in accordance with *CSA National Instrument 52-110 – Audit Committees* and the *AMF Governance Guideline*, the following directors are independent:

Louis Babineau	André Grenier	Michel Magnan*
Luc Bachand**	Nadine Groulx	Serge Rousseau
Lisa Baillargeon	Dominique Jodoin	Patricia-Ann Sarrazin-Sullivan
Jordan Baril-Furino	Kateri C. Jourdain	Michel Tourangeau
Johanne Charbonneau	Marie-Josée Lamothe	Marie-Eve Tremblay
Stéphane Corbeil	Maryse Lapierre	Stéphane Trottier
Michel Doré	Denis Latulippe*	Yvon Vinet

* Denis Latulippe et Michel Magnan were co-opted directors on May 6, 2021.

** Luc Bachand was co-opted on August 30, 2021.

The terms of Carole Chevalier, Roch Ouellet, Jean-François Laporte, Camil Maltais and Benoît Bélanger ended on March 27, 2021.
Sonia Corriveau's term ended on May 7, 2021.

Non-independent directors and bases for that determination

According to the notion of independence defined in *CSA National Instrument 52-110 – Audit Committees* and the *AMF Governance Guideline*, only Guy Cormier is considered a non-independent director because he is a member of Federation management.

The terms of Benoît Bélanger and Neil Hawthorn, non-independent members of the Federation's Board of Directors, ended at the annual general meeting of March 26 and 27, 2021. Since then, following the changes adopted at annual general meeting of March 26 and 27, 2021, Kathleen Bilodeau and Neil Hawthorn have had observer status on the board with the right to speak but not the right to vote.

⁽¹⁾ The positions reserved for caisse general managers were abolished at the 2021 annual general meeting of March 26 and 27, 2021. Since March 27, 2021, the general managers have had observer status on the Board of Directors with the right to speak, but not the right to vote.

5. Performance reviews and director skills

Performance reviews

The Board and its commissions and committees conduct a review of their performance every two years. A two-year action plan based on these performance reviews is then submitted to the Board by the Corporate Governance and Responsible Finance Commission (CGRFC), which oversees the plan.

This exercise is accompanied by individual meetings between each director, the Chair and the Vice-Chair of the Board and Lead Director. These meetings, whether formal or not, are intended to enhance the performance of decision-making bodies and each director's contribution. These meetings are held regularly throughout the year. The Vice-Chair and Lead Director holds regular meetings with the Board to monitor its independence and ensure exemplary conduct. At the end of each meeting, the members discuss the Board's efficiency and the quality of documentation behind closed doors.

The Board of Ethics and Professional Conduct also conducts performance reviews like this.

Director skills

The Board has adopted an enhanced group profile with criteria to help preselect candidates for election at the general meeting and members co-opted by the Board. The profile also guides the disclosure of how well the membership of the Federation's Board lines up with these criteria. Since the combination of skills and areas of expertise varies with the arrival and departure of directors, the Federation has established competency targets to determine the minimum number of directors with the skills needed to ensure that the Board can operate effectively and fulfil its responsibilities.

On the recommendation of the CGRFC and in accordance with the integrity and competency criteria in the AMF *Governance Guideline*, the Board performs a self-assessment of the skills of its members. Every two years, each member completes a self-assessment grid for this purpose. An external firm holds periodically one-on-one interviews with the Board. The results of the self-assessments and the one-on-one interviews are used to establish the objectives and individual development plans. The Chair and the Vice-Chair and Lead Director are responsible for this process.

The information below shows that the members of the Federation's Board collectively possess a wide range of experience and complementary skills that enable them to make an active and enlightened contribution to Desjardins's governance. The enhanced group profile adopted by the Board and the skills of its members are reviewed together annually, and the results show what the Board needs to focus on to gradually achieve this profile. This voluntary disclosure will evolve over time. The weighting for the Board members' self-assessments is determined by the Chair and Vice-Chair and Lead Director of the Board.

FEDERATION DIRECTOR SKILLS AND EXPERTISE

To achieve the enhanced group profile, the directors—whether elected or co-opted—each contribute to helping the Board of Directors play its role and collectively shoulder all the responsibilities of a domestic systemically important financial institution.



Guy Cormier, BAA, MBA

Chair of the Board, President and CEO of Desjardins Group, elected in 2016. Key areas of expertise: **Cooperative governance, strategic management and overall risk management.**

Other areas of expertise

- Leadership and culture
- Finance and economics
- Insurance industry
- Responsible investment and sustainable development
- Digital shifts
- Human resources



Johanne Charbonneau, Accountant, FCPA, FCGA, MBA, C.Dir.

Co-opted in 2019 and became **Vice-Chair of the Board and Lead Director** in 2021. Key areas of expertise: **Accounting and finance.**

Other areas of expertise

- Auditing
- Regulatory environment
- Risk management
- Credit unions and insurance
- Human resources



Michel Tourangeau, Lawyer, LLB, ASC, C.Adm.

Elected in 2017 and became **Secretary** in 2019. Key areas of expertise: **Governance and corporate law.**

Other areas of expertise

- Financing
- Real estate asset management and life and health insurance



Louis Babineau, Professor, DBA, ASC

Elected in 2016. Key areas of expertise: **Governance and project management.**

Other areas of expertise

- Information technology
- International cooperation



Luc Bachand, MBA, ICD.D, FICB

Co-opted in 2021. Key areas of expertise: **Capital markets and risk management.**

Other areas of expertise

- Audits, finance and accounting
- Financing
- Mergers and acquisitions
- Governance



Lisa Baillargeon, Professor, PhD, MBA, CPA, CMA, C.Adm, ICD.D

Elected in 2019. Key areas of expertise: **Governance and process management.**

Other areas of expertise

- Accounting
- Education and training
- Management



Jordan Baril-Furino, Engineer, MBA

Elected in 2021. Key areas of expertise: **Engineering and consumer habit analysis through data mining**

Other areas of expertise

- Entrepreneurship
- Operational management



Stéphane Corbeil, Company President, CFA, MBA

Elected in 2016. Key areas of expertise: **Finance and entrepreneurship.**

Other areas of expertise

- Treasury and financing
- Business development
- Mergers, acquisitions and business integration



Michel Doré, Strategic Planning Officer, BBA

Elected in 2018. Key area of expertise: **Financial management.**

Other areas of expertise

- Financial planning and control
- Human resources
- Defence sector



André Grenier, Agricultural Economist, agr.
Elected in 2018. Key area of expertise: **Agribusiness management.**

Other areas of expertise

- Corporate financial analysis
- Corporate strategic consulting



Nadine Groulx, Agricultural Entrepreneur
Elected in 2017. Key areas of expertise: **Cooperative management, agribusiness and maple syrup production.**

Other areas of expertise

- Entrepreneurship
- Agricultural technology



Dominique Jodoin, Company President and CEO, MBA, MSc

Co-opted in 2020. Key areas of expertise: **Information technology and cybersecurity.**

Other areas of expertise

- Sales and marketing
- Canada-wide and international experience
- Risk management and compliance



Kateri C. Jourdain, Community Relations Manager, BCom

Elected in 2019. Key areas of expertise: **Communications and Indigenous community relations.**

Other areas of expertise

- Public and community relations
- Community involvement
- Real estate management



Marie-Josée Lamothe, Professor, BSc
Co-opted in 2019. Key areas of expertise: **Digital shifts and brand management.**

Other areas of expertise

- Digital innovation and artificial intelligence
- Marketing
- Retail market
- IT security and management



Maryse Lapierre, Notary, LLB, DDN, ASC
Elected in 2021. Key areas of expertise: **Corporate law and notary law.**

Other areas of expertise

- Ethics and professional conduct
- Entrepreneurship
- Governance



Denis Latulippe, Actuary, FCIA, MBA, MSc, ASC
Co-opted in 2021. Key areas of expertise: **Actuarial science, insurance and pension plans.**

Other areas of expertise

- Social security
- Investments and wealth management
- Artificial intelligence applied to wealth management



Michel Magnan, Professor, PhD, FCPA, FCA, ASC, C.Dir.

Co-opted in 2021. Key areas of expertise: **Finance and accounting.**

Other areas of expertise

- Risk management and compliance
- Performance management
- Capital markets
- Compensation
- Social and environmental responsibility



Serge Rousseau, Company Managing Director
Elected in 2014. Key areas of expertise: **Management and cooperative governance.**

Other areas of expertise

- Human and financial resource management
- Social services
- Network management
- Customer service



Patricia-Ann Sarrazin-Sullivan, Architect, C.Adm.
Elected in 2021. Key areas of expertise: **Sustainable architecture and responsible finance.**

Other areas of expertise

- Cooperative culture and business model
- Sustainable development



**Marie-Eve Tremblay, Venture Capital Company
Senior Executive, MSc, CPHR, ICD.D**

Elected in 2019. Key areas of expertise: **Human resource management and sustainable development.**

Other areas of expertise

- Cooperation
- Organizational development
- Entrepreneurship
- Marketing
- Responsible finance



Stéphane Trottier, Ergonomist, MSc, ASC

Elected in 2016. Key area of expertise: **Ontario financial services.**

Other areas of expertise

- Business administration
- Occupational ergonomics
- Governance



Yvon Vinet, Notary, LLB, DDN

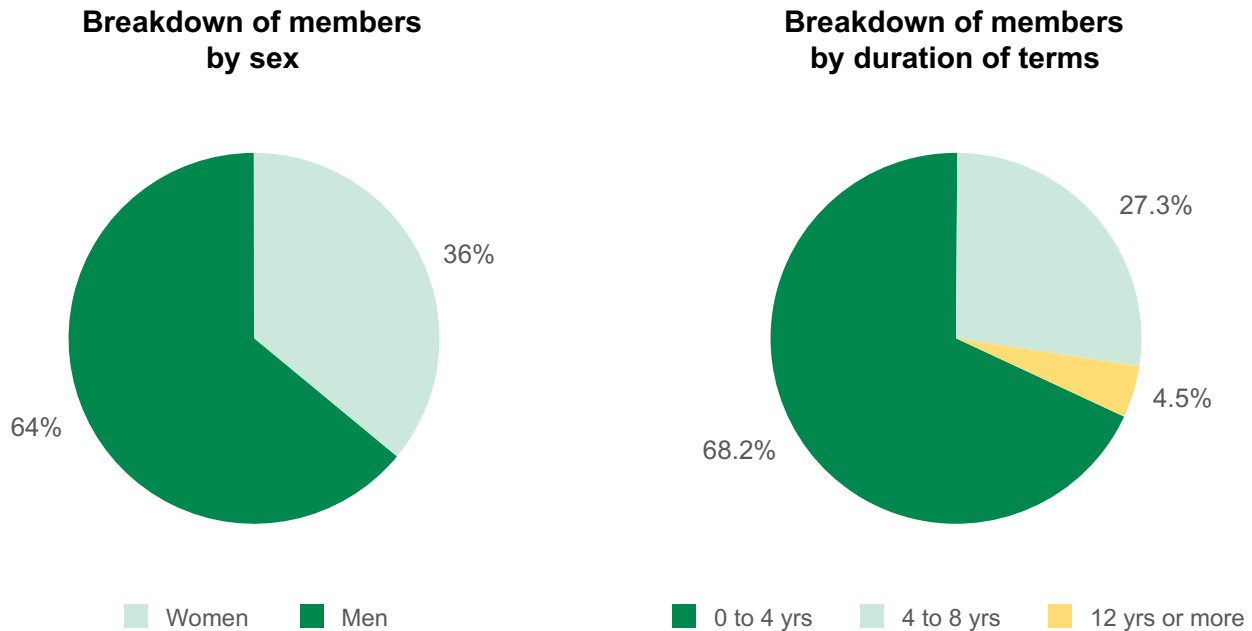
Elected in 2009. Key areas of expertise: **Corporate law and notary law.**

Other areas of expertise

- Cooperation
- Insurance industry

COMPOSITION OF THE BOARD

As at December 31, 2021, the Board of Directors had 22 members, 21 of whom are independent directors. It currently includes the President and CEO of Desjardins Group, elected by an electoral college of caisse chairs; 15 members elected by an electoral college of caisse delegates at the annual general meetings; and 6 members who are not caisse directors and were co-opted by the Board.



Important:

- The group bylaws state that directors cannot serve more than 12 years. One director has served longer than 12 years because elections were rescheduled in 2020 and terms were extended by one year. This director's term will end at the annual general meeting of March 25 and 26, 2022.
- There are eight women (36%) on the Board, including one Indigenous woman.

6. Onboarding and training program for new Federation directors and BEPC members

The Federation oversees onboarding and continuous training for its Board members. It develops individual and group knowledge acquisition and enhancement activities, so Board members can learn more about the various aspects of their roles and responsibilities and Desjardins Group's operations. All new directors and members of the BEPC attend orientation sessions where they meet with members of management and receive a reference manual containing all the information they need to carry out their duties. Onboarding sessions are held to ensure effective and efficient integration of new members of Board commissions and committees.

The training program for Board members is based on needs identified through their skills self-assessments. In addition, an external firm periodically holds one-on-one interviews with Board members. The results of the self-assessments and the one-on-one interviews are used to establish the objectives and individual development plans. The Corporate Governance and Responsible Finance Commission (CGRFC) reviews these needs and creates a two-year shared skills development program. The Board also holds conferences on specific topics related to strategic planning and the associated challenges. These conferences, which are also attended by members of the DGMC, are skills development and contribution opportunities for Board members. The training program was updated specifically to include skills development activities with external experts to help the board expand its knowledge base for informed and independent decision-making. The Board's commissions and committees suggest new training programs annually based on the needs of their members. The same applies to the Board of Ethics and Professional Conduct.

7. Compensation policy for Federation directors and BEPC members

The Board of Directors reviews, whenever it deems it necessary and at least every five years, its policy on the compensation of Federation directors and BEPC members. It receives recommendations from the Corporate Governance and Responsible Finance Commission, which keeps a close eye on industry developments. The policy's compensation rates are consistent with those of comparable cooperative organizations in Quebec, across Canada and in Europe.

The policy includes guidelines for calculating the compensation for caisse directors, Federation directors, BEPC members and subsidiary directors.

In accordance with the *Act Respecting Financial Services Cooperatives*, the total budget for the payment of attendance fees to directors and BEPC members is authorized by the Federation's general meeting. The total compensation budget (annual stipends plus attendance fees) is reported at the annual general meeting. A report on changes to the compensation budget is presented at the general meeting every year. The total budget for 2021 was \$2,206,000, the same as in 2020.

The policy's compensation rates can be found on page 228 of this section of the Desjardins Group annual report.

8. Independence of the Board of Directors from Desjardins management

Desjardins's governing bodies have established a number of structures and procedures to ensure the Board's independence from management:

- There is only one Board member who is also a member of Desjardins management: the President and CEO of Desjardins, who is also a director elected by an electoral college made up of representatives from all caisses. Since the President and CEO does not select the members of the Board, its legitimacy and independence are ensured. The Board's commissions and committees suggest new training programs annually based on the needs of their members. The same applies to the Board of Ethics and Professional Conduct.
- The Vice-Chair and Lead Director, an independent director who is not from the caisse network, ensures the Board's independence from management at all times. The Vice-Chair and Lead Director presides over Board meetings when the issues being discussed require the recusal of the Chair of the Board and CEO, and over closed-door meetings reserved for independent directors. This person also reports to the Board annually on their activities and actions taken to ensure Board independence. The group bylaws state that the Vice-Chair and Lead Director replaces the Chair when the Chair has a real or perceived conflict of interest or is otherwise unable to act. A description of this position is available in the *Governance Policy*.
- The directors hold periodic informal meetings among themselves. The Chair of the Board and CEO of Desjardins provides updates to the members of the DGMC who assist the Board, since DGMC members are not present at these meetings.
- Closed-door sessions not attended by management (except for the Chair of the Board and CEO) are held at the end of each meeting of the Board and of the Executive Committee. The same is true for Board commissions and committees.
- Closed-door sessions not attended by the President and CEO are held with the individuals in independent oversight functions, namely the Executive Vice-President, Finance and CFO; the Executive Vice-President, Risk Management; the Vice-President and Chief Compliance and Privacy Officer; the Chief Monitoring Officer; and the Chief Security Officer.
- Closed-door sessions between independent directors, not attended by the Chair of the Board and CEO, are held at the end of each meeting of the Board.
- The Board periodically holds a closed-door meeting with the BEPC.
- The Corporate Governance and Responsible Finance Commission, the Committee on the Aggregate Remuneration of the President and CEO of Desjardins Group, and the Audit and Inspection Commission are chaired by independent directors who are not caisse directors. The Cooperation and Culture Commission, the Risk Management Commission and the Human Resources Commission are chaired by independent directors.
- The Corporate Governance and Responsible Finance Commission (CGRFC), chaired by the Vice-Chair of the Board and Lead Director and of which only one member is a non-independent party, assumes responsibility for:
 - Managing relations between the Board and the DGMC
 - Ensuring that the Board fulfills its duties (however, the responsibility of drawing up and overseeing meeting agendas for the Board and its commissions/committees falls to the Chair of the Board and is subject to the process for assessing the performance of governing bodies). Providing a direct line between the Vice-Chair of the Board and Lead Director and the Secretary General, who assumes functional leadership of the CGRFC and the BEPC
- Only independent directors serve on the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR).
- The division of responsibilities between the Board and the DGMC is formally documented in the *Governance Policy* and the mandates of these two governing bodies, which define their respective areas of activity.
- The President and CEO can appoint and replace the Senior Executive Vice-President and COO, but the Board's approval is required. This safeguard allows the Board to assess the relationship between the CEO and the COO.

- The members of the Human Resources Commission (HRC) and the Committee on the Aggregate Remuneration of the President and CEO of Desjardins Group (CAR) are supported, when needed, by an external consultant when dealing with issues involving the aggregate remuneration of senior management. In 2021, the composition of these bodies was reviewed to add an external member. This external member is an independent director with one of our insurance subsidiaries, with expertise in total compensation.

Rationale for combining the functions of Chair of the Board and CEO

The responsibilities of the President and CEO of Desjardins Group are set out in the group bylaws. The functions of Desjardins's Chair of the Board and CEO are concurrent. This decision, which was made at a general meeting of the Federation and reaffirmed in 2018, has been integrated into the group bylaws. Historically, the reason for this choice was to foster unity at the management level, given the decentralized democratic structure of Desjardins Group, while putting in place safeguards to ensure a balance between the desired unity and the required independence of the Board.

The main safeguards, in addition to the ones presented in point 8, Independence of the Board of Directors from Desjardins management, are:

- The CEO is elected by an electoral college made up of a representative from each caisse. This individual's primary responsibility is to ensure the group is always doing what's best for members and clients, the group's interests are protected, democratic bodies are functioning properly and cooperative values are respected.
- The Chair of the Board and CEO has no influence over the choice of the directors who are elected at the annual general meeting, but may help identify the pool of candidates to fill the co-opted director positions. Ultimately, the Board's recommendation of who to appoint to these positions is the responsibility of the Nomination and Election Committee, supported by an external firm that specializes in filling board of director positions. The committee's composition ensures its independence from the President and CEO of Desjardins Group. The Chair of the Board and CEO also has no influence over the selection of BEPC members. The Chair of the Board and CEO is never involved in decisions surrounding the selection of members for these two decision-making bodies.
- The Board created the CAR, which is chaired by the Vice-Chair of the Board and Lead Director and made up entirely of independent directors, to eliminate any risk of conflict of interest. CAR meetings are closed-door. The committee also holds working sessions with the Board of Directors, which the President and CEO does not attend.
- Owing to the complex nature of Desjardins's management structure and activities, and to the expectations of regulators and the general public, it was deemed essential that the Chair of the Board be sufficiently familiar with the activities, business and projects of both the Federation and Desjardins in order to effectively act as a leader for the democratic and decision-making bodies, the management teams of the Desjardins subsidiaries, managers and employees.
- Desjardins's structure frees its President and CEO from the everyday operational concerns of the Federation and Desjardins. This person can therefore focus on other areas, such as: guiding the organization; defining, developing and overseeing the implementation of long-term strategic directions; listening to members and clients; overseeing development, innovation and governance; engaging people; and representing Desjardins as a socioeconomic leader.
- The group bylaws confirm that the responsibilities of the President and CEO are tied to those of the Board regarding group priorities and compliance with regulatory guidelines and other frameworks.
- With a view to freeing the President and CEO from operational matters, the Senior Executive Vice-President and COO oversees all Desjardins business segments and support functions. The Desjardins Group Monitoring Office (DGMO) reports functionally to the AIC and administratively to Desjardins Group's President and CEO. The AIC and Federation's BEPC are responsible for ensuring that the DGMO has the means to achieve its mandate in complete independence.

9. Senior management reviews

a. Setting annual management objectives and performance reviews

President and CEO

The annual objectives of Desjardins's President and CEO are recommended to the Board by the CAR. The CAR is chaired by the Vice-Chair and Lead Director in accordance with the established independence standards. The President and CEO is not present for the committee's deliberations.

The degree to which these objectives are achieved is measured through a year-end review process. The CAR supervises the performance review of Desjardins's President and CEO and sets out how Board members participate in the process.

Senior Executive Vice-President and COO

The annual objectives of the Senior Executive Vice-President and COO are set by the Board, on the recommendation of the President and CEO, after first being presented to the Human Resources Commission.

Executive vice-presidents on the DGMC

The objectives of the executive vice-presidents on the DGMC are set by the President and CEO and the Senior Executive Vice-President and COO are set by the Board, and provided to the HRC and the Board for information purposes.

b. Variable compensation evaluation

President and CEO

The compensation paid to the President and CEO is determined by an evaluation of the annual objectives by the Board of Directors and the achievement of certain strategic planning priority targets.

Senior Executive Vice-President and COO and executive vice-presidents on the DGMC

The Board has established guidelines for setting objectives for the various indicators to ensure sound management of Desjardins's general incentive plan. The results are reviewed by the HRC and approved by the Board.

10. External consultants

A director may ask the Board to retain the services of an external consultant at the Federation's expense. The Board is reminded about this option annually. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance and Responsible Finance Commission.

Mandates and membership of the Federation's commissions, committees and BEPC

As at December 31, 2021

The Board creates committees and commissions and defines their mandates in order to support and streamline its guidance, planning, monitoring and control activities. These commissions and committees are made up entirely or almost entirely of independent parties. At the end of each meeting, these commissions and committees hold closed-door sessions which members of management do not attend, except for the Chair of the Board and CEO (unless this individual's recusal is necessary for independence reasons). The composition and mandate of these commissions and committees are reviewed annually. Any work carried out by a commission or committee is documented in a factual report, which is presented at the next Board meeting, and the commission or committee chair gives Board members a summary of the issues discussed.

The detailed mandates of these bodies are available on our website at:

<https://www.desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp>

Note: In this section, when the name of a director is followed by an asterisk (*), it means that the person is an independent director.

EXECUTIVE COMMITTEE

In principle, this committee has the same functions and powers as the Board, with the exception of those which the Board may reserve for itself or assign to another committee or commission. In 2021, this committee's mandate was reviewed to limit its scope to matters pertaining to the Federation's powers of intervention at the caisse level and the review of certain financial commitments. The reason for the change was to involve all members of the Board in strategic decisions. It held 4 meetings in 2021.

It is composed of five directors:

- Guy Cormier, Chair of the Board and Chair of the Committee
- Serge Rousseau*
- Michel Tourangeau*
- Nadine Groulx*
- Marie-Josée Lamothe* ⁽ⁱ⁾

⁽ⁱ⁾ Appointed on June 9, 2021.

Carole Chevalier* and Camil Maltais* were members until March 27, 2021.

Neil Hawthorn was a member until June 9, 2021.

COOPERATION AND CULTURE COMMISSION

This commission assists the Board with issues related to Desjardins's cooperative culture as it pertains to our mission and values and their consideration in commercial and management practices, primarily through the cultural shift organized by Desjardins Group's President. The commission ensures the effective and efficient implementation of mechanisms for collaboration, participation and connection with the network. It also makes recommendations to the Board, if need be. It held 13 meetings in 2021.

It is composed of seven directors:

- Nadine Groulx*, Chair
- Louis Babineau* ⁽ⁱ⁾
- Kathleen Bilodeau ⁽ⁱ⁾
- André Grenier*
- Dominique Jodoin* ⁽ⁱ⁾
- Kateri C. Jourdain*
- Maryse Lapierre* ⁽ⁱ⁾

⁽ⁱ⁾ Appointed on June 9, 2021.

Benoit Bélanger and Camil Maltais* were members until March 27, 2021.

Marie-Josée Lamothe* was a member until June 9, 2021.

AUDIT AND INSPECTION COMMISSION

The Audit and Inspection Commission (AIC), established under the *Act Respecting Financial Services Cooperatives*, acts as the audit committee for the Federation's caisse inspection activities. Its members are all independent directors, including two representatives from Desjardins's insurance subsidiaries (Desjardins Financial Security and Desjardins General Insurance) who can participate in deliberations but cannot propose, second or vote on any recommendations made to the Board. Its chair is an independent director who is an FCPA and FCA.

The roles and responsibilities of the AIC have been defined to give its members a clear understanding of their control and reporting oversight duties. It reviews all financial information, supervises the required reporting activities and plays a lead role in overseeing financial disclosure controls and assessing their accuracy. The AIC has a direct line of communication with the Desjardins Group Monitoring Office, which oversees the internal audit of Desjardins subsidiaries and components and the inspection of Quebec and Ontario caisses. It also has a line of communication with the external auditors, should the need arise to discuss and review any issues. The AIC also oversees the organization's cultural shift, where the focus is on doing what's best for our members and clients.

The Monitoring Office provides independent opinions on the management of the caisses. Through its inspections, it monitors the risks associated with network activities and determines whether these risks are being managed according to sound and prudent practices and in compliance with applicable legislation, regulations, standards and rules of conduct. Functionally, the Chief Monitoring Officer reports to the AIC. Administratively, this person reports to the President and CEO of Desjardins Group. The AIC works with the Federation's BEPC to ensure the independence and objectivity of the internal audit function, which is fulfilled by the Monitoring Office. The AIC must issue an annual notice to the BEPC confirming that the Chief Monitoring Officer performed their internal audit duties without any obstruction from management. The AIC also works with the BEPC to make a recommendation to the Board on appointing or removing the Chief Monitoring Officer as the person in charge of the internal audit function. It held 8 meetings in 2021.

It is composed of six directors:

- Michel Magnan* ⁽ⁱ⁾, Chair
- Louis Babineau*
- Luc Bachand* ⁽ⁱⁱ⁾
- Lisa Baillargeon*
- Jordan Baril-Furino* ⁽ⁱ⁾
- Stéphane Corbeil*

⁽ⁱ⁾ Appointed on June 9, 2021.

⁽ⁱⁱ⁾ Appointed on August 30, 2021.

By the Chair's invitation, Robert St-Aubin and Clarence Turgeon (chairs of the Audit and Risk Management Committees at Desjardins Financial Security and Desjardins General Insurance, respectively) attend meetings with this commission as representatives of these two subsidiaries. They can participate in deliberations but cannot propose, second or vote on any recommendations made to the Board.

Jean-François Laporte* was a member until March 26, 2021.

Sonia Corriveau* was a member until May 7, 2021.

Johanne Charbonneau* was a member until June 9, 2021.

Kathleen Bilodeau (caisse general manager) and Michel Doré* sit on the AIC as observers.

RISK MANAGEMENT COMMISSION

The main role of the Risk Management Commission (RMC) is to assist the Board with overall strategies and directions for risk management⁽¹⁾. It ensures the implementation of an integrated risk management framework and standards and policies that establish the rules for accepting, monitoring, managing and reporting the material risks that Desjardins is exposed to. The RMC also monitors compliance with Desjardins's risk appetite framework and examines the steps that need to be taken when established limits have been exceeded. It also plays a role in monitoring Desjardins's investments. It held 12 meetings in 2021.

It has eight members, including two external members in accordance with the *Policy on commission and committee membership*:

- Michel Doré*, Chair
- Claudia Champagne, external member and independent director at Desjardins Financial Security
- Francine Côté, external member and independent director at Desjardins General Insurance
- André Grenier*
- Dominique Jodoin*
- Marie-Josée Lamothe*
- Patricia-Ann Sarrazin-Sullivan* ⁽ⁱ⁾
- Stéphane Trottier*

⁽ⁱ⁾ Appointed on June 9, 2021.

Camil Maltais* and Roch Ouellet* were members until March 27, 2021.

Neil Hawthorn (caisse general manager) and Michel Magnan* sit on the RMC as observers.

⁽¹⁾ Risk management includes all security risks (information security, personal data protection, financial crime prevention, fraud prevention and physical security) and regulatory non-compliance risks.

HUMAN RESOURCES COMMISSION

The Human Resources Commission (HRC) supports the Board in the following areas: governance and risk management of issues relating to human resources and overall compensation across Desjardins; creation and maintenance of the integration and skills development program for general managers, managers and employees; the senior management succession plan; creation and maintenance of the profile of general managers, managers and employees; annual salary recommendations, including incentive plans; the group insurance plan; changes to the pension plan; union relations; the management structure, etc. The mandate of the HRC does not include the terms of employment for the President and CEO. It held 8 regular meetings in 2021.

It has six members, including one external member in accordance with the *Policy on commission and committee membership*:

- Serge Rousseau* ⁽ⁱ⁾, Chair
- Johanne Charbonneau* ⁽ⁱⁱ⁾, Vice-Chair of the Board and Lead Director
- Guy Cormier, Chair of the Board
- Denis Latulippe* ⁽ⁱⁱ⁾
- Julien Ponce, external member of the Board and independent director at Desjardins General Insurance
- Marie-Eve Tremblay*

⁽ⁱ⁾ Appointed chair on June 9, 2021.

⁽ⁱⁱ⁾ Appointed members on June 9, 2021.

Carole Chevalier* was a member until March 27, 2021.

Michel Tourangeau* and Yvon Vinet* were members until June 9, 2021.

COMMITTEE ON THE AGGREGATE REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

This committee, whose members are all independent directors, is mandated to make recommendations to the Board regarding the President and CEO's remuneration, working conditions, annual objectives and performance review. It held 4 regular meetings in 2021.

It has five members, including one external member in accordance with the *Policy on commission and committee membership*:

- Johanne Charbonneau* ⁽ⁱ⁾, Chair and Vice-Chair of the Board and Lead Director
- Denis Latulippe* ⁽ⁱ⁾
- Julien Ponce, external member of the Board and independent director at Desjardins General Insurance
- Serge Rousseau*
- Marie-Eve Tremblay*

⁽ⁱ⁾ Appointed members on June 9, 2021.

Carole Chevalier* was a member until March 27, 2021.

Michel Tourangeau* and Yvon Vinet* were members until June 9, 2021.

CORPORATE GOVERNANCE AND RESPONSIBLE FINANCE COMMISSION

The Corporate Governance and Responsible Finance Commission (CGRFC) supports the Board in applying and updating Desjardins's corporate governance framework and policy, sustainable development and responsible finance. The CGRFC monitors best practices and examines guidelines and reports issued by regulatory authorities. It also assists the Board in administering its relationship with management and maintaining its independence. The CGRFC oversees the performance review program for members of the Board and its commissions and committees, as well as the integration and skills development program for Federation directors. In addition, it examines Desjardins's Social and Cooperative Responsibility Report and recommends its adoption to the Board. It administers various policies, including the *Desjardins Group Officer Compensation Policy*, the *Policy Governing the Integrity and Competency of Directors of the Federation, its Subsidiaries and Members of the Board of Ethics and Professional Conduct*, and the *Desjardins Group Sustainable Development Policy*. It held 17 meetings in 2021.

It is composed of six directors:

- Johanne Charbonneau* ⁽ⁱ⁾, Chair and Vice-Chair of the Board and Lead Director
- Lisa Baillargeon*
- Guy Cormier, Chair of the Board
- Nadine Groulx*
- Michel Magnan* ⁽ⁱ⁾
- Serge Rousseau* ⁽ⁱⁱ⁾

⁽ⁱ⁾ Appointed on June 9, 2021.

⁽ⁱⁱ⁾ Served as chair until June 9, 2021.

Camil Maltais* and Roch Ouellet* were member until March 27, 2021.

NOMINATION AND ELECTION COMMITTEE

The Nomination and Election Committee (NEC) oversees the proper conduct of the election and co-optation process for positions on the Board of Directors and Board of Ethics and Professional Conduct. It reviews candidates for positions on the Board, the BEPC and the boards of subsidiaries based on their enhanced group profiles and skills assessment criteria. The NEC also oversees the election of the President and CEO of Desjardins Group. It provides guidelines for the electoral process, ensures compliance with them and sets up processes that enable the electoral college to properly fulfill its role. It also establishes any other measures or rules necessary for the electoral and co-optation processes to run properly. In addition, it makes any other decisions about these processes within the limits of its powers and responsibilities as defined in its mandate. This mandate is adopted by the Board of Directors in accordance with the group bylaws. The NEC is accountable to the Board. It held 7 meetings in 2021.

It is composed of five members, including three who are independent caisse directors, one is a Bâtitseur Desjardins and one is an independent director from the Federation Board of Directors, in accordance with the group bylaws:

- Louis Brunelle ⁽ⁱ⁾, Chair
- Hélène Lee-Gosselin ⁽ⁱ⁾, Vice-Chair
- Doryne Bourque ⁽ⁱⁱ⁾
- Johanne Charbonneau ⁽ⁱ⁾, Vice-Chair of the Board and Lead Director
- Martine Lafrance ⁽ⁱ⁾

⁽ⁱ⁾ Terms began on September 21, 2021.

⁽ⁱⁱ⁾ Term began on October 6, 2021.

Érik Asselin, Marie-Claude Beaudin, Lorraine Bédard, Marie Caron and Marc Lemieux were members until May 31, 2021.

DESJARDINS GROUP RETIREMENT COMMITTEE

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the *Desjardins Group Pension Plan Regulation*, the Desjardins Group Retirement Committee (DGRC) is in charge of administering the Desjardins Group Pension Plan (DGPP), managing the pension fund and paying members and their survivors the benefits they are entitled to. The members share the role of trustee for the pension fund. It held 4 meetings in 2021.

The Federation assumes the responsibilities of the DGPP's sponsor. The Federation's Board has decision-making powers in certain areas, including the *Desjardins Group Pension Plan Regulation*, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. The Federation stands surety for the obligations (payment of benefits) resulting from the participation of all Desjardins employers in the DGPP.

The DGRC has 11 members: six employer representatives (including the Chair), two who represent active members, two who represent non-active members and beneficiaries, and one external member. The employer representatives and the external member are appointed by the Federation's Board, and those who represent active members, non-active members and beneficiaries are elected.

Employer representatives:

- Yvon Vinet*, Chair
- Stéphane Corbeil* ⁽ⁱ⁾
- Denis Latulippe* ⁽ⁱ⁾
- Bernard Morency, independent director at Desjardins General Insurance
- Marie-Eve Tremblay*, Secretary
- Stéphane Trottier*

⁽ⁱ⁾ Terms began on June 10, 2021.

Roch Ouellet* was a member until March 27, 2021 and Jean-François Laporte* was a member until June 10, 2021.

Active member representatives:

- Dominic Laurin
- Brigitte Chabarekh, observer

External member:

- Marc Saint-Pierre

Non-active member and beneficiary representatives:

- Jacques Dignard
- Robert Desbiens, observer

DGRC INVESTMENT COMMITTEE

Under the responsibility of the DGRC, which adopts the investment policy, the Investment Committee's mandate is to ensure that the policy is applied, respected and followed. The committee selects investment vehicles, awards mandates to portfolio managers and ensures that each investment meets expectations. It held 36 regular meetings and 14 special meetings in 2021.

It has eight members:

- Sylvain Gareau, Chair
- Patrick Chillis, Secretary
- Louis Beaulieu
- Jean-Philippe Cazalais
- Frédéric Godbout
- François Hudon
- Éric Lemay
- Mylène Villeneuve

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Federation has a Board of Ethics and Professional Conduct (BEPC) that is independent from its Board of Directors. The BEPC's five members are directors of caisses. The BEPC is supported by a team that reports to the Office of the Secretary General and Governance and Sustainable Development Division, which enables it to implement decisions resulting from its mandate.

One of the main responsibilities of the BEPC is to ensure the independence and objectivity of the Office of the Ombudsman and the Federation's inspection service for the caisses (DGMO), and to work with the Audit and Inspection Commission to make recommendations to the Board regarding the appointment or removal of the person responsible for managing this service. In addition to the above-mentioned responsibilities, the BEPC's role includes adopting the rules of conduct applicable to the directors of Desjardins and its subsidiaries and to the employees of the Federation and the caisses; presenting these rules for approval to the Board and ensuring the caisses and the Federation comply with them; supporting the caisses and the Federation in applying the rules of conduct, in particular by developing informative tools and activities along with an advisory services offer; issuing advice, observations and recommendations on ethical and professional conduct issues, particularly in cases of misconduct; notifying the Board of violations of the rules of professional conduct or of violations by the Federation of the *Act Respecting Financial Services Cooperatives* or the regulations governing restricted party transactions and conflicts of interest; and ensuring that complaints about the Federation originating from the caisses or other Federation members (holding companies or subsidiaries) are addressed. Members of the BEPC and directors attend meetings with AMF representatives. The BEPC holds closed-door meetings that are not attended by management. It held 13 meetings in 2021.

It has five members:

- Michel Guénette, Chair
- Katia Cyr
- Ahmed Naciri ⁽ⁱ⁾
- Annie Vaillancourt ⁽ⁱⁱ⁾
- Michel Yelle

⁽ⁱ⁾ Term began on March 27, 2021.

⁽ⁱⁱ⁾ Term began on September 9, 2021.

Maryse Lapierre and Normand Gingras were members until March 27, 2021.

DESJARDINS GROUP MANAGEMENT COMMITTEE

This committee supports the President and CEO and the Board in their responsibility of giving Desjardins a unified management structure. The DGMC helps the Board incorporate the strategic directions of the cooperative network, business segments and support functions and implement business development strategies. It also oversees operations in accordance with the rules and requirements set by the Board and other Desjardins governing bodies and regulatory authorities. The DGMC is responsible for operational matters with economic, environmental and social significance that have an impact on Desjardins. It makes sure that all Desjardins's operations are above board and that its managers and employees act with integrity. The mandates of the DGMC and its committees were reviewed in the fall of 2020. It held 18 regular meetings and 4 special meetings in 2021.

It is composed of 12 management members, including five women (42%):

- **Guy Cormier**
President and CEO of Desjardins Group
- **Réal Bellemare**
Senior Executive Vice-President and COO
- **Jean-Yves Bourgeois**
Executive Vice-President, Business Services
- **Francine Champoux**
Executive Vice-President, Risk Management
- **Marie-Huguette Cormier**
Executive Vice-President, Human Resources and Communications
- **Denis Dubois**
Executive Vice-President, Wealth Management and Life and Health Insurance
President and COO, Desjardins Financial Security
- **Johanne Duhaime**
Executive Vice-President, Information Technology
- **Di-Thai Hua** ⁽ⁱ⁾
Executive Vice-President, Operations
- **Éric Lachaine**
Executive Vice-President, Caisse Network and Member and Client Services
- **Nathalie Larue**
Executive Vice-President, Strategy, Marketing and Personal Services
- **Valérie Lavoie**
Executive Vice-President, Property and Casualty Insurance
President and COO, Desjardins General Insurance Group
- **Alain Leprohon** ⁽ⁱ⁾
Executive Vice-President, Finance and CFO

The Vice-President, President's Office, Cooperation and Director Support, always attends DGMC meetings.

⁽ⁱ⁾ Appointed on February 24, 2022 following the implementation of the new Operations Executive Division. Following these changes, the name of the Executive Vice-President Finance, Treasury and Administration was changed to Executive Vice-President Finance, and Alain Leprohon's title was changed accordingly. Until February 24, 2022, he was designated Executive Vice-President, Finance, Treasury and Administration and Chief Financial Officer.

DGMC members are deemed to be Federation managers within the meaning of section 93 of the *Act Respecting Financial Services Cooperatives*. The following individuals are also considered Federation managers:

- Steeve Talbot, Chief Monitoring Officer
- Nicolas Coulombe ⁽ⁱ⁾, Chief Security Officer
- Marie-Andrée Alain, Vice-President and Chief Compliance and Privacy Officer
- Luc Boucher, Vice-President and Chief Legal Officer
- Isabelle Garon, Vice-President, President's Office, Cooperation and Director Support
- Pauline D'Amboise, Secretary General and Vice-President, Governance and Sustainable Development

⁽ⁱ⁾ Appointed on September 9, 2021. Until that date, Sylvain Perreault was Chief Security Officer.

The DGMC has Desjardins-wide coordination committees in the following areas:

- Disclosure
- Environmental, social and governance issues
- Finance and risk management
- Data governance
- Development planning and follow-up

DIRECTOR COMPENSATION

Certain Desjardins components, namely the Federation and Desjardins Capital Inc., are subject to obligations regarding the disclosure of director compensation. As required by CSA *National Instrument 51-102 Respecting Continuous Disclosure Obligations*, the compensation of directors from these components is presented below and in the Federation's Annual Information Form. The Annual Information Form and the disclosure document are available on the SEDAR website (www.sedar.com) under the *Fédération des caisses Desjardins du Québec's* profile.

Compensation rates for the members of the boards of directors of the Federation, Desjardins Technology Group and Desjardins Trust Inc., and the members of the Board of Ethics and Professional Conduct of the Federation

	Federation ⁽¹⁾	Subsidiaries
Chair of the Board of Directors ⁽²⁾	\$0 Position is held by the President and CEO of Desjardins Group	\$11,500
Annual stipend for the chair of a commission or committee of the Board of Directors ⁽³⁾	\$7,400 (not including the Audit and Inspection Commission)	\$7,400
Additional annual stipend for the chair of the Audit and Inspection Commission	\$14,800	N/A
Annual stipend for the Vice-Chair of the Board of Directors	\$22,800	N/A
Annual stipend for a member of the Board of Directors ⁽⁴⁾	\$53,800	\$11,500
Annual stipend for a member of a commission or a committee of the Board of Directors ⁽⁵⁾	\$2,300	\$2,300
Additional annual stipend for a member of the Audit and Inspection Commission	\$2,300	\$2,300 (Audit and Risk Management Committee)
Attendance fee for a meeting of the Board of Directors	\$1,375 (daily maximum)	\$1,400 (daily maximum)
Attendance fee for a meeting of a commission or committee of the Board of Directors ⁽⁶⁾	\$1,375 (daily maximum) \$685 (per half-day)	\$1,400 (daily maximum) \$700 (per half-day)
Attendance fee for a short meeting (conference call, etc.)	\$230	\$230
Attendance fee for a meeting of the Board of Ethics and Professional Conduct or the Professional Conduct Committee ⁽⁷⁾	\$2,750 (for the chair) \$1,375 (for members)	\$700 (per half-day)

*** The compensation rates and the *Desjardins Group Officer Compensation Policy* were updated in December 2021, and came into effect on January 1, 2022.

N/A: Not applicable

⁽¹⁾ The director compensation indicated for the Federation includes, where applicable, the portion paid to members of the board to also serve as directors for Desjardins Trust Inc., Desjardins Technology Group Inc. and Desjardins Capital Inc. Until December 2021, the director compensation also included the directorships of Desjardins Technology Group Inc. and Desjardins Capital Inc. Since January 2022, the Board members of the Federation no longer serve as directors for Desjardins Technology Group Inc. and Desjardins Capital Inc.

⁽²⁾ The position of chair of the boards of directors of the following subsidiaries is held by a member of the Federation's board: Développement international Desjardins, Desjardins General Insurance Group Inc., Desjardins Financial Security Life Assurance Company and Desjardins Financial Corporation Inc.

⁽³⁾ The attendance fee is doubled in lieu of the annual stipend for the chairs of commissions or committees that hold fewer than 4 meetings per year, except for the chair of the CAR.

⁽⁴⁾ The stipend paid to the managing director is \$38,100. A single stipend is paid to directors for their roles on the boards, commissions and committees of the Federation, Desjardins Capital Inc., Desjardins Trust Inc. and Desjardins Technology Group Inc. For the Federation, the annual stipend also covers directors' roles as members of the community collaboration groups and of the Desjardins Collaboration Forum.

⁽⁵⁾ A board member's annual stipend includes all of the commissions and committees they sit on for the Federation and Desjardins Trust Inc. (and for Desjardins Technology Group Inc. or Desjardins Capital Inc. until December 2021). In other words, a single stipend is paid for all positions held for those entities.

⁽⁶⁾ The maximum daily attendance fee for the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc. and Desjardins Capital Inc. is \$1,375, regardless of the number of board, commission or committee meetings a member attends in a single day. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Federation's board may invite any caisse director to sit on any of its committees. The board determines the compensation to be paid based on the nature of the responsibilities entrusted to the caisse director and the compensation schedule. General managers who sit on the board or on a commission or committee do not receive an attendance fee.

⁽⁷⁾ This represents the fee for full-day meetings of the Federation's BEPC. The fee for half-day meetings is \$1,375 for the chair and \$700 for members.

Director compensation

The compensation paid to each member in 2021 for the duties assumed as directors of the Federation, Desjardins Trust Inc. (Desjardins Trust), Desjardins Technology Group (DTG) and Desjardins Capital Inc. (DCI) or for other duties listed below is detailed as follows:

Name	Compensation received as a director of the Federation, Desjardins Trust and DTG		Other fees ⁽¹⁾		2021 TOTAL (\$)
	Attendance fees (\$)	Annual stipend (\$)	Attendance fees (\$)	Annual stipend (\$)	
Babineau, Louis (Chair of the Board, DGAG) ⁽²⁾	41,908.14	56,100.00	2,781.87	31,226.00	132,016.01
Bachand, Luc ⁽³⁾	13,764.99	12,008.00	N/A	N/A	25,772.99
Baillargeon, Lisa (Chair of the Board, DID) ⁽²⁾	41,958.25	56,100.00	3,641.74	22,102.00	123,801.99
Baril-Jurino, Jordan	27,970.03	41,500.00	N/A	N/A	69,470.03
Bélanger, Benoît	N/A	14,025.00	N/A	N/A	14,025.00
Bilodeau, Kathleen	N/A	41,500.00	N/A	N/A	41,500.00
Charbonneau, Johanne ⁽⁵⁾	45,541.35	83,973.33	2,348.14	25,901.00	157,763.82
Chevalier, Carole	11,285.86	13,450.00	399.17	5,325.00	30,460.03
Corbeil, Stéphane (Chair of the Board, FSD) ⁽²⁾	34,402.24	56,100.00	882.74	17,500.00	108,884.98
Corriveau, Sonia	12,600.00	19,635.00	N/A	N/A	32,235.00
Cormier, Guy ⁽⁴⁾	N/A	N/A	N/A	N/A	N/A
Doré, Michel	47,654.84	63,500.00	665.16	5,752.00	117,572.00
Grenier, André	41,250.02	53,800.00	N/A	N/A	95,050.02
Groulx, Nadine	39,546.29	61,200.00	5,133.71	15,825.00	121,705.00
Hawthorn, Neil	N/A	53,800.00	N/A	8,050.00	61,850.00
Jodoin, Dominique	40,565.03	53,800.00	N/A	N/A	94,365.03
Jourdain, Kateri C.	32,535.02	56,676.00	690.00	276.00	90,177.02
Lamothe, Marie-Josée	44,000.41	53,800.00	2,749.59	6,900.00	107,450.00
Laporte, Jean-François	11,685.00	17,920.84	7,000.00	20,580.00	57,185.84
Lapierre, Maryse	27,510.55	40,350.00	N/A	N/A	67,860.55
Latulippe, Denis ⁽³⁾	15,140.01	35,119.44	N/A	6,000.00	56,259.45
Magnan, Michel ⁽³⁾	35,813.59	43,669.44	1,111.41	6,900.00	87,494.44
Maltais, Camil	15,550.48	13,450.00	169.17	3,450.00	32,619.65
Ouellet, Roch	14,435.01	13,450.00	N/A	3,000.00	30,885.01
Rousseau, Serge ⁽⁶⁾	43,896.30	73,133.33	1,468.49	13,800.00	132,298.12
Sarrazin-Sullivan, Patricia-Ann	27,095.02	40,350.00	N/A	N/A	67,445.02
Tourangeau, Michel (Chair of the Board, DSF) ⁽²⁾	36,616.25	53,800.00	16,033.74	34,387.12	140,837.11
Tremblay, Marie-Eve	30,005.02	53,800.00	115.00	12,000.00	95,920.02
Trottier, Stéphane	36,895.02	53,800.00	N/A	12,000.00	102,695.02
Vinet, Yvon	30,010.02	53,800.00	690.00	25,876.00	110,376.02
Total	799,634.74	1,283,610.38	45,879.93	276,850.12	2,405,975.17

N/A : Not applicable

(1) Amounts received for: chairing the board of a subsidiary; sitting on the Desjardins Group Retirement Committee (DGRC) or the DGRC Investment Committee; sitting on the board of directors of Desjardins Financial Corporation Inc., and the Desjardins Security Fund; and contributing to other ad hoc committees.

(2) Développement international Desjardins (DID); Desjardins General Insurance Group Inc. (DGIG); Desjardins Financial Security Life Assurance Company (DFS); Desjardins Security Fund (DSF).

(3) Denis Latulippe's and Michel Magnan's terms began May 7, 2021. ** Luc Bachand's term began on August 30, 2021.

(4) Desjardins's President and CEO does not receive any compensation for the position of chair and member of the boards of directors of the Federation, Desjardins Trust, Desjardins Financial Security, Desjardins Financial Corporation Inc., Desjardins Capital Inc., and Desjardins Technology Group.

(5) Since May 12, 2021, Johanne Charbonneau has received compensation for her roles as Vice-Chair of the Board and Lead Director, Chair of the Corporate Governance and Responsible Finance Commission and Chair of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.

(6) Until May 12, 2021, Serge Rousseau received compensation for his roles as Vice-Chair of the Board, Chair of the Corporate Governance and Responsible Finance Commission and Chair of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group.

Compensation of members of the Federation's Board of Ethics and Professional Conduct

Name	Attendance fees (\$)
Cyr, Katia	5,500
Gingras, Normand	1,145
Guénette, Michel	10,540
Lapierre, Maryse	1,145
Naciri, Ahmed	4,125
Vaillancourt, Annie	1,375
Yelle, Michel	5,730

Record of attendance for the members of the Federation's board of directors

Nom, prénom	BoD (regular)	BoD (special)	EC	CCC	AIC	RMC	HRC	CAR	CGRFC	RCIC
Babineau, Louis*	10/10	8/8	—	13/13	8/8	—	—	—	—	—
Bachand, Luc*	3/3	3/3	—	—	3/3	—	—	—	—	—
Baillargeon, Lisa*	10/10	8/8	—	—	8/8	—	—	—	16/17	—
Baril-Jurino, Jordan*	7/7	6/6	—	—	4/4	—	—	—	—	—
Bélanger, Benoît	3/3	2/2	—	3/3	—	—	—	—	—	—
Bilodeau, Kathleen	7/7	6/6	—	7/7	4/4	—	—	—	—	—
Charbonneau, Johanne*	10/10	8/8	—	—	4/4	—	4/4	4/4	8/8	—
Chevalier, Carole*	3/3	2/2	1/1	—	—	—	3/3	2/2	—	—
Corbeil, Stéphane*	10/10	7/8	—	—	6/8	—	—	—	—	2/2
Coriveau, Sonia*	3/3	3/3	—	—	3/4	—	—	—	—	—
Cormier, Guy	10/10	8/8	4/4	—	—	—	8/8	—	17/17	—
Doré, Michel*	10/10	8/8	—	—	8/8	12/12	—	—	—	—
Grenier, André*	10/10	8/8	—	13/13	—	12/12	—	—	—	—
Groulx, Nadine*	10/10	7/8	4/4	13/13	—	—	—	—	17/17	—
Hawthorn, Neil	9/10	7/8	2/2	—	—	11/12	—	—	—	—
Jodoin, Dominique*	10/10	8/8	—	7/7	—	12/12	—	—	—	—
Jourdain, Kateri C.*	10/10	8/8	—	10/13	—	—	—	—	—	—
Lamothe, Marie-Josée*	10/10	7/8	2/2	6/6	—	10/12	—	—	—	—
Laporte, Jean-François*	3/3	2/2	—	—	3/3	—	—	—	—	2/2
Lapierre, Maryse*	7/7	5/6	—	6/7	—	—	—	—	—	—
Latulippe, Denis*	6/7	4/5	—	—	—	—	3/4	1/2	—	2/2
Magnan, Michel*	7/7	5/5	—	—	4/4	6/6	—	—	8/8	—
Maltais, Camil*	3/3	2/2	1/1	3/3	—	4/4	—	—	4/4	—
Ouellet, Roch*	3/3	2/2	—	—	—	4/4	—	—	4/4	1/1
Rousseau, Serge*	10/10	8/8	4/4	—	—	—	8/8	4/4	17/17	—
Sarrazin-Sullivan, Patricia-Ann*	7/7	6/6	—	—	—	6/6	—	—	—	—
Tourangeau, Michel*	10/10	8/8	4/4	—	—	—	4/4	2/2	—	—
Tremblay, Marie-Eve*	9/10	7/8	—	—	—	—	7/8	4/4	—	4/4
Trottier, Stéphane*	10/10	7/8	—	—	—	12/12	—	—	—	3/4
Vinet, Yvon*	10/10	8/8	—	—	—	—	4/4	2/2	—	4/4

BoD = Board of Directors, EC = Executive Committee, CCC = Cooperation and Culture Commission, AIC = Audit and Inspection Commission, RMC = Risk Management Commission, HRC = Human Resources Commission, CAR = Committee on the Aggregate Remuneration of the President and CEO of Desjardins, CGRFC = Corporate Governance and Responsible Finance Commission, IC = Desjardins Group Investment Commission, DGRC = Desjardins Group Retirement Committee and RCIC = Desjardins Group Retirement Committee Investment Committee.

Note: In the above table, when the name of a director is followed by an asterisk (*), it means that the person is an independent director.

The Board of Directors held ten regular meetings over 20 days and eight special meetings in 2021.

Board members commit to attending Board meetings and meetings of the commissions and committees to which they are invited, and to staying for the entire meeting. Each member of the Board must attend at least 75% of the meetings to which they are invited. Directors may be absent for professional or personal reasons, but justification is required in all instances.

Record of attendance for the members of the Federation's Board of Ethics and Professional Conduct

Name	Number of meetings
Cyr, Katia	13/13
Gingras, Normand	3/3
Guénette, Michel	13/13
Lapierre, Maryse	3/3
Naciri, Ahmed	10/10
Vaillancourt, Annie	4/4
Yelle, Michel	13/13

Main components and subsidiaries⁽¹⁾

As at December 31, 2021

Components and subsidiaries	Main activities
DESJARDINS CAISSES IN QUÉBEC AND CAISSE DESJARDINS ONTARIO CREDIT UNION INC.	Cooperative financial institutions
FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC	Planning, supervision, coordination, treasury and development of Desjardins Group, Desjardins Group's financial agent on the Canadian and international markets and payment solution and credit card issuance
COLLABRIA FINANCIAL SERVICES INC.	Payment solution and credit card issuance
DESJARDINS FINANCIAL SERVICES FIRM INC.	Mutual fund brokerage and financial planning services
DESJARDINS CAPITAL MANAGEMENT INC.	Development and venture capital fund management
DESJARDINS FINANCIAL HOLDING INC.	Holding company
Desjardins Financial Corporation Inc.	Holding company
Desjardins Global Asset Management Inc.	Asset management ⁽²⁾
Desjardins General Insurance Group Inc.	Property and casualty insurance
<i>Certas Direct Insurance Company</i>	Property and casualty insurance
<i>Certas Home and Auto Insurance Company</i>	Property and casualty insurance
<i>Desjardins General Insurance Inc.</i>	Property and casualty insurance
<i>Desjardins General Insurance Services Inc.</i>	Property and casualty insurance
<i>The Personal General Insurance Inc.</i>	Property and casualty insurance
<i>The Personal Insurance Company</i>	Property and casualty insurance
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services
<i>Assistel Inc.</i>	Assistance services
<i>Desjardins Investment Product Operations Inc.</i>	Processing and administration of savings and investment accounts and specialized products for Desjardins Group components
<i>Desjardins Independent Network Insurance Inc.</i>	Mutual fund and insurance brokerage
<i>Desjardins Investments Inc.</i>	Design, administration and distribution of insurance and savings products
<i>Desjardins Financial Security Investments Inc.</i>	Mutual fund and insurance brokerage
Desjardins Trust Inc.	Asset custody and trust services
Desjardins Investment Management Inc.	Investment management
Desjardins Real Estate Group Inc.	Property and workspace management
Desjardins Shared Services Group Inc.	Administrative services
Desjardins Technology Group Inc.	Development, maintenance and modernization of Desjardins Group technology
Aviso Wealth	Wealth management company held in equal shares by Desjardins Group and the partnership between five provincial credit union centrals and CUMIS Group
Desjardins Securities Inc.	Securities brokerage
9420-7404 Québec inc. ⁽³⁾	Real estate services
FONDS DE SÉCURITÉ DESJARDINS	Financial reserve for the Desjardins caisses

⁽¹⁾ Additional information on Desjardins Group's activities is presented in Section 2.2 "Analysis of business segment results" in the 2021 Management's Discussion and Analysis.

⁽²⁾ Includes operations resulting from the acquisition of the assets of investment firm Hexavest Inc.

⁽³⁾ 9420-7404 Québec inc. operates two brands, DuProprio and FairSquare (Purplebricks Canada prior to December 1, 2021).

