Management's Discussion and Analysis

Desjardins Group (hereinafter also referred to as Desjardins) comprises the Desjardins caisses in Québec and 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 21, 2024, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the year ended December 31, 2023, in comparison to prior fiscal years. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* (Regulation 52-109) prescribed by the Canadian Securities Administrators (CSA). Unlike the Federation, Desjardins Group is not a reporting issuer, on a combined basis, under this or any other applicable securities regulations. Pursuant to Decision No. 2021-FS-0091 of the *Autorité des marchés financiers* (AMF) dated April 23, 2021, the Combined Financial Statements and MD&As of Desjardins Group are to be filed by the Federation instead of the Consolidated Financial Statements and MD&As of the Federation, in order to meet its financial disclosure obligations as a reporting issuer under *Regulation 51-102 respecting Continuous Disclosure Obligations* of the CSA, and the Federation is to 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, 2023.

Additional information about Desjardins Group is available on the SEDAR+ website at www.sedarplus.com (under the Desjardins Capital Inc. profile for the years ended prior to December 31, 2021, and since the 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 AMF in Québec, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). Desjardins Group modified certain accounting policies following the adoption of IFRS 17, "Insurance Contracts", as at January 1, 2023. For more information about the accounting policies used and changes in accounting policies, see Note 2, "Accounting policies", to the Combined Financial Statements. The adoption of this standard resulted in major changes to Desjardins Group's Combined Financial Statements. Certain comparative figures for the year ended December 31, 2022, have been restated, and a restated opening Balance Sheet as at January 1, 2022, is presented in the Combined Financial Statements to reflect this new standard.

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. In addition, Desjardins Group's representatives may make verbal forward-looking statements to investors, the media and others.

The forward-looking statements include, but are not limited to, comments on Desjardins Group's objectives regarding financial performance, priorities, vision, operations, targets and commitments, the review of economic conditions and financial markets, the outlook for the Québec, Canadian, U.S. and global economies, 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 require us to make assumptions, and are subject to uncertainties and inherent risks, both general and specific. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions 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. 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 accurate. 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 future actual results, conditions, actions or events differ materially from targets, expectations, estimates or intentions that have been explicitly or implicitly put forward. 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 factors that may affect the accuracy of the forward-looking statements in the MD&A include those discussed in Section 4.0, "Risk management", of this MD&A and, in particular, credit, market, liquidity, operational, insurance, strategic and reputation risk, as well as environmental, social and governance risk and regulatory risk.

Such factors also include those related to security (including cybersecurity) breaches, fraud risk, the housing market and household and corporate indebtedness, technological and regulatory developments, including changes to liquidity and capital adequacy guidelines, and requirements relating to their presentation and interpretation, as well as interest rate fluctuations, inflation, 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, joint arrangements and the ability to achieve the anticipated benefits; changes in credit ratings assigned to Desjardins Group; reliance on third parties; the ability to recruit and retain talent; and tax risk. Other factors include interest rate benchmark reform, unexpected changes in consumer spending and saving habits, the potential impact of international conflicts on operations, public health crises, such as pandemics and epidemics, including the COVID-19 pandemic, or any other similar disease affecting the local, national or global economy, 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", 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.

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 and can be updated in the interim MD&As subsequently filed. Readers are cautioned to consider the foregoing factors when reading this section. To determine economic growth forecasts, in general, and for the financial services sector, in particular, Desjardins Group mainly uses 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.

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 other 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 financial measures and ratios

Non-GAAP financial measures and ratios 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. Regulation 52-112 states, among other things, that any ratio with at least one non-GAAP financial measure meets the definition of a non-GAAP ratio. These non-GAAP financial measures and ratios can be useful to investors, among others, in analyzing Desjardins Group's overall performance or financial position. They are defined as follows:

Net interest margin

Net interest margin, which is a non-GAAP ratio, 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 used to exclude non-interest-bearing assets and liabilities from average assets and average liabilities. They 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 life and health insurance and property and casualty insurance assets and liabilities as well as all other assets and liabilities not generating any net interest income.

The table below presents the reconciliation between average assets presented in accordance to GAAP and average interest-bearing assets used to calculate the net interest margin as well as the reconciliation between average liabilities presented in accordance to GAAP and average interest-bearing liabilities.

Table 1 – Average interest-bearing assets and liabilities
For the years ended December 31

(in millions of dollars and as a percentage)	2023	2022 Restated
Average assets – as presented	**$ 409,820**	$ 399,913
Less: Assets not generating net interest income	**101,505**	103,201
Average interest-bearing assets	**$ 308,315**	$ 296,712
Net interest income	**$ 7,033**	$ 6,330
Net interest margin	**2.28%**	2.13%
Average liabilities – as presented	**$ 376,594**	$ 366,984
Less: Liabilities not generating net interest income	**104,748**	112,159
Average interest-bearing liabilities	**$ 271,846**	$ 254,825

Loss ratio – Expense ratio – Ratio of losses on onerous contracts – Combined ratio

These non-GAAP ratios, which are net of reinsurance, are used to measure the performance of the Property and Casualty Insurance segment 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, excluding certain items such as non-interest expense related to claims.
- Ratio of losses on onerous contracts: Used as a measure of the effect of onerous contracts on profitability.
- Combined ratio: Used as a measure of business profitability, excluding the effect of the net insurance finance result and certain other income.

The loss ratio is equal to the net claims expenses expressed as a percentage of net insurance revenue. Net claims expenses are a non-GAAP financial measure, which is used to exclude the effect of policy costs and acquisition costs, as well as the effect of the loss component on onerous contracts, and to include in the indicators the effect of reinsurance held.

Net insurance revenue is a non-GAAP financial measure. It is used to exclude premiums paid related to reinsurance activities and is the denominator in calculating the following ratios: loss ratio, expense ratio and ratio of losses on onerous contracts.

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 held.
- 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 related reinsurance held.
- Ratio of changes in prior year claims, which is the loss ratio including changes in prior year claims, net of related reinsurance held.

The expense ratio is equal to non-interest expense, excluding non-interest expense related to claims and certain items, expressed as a percentage of net insurance revenue. Non-interest expense excluding non-interest expense related to claims and certain items is a non-GAAP financial measure. It is used to consider all expenses excluding investment management expenses and certain other specific items.

The ratio of losses on onerous contracts is equal to the effect of the loss component on net onerous contracts expressed as a percentage of net insurance revenue. The effect of the loss component on onerous contracts is a non-GAAP financial measure, which is used to include losses and reversals of losses on net onerous contracts, as well as decreases in the loss component related to past services, net of reinsurance.

The combined ratio is equal to the sum of the loss ratio, the expense ratio and the ratio of losses on onerous contracts.

The following table presents the reconciliation of non-GAAP financial measures and GAAP financial measures in the Combined Financial Statements and used to calculate the loss ratio, the expense ratio, the ratio of losses on onerous contracts, and the combined ratio for the Property and Casualty Insurance segment.

Table 2 – Loss ratio – Expense ratio – Ratio of losses on onerous contracts – Combined ratio

For the years ended December 31

(in millions of dollars and as a percentage)	2023	2022 Restated
Insurance revenue – as presented	**$ 6,642**	$ 6,225
Less: Premiums paid related to reinsurance activities[1]	**306**	192
Net insurance revenue	**$ 6,336**	$ 6,033
Insurance service expenses – as presented	**$ 5,775**	$ 5,738
Less: Policy costs and acquisition costs	**1,302**	1,286
Less: Effect of loss component on onerous contracts	**(54)**	216
Less: Claims incurred and costs of ceded claims[1]	**237**	162
Net claims expenses	**$ 4,290**	$ 4,074
Gross non-interest expense – as presented	**$ 1,025**	$ 988
Less: Non-interest expense related to claims[2] and certain items[3]	**433**	429
Plus: Acquisition costs and certain policy costs included in insurance service expenses	**1,066**	1,043
Non-interest expense excluding non-interest expense related to claims and certain items	**$ 1,658**	$ 1,602
Effect of loss component on onerous contracts	**$ (54)**	$ 216
Less: Effect of loss component on ceded onerous contracts[1]	**2**	18
Effect of loss component on net onerous contracts	**$ (56)**	$ 198
Loss ratio	**67.7%**	67.5%
Expense ratio	**26.2**	26.6
Ratio of losses on onerous contracts	**(0.9)**	3.3
Combined ratio	**93.0**	97.4

(1) These items are included under "Net reinsurance service income (expenses)".
(2) Represents non-interest expense directly related to claims adjustments, which are presented under "Insurance service expenses".
(3) From investment management expenses and certain other specific items.

Giving back to members and the community

As a cooperative financial group contributing to the development of communities, Desjardins Group gives its members and clients the support they need to be financially empowered. The amounts returned to members and the community, a non-GAAP financial measure, are used to present the overall amount returned to the community and are composed of member dividends, as well as sponsorships, donations and scholarships.

More detailed information about the amount returned to members and the community may be found in Table 3, "Financial highlights", in this MD&A.

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 106 to 113.

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 Québec 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 some of its insurance subsidiaries. Other federal and provincial regulations, in addition to those of regulators, may also govern some operations of Desjardins Group's 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 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* (FSD) 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 and capital management and see to the financial health of the Cooperative Group and its sustainability. To this end, the Federation and the FSD 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 FSD 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 fulfill 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 FSD 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 FSD 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 FSD 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 FSD 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 FSD, 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 FSD that is included in this group.

The assessment and intervention powers of the Federation and the FSD, combined with the primacy of the Cooperative Group's interest and the universal amalgamation/winding-up operation, as described earlier, are the fundamental principles of financial solidarity mechanisms, which constitute one of the key elements of Desjardins Group’s and the Cooperative Group’s financial structure.

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 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 pages 93 and 94 of this MD&A and in the "Corporate governance" section of the 2023 Desjardins Group Annual Report.

Domestic systemically important financial institution

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. 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 aim to strengthen governance as well as risk data aggregation and risk reporting capabilities. Furthermore, Desjardins Group developed a living will, detailing the actions it would take to restore its financial position in the event of a severe 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-taking 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, in particular, (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-taking 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 that any deposit-taking institution belonging to the Cooperative Group becomes non-viable, the AMF may convert any part of the capital shares issued by the deposit-taking 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-taking 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 propose to the resolution board that it 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 propose to the resolution board that it 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 Group is essentially 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 in this regard. As a result, since April 1, 2022, Desjardins Group has been 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 under "Regulatory framework" in Section 3.2, "Capital management".

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. The U.S. operations of Desjardins FSB Holdings, Inc., as a bank holding company and wholly owned subsidiary of the Federation, are 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, particularly in fraud, corruption, tax evasion, privacy protection, 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)

Amendments were announced to the PCMLTFA and its regulations on July 10, 2019. Most of them came into force on July 10, 2019, June 1, 2020 and June 1, 2021, while those relating to the reporting requirement came or will come into force, as applicable, on October 2023, April 2024 and June 2024. After the publication of these regulatory changes, a project was implemented within Desjardins Group so that its systems, processes and procedures would be amended accordingly. On June 7, 2023, the Department of Finance Canada launched a consultation on the parliamentary review of the PCMLTFA, which must be carried out every five years. Reporting entities and stakeholders had until August 1, 2023 to comment, which Desjardins Group did in a brief that it produced. New regulatory changes were published in the *Canada Gazette on* October 11, 2023, which came or will come into force, as applicable, on September 26, 2023, January 1, 2024, July 1, 2024 and October 11, 2024. After analysis, the only change affecting Desjardins Group's reporting entities is the assessment that the reporting entities will need to pay the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to cover their examination fees, statements, registration applications and banking correspondent relations. Analyses and work are under way to implement the new regulatory changes that will come into force in July and October 2024. On November 21, 2023, the federal government released the *2023 Fall Economic Statement*, in which it stated its intention to adopt legislative measures to further strengthen the PCMLTFA regime, in particular by combatting sanctions evasion, the risk of fraud and environmental crime.

Protection of personal information

As a result of rapid changes in information technology, the protection of privacy and data security are hot topics in the news. After being passed by the National Assembly and assented to in September 2021, an *Act to modernize legislative provisions as regards the protection of personal information* is being phased in over a three-year period. After complying with the requirements that came into force on September 22, 2022, Desjardins Group has continued working to meet the requirements effective on September 22, 2023 and 2024.

On May 23, 2023, the *Commission d'accès à l'information* also published its general framework for the application of administrative monetary penalties, which describes the process for imposing penalties and the factors taken into account to establish the amount of the penalty. On October 31, 2023, the Commission d'accès à l'information also issued its *Lignes directrices sur les critères de validité du consentement* (guidelines on criteria for valid consent). These guidelines are in line with Desjardins Group's approach to consent and the processing of personal information. Finally, on December 20, 2023, the Québec government published a draft regulation on anonymization in the *Gazette officielle du Québec*, as provided for in section 23 of the *Act respecting the protection of personal information in the private sector.* Teams of the *Bureau du Chef de la protection des renseignements personnels* (BCPRP) are taking part in the consultations being held on this regulation. Desjardins Group also continues to be on the look-out for announced regulatory amendments to other Canadian privacy laws and, in particular, it has completed consideration of the provisions of federal Bill C-27, an *Act to enact the Consumer Privacy Protection Act,* the *Personal Information and Data Protection Tribunal Act* and the *Artificial Intelligence and Data Act and to make consequential and related amendments to other Acts,* which was tabled in June 2022. Furthermore, on October 11, 2023, the Office of the Privacy Commissioner of Canada launched a public consultation on its *Draft Guidance for processing biometrics*. The BCPRP will produce a brief containing its comments, recommendations and observations within the prescribed time limit. Lastly, following the announcement of the federal government's intention to implement legislative measures and a governance framework for an open banking system, developments in this file are also being closely monitored to analyze the impact on Desjardins Group's operations.

Pillar 3 financial disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These Pillar 3 requirements aim to enhance comparability with other financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. Desjardins Group has been issuing a Pillar 3 Report since December 31, 2018 in order to comply with Pillar 3 requirements. In January 2022, the AMF issued an update to the *Pillar 3 Disclosure Requirements Guideline*, which clarifies the implementation of provisions and incorporates new requirements that address, in particular, risk-weighted asset modelling, encumbered assets and compensation. In December 2023, the AMF released a new update to this guideline, effective January 1, 2024, which provides clarifications on disclosures in certain templates and tables.

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 the six-month and 12-month Canadian Dollar Offered Rate (CDOR), followed by the official cessation of the publication of the London Interbank Offered Rate (LIBOR) after December 31, 2021 for all currencies except certain USD LIBOR settings, which ceased publication on June 30, 2023. Subsequently, on May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), CDOR's administrator, announced that it would cease publishing all tenors of CDOR after June 28, 2024. This announcement triggered the two-stage transition period recommended by the Canadian Alternative Reference Rate (CARR) Working Group in its December 2021 White Paper. At the end of the first stage of the transition plan, which occurred on June 30, 2023, the CARR Working Group expected that CDOR would be replaced by the Canadian Overnight Repo Rate Average (CORRA) for new derivative products (except in certain specific circumstances) and for securities. At the end of the second stage of the transition plan, which should occur on June 28, 2024, CDOR-based loan contracts will have to have transitioned to the CORRA rate or any alternative reference rate available at the cessation date. For certain maturities, the use of Term CORRA, which has been available since September 5, 2023, is restricted to loans and derivative financial instruments associated with ancillary hedging strategies. On July 27, 2023, the CARR Working Group announced that lenders would no longer be able to offer new CDOR loans after November 1, 2023. The task force on interest rate benchmark reform, which was set up internally to ensure a seamless transition from benchmark interest rates, continues to manage the discontinuation of CDOR, including the impact on hedging relationships, and is pursuing its work as scheduled in its transition plan.

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

An Act respecting French, the official and common language of Québec came into force on June 1, 2022. This Act significantly enhances previous standards in the *Charter of the French Language*. The objectives are, in particular, to strengthen the presence and use of French in Québec, and to affirm that French is the only official language of Québec. Desjardins Group has made adjustments to its systems, processes and contracts in an effort to comply with the new requirements in force. The draft *Regulation respecting the language of commerce and business* was published for comment on January 10, 2024 in the *Gazette Officielle du Québec*. In particular, it provides for rules applicable to public signs and posters of trade marks and enterprise names, rules concerning inscriptions on products, and provisions to facilitate the implementation of the *Charter of the French language*, particularly regarding contracts of adhesion. The final regulation will come into force on June 1, 2025, except for certain provisions, including those for contracts of adhesion, which will come into force on the fifteenth day following the date of the final publication in the *Gazette Officielle du Québec.* Desjardins Group continues to closely monitor developments in this file and responds, where relevant, to consultations on the subject directly or through industry associations.

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

In 2023, regulatory and standard-setting authorities continued to clarify their ESG expectations by developing frameworks and standards:

- In March 2023, the OSFI issued Guideline B-15, *Climate Risk Management*, which concerns governance and risk management expectations and climate-related financial disclosures. It will be phased in during fiscal years 2024 to 2026, depending on the organizations and data concerned. The OSFI also held two consultations on climate in 2023, on which Desjardins commented. The first one was related to climate risk returns (collecting climate-related emissions and exposure data). Then, in December 2023, the topic was its standardized climate scenario analysis exercise.
- The Financial Services Regulatory Authority of Ontario (FSRA) has included climate risk management in its Operational Risk and Resilience Guidance for credit unions and caisses populaires. FSRA also assesses their ESG initiatives (in particular regarding climate risk) as an integral part of their resilience rating.
- Internationally, the International Sustainability Standards Board (ISSB), established by the IFRS Foundation, issued Sustainability-related Disclosure Requirements (IFRS S1), and Climate-related Disclosure Requirements (IFRS S2) in June 2023. Three consultations were also conducted during the second and third quarters of 2023 in order to revise the disclosure standards of the Sustainability Accounting Standards Board (SASB), to prioritize future topics of interest to ISSB, such as biodiversity, human rights and human capital, and to define a digital Sustainability Disclosure Taxonomy.
- The second reading in the Senate of the bill regarding climate-aligned finance (S-243) has been completed. The aim of the bill is to require banks to increase capital risk weights and capital reserve requirements for financing exposed to acute transition risks.
- In November 2023, the AMF issued a draft *Climate Risk Management Guideline* for consultation, in which Desjardins participated. The AMF's expectations in this guideline concern governance, integrated risk management, climate scenarios and stress testing, capital and liquidity adequacy, fair treatment of clients and disclosure of climate-related financial risks. IFRS S1 and IFRS S2 could be subsequently taken into consideration, resulting in an update to this guideline.

These points confirm that climate change consideration and disclosure requirements will be strengthened internationally, nationally and provincially in the future. Desjardins Group continues to closely monitor developments in this file and responds, where relevant, to consultations on the subject directly or through industry associations. Desjardins is also ensuring that it follows sound practices in ESG integration, monitoring and disclosure. This disclosure is reflected in the annual Social and Cooperative Responsibility report, which is aligned, in particular, 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 the disclosure related to the TCFD recommendations are summarized in 4.2.10 "Environmental, social and governance (ESG) risk", and detailed in the "Climate action at Desjardins – 2023 TCFD report on Climate change-related risks and opportunities" report.

Canadian tax measures

On November 30, 2023, the Government of Canada tabled Bill C-59, *An Act to implement certain provisions of the fall economic statement tabled in Parliament on November 21, 2023 and certain provisions of the budget tabled in Parliament on March 28, 2023*. This bill provides, in particular, for a new rule to deny the "dividend received deduction" to financial institutions for dividends received by such institutions after December 31, 2023 on Canadian shares (except for certain preferred shares) that are mark-to-market property for tax purposes. These proposals, if enacted, will increase the amount of income tax payable by Desjardins Group as of 2024. The final impact of this proposed measure will depend on the final legislation that is enacted.

Bill 30, *An Act to amend various provisions mainly with respect to the financial sector*

On June 7, 2023, the Québec Minister of Finance tabled Bill 30, *An Act to amend various provisions mainly with respect to the financial sector* (Bill 30) in the National Assembly. Bill 30 is an omnibus bill that amends, in particular, the *Insurers Act* (chapter A-32.1), the *Act respecting the distribution of financial products and services* (chapter D-9.2) and the *Act respecting financial services cooperatives* (chapter C-67.3). Desjardins Group continues to monitor this file closely and will respond, where appropriate, to consultations on this subject directly or through industry associations.

Regulation respecting the application of the *Deposit Institutions and Deposit Protection Act*

On August 10, 2023, the AMF issued a draft regulation proposing to amend the *Regulation respecting the application of the Deposit Institutions and Deposit Protection Act* to increase the premium payable by authorized deposit institutions. The premium rate would increase from 5 to 7.5 basis points of the amount of the deposits held by Desjardins Group and guaranteed by the AMF. The draft regulation is scheduled to come into force on April 30, 2024, subject to Ministerial approval. Interested persons had until October 9, 2023 to submit their comments, and Desjardins participated in this consultation. Desjardins Group continues to be on the look-out for changes to this draft regulation, and the impact on the premium paid by Desjardins will depend on the final regulation to be passed.

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 $422.9 billion. As at December 31, 2023, the organization grouped together 208 caisses in Québec and 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 close to 56,200 employees and the commitment of nearly 2,380 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-winding-up 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 that 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 literacy, 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 and in managing its operations, as well as to combat and adapt to climate change and biodiversity loss. It does this, in particular, through financial literacy and solidarity-based finance, as well as by offering products and services that meet all the financial needs of members and clients.

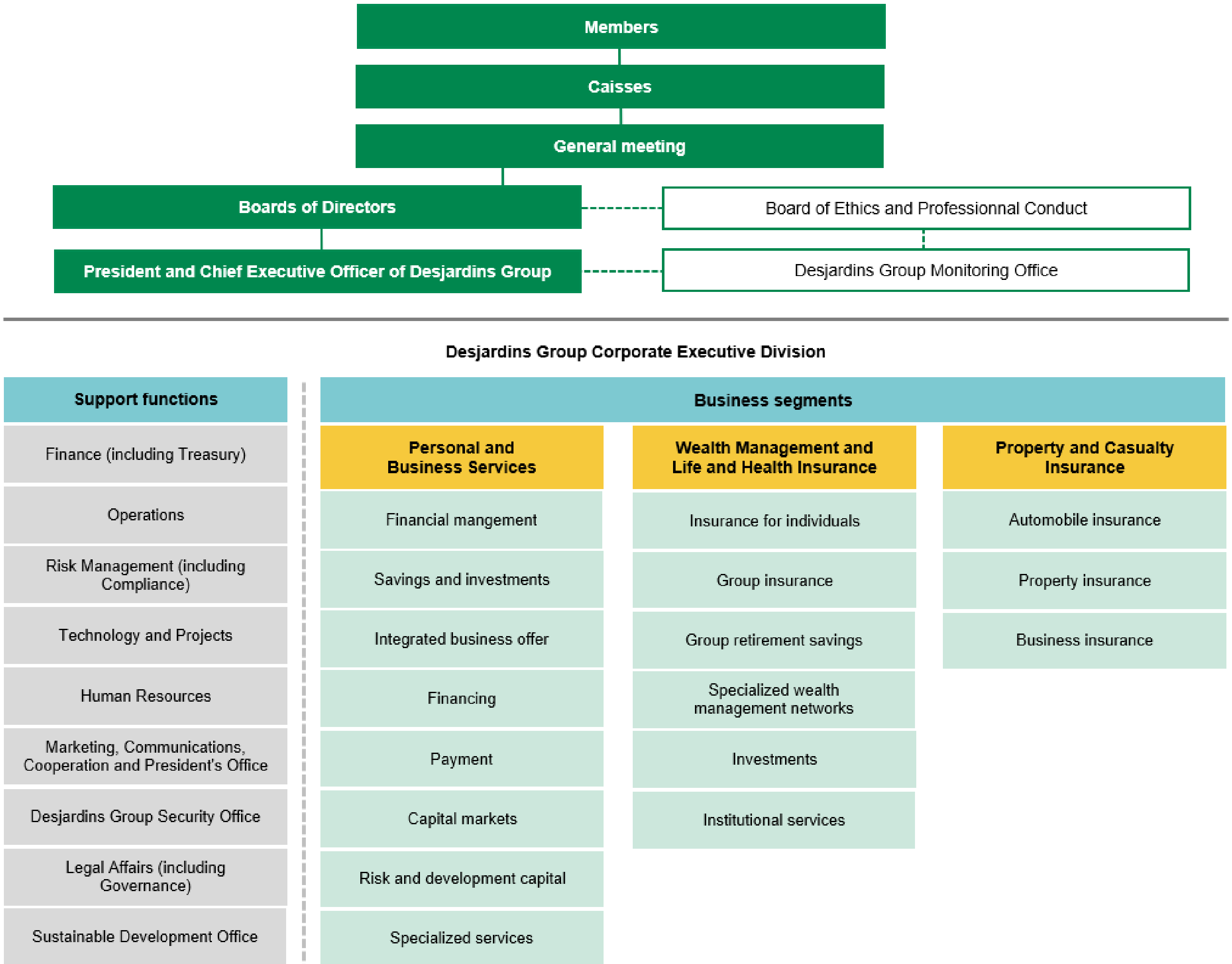
Desjardins Group's goal is to be everyone’s #1 choice. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best meet members’ 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. Community collaboration groups are active in various areas where the caisses are present, and the Desjardins Collaboration Forum 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. As a result, the Federation and its subsidiaries, the caisse network in Québec and 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, 2023 achievements, the industry in which they operate, and their strategies and priorities for 2024 may be found in Section 2.3, "Analysis of business segment results".



1.2 Financial highlights

Table 3 – Financial highlights

As at December 31 and for the years ended December 31

(in millions of dollars and as a percentage)	2023	2022[1][2] Restated
Results		
Net interest income	**$ 7,033**	$ 6,330
Insurance service result	**1,366**	1,058
Net insurance finance result	**691**	8
Net insurance service income (loss)	**2,057**	1,066
Other income	**3,487**	2,944
Total net income	**12,577**	10,340
Provision for credit losses	**529**	277
Non-interest expense		
Gross non-interest expense	**10,217**	9,525
Non-interest expense included in insurance service expenses[3]	**(985)**	(1,023)
Net non-interest expense	**9,232**	8,502
Income taxes on surplus earnings	**557**	319
Surplus earnings before member dividends	**$ 2,259**	$ 1,242
Contribution to surplus earnings by business segment[4]		
Personal and Business Services	**$ 1,162**	$ 1,020
Wealth Management and Life and Health Insurance	**581**	313
Property and Casualty Insurance	**494**	(35)
Other	**22**	(56)
	$ 2,259	$ 1,242
Amount returned to members and the community[5]		
Member dividends	**$ 412**	$ 403
Sponsorships, donations and scholarships[6]	**126**	115
	$ 538	$ 518
Indicators		
Net interest margin[5]	**2.28%**	2.13%
Return on equity[7]	**6.8**	3.8
Credit loss provisioning rate[7]	**0.20**	0.11
Gross credit-impaired loans/gross loans and acceptances[7]	**0.74**	0.48
Liquidity coverage ratio[8]	**154**	140
Net stable funding ratio[8]	**124**	126
Productivity index – Personal and Business Services[7][9]	**76.3**	79.2
Insurance and annuity premiums – Wealth Management and Life and Health Insurance[7]	**$ 6,313**	$ 5,806
Total contractual service margin (CSM) – Wealth Management and Life and Health Insurance[10]	**2,595**	2,627
Direct written premiums – Property and Casualty Insurance[7]	**6,856**	6,205
On-balance sheet and off-balance sheet		
Assets	**$ 422,940**	$ 403,944
Net loans and acceptances	**265,935**	249,695
Deposits	**279,329**	259,836
Equity	**34,390**	32,407
Assets under administration[7]	**535,264**	447,312
Assets under management[7]	**81,551**	76,169
Average assets[7]	**409,820**	399,913
Average interest-bearing assets[5]	**308,315**	296,712
Capital measures		
Tier 1A capital ratio[11]	**20.4%**	20.2%
Tier 1 capital ratio[11]	**20.4**	20.2
Total capital ratio[11]	**21.9**	21.9
TLAC ratio[12]	**29.4**	28.7
Leverage ratio[11]	**7.3**	7.6
TLAC leverage ratio[12]	**10.5**	10.6
Risk-weighted assets[11]	**$ 140,481**	$ 139,311
Other information		
Number of employees	**56,165**	58,774

(1) The data have been adjusted to conform to the current year's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.
(2) Surplus earnings before member dividends for fiscal 2022 were $2,050 million under IFRS 4, "Insurance Contracts", the standard in force prior to the adoption of IFRS 17.
(3) Represents the non-interest expense directly related to the fulfillment of insurance contracts presented under "Insurance service result".
(4) The breakdown by line item is presented in Note 31, "Segmented information", to the Combined Financial Statements.
(5) For more information about non-GAAP financial measures and non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 3 and 4.
(6) Including $57 million in 2023 from the caisses' Community Development Fund ($46 million in 2022).
(7) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.
(8) In accordance with the *Liquidity Adequacy Guideline* issued by the AMF, see Section 4.0, "Risk management".
(9) Following the transition to IFRS 17, Desjardins Group now presents the productivity index of the Personal and Business Services segment, which is a supplementary financial measure, replacing Desjardins Group's productivity index, which was a non-GAAP financial measure.
(10) Total CSM of $2,813 million ($2,884 million as at December 31, 2022) presented net of reinsurance for a total of $218 million ($257 million as at December 31, 2022). Included in the line items "Insurance contract liabilities" and "Reinsurance contract assets (liabilities)" on the Combined Balance Sheets. For more information, see Note 17, "Insurance and reinsurance contracts", to the Interim Combined Financial Statements.
(11) In accordance with the *Capital Adequacy Guideline* issued by the AMF for financial services cooperatives in particular, see Section 3.2 "Capital management".
(12) In accordance with the *Total Loss Absorbing Capacity Guideline* ("TLAC Guideline") issued by the AMF and based on risk-weighted assets and exposures for purposes of the leverage ratio at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc., see Section 3.2, "Capital management".

2023 Desjardins Group highlights

Surplus earnings before member dividends	Total net income	Net loans and acceptances outstanding	Direct written premiums[2] – Life and Health Insurance	Direct written premiums[2] – P&C Insurance	Tier 1A capital ratio	Member dividends
$2,259 million[1]	**$12,577 million**	**$265.9 billion**	**$7.0 billion**	**$6.9 billion**	**20.4%**	**$412 million**
+ 81.9%	**+ 21.6%**	**+ 6.5%**	**+ 9.5%**	**+ 10.5%**	**+ 0.2%**	**+ 2.2%**

Comparison of 2023 to 2022

- Surplus earnings before member dividends of $2,259 million, up $1,017 million compared to fiscal 2022, restated following the adoption as of January 1, 2023 of IFRS 17, "Insurance Contracts"[1].
- Total net income of $12,577 million, up $2,237 million, or 21.6%:
  - Net interest income of $7,033 million, up $703 million, or 11.1%, due to increased interest income from loans and liquidities because of the higher interest rate environment, and to growth in average residential mortgages and business loans outstanding, partly offset by the increase in the interest expense on deposits.
  - Insurance service result of $1,366 million, up $308 million, or 29.1%, mainly due to an improvement in the Property and Casualty Insurance segment.
  - Net insurance finance result of $691 million, up $683 million. In 2022, this result was adversely affected by a downturn on financial markets and a significant rise in interest rates.
  - Other income of $3,487 million, up $543 million or 18.4%, mainly due to $409 million in income related to operations acquired from Worldsource[3].
- Provision for credit losses of $529 million, up $252 million compared to 2022, mainly due to the increase in the provision for credit losses on business loan portfolios, as a result of a migration in credit quality.
- Gross non-interest expense of $10,217 million, up $692 million, or 7.3%:
  - $416 million in expenses related to operations acquired from Worldsource.
  - Other items included in gross non-interest expense increased $276 million, or 2.9%, due in particular to wage indexation and increased spending on technology. The increase in costs was limited by measures taken to improve efficiency and effectiveness.
- $538 million returned to members and the community[4], including a provision for member dividends of $412 million and sponsorships, donations and scholarships of $126 million, up $20 million, or 3.9%.
- Commitments of $21 million made in 2023 under the GoodSpark Fund to support in particular regional social and economic activities. Since 2017, Desjardins Group has made total commitments of $182 million.

Other highlights

- Tier 1A capital ratio of 20.4%, compared to 20.2% as at December 31, 2022.
- Total capital ratio of 21.9%, unchanged from December 31, 2022.
- Growth of 4.7% in total assets since December 31, 2022, for a total of $422.9 billion as at December 31, 2023.
- In 2023, the Federation made various securities issues on Canadian, U.S. and International markets. For more information, see the "Sources of financing" section on pages 83 to 85.

ESG highlights

- In August 2023, Desjardins issued $500 million in sustainable bonds. The net proceeds from this issue will be used to finance loans for social and environmental projects. This is the second sustainable bond issue since the program was initiated in September 2021, for a cumulative total of $1 billion.
- In line with its 2040 climate target, and given its commitment in joining the international Business Ambition for 1.5°C in 2021, Desjardins had its science-based greenhouse gas emission reduction targets validated by a third party, *Science Based Targets Initiative.*
- Desjardins has set out how it will support its members and clients in the energy sector by setting specific targets from now until 2030 to speed up the transition to renewable energies as well as targets for decarbonizing the oil and gas sector for its financing and investment portfolios in this industry.
- Desjardins has set a new target for its operational emissions, such as paper consumption, business travel and emissions related to its buildings, at -50% by 2030 compared to 2020.
- Guy Cormier, President and CEO of Desjardins Group, continued to promote responsible finance at a number of forums in Canada and internationally, in particular at the Sustainable Finance Summit in Montréal.
- Desjardins has supported the adoption of common standards for responsible finance, particularly through the Québec Financial Centre's open letter, an initiative led by Finance Montréal during COP 28, which called for the adoption of ISSB standards for ESG disclosure.

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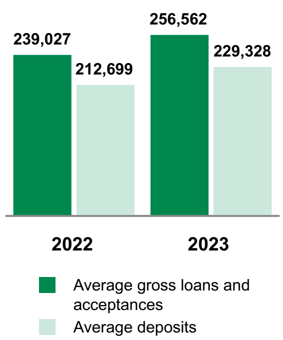
(1) Surplus earnings before member dividends posted for 2022 totalled $2,050 million under IFRS 4, "Insurance contracts", the standard in effect before the adoption of IFRS 17.
(2) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.
(3) On March 1, 2023, through Worldsource Group of Companies Inc. (formerly 9479-5176 Québec Inc.), a wholly-owned indirect subsidiary of the Federation, Desjardins Group acquired, among others, all the outstanding shares of IDC Worldsource Insurance Network Inc., Worldsource Financial Management Inc. and Worldsource Securities Inc. (collectively designated as "Worldsource" hereinafter).
(4) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 and 4.

2023 segment highlights

Personal and Business Services

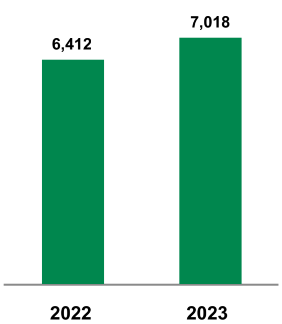
Average gross loans and acceptances and average deposits[1]
(in millions of dollars)



- Québec's leader in residential mortgages and a major player in consumer loans in Québec, with estimated market shares of 38%[2] and 26%[2], respectively.
- 4th largest credit card issuer in Canada (based on 2022 outstandings).
- Leader in farm credit in Québec, with a market share of about 42%[2].
- Major player in Québec in the commercial and industrial niche, with an estimated market share of 21%[2].
- Leader in personal savings in Québec, especially in on-balance sheet personal savings products, with a market share in this industry estimated at approximately 38%[2].
- Surplus earnings before member dividends totalled $1,162 million, up 13.9% compared to 2022 due to growth in net interest income, partly offset by an increase in the provision for credit losses primarily on business loan portfolios, as well as by wage indexation and increased spending on technology.
- Growth of $17.5 billion, or 7.3%, in the average outstandings for the entire gross loans and acceptances portfolio, compared to 2022.

Wealth Management and Life and Health Insurance

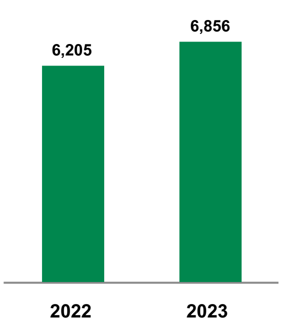
Direct written premiums[1]
(in millions of dollars)



- No. 5 life and health insurer in Canada and No. 3 in Québec (based on direct written premiums in 2022).
- No. 1 in Canada and in Québec for market-linked guaranteed investments (based on 2022 assets under management).
- Desjardins stood out at the Insurance Business Canada Awards by winning, for a second consecutive year, the award for Life & Health Insurer of the Year, which recognizes Desjardins's commitment to its products and services, to financial literacy and to its exemplary customer service approach.
- Desjardins Online Brokerage ranked first in independent investor satisfaction by JD Power.
- Closing of the acquisition of Worldsource, which specializes in independent insurance, mutual fund and securities distribution operations.
- Net surplus earnings of $581 million, up 85.6%, compared to 2022, mainly due to the increase in the net insurance finance result[3] and the higher insurance service result, partly offset by the increased spending on personnel and technology in order to enhance services to members and clients.
- Solid performance in group insurance for the second year in a row.
- Significant sales of $1.2 billion in annuities paid.

Property and Casualty Insurance

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



- No. 3 property and casualty insurer in Canada and Ontario, and No. 2 in Québec (based on direct written premiums in 2022).
- Direct written premiums grew by $651 million, or 10.5%, compared to 2022.
- For the 31st consecutive year, positive insurance service result or subscription profits (prior to the transition to IFRS 17).
- Deployment of a free anti-theft tracking system for the most at-risk car models in Ontario and Québec.
- Finalization of a minority interest in the Insurance Company of Prince Edward Island (ICPEI), which offers property, automobile and commercial insurance products.
- Net surplus earnings of $494 million, compared to a net deficit of $35 million for fiscal 2022, due to an increase in the net insurance finance result, higher insurance revenue in property and automobile insurance, and the more favourable effect of the loss component on onerous contracts, contrary to the negative effect in 2022. The increase in surplus earnings was partly offset by higher claims expenses for the current year, mainly on account of property and automobile insurance.

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(1) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.
(2) These market shares are compiled according to a methodology developed by Desjardins and based on several external sources, including: the Bank of Canada, Statistics Canada and Investor Economics.
(3) As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate the comparative year for this item. This could therefore limit the comparability of the results with the prior year.

1.3 Significant events

Adoption of IFRS 17, "Insurance Contracts"

Desjardins Group adopted IFRS 17, "Insurance Contracts", on January 1, 2023, restating comparative data for fiscal 2022. This new standard was introduced to increase the transparency and comparability of insurance companies, and may lead to volatility in Desjardins Group’s results from one period to the next[(1)]. This does not, however, change the economic value that will be created by insurance contracts. The standard only introduces changes to the presentation and timing of the recognition of results, so it has no impact on the results and returns generated over the life of insurance contracts. It should be noted that certain financial statement headings have been modified to reflect the new naming convention required by IFRS 17. For more information on the changes to accounting policies, please refer to Note 2, "Accounting policies", to the Combined Financial Statements. For further information on certain concepts introduced by IFRS 17, please consult the Glossary in this 2023 MD&A.

Changes to the Desjardins Group governance model

At the Federation's last annual general meeting, held on March 24 and 25, 2023, the delegates of the Desjardins caisse networks in Québec and Ontario approved the separation of the roles of Chair of the Board of Directors and President and Chief Executive Officer of Desjardins Group.

On June 22, 2023, the Board of Directors of the Federation announced that Guy Cormier would assume the role of President and CEO starting in March 2024, when this separation of leadership roles at the head of Desjardins Group will come into effect. In addition to assisting the Board of Directors with its work to split the leadership roles between March 2024 and March 2026 at the latest, Mr. Cormier will continue to lead and develop Desjardins Group during this period, with the full powers granted to him as President and CEO. At the end of the period for implementing the separation of roles, meaning no later than March 2026, the Board of Directors will select the person who will succeed Mr. Cormier as President and CEO of Desjardins Group. It should be noted that Mr. Cormier will not be eligible for this position. Meanwhile, the new Chair of the Board of Directors will be elected by peers on the Board of Directors of the Federation in May 2024.

1.4 Strategic orientations and financial objectives

STRATEGIC ORIENTATIONS

Fiscal 2023 was the third 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 orientations:
- 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 organizational transformation in the digital age.
- Assume strong socio-economic leadership.
- Anchor our business practices in data and analytics.

In 2023, the 2021-2024 Strategic Plan was updated to 2027. Starting in 2024, the organization will implement the following 10 strategic orientations, which are for the most part in line with the 2021-2024 Strategic Plan orientations:
- Continue implementing the culture change.
- Make a member-client shift a reality, in particular by developing our distribution network.
- Achieve our full growth potential in wealth management, business services, and commercial property and casualty insurance, capitalizing on the synergies between insurance and banking.
- Achieve adequate profitability to ensure Desjardins Group’s competitiveness and sustainability.
- Optimize our end-to-end operations.
- Modernize our systems and make them resilient.
- Anchor our business practices in data and analytics.
- Affirm our commitment to security.
- Fast track support to our people in work transformation.
- Make our ESG ambitions a reality.

These strategic orientations 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.

[(1)] As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate the comparative year for this item. This could therefore limit the comparability of the results with the prior year.

FINANCIAL OBJECTIVES

Desjardins Group sets financial objectives that provide it with the means of realizing its goals for members and clients by ensuring a profitability level that allows it to achieve its objectives of giving back to the community, ensuring its sustainability and supporting its growth. Owing, in particular, to its outstanding financial strength and high level of capitalization, it continues to actively support its members and clients, and the community.

The organization's performance is measured using key indicators aligned with Desjardins's goals, in accordance with the orientations of the Strategic Plan. Desjardins's goal is to be everyone's #1 choice by constantly working in the best interests of members and clients in order to enrich the lives of people and communities. It is therefore essential to focus on achieving the medium-term financial performance objectives as this helps make available the leverage needed to achieve this goal.

In recent years, Desjardins Group has invested significantly in initiatives to support its growth, the development of innovative technology platforms, privacy, security and the improvement of business processes. These decisions, which were in line with the Strategic Plan and backed by excellent capitalization, nevertheless had an impact on the organization's financial performance in fiscal 2021 and 2022 for certain key performance indicators. As for fiscal 2023, it was marked by concrete steps to improve efficiency and productivity in order to continue to achieve strategic goals. Desjardins-wide actions taken have led to improvements in a number of key financial performance indicators, and this trend will continue over the next few years.

The following table presents financial objectives for the medium term, which is the period covered by the Strategic Plan, as well as the results achieved in 2023 for each of the indicators. It is important to keep in mind that the medium-term key indicators presented below do not factor in the repercussions that extraordinary events could have on Desjardins Group's ability to achieve them.

Key indicators	Medium-term objectives	2023 results
Operating leverage[(1)]	**> 0%**	**13.0%**
Tier 1A capital ratio[(2)]	**High level**	**20.4%**
Return on equity[(1)]	**> 8%**	**6.8%**

Overall performance in 2023

This section provides the results achieved in relation to the objectives set for 2023 and presented in the 2022 annual MD&A. Surplus earnings before member dividends for 2023 totalled $2,259 million, up compared to the prior year, despite an economic slowdown, persistent inflation and rapidly rising interest rates, adding upward pressure on the provision for credit losses, expenses related to insurance operations and non-interest expense. Under such circumstances and in order to help improve Desjardins Group's financial performance, measures were taken to improve efficiency and effectiveness, affecting in particular spending on personnel, professional fees, technology and communications. The improvement in the operating leverage and productivity index demonstrates the significant impact of the measures taken so that Desjardins Group could maintain excellent financial strength and a high level of capitalization in order to continue to support members and clients, and their communities.

2023 key indicators

Growth in total net income:
A measure of growth in Desjardins Group's operations.

Results achieved in 2023:
Growth was 21.6%, which was above the target of 5% to 8%[(3)]. Given the changes in certain financial statement headings in order to reflect the new naming convention required following the adoption of IFRS 17 on January 1, 2023, with restatement of the comparative data for 2022 only, the data for calculating this indicator using the new naming convention are not available for the fiscal years preceding 2022.

Operating leverage[(1)]:
A measure of sustainability and profitability.

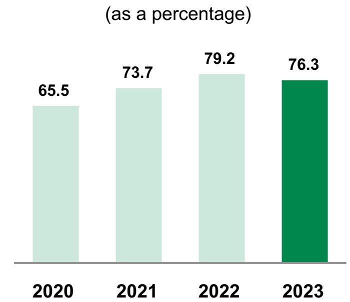
Results achieved in 2023:
The operating leverage was 13.0%, which was on target for being more than 0%. As previously mentioned, given the changes in certain financial statement headings in order to reflect the new naming convention required following the adoption of IFRS 17, the data for calculating this indicator using the new naming convention are not available for the fiscal years preceding 2022.

For footnotes, see next page.

2023 key indicators	Trend

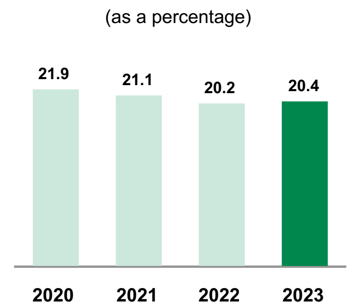
Productivity index – Personal and Business Services[1]:
A measure of efficiency.

Results achieved in 2023:
The productivity index was 76.3%, which does not match the target productivity index of under 75%[4], mainly due to wage indexation and increased technology spending. As a result of strict cost control, including the continued implementation of initiatives to promote efficiency and effectiveness, this indicator improved compared to 2022.



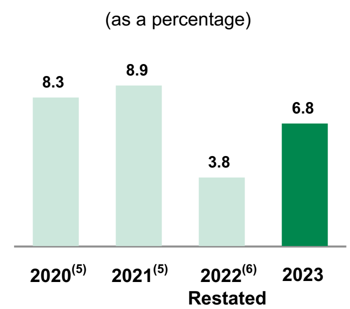
Tier 1A capital ratio[2]:
A measure of Desjardins Group's financial strength.

Results achieved in 2023:
As at December 31, 2023, this ratio was 20.4%, a high level compared with regulatory requirements.



Return on equity[1]:
A measure of profitability resulting in value creation for members and clients.

Results achieved in 2023:
This indicator was 6.8%, which does not meet the target of over 8%, mainly due to wage indexation, a rise in technology spending and an increase in the provision for credit losses, which more than offset the increase in total net income. Desjardins Group continues to be highly capitalized.



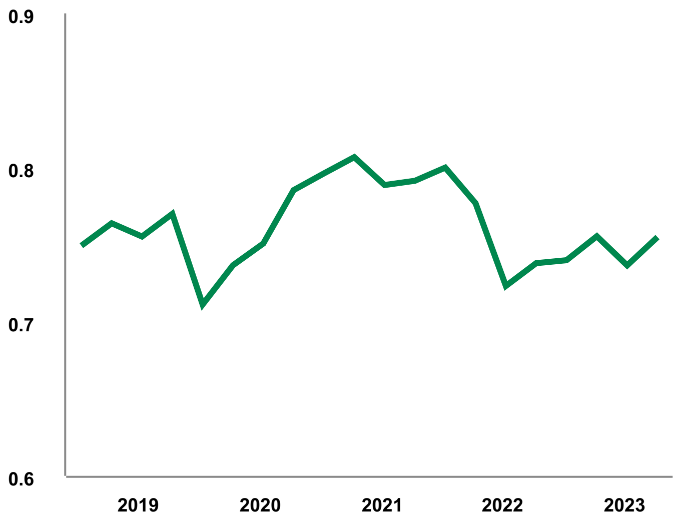
(1) For more information about supplementary financial measures, see the Glossary on pages 106 to 113.
(2) In accordance with the *Capital Adequacy Guideline* issued by the AMF. See Section 3.2, "Capital management".
(3) Represents the target set in the 2022 annual MD&A for growth in operating income, an indicator that was established before the transition to IFRS 17 and is comparable to the growth in the total net income indicator.
(4) Represents the target set in the 2022 annual MD&A for Desjardins Group's productivity index, an indicator that was established before the transition to IFRS 17 and is comparable to the productivity index indicator for the Personal and Business Services segment.
(5) The information presented for fiscal 2021 and 2020 has been prepared according to the standards that were in force before Desjardins Group retrospectively adopted IFRS 17, "Insurance Contracts", on January 1, 2023, with restatement of fiscal 2022.
(6) As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate fiscal 2022 for this item. This could therefore limit the comparability of the results.

FINANCIAL OUTLOOK

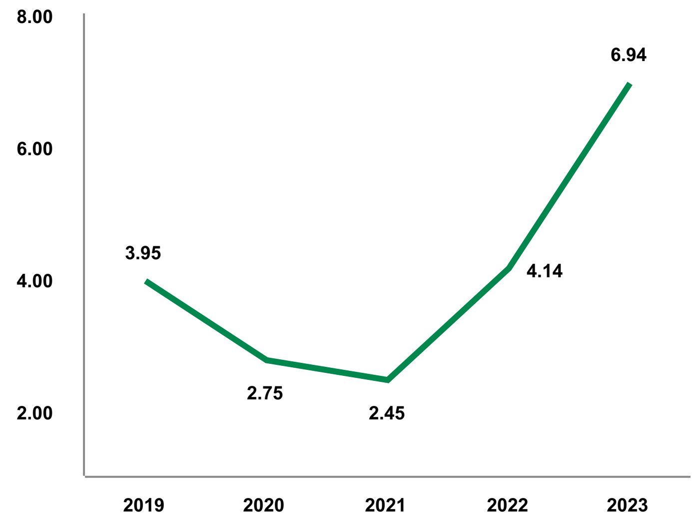
Desjardins Group's performance over the past few years has been positive overall, enabling it, in particular, to maintain its Tier 1A capital ratio above the industry average. In 2024, households and businesses will continue to be affected by high interest rates even if interest rates are expected to decrease gradually starting in 2024. The economic slowdown could have an impact on Desjardins Group's financial performance. Despite all this, strict cost control, including the continued implementation of initiatives to promote efficiency and effectiveness as well as optimal capital management, will allow Desjardins Group to maintain a significant level of investments and to capitalize on the profits generated for the benefit of members and the community.

1.5 Economic environment and outlook

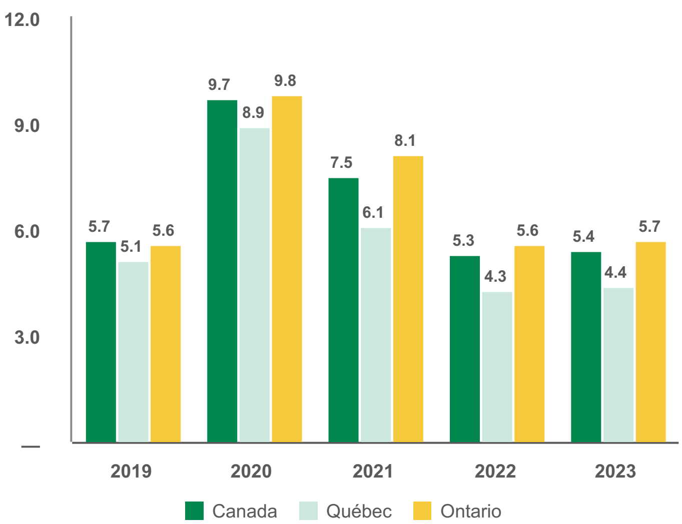
Changes in the Canadian dollar vs. the U.S. dollar (at quarter end)
(in U.S. dollars / Canadian dollars)



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

In 2023, the global economy slowed after two strong years of post-pandemic growth. Global real GDP grew 3.0%, down from 3.5% in 2022 and 6.4% in 2021. There was also a marked drop in inflation. The causes of a period of sharply rising prices that peaked in 2022 – notably problems in supply chains and surging energy prices – eased significantly over the course of the year. In most countries, inflation came close to, but did not reach, central bank targets. However, some measures of inflation remained high after excluding food and energy. Rising interest rates caused activity in the major economies to slow during the year. The eurozone economy was virtually stagnant. The UK economy performed better at the start of 2023, but real GDP growth had dissipated completely by the third quarter. In China, the rally that followed the reopening of major cities at the end of 2022 proved to be short-lived. Growth in real GDP slowed starting in the second quarter of 2023, and inflation turned negative over the course of the year.

Under the weight of high interest rates, the global economy should continue to grow relatively slowly in the first half of 2024, allowing inflation to fall even further. The situation is expected to improve later in 2024, due in particular to the main central banks beginning to cut their key interest rates. Global real GDP is expected to grow by 2.8% in 2024. The world's main stock market indexes began 2024 on an upward trend, fuelled by falling inflation and a slower pace in rate hikes by central banks. The outlook for corporate earnings deteriorated slightly due to high interest rates and a more moderate pace of economic growth, but some sectors, such as technologies related to artificial intelligence, continue to generate optimism among investors. However, improved economic data, particularly in the United States, and a moderation in inflation drove stock markets up and government bond yields down at the end of the year.

United States

The US economy proved particularly resilient throughout 2023. A number of challenges, such as the rising cost of living, skyrocketing interest rates, tighter credit conditions (notably following a banking crisis in March), political pitfalls and labour unrest could have led to even greater problems. All the same, US GDP rose 2.5% in 2023. Certain measures taken by the Biden administration have had a positive impact, including some to encourage the construction of factories involved in the electrification of the transportation sector and high technology. The labour market managed to create over 3 million jobs in 2023, even though the unemployment rate rose slightly. The housing market experienced some difficulties due to high mortgage rates, but the decline in activity was nevertheless contained. Inflation slowed sharply from its peak in 2022, allowing the US Federal Reserve to stop raising rates in the second half of the year.

Somewhat slower growth in US real GDP on an annualized basis is anticipated in 2024 as households and businesses continue to adapt to high interest rates. Quarterly changes in real GDP are expected to reflect a slowdown in the first half of the year, but not enough to cause major job losses. The inflation rate will also continue to fall. This will allow the Federal Reserve to begin cutting its key interest rates over the summer. Growth in US real GDP of 2.1% is forecast in 2024.

Canada

The restrictive effects of interest rate hikes continued to accumulate throughout 2023, so Canadian real GDP growth slowed markedly in 2023. Particularly affected were those sectors most sensitive to interest rate hikes, such as the housing market and consumer spending on certain durable goods. These problems should culminate in a mild recession in Canada at the start of 2024. This should bring supply and demand into better balance, allowing inflation to continue to fall. It should be recalled that the inflation rate was 6.3% at the end of 2022, and all indications are that it was approximately 3.4% at the end of 2023. This downward trend is set to continue, with inflation expected to return close to the median target (2%) toward the end of 2024. The Bank of Canada has left its key interest rate at 5.00% since July 2023, so it may begin to gradually ease monetary policy beginning in the second quarter of 2024. For 2023 as a whole, Canadian real GDP is expected to grow by just 1.1%, with inflation averaging 3.9%. After a brief period of contraction, Canadian real GDP should begin growing again in the second half of 2024. For 2024 as a whole, Canadian real GDP is expected to grow by approximately 0.2%, with inflation averaging 2.6%.

The risks, however, remain high. The interest rate hikes could prove more constraining, especially since many households will be renewing their mortgages at higher rates over the next few years. This is true even if a gradual reduction in interest rates should begin in 2024. Inflation could also be harder to tame if the upward pressure on some prices is slow to abate. Geopolitical tensions could also have major economic repercussions, particularly if the price of oil were to rise sharply.

Québec

Québec's economy has been much weaker than Canada's since the start of 2023. The province’s annualized real GDP grew 1.7% in the first quarter, compared with 2.5% nationally. In the second quarter, the 1.5% decline in economic activity in Québec was much more pronounced than the 1.4% contraction in Canada, and the province recorded another decline in real GDP, which was down 0.8% in the third quarter. Québec is expected to be among the provinces with the weakest economic growth in 2023. However, the gap between Québec and the country as a whole should narrow in 2024 as the economic problems in some other provinces intensify.

Two factors in particular explain the weakness of Québec’s economy in 2023. First, despite the fact that the province has experienced its fastest population growth in 50 years, it still falls short of that in almost all the other provinces. The economy is therefore less supported by households. Second, the pace of residential construction has fallen by almost 40% since the start of 2023, for one of the sharpest declines in Canada. Until last year, rental apartments accounted for close to 60% of new housing starts in Québec. This sector has been particularly hard hit by rising interest rates, as builders of rental apartments have had more difficulty securing financing. The cycle of interest rate cuts that we expect to begin in 2024, combined with $1.8 billion of federal and provincial investments in social and affordable housing over the next five years, should help to revive housing starts in Québec. Ultimately, after falling by 0.2% in 2023, Québec's real GDP could grow 0.7% in 2024.

Changes in the markets in which Desjardins Group operates are described in the corresponding analyses in Section 2.3, "Analysis of business segment results".

2.0 Review of financial results

2.1 Impact of significant transaction

Acquisition of independent insurance, mutual fund and securities distribution operations

On March 1, 2023, through Worldsource Group of Companies Inc. (formerly 9479-5176 Québec Inc.), a wholly-owned indirect subsidiary of the Federation, Desjardins Group acquired, among others, all the outstanding shares of IDC Worldsource Insurance Network Inc., Worldsource Financial Management Inc. and Worldsource Securities Inc. (collectively designated as "Worldsource" hereinafter). Worldsource specializes in independent insurance, mutual fund and securities distribution operations. This acquisition enabled Desjardins Group to consolidate its independent distribution position across Canada and strengthen its growth strategy in the entire Canadian market.

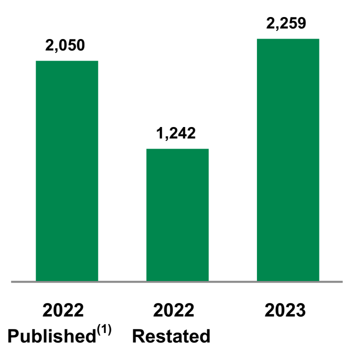
The following table presents the impact of this acquisition on Desjardins Group's financial results, included in the Wealth Management and Life and Health Insurance segment.

Table 4 – Impact of the acquisition of Worldsource
For the year ended December 31

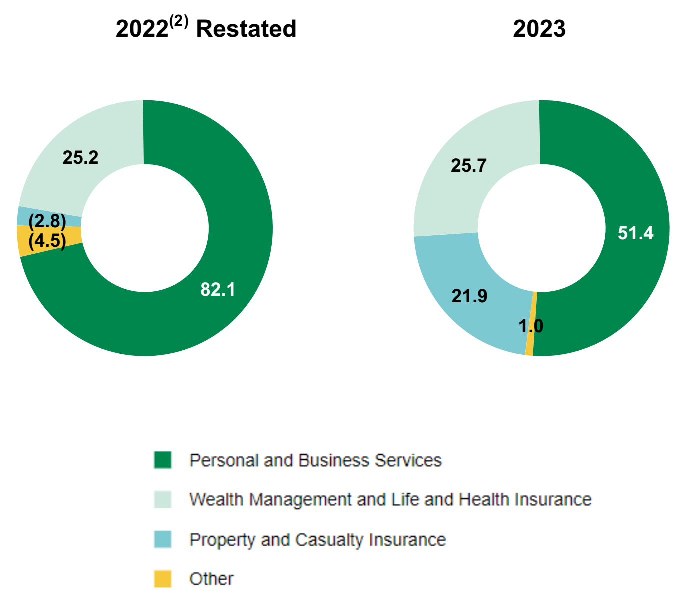
(in millions of dollars)	2023
Other income	$ 409
Total net income	**409**
Net non-interest expense	416
Income taxes on surplus earnings	(1)
Net deficit for the year	**$ (6)**

2.2 Analysis of 2023 results

Surplus earnings before member dividends
(in millions of dollars)



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



(1) Surplus earnings before member dividends posted for fiscal 2022 totalled $2,050 million under IFRS 4, "Insurance contracts", the standard in effect before the adoption of IFRS 17.
(2) The data have been adjusted to conform to the current year's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.

2023 SURPLUS EARNINGS

For fiscal 2023, Desjardins Group reported surplus earnings before member dividends of $2,259 million, up $1,017 million compared to fiscal 2022, restated following the adoption as of January 1, 2023 of IFRS 17, "Insurance Contracts"[(1)]. As permitted by this standard, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate fiscal 2022 for this item. In addition, the asset and liability portfolios were not managed under the new standards. As a result, these items limit the comparability of the 2023 results with the restated 2022 results. Remember that the surplus earnings posted for 2022 were $2,050 million under IFRS 4, the standard in force before the adoption of IFRS 17. The growth in surplus earnings was due to increases in net insurance service income and net interest income. It was partly offset by a higher provision for credit losses compared to 2022, wage indexation and increased spending on technology.

As mentioned above, Desjardins Group adopted IFRS 17, "Insurance Contracts", on January 1, 2023, restating comparative data for fiscal 2022. This new standard was introduced to increase transparency and improve the comparability of insurance companies, and may lead to volatility in Desjardins Group's results from one period to the next[(2)]. This does not, however, change the economic value created by insurance contracts. The standard only introduces changes to the presentation and timing of results, so it has no impact on the results and returns generated over the life of insurance contracts. It should be noted that certain financial statement headings have been modified to reflect the new naming convention required by IFRS 17. For more information on the changes to accounting policies, please refer to Note 2, "Accounting policies", to the Combined Financial Statements. For more information on certain concepts introduced by IFRS 17, please consult the Glossary in this Management's Discussion and Analysis for 2023.

By its very nature as a cooperative financial group, Desjardins Group's goal is to improve the economic and social well-being of people and communities, which it continued during fiscal 2023.

- A total of $538 million was returned to members and the community[(3)], compared to $518 million for fiscal 2022.
  - Provision for member dividends of $412 million, up $9 million, compared to 2022.
  - An amount of $126 million was given back in the form of sponsorships, donations and scholarships, compared to $115 million for the previous year, with $57 million in 2023 and $46 million in 2022 from the caisses' Community Development Fund.
- Commitments of $21 million made in 2023 under the GoodSpark Fund to support, in particular, regional social and economic activities. Since 2017, Desjardins Group has made total commitments of $182 million.

- **Contribution of business segments to surplus earnings:**
  - Personal and Business Services: **Surplus earnings of $1,162 million,** up $142 million, or 13.9%, compared to 2022, due to growth in net interest income. This increase was partially offset by the following:
    - Higher provision for credit losses compared to 2022, mainly due to changes in business loan portfolios.
    - Wage indexation and increased spending on technology.
  - Wealth Management and Life and Health Insurance: **Surplus earnings of $581 million,** up $268 million, or 85.6%, compared to 2022, mainly on account of:
    - Increase in the net insurance finance result[(2)], particularly as a result of the following:
      - Gains realized by a joint venture on the sale of its real estate portfolio.
      - Favourable adjustment to the liability discount curve parameters in the second quarter of 2023.
    - Higher insurance service result due, in particular, to the overall favourable experience, partly offset by the unfavourable effect of the updating of actuarial assumptions.
    - Partly offset by the increase in spending on personnel and technology to enhance member and client services.
  - Property and Casualty Insurance: **Surplus earnings of $494 million,** compared to a deficit of $35 million, for fiscal 2022. The change was due to the following:
    - Increase in the net insurance finance result.
    - Higher insurance service income in property and automobile insurance.
    - Favourable impact of the loss component on onerous contracts, compared to an unfavourable effect recorded in 2022.
    - Partly offset by higher claims expenses for the current year, mainly as a result of automobile and property insurance.

- **Return on equity was 6.8%,** compared to 3.8% for 2022, primarily due to the increase in surplus earnings, as previously explained.

The following table shows return on equity.

Table 5 – Return on equity
For the years ended December 31

(in millions of dollars and as a percentage)	2023	2022 Restated
Surplus earnings before member dividends	**$ 2,259**	$ 1,242
Non-controlling interests' share	**(71)**	(18)
Group's share before member dividends	**$ 2,188**	$ 1,224
Average equity before non-controlling interests' share	**$ 32,335**	$ 32,014
Return on equity[(1)]	**6.8%**	3.8%

(1) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.

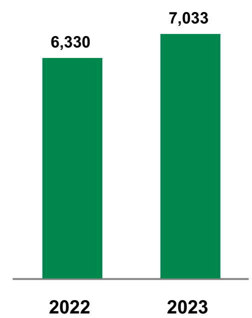
(1) Surplus earnings before member dividends posted for 2022 totalled $2,050 million under IFRS 4, "Insurance contracts", the standard in effect before the adoption of IFRS 17.
(2) As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate the comparative year for this item. This could therefore limit the comparability of the results with the prior year.
(3) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 and 4.

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 sensitive to 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 6 shows the changes in net interest income for the main interest-bearing asset and liability classes, while Table 7 details how net interest income was affected by changes in volume and interest rates for the different interest-bearing assets and liabilities.

Net interest income
(in millions of $)



Net interest income totalled $7,033 million, up $703 million, or 11.1%. This increase resulted from the following:
- Increase in the interest income on loans as a result of the higher interest rate environment.
- Growth in average residential mortgages outstanding and average business loans outstanding.
- Rise in interest income from liquidities, also resulting from the higher interest rate environment.
- Increase in average interest-bearing assets and liabilities outstanding in credit card payment activities.

This increase was offset in part by:
- Higher interest expense on deposits, mainly as a result of rising interest rates and the migration of depositors to term products with higher rates.
- Growth in the financing cost for credit card payment activities.

- **Net interest margin of 2.28%** in 2023, up 15 basis points compared to 2022, mainly because of higher interest rates coupled with an increase in average loan volume.

- **Interest income of $13,967 million,** up $4,582 million, or 48.8%, largely due to the following:
  – Increase of $4,072 million in interest income related to rising interest rates, mainly on loans.
  – Increase in average volume of total interest-bearing assets, mainly loans, which led to a $510 million increase in interest income.

- **Interest expense of $6,934 million,** up $3,879 million, or 127.0%, primarily as a result of:
  – Increase of $3,678 million in interest expense, linked to the growth in interest rates mainly on deposits.
  – Growth in the average volume of total interest-bearing liabilities, mainly from deposits, resulting in a $201 million increase in interest expense.

Table 6 – Net interest income on average interest-bearing assets and liabilities
For the years ended December 31

	2023			2022 Restated		
(in millions of dollars and as a percentage)	**Average volume**	**Interest**	**Average rate**	Average volume	Interest	Average rate
Total assets	**$ 409,820**			$ 399,913		
Interest-bearing assets[1]						
Securities, cash and deposits with financial institutions	**$ 52,455**	**$ 2,067**	**3.94%**	$ 59,034	$ 1,107	1.88%
Loans	**255,860**	**11,900**	**4.65**	237,678	8,278	3.48
Total interest-bearing assets	**308,315**	**13,967**	**4.53**	296,712	9,385	3.16
Total liabilities	**$ 376,594**			$ 366,984		
Interest-bearing liabilities[1]						
Deposits	**$ 264,013**	**$ 6,459**	**2.45%**	$ 247,105	$ 2,829	1.14%
Subordinated notes	**2,972**	**139**	**4.68**	2,325	78	3.35
Other liabilities	**4,861**	**336**	**6.91**	5,395	148	2.74
Total interest-bearing liabilities	**271,846**	**6,934**	**2.55**	254,825	3,055	1.20
Net interest income		**$ 7,033**			$ 6,330	
Net interest margin[1]			**2.28%**			2.13%

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

Table 7 – Impact of changes in volumes and rates on net interest income
For the years ended December 31

	2023/2022			Increase (decrease)	
(in millions of dollars and as a percentage)	Change in average volume	Change in average rate	Interest	Average volume	Average rate
Interest-bearing assets[1]					
Securities, cash and deposits with financial institutions	$ (6,579)	2.06%	$ 960	$ (123)	$ 1,083
Loans	18,182	1.17	3,622	633	2,989
Change in interest income			4,582	510	4,072
Interest-bearing liabilities[1]					
Deposits	$ 16,908	1.31%	$ 3,630	$ 194	$ 3,436
Subordinated notes	647	1.33	61	22	39
Other liabilities	(534)	4.17	188	(15)	203
Change in interest expense			3,879	201	3,678
Change in net interest income			$ 703	$ 309	$ 394

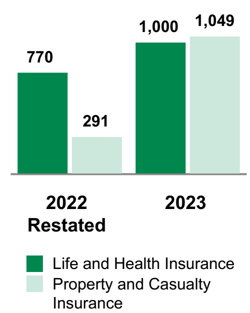
(1) For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 3 and 4.

NET INSURANCE SERVICE INCOME

Net insurance service income stood at $2,057 million[1], up $991 million, or 93.0%, from 2022. The change in this heading, which consists of the insurance service result and the net insurance finance result, can be explained by the items from the following segments:

Wealth Management and Life and Health Insurance

Net insurance service income
(in millions of $)



- Insurance service result of $586 million, up $23 million, or 4.1%, mainly due to the following:
  - Increase in income from contracts to which the general model is applied, due to the following factors:
    - Favourable effect of the updating of actuarial assumptions in group retirement savings.
    - Less unfavourable effect of the loss component of onerous contracts in group retirement savings.
  - Increase in income from insurance contracts measured using the premium allocation approach, particularly in group insurance for long-term disability and accident and health coverage.
  - Partly offset by higher insurance and reinsurance service expenses, largely due to the following:
    - Higher expenses for insurance contracts measured using the premium allocation approach, mainly in group insurance, as a result of business growth.
    - More unfavourable effect of the loss component of onerous contracts in group insurance.
    - Less favourable experience in credit and direct insurance, chiefly for disability and life loan insurance.
    - Unfavourable effect of the updating of actuarial assumptions, primarily in credit and direct insurance, partly offset by the favourable effect in group insurance.
    - Partially offset by a more favourable group insurance experience, particularly in long-term disability and life insurance coverage, partially offset by the unfavourable experience in accident and health insurance.
- Net insurance finance result[2] of $414 million, up $207 million, or 100.0% mainly due to the following:
  - Gains realized by a joint venture on the sale of its real estate portfolio.
  - Favourable adjustment to rate curve parameters in the second quarter of 2023.

Property and Casualty insurance

- Insurance service result of $800 million, up $325 million, or 68.4%.
  - Insurance revenue of $6,642 million, up $417 million, or 6.7%. By including ceded insurance revenue of $306 million presented under "Net reinsurance service income (expenses)", the increase was $303 million, or 5.0%, mainly due to premium growth in property insurance and automobile insurance.
  - Insurance service expenses of $5,775 million, up $37 million, or 0.6%. By including ceded insurance service expenses of $239 million presented under "Net reinsurance service income (expenses)", there was a decrease of $22 million, or 0.4%, due to the following:
    - Favourable effect of the loss component on onerous contracts, whereas an unfavourable effect had been recognized in 2022, mainly attributable to automobile insurance.
    - Partially offset by higher expenses related to claims compared with 2022 due to higher claims-related expenses for the current year compared to those recognized in 2022. This increase was mainly attributable to automobile insurance, in particular as a result of the increase in the average cost of claims due to the impact of inflation and the increase in car thefts, as well as to property insurance.

(1) The difference between total results and the sum of business segment results is due to intersegment transactions, which are eliminated in the Other category.
(2) As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate the comparative year for this item. This could therefore limit the comparability of the results with the prior year.

- Net insurance finance result of $249 million, up $433 million.
  - Net insurance investment income of $561 million, compared to losses of $385 million in fiscal 2022. The change was essentially due to the following:
    - Positive change in the fair value of matched bonds, whereas a negative change had been recognized in 2022, in particular due to a slight decline in market interest rates for fiscal 2023, whereas in 2022 the fair value had been affected by a significant rise in interest rates.
    - Net gains on shares, while net losses were recorded in fiscal 2022.
    - Higher interest income on fixed income securities compared to fiscal 2022.
  - Net insurance finance expense of $343 million, compared to income of $226 million for fiscal 2022. By including net reinsurance finance income of $31 million (expenses of $25 million in fiscal 2022), the net insurance and reinsurance finance expenses totalled $312 million, compared to income of $201 million in 2022. This change was due to the following:
    - Unfavourable impact of lower discount rates used to measure net liabilities for incurred claims, compared to a favourable impact of higher discount rates in 2022.
    - Unfavourable effect of higher accretion of net liabilities for incurred claims compared to 2022.

OTHER INCOME

Table 8 – Other income
For the years ended December 31

(in millions of dollars)	2023	2022 Restated
Deposit and payment service charges	**$ 483**	$ 448
Lending fees and credit card service revenues	**951**	965
Brokerage and investment fund services	**1,339**	989
Management and custodial service fees	**751**	662
Net other investment income (loss)	**(486)**	(500)
Foreign exchange income (loss)	**192**	119
Other	**257**	261
Total other income	**$ 3,487**	$ 2,944

Other income stood at $3,487 million, up $543 million, or 18.4%, compared to 2022, due to the following:

- **Deposit and payment service charges of $483 million,** up $35 million, or 7.8%, mainly from the caisse network.

- **Lending fees and credit card service revenues of $951 million,** an amount comparable to 2022.

- **Income from brokerage and investment fund services of $1,339 million,** up $350 million, or 35.4%, mainly related to operations acquired from Worldsource.

- **Management and custodial service fees of $751 million,** up $89 million, or 13.4%, essentially due to the following:
  - Income related to operations acquired from Worldsource.
  - Increased income related to assets under administration from specialized networks.

- **Net investment loss of $486 million,** comparable to 2022.

- **Foreign exchange income (loss) of $192 million,** up $73 million, or 61.3%, due to fluctuations in the values of the euro and the US dollar.

- **Other income of $257 million,** an amount comparable to 2022.

TOTAL NET INCOME

Total net income amounted to $12,577 million, up $2,237 million, or 21.6%, compared to 2022.

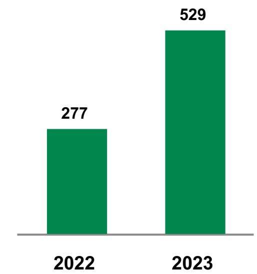
PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $529 million, up $252 million compared to 2022. This change was mainly due to the increases in the provision for credit losses on business loan portfolios owing to a migration of credit quality and on credit card portfolios.

The provision for 2023 reflects higher net write-offs, which are gradually returning to pre-pandemic levels.

Desjardins Group continued to present a high-quality loan portfolio in 2023.
- The credit loss provisioning rate was 0.20% in 2023, compared to 0.11% for 2022, due to an increase in the provision for credit losses explained previously.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.74%, compared to 0.48% as at December 31, 2022. This increase was due to a rise in the volume of gross impaired loans, mainly business loans, as a result of a migration in credit quality.

Provision for credit losses
(in millions of $)



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

Table 9 – Credit loss provisioning rate
For the years ended December 31

(in millions of dollars and as a percentage)	2023	2022 Restated
Total provision for credit losses	**$ 529**	$ 277
Provision for credit losses on securities	**8**	5
Provision for credit losses on loans and off-balance sheet items	**$ 521**	$ 272
Average gross loans	**$ 258,598**	$ 241,477
Average gross acceptances	**9**	131
Average gross loans and acceptances(1)	**$ 258,607**	$ 241,608
Credit loss provisioning rate(1)	**0.20%**	0.11%

(1) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.

GROSS NON-INTEREST EXPENSE

Table 10 – Gross non-interest expense
For the years ended December 31

(in millions of dollars and as a percentage)	2023	2022 Restated
Salaries and employee benefits		
Salaries	**$ 4,363**	$ 3,939
Employee benefits	**1,065**	1,181
	5,428	5,120
Professional fees	**817**	1,084
Technology	**1,131**	924
Commissions	**705**	306
Occupancy costs	**408**	391
Communications	**358**	379
Business and capital taxes	**123**	118
Other	**1,247**	1,203
Total non-interest expense	**$ 10,217**	$ 9,525

Non-interest expense totalled $10,217 million for 2023, up $692 million, or 7.3%, compared to 2022. This increase was largely due to:
- Expense of $416 million related to operations acquired from Worldsource.
- Other items included in gross non-interest expense up $276 million, or 2.9%, due to the following:
  - Wage indexation and increased spending on technology.
  - Partially offset by lower expenses due in particular to measures taken to improve efficiency and effectiveness.

- **Salaries and employee benefits of $5,428 million,** up $308 million, or 6.0%, compared to 2022, mainly due to wage indexation.

- **Professional fees of $817 million,** down $267 million, or 24.6%, compared to 2022 due in particular to measures taken to improve efficiency and effectiveness.

- **Technology expenses of $1,131 million,** up $207 million, or 22.4%, compared to 2022, to support growth in operations and enhance the services offered to members and clients.
- **Commissions of $705 million,** up $399 million compared to 2022, mainly due to expenses related to operations acquired from Worldsource.
- **Occupancy costs of $408 million,** which is comparable to 2022.
- **Communication expenses of $358 million,** down $21 million, or 5.5%, compared to 2022, due in particular to measures taken to improve efficiency and effectiveness.
- **Business and capital taxes of $123 million,** an amount comparable to 2022.
- **Other expenses of $1,247 million,** up $44 million, or 3.7%, compared to 2022, due to the following:
  – Growth in expenses related to the rewards program as a result of higher volumes of credit card payment activities.
  – Higher expenses related to providers of credit card payment activities, particularly as a result of the impact of amendments to the *Excise Tax Act* announced in the Canadian government's Budget 2023 having retroactive effect to 2021.

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 Federation—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 $557 million,** up $238 million, compared to 2022.
  – Effective tax rate(1) of 19.8% for the year ended December 31, 2023, down from 20.4% for 2022, mainly due to the following:
    ◦ Increase in non-taxable investment income.
    ◦ Partly offset by the favourable effect of tax savings on an effective tax rate that was lower in 2023 than in 2022 due to higher surplus earnings.

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 fiscal 2023, Desjardins entities paid $2,057 million in indirect taxes, compared to $1,954 million in 2022.

2.3 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. Certain changes have been made to the business segments to reflect management's decisions on how each segment is managed. These changes are presented in the following sections.

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.

2.3.1 Personal and Business Services

PROFILE

The Personal and Business Services segment is central to Desjardins Group's operations. With its comprehensive, integrated line of products and services designed to meet the needs of individual and business members, 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 products, payment services, 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 journey.

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

The activities of the specialized wealth management networks of Desjardins Securities Inc., previously presented in the Personal and Business Services segment, are now included in the Wealth Management and Life and Health Insurance segment. Data for 2022 have been restated to reflect these changes.

(1) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.

SERVICES

- **Financial management:**
  - In addition to our cashier and ATM services, the AccèsD and AccèsD Affaires online platforms, available online and through our app for mobile devices, provide access to a variety of transactions such as payments and transfers, making it easy for individuals and businesses to manage their finances.
- **Savings and investments:**
  - Products distributed by the caisses and the Desjardins Business centres, such as mutual 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 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 loans and 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 and credit card payment services for individuals and businesses, electronic payment services, and both domestic and international funds transfers.
- **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.

2023 ACHIEVEMENTS

- In the current economic environment of tightening monetary policy, **providing support to members and clients is still a priority**. Several initiatives have been implemented, including the implementation of proactive support strategies for personal and business members who are most at risk of financial difficulty in a context of successive rate hikes.
- **Safety and fraud prevention tips:**
  - Continuation of the "Sharpen your cyber reflexes" program to provide support to members and clients with relevant information and tools. Inviting members and clients to sharpen their cyber reflexes through various tips, the offensive addresses various security issues identified and prioritized by Desjardins Group: phishing, easy money scams, romance scams, investment fraud and transactional best practices.
  - Against a backdrop of growing concern among members and clients about cyber attacks, Desjardins implemented a cybersecurity offer dedicated to businesses. Financing solutions are available for businesses interested in investing in cybersecurity, and Desjardins Insurance offers coverage to mitigate the impact of a cyber attack.
- **Enhanced and simplified digital experience:**
  - Deployment of stand-alone account opening for individual members in Québec and Ontario and certain businesses, using a 100% digital, simple and secure process, with human assistance and support to guide them as required.
  - Launch of the "Tax-Free First Home Savings Account" in stand-alone mode on AccèsD, as well as in assisted mode through the caisses and AccèsD Client Relations Centres.
  - Redesign of desjardins.com and an enhancement of certain functionalities on AccèsD to provide a simple, integrated, consistent and personalized digital information experience to members and clients of Desjardins Group.
  - Deployment of self-service appointment scheduling for members and clients of Québec caisses.
  - Modernization of AccèsD Affaires to enhance the digital experience for businesses and simplify the day-to-day management of their banking transactions.
  - Launch of the EspaceProprio application, a platform for integrating services around the home that enables users to build a customizable guide to simplify home maintenance. This application was also designed to facilitate access to services for buying and selling a property (DuProprio and Confia) as well as maintenance and renovation with a network of certified contractors (RénoAssistance).
- **Improvement of offers in retail sectors:**
  - Enhanced employer offering to support SMEs that want to enhance their employer brand. In addition to Desjardins employer solutions, businesses can benefit from the expertise of our partners, such as a virtual care platform, a staff recruitment service and support in achieving their business goals.
  - Deployment of offers for entrepreneurs in the professional services and healthcare sectors, featuring value-added solutions, including payment and financing solutions, as well as support tailored to their needs.
  - Development of our digital transformation offering to raise awareness among entrepreneurs and guide them toward the right partners, depending on their sector and the complexity of their needs. This technological shift is crucial if businesses are to improve productivity and remain competitive.

- **Reinforcing our role as a socioeconomic leader:**
  - Continuation of the "Together for Our Youth" program, in which Desjardins invests more than $50 million each year to help young people achieve their full potential in a more inclusive and sustainable world. Designed for 5- to 30-year-olds, the program supports thousands of initiatives and partners rooted in four areas of the daily lives of young people: education; employment and entrepreneurship; health and healthy lifestyles; and social commitment.
  - Organization of the "Dream the Impossible" event, welcoming over 400 young people from across Québec in person, and several hundred more virtually, to discuss, create and develop practical solutions to the issues that affect them most, around three themes they had chosen: the environment, education and employment, and the economy and finance.
  - Launch of "Unforeseen: The Decision-Making Game", a fun, educational application to introduce young people to financial decision-making.
  - $5 million awarded to entrepreneurs in Québec and Ontario under the Momentum Fund program. Non-repayable financial assistance in amounts of up to $20,000 were granted to over 620 businesses to help them carry out their growth and quality job creation projects, major levers for regional economic development. Since 2020, Desjardins Group has made commitments under this program totalling $19 million.
  - Recognition of the *Programme d'aide à l'habitation des Premières Nations*, based, among other things, on the signing of a cooperation agreement with the Pekuakamiulnuatsh First Nation. This initiative, which provides members access to mortgage financing on Mashteuiatsh land from the *Caisse Desjardins du Pekuakami*, received the "Jury's Favourite" award at the Elixir Gala.
  - Introduction, in the fall of 2023, of grant conditions adapted to the business realities of entrepreneurs from Indigenous communities to make the service offer more inclusive.
  - Continuation of the Desjardins GoodSpark Grants program for a 4th year. The program is intended to support 150 small businesses as they carry out a project focused on innovation, employment, community impact or sustainable development. A total of $3 million, in the form of $20,000 grants, was awarded to stimulate economic growth in Ontario and the Atlantic and Western regions.
- The sector continues to gradually roll out its **ESG approach** throughout its operations, in particular:
  - Launch of a new ESG swap financial product for businesses, aimed at hedging the risk of fluctuations in interest rates on debt and rewarding the achievement of measurable results in ESG performance.
  - Deployment of training on sustainable finance in partnership with Finance Montréal, targeting approximately 5,000 Desjardins Business employees per year, with the aim of facilitating dialogue with entrepreneurs on ESG issues.
- **Modernization of the Canadian payments ecosystem:** activation of the technology required to introduce the new ISO 20022 messaging standard, which increases the amount of information sent with each electronic payment. Implementation of this standard allows Desjardins to remain a leading financial institution and to exchange information in a standardized manner with all SWIFT member financial institutions, representing more than 11,000 institutions in over 200 countries and territories around the world. By using detailed information, members and clients will be able to better track their transactions, understand them, and optimize reconciliation, thereby saving time and money.

INDUSTRY

- **Canadian market:**
  - In 2023, the Canadian financial industry comprised some 80 domestic and foreign banking institutions, as well as 403 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 $6,486 billion as at December 31, 2023, for a year-over-year increase of 9.4%, compared to a decrease of 3.4% recorded at the end of 2022. This increase in 2023 was due to the improved returns offered by the financial markets: the S&P/TSX stock market index increased 8.1% while the S&P 500 rose by 24.2% over the last twelve months. Fiscal 2023 was also marked by a good growth in sales of on-balance sheet savings products, fuelled by strong demand for term savings.
  - Outstanding volume of loans to individuals was estimated at $2,773 billion as at December 31, 2023, a year-over-year increase of 3.4%, down from the 6.8% increase at the previous year-end. The slower growth was due to the effect of high interest rates on demand for housing and consumer credit.
  - Business financing outstanding has been estimated at $1,153 billion as at December 31, 2023, a year-over-year increase of 6.2%, slowing from its 15.8% growth recorded at the end of 2022.
- **Québec market:**
  - On-balance sheet and off-balance sheet personal savings outstanding was estimated at $1,282 billion as at December 31, 2023, a year-over-year increase of 11.5%, versus a decrease of 1.2% at year-end 2022. The stronger growth in savings in 2023 was due to a higher savings rate for Québec households compared with the Canadian average.
  - Outstanding volume of retail financing was estimated at $479 billion as at December 31, 2023, for a year-over-year increase of 2.9%, compared to 5.8% growth recorded a year earlier.
  - Business financing outstanding was estimated at $241 billion as at December 31, 2023, for a year-over-year increase of 7.9%, compared to 19.8% growth at year-end 2022.
    - Agricultural loans, included in business financing, were estimated at $25 billion as at December 31, 2023, a year-over-year increase of 4.5%, slowing from the 7.6% growth recorded on the same date one year earlier.

- **Competition in Québec for financial services to individuals and businesses:**
  - Desjardins Group is a leader in many of the fields in which it operates.
  - It is a leader in residential mortgages, its market share was estimated at approximately 38%[1] as at December 31, 2023, and a major player in consumer credit, with a market share of approximately 26%[1] 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 in this industry estimated at approximately 38%[1] as at December 31, 2023.
  - In commercial and industrial loans, Desjardins Group is also a major player in Québec, with an estimated market share of approximately 21%[1] as at December 31, 2023.
  - Desjardins Group is a leader in agricultural financing, with a loan portfolio of more than $11.0 billion and an estimated market share of 42%[1] as at December 31, 2023.
  - 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 the players are adopting strategies aimed at intensifying business relations with their clients and at 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.

2024 STRATEGIES AND PRIORITIES

The 2024 strategies and priorities of the Personal and Business Services segment are incorporated into Desjardins Group's strategic orientations and are aimed at helping Desjardins to achieve its goal of being everyone's #1 choice, by always working in the best interests of members and clients. The 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's priorities for 2024 to 2027 will be to:

- Encourage digital adoption and improve distribution efficiency by developing channels;
- Improve the performance of its key processes;
- Strengthen the loyalty of its members and clients and the closeness of its relationships, in particular through digital technologies;
- Increase the competitiveness of its business lines: direct financing, credit card management, payments and account management;
- Be the financial partner of choice for businesses and entrepreneurs;
- Develop its business posture by anchoring it more firmly in data and analytics.

By 2027, the segment intends to focus more on retaining its existing members and clients rather than winning new ones, and on making efficiency gains to improve competitiveness.

The segment will consolidate its leadership position in financing, everyday financial management, savings and, through its distribution network, life and health and P&C insurance products. The segment will continue to work always in the best interests of its members and clients, in particular, by giving members and clients a simple, omnichannel experience by leveraging mobile platforms, speeding up the segment's digital initiatives, transforming and optimizing its physical and remote distribution models and enhancing service delivery. The segment will also continue to strive to enhance the employee experience.

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

(1) These market shares are compiled according to a methodology developed by Desjardins and based on several external sources, including: the Bank of Canada, Statistics Canada and Investor Economics.

ANALYSIS OF FINANCIAL RESULTS

Table 11 – Personal and Business Services – Segment results
For the years ended December 31

(in millions of dollars and as a percentage)	2023	2022[1]
Net interest income	**$ 6,576**	$ 5,677
Other income	**2,210**	2,292
Total net income	**8,786**	7,969
Provision for credit losses	**521**	274
Gross non-interest expense	**6,702**	6,313
Income taxes on surplus earnings	**401**	362
Surplus earnings before member dividends	**1,162**	1,020
Member dividends, net of tax recovery	**304**	297
Net surplus earnings for the year after member dividends	**$ 858**	$ 723
Indicators		
Average gross loans and acceptances[2]	**$ 256,562**	$ 239,027
Average deposits[2]	**229,328**	212,699
Productivity index[2]	**76.3%**	79.2%
Credit loss provisioning rate[2]	**0.20**	0.11
Gross credit-impaired loans/gross loans and acceptances ratio[2]	**0.74**	0.48

(1) The data have been adjusted to conform to the current year's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.
(2) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.

COMPARISON OF 2023 AND 2022

- **Surplus earnings before member dividends of $1,162 million,** up $142 million, or 13.9%, compared to 2022, due to growth in net interest income. This increase was partially offset by the following:
  – Higher provision for credit losses compared to 2022, mainly due to changes in business loan portfolios.
  – Wage indexation and increased spending on technology.

- **Net interest income of $6,576 million,** up $899 million, or 15.8%. This increase resulted from the following:
  – Increase in the interest income on loans as a result of the higher interest rate environment.
  – Growth in average residential mortgages outstanding and average business loans outstanding.
  – Rise in interest income from liquidities, also resulting from the higher interest rate environment.
  – Increase in average interest-bearing assets and liabilities outstanding in credit card payment activities.
  This increase was offset in part by:
  – Higher interest expense on deposits, mainly as a result of rising interest rates and the migration of depositors to term products with higher rates.
  – Growth in the financing cost for credit card payment activities.

- **Other income of $2,210 million,** down $82 million, or 3.6%, mainly as a result of:
  – Decline in derivative financial instruments, offset by growth in net interest income.
  – Increase in the provision rate for rewards programs related to credit card payment activities.
  – Partly offset by growth in business volumes from credit card payment activities.

- **Total net income of $8,786 million,** up $817 million, or 10.3%.

- **Provision for credit losses of $521 million,** up $247 million, compared to 2022. This change was mainly due to the increases in the provision for credit losses on business loan portfolios owing to a migration of credit quality and on credit card portfolios. The provision for 2023 reflects higher net write-offs, which are gradually returning to pre-pandemic levels.

- **Gross non-interest expense of $6,702 million,** up $389 million, or 6.2%, largely due to:
  – Wage indexation and increased spending on technology.
  – Growth in expenses related to the rewards program as a result of higher volumes of credit card payment activities.
  – Higher expenses related to providers of credit card payment activities, particularly as a result of the impact of amendments to the *Excise Tax Act* announced in the Canadian government's Budget 2023 having retroactive effect to 2021.

- **Productivity index at 76.3%,** compared to 79.2% in 2022, due to the growth in income exceeding the increase in expenses.

2.3.2 Wealth Management and Life and Health Insurance

PROFILE

The Wealth Management and Life and Health Insurance segment plays a leading role in developing the financial independence of Desjardins Group members and clients by helping them develop healthy financial habits.

The segment supports members and clients, individuals and businesses, through various Wealth Management and Life and Health Insurance distribution networks and designs several lines of individual insurance (life and health) coverage as well as investment solutions. It also includes asset management and trust services. The Wealth Management and Life and Health Insurance segment is a Canadian leader in responsible investing and responsible insurance.

The Wealth Management and Life and Health Insurance segment's vast and diversified Canada-wide distribution networks are one of its greatest strengths:
- Desjardins caisse network;
- Desjardins specialized networks (Signature Service, Private Wealth Management, Securities and Online Brokerage);
- Desjardins agent network;
- Desjardins Financial Security Life Assurance Company partner networks;
- Worldsource partner network;
- 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 Client Relations Centres, online or through applications for mobile devices. Online services are constantly being fine-tuned so that they meet clients' changing requirements.

The activities of the specialized wealth management networks of Desjardins Securities Inc., previously presented in the Personal and Business Services segment, are now included in the Wealth Management and Life and Health Insurance segment. Data for 2022 have been restated to reflect these changes.

Since March 1, 2023, the Wealth Management and Life and Health Insurance segment also includes operations resulting from the acquisition of Worldsource, which specializes in independent insurance, mutual funds and securities distribution operations. As a result of this acquisition, Desjardins Group has been able to consolidate its independent distribution position across Canada and strengthen its growth strategy throughout the Canadian market.

SERVICES

Life and Health Insurance
- Includes a wide range of products offered to individuals, and a group insurance and retirement savings service offering for businesses and their employees.
- These products and services offer them peace of mind by reducing the financial effects that could occur due to illness, accident or death, and these investment solutions help them achieve their savings objectives.
  - **Insurance for individuals**
    - Includes life insurance, health and disability insurance, credit insurance, travel insurance, assistance services, guaranteed investment funds and responsible annuity products.
  - **Group insurance**
    - Includes prescription drug, health care, dental and disability insurance, health and wellness expense accounts, as well as prevention and wellness services.
  - **Group retirement savings**
    - Includes accumulation and disbursement plan solutions, as well as support to achieve and maintain financial independence (videos, simulators, webinars and virtual guide).

Wealth Management
- **Specialized wealth management networks (Signature Service, Private Wealth Management, Securities and Online Brokerage):**
  - Each Desjardins network provides support to members and clients, as well as their families, based on a 360° vision of wealth management.
  - These networks differ from one another in their approach and in the range of proprietary advisory services and products they offer.
  - The support offered is tailored to the member's or client's situation, their financial situation and the path they wish to take to manage their wealth.
- **Investments:**
  - Wide range of investment solutions for individuals.
  - Mutual funds, guaranteed market-linked investments and exchange-traded funds (ETF), including responsible investing product lines, allowing members and clients to find the investment best suited to their needs, whether they are preparing for retirement, planning a trip or any other financial goal.
- **Institutional services:**
  - Services for institutional clients, mainly pension funds, foundations, investment funds and insurers.
  - Asset management and trust services, such as custody of securities on North American and international markets and fiduciary services for businesses.

2023 ACHIEVEMENTS

Life and Health insurance

- Closing of the **acquisition of Worldsource**, which specializes in independent insurance, mutual fund and securities distribution operations.
- Implementing actions to allow members and clients to obtain **real-time replies** when applying for **individual insurance.**
- Continuing initiatives to **enhance the offering and support in credit insurance** to meet the coverage needs of our members and clients.
- Deploying **new digital functionalities** for **group insurance** members and clients, such as a drug cost simulator, a pharmacy price locator and information on their dental care and complementary health care limits and consumption.
- **Enhanced online retirement savings path** in group retirement savings for members and clients.
- The segment continues to gradually deploy its **ESG approach** across all its operations, including:
  - Expansion of eligible expenses under the wellness account, including eco-responsible solutions to reduce the ecological footprint as well as Indigenous health services.
  - Launch of "Family Focus" group insurance coverage to meet the different needs of insured persons experiencing difficulties in starting or growing a family.
  - Collaboration in the publication of a reference framework by the UN aimed at raising awareness in the Canadian insurance industry of the links between social equity and measures to adapt to climate change.
- **Desjardins stood out at the Insurance Business Canada Awards** by winning, for a second consecutive year, the award for Life & Health Insurer of the Year, which recognizes Desjardins's commitment to its products and services, to financial literacy and to its exemplary customer service approach. Desjardins was also nominated for excellence in diversity, equity and inclusion.

Wealth Management

- Reaching the **$1 billion asset mark** for the line of **market-linked notes.**
- **Enhancing the features** of annuity and structured products to meet the changing needs of members and clients.
- Desjardins became **one of the world's 50 largest institutional investors in infrastructure**, according to *Infrastructure Investor* magazine's Global Investor 50 ranking.
- The segment continues to gradually roll out its **ESG approach** across all its activities, including:
  - Making its range of "SociaTerra" investment funds more accessible by adding new unit classes for retail investors.
  - Desjardins Investments Inc. signed the Net Zero Asset Managers initiative, a UN-backed alliance of investors committed to making its portfolios carbon neutral by 2050.
- **Awards won and recognition gained,** all attesting to our commitment to developing high-return investing solutions for members and clients:
  - Desjardins Online Brokerage ranked first in independent investor satisfaction by JD Power.
  - Garnered 5 FundGrade A+® 2023 awards from Fundata, which recognizes the best investment solutions available in Canada each year, 2 of which were received for responsible investing solutions.
  - Received 2 awards at the LSEG Lipper Fund Awards for the best mutual fund in Canada in the Global Small/Mid Cap Equity mutual fund category for the Desjardins SocieTerra Cleantech Fund (third consecutive year), as well as the award-winning Desjardins RI Emerging Markets Multifactor - Net-Zero Emissions Pathway ETF in the Emerging Markets Equity ETF category (second consecutive year).
  - Desjardins was ahead of the pack with its line of structured products:
    - Most awarded financial institution at the 2023 SRP Americas gala, taking 5 awards, including the prestigious "Best House, Canada" award (fourth consecutive year) from Structured Retail Products.
    - "Canada's Best GIC Issuer" award at the second annual SPi Canada 2023 Awards for Excellence.

INDUSTRY

- **Canadian market:**
  - Wealth Management: At the end of 2022, financial assets of close to $6,186 billion were held by Canadian households. Assets posted 6.5% compounded annual growth over the last 5 years and a 4.4% decline in 2022. In 2022, inflation and rising key interest rates had an impact on the economy, bringing volatility to markets and the economic environment. Key interest rates continued to rise in 2023, leading to an economic slowdown.
  - Life and Health Insurance: Premium income totalled $145 billion in life and health insurance and in annuities in 2022, exceeding the pre-pandemic level by close to $23 billion and growing an average 5.6% per annum over the last five years. More than 29 million Canadians are financially protected, and $114 billion was paid in benefits in 2022. Since the COVID-19 crisis, the industry has returned to growth and mental health support is becoming increasingly important, with benefits increasing by 10% in 2022 and to almost double the level attained in 2019.
- **Competition in Canada:**
  - Wealth Management: The key industry players are the major banking groups, life and health insurance companies and investment fund manufacturers, which are trying to outdo one another in order to win over clients and build their loyalty. For over 30 years, Desjardins has been one of the most committed players when it comes to promoting and advancing responsible investing in Canada by:
    - Offering an extensive line of responsible investing solutions on the market;
    - Ranking 2nd among mutual fund issuers and 5th among ETF issuers in responsible investing as at December 31, 2022.
  - Life and Health Insurance: Based on 2022 statistics, there are more than 150 insurers conducting business in Canada, with five insurers accounting for 75.8% of the market. Desjardins Financial Security Life Assurance Company ranks fifth in Canada, with direct written premiums of $6.4 billion in 2022.

2024 STRATEGIES AND PRIORITIES

The 2024 strategies and priorities of the Wealth Management and Life and Health Insurance segment form part of Desjardins Group's strategic orientations and aim to help Desjardins achieve its goal of being everyone's #1 choice, by always working in the best interests of members and clients. The strategic orientations of Desjardins Group, as presented in Section 1.4, "Strategic orientations and financial objectives", of this MD&A, are also the strategic orientations of the Wealth Management and Life and Health Insurance segment. The segment's priorities for 2024 to 2027 emphasize:

- Aligning the organization around the strategic plan in wealth management and tightening up execution;
- Intensifying business development in wealth management;
- Driving the pace of growth in individual and group insurance;
- Improving operational excellence in group insurance;
- Accelerating the digital shift and enhancing the value of data;
- Modernizing our systems.

In order to strengthen its leadership in the area of client experience, this segment can rely on the commitment of its managers, employees and distribution partners, who always strive to better meet the needs of members and clients by providing exemplary and distinctive quality service.

ANALYSIS OF FINANCIAL RESULTS

Table 12 – Wealth Management and Life and Health Insurance – Segment results
As at December 31 and for the years ended December 31

(in millions of dollars)	2023	2022[(1)] Restated
Net interest income	**$ 21**	$ 8
Insurance service result		
Insurance revenue	**3,944**	3,624
Insurance service expenses	**(3,296)**	(3,018)
Net reinsurance service income (expenses)	**(62)**	(43)
	586	563
Net insurance finance result		
Net insurance investment income (loss)	**2,397**	(3,984)
Net insurance finance income (expenses)	**(2,055)**	4,381
Net reinsurance finance income (expenses)	**72**	(190)
	414	207
Net insurance service income (loss)	**1,000**	770
Other income	**2,362**	1,777
Total net income	**3,383**	2,555
Provision for credit losses	**5**	—
Non-interest expense		
Gross non-interest expense	**3,046**	2,524
Non-interest expense included in insurance service expenses[(2)]	**(366)**	(397)
Net non-interest expense	**2,680**	2,127
Income taxes on surplus earnings	**117**	115
Net surplus earnings for the year	**$ 581**	$ 313
Indicators		
Contractual service margin (CSM)[(3)]		
Total CSM[(3)(4)]	**$ 2,595**	$ 2,627
CSM on new sales[(3)(5)]	**54**	52
Net sales of savings products[(6)]	**2,290**	8,261
Insurance sales[(6)]	**473**	429
Group insurance premiums[(6)]	**3,840**	3,573
Individual insurance premiums[(6)]	**1,015**	968
Annuity premiums[(6)]	**1,458**	1,265
Segregated fund receipts[(6)]	**3,900**	3,665

(1) The data have been adjusted to conform to the current year's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.
(2) Represents the non-interest expense directly related to the fulfillment of insurance contracts presented under "Insurance service result".
(3) Included under "Insurance contract liabilities" and "Reinsurance contract assets (liabilities)" in the Combined Balance Sheets. For further information, see Note 17, "Insurance and reinsurance contracts" to the Combined Financial Statements.
(4) Total CSM of $2,813 million ($2,884 million as at December 31, 2022) presented net of reinsurance for a total of $218 million ($257 million as at December 31, 2022).
(5) CSM on new insurance business totalling $56 million ($54 million as at December 31, 2022) presented net of reinsurance for a total of $2 million ($2 million as at December 31, 2022).
(6) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.

COMPARISON OF 2023 AND 2022

- **Net surplus earnings of $581 million,** up $268 million, or 85.6% compared to 2022, mainly on account of:
  - Increase in the net insurance finance result[1], particularly as a result of the following:
    - Gains realized by a joint venture on the sale of its real estate portfolio.
    - Favourable adjustment to the liability discount curve parameters in the second quarter of 2023.
  - Higher insurance service result due, in particular, to the overall favourable experience, partly offset by the unfavourable effect of the updating of actuarial assumptions.
  - Partly offset by the increase in spending on personnel and technology to enhance member and client services.

- **Insurance service result of $586 million,** up $23 million, or 4.1%, mainly due to the following:
  - Increase in income from contracts to which the general model is applied, due to the following factors:
    - Favourable effect of the updating of actuarial assumptions in group retirement savings.
    - Less unfavourable effect of the loss component of onerous contracts in group retirement savings.
  - Increase in income from insurance contracts measured using the premium allocation approach, particularly in group insurance for long-term disability and accident and health coverage.
  - Partly offset by higher insurance and reinsurance service expenses, largely due to the following:
    - Higher expenses for insurance contracts measured using the premium allocation approach, mainly in group insurance, as a result of business growth.
    - More unfavourable effect of the loss component of onerous contracts in group insurance.
    - Less favourable experience in credit and direct insurance, chiefly for disability and life loan insurance.
    - Unfavourable effect of the updating of actuarial assumptions, primarily in credit and direct insurance, partly offset by the favourable effect in group insurance.
    - Partially offset by a more favourable group insurance experience, particularly in long-term disability and life insurance coverage, partially offset by the unfavourable experience in accident and health insurance.

- **Net insurance finance result[1] of $414 million,** up $207 million, or 100.0% mainly due to the following:
  - Gains realized by a joint venture on the sale of its real estate portfolio.
  - Favourable adjustment to rate curve parameters in the second quarter of 2023.

- **Other income of $2,362 million,** up $585 million, or 32.9%, mainly due to the following:
  - Income of $409 million related to operations acquired from Worldsource.
  - Higher net investment income from non-insurance activities than in the comparative year for investment contracts not transferring insurance risk to the holders, primarily in individual annuities. This income was offset by a similar change in gross non-interest expense.
  - Increase in income from assets under management from specialized networks.

- **Total net income of $3,383 million,** up $828 million, or 32.4%.

- **Gross non-interest expense of $3,046 million,** up $522 million, or 20.7%, mainly because of:
  - Expense of $416 million related to operations acquired from Worldsource.
  - Increase in spending on personnel and technology to enhance member and client services.
  - Higher costs due to increased transaction volume as a result of growth in assets under administration.

  Note that a gross non-interest expense of $366 million was included under insurance service expenses, compared to $397 million in 2022.

Additional information for certain indicators:

- **Contractual service margin (CSM)**
  - Total CSM of $2,595 million as at December 31, 2023 compared to $2,627 million as at December 31, 2022. The decrease in total CSM resulted largely from services provided, stemming primarily from the creation of the CSM at the transition, which were higher than new sales and capitalized interest.

- **Business growth**
  - Decline in net sales of savings products, mainly from Specialized Networks, MLGIs, and Desjardins Funds.
  - Growth in insurance sales, mainly in group insurance.
  - Growth in insurance premiums, primarily in group insurance.
  - Growth in annuity premiums, largely from individual retirement savings for annuities paid.

[1] As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate the comparative year for this item. This could therefore limit the comparability of the results with the prior year.

2.3.3 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 offered in the Desjardins caisse network in Québec and at Caisse Desjardins Ontario Credit Union Inc. and the Desjardins Business centres, and are distributed through general insurance agents in a number of client care centres, as well as through an exclusive agent network, including over 450 agencies in Ontario, Alberta and New Brunswick. This exclusive agent network distributes P&C insurance and several other financial products. The segment also offers advice and loss prevention services to members and clients to help them protect their assets and guard against the impact of weather and climate events. 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 3.7 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 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.

2023 ACHIEVEMENTS

- Continued enhancement of the member and client experience as well as **digital transformation,** in particular by:
  - Continuing to focus on prevention in automobile insurance by adding the Ajusto program (telematics program with personalized feedback on driving habits) in Alberta. Ajusto offers a customized rate based on the member's and client's driving habits and also encourages good driving habits by providing members and clients with personalized advice on their driving in order to improve road safety.
  - Introducing a new predictive model for total loss or repair at first notice of loss decisions to remove client uncertainty associated with the repair of their vehicle and improve the efficiency of the claims process.
  - Deploying a dedicated contract renewal area on information sites to support members and clients by providing information on industry-wide inflation, as well as on ways to save.
- Continuation of the **program to modernize IT systems** with implementation of key milestones, including:
  - Successfully implementing the modernization of automotive business systems outside Québec for all distribution networks.
- The IT systems modernization program received the **OCTAS award** for its achievements during the year.
- To combat industry issues associated with the significant increase in the number of automobile thefts, deployment of a free **anti-theft tracking system** for the most at-risk car models in Ontario and Québec.
- The segment continues to gradually deploy its **ESG approach** in all of its operations, in particular by:
  - Committing $3.2 million for the 2022-2024 period to support various organizations that encourage road safety in Québec and the rest of Canada [Parachute, Traffic Injury Research Foundation (TIRF), Arrive Alive, Operation Red Nose].
  - Continuing work to achieve the investment portfolio's carbon neutrality objectives for 2040 in the following three sectors: energy, transportation and real estate, as well as for 2050 for the entire portfolio (commitment to the global Business Ambition for 1.5°C initiative).
  - Integrating resilient reconstruction incentives into insurance contracts:
    - For sewer backups covered by endorsement 16 (Canada-wide), $1,000 for mitigation measures.
    - For hail risk zones (Alberta): $2,500 in coverage to replace a roof with hail-resistant shingles.
  - An ESG plan was defined in support of the Group's plan, with 4 priorities (partner in prevention, understanding climate change and disasters, asset resilience, and integrating ESG considerations into the day-to-day business) related to the property and casualty insurance business.
  - Working with the Insurance Bureau of Canada to implement the national flood program aimed at protecting people at risk who do not have access to adequate insurance.
- **Finalization of a minority interest** in the Insurance Company of Prince Edward Island (ICPEI), which offers property, automobile and commercial insurance products.

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 8.7% in the period from 2018 to 2022.
  - The segment has grown at a sustained rate of 7.6%, reaching $74.3 billion in direct written premiums at the end of 2022. The new economic reality in personal automobile insurance, in which profitability is a major issue, has led to a higher rate of premium growth. Rates continue to rise in property and business insurance.
  - Individual insurance accounts for 57.2% of the market, and business insurance, for 42.8%.
- **State of the industry in 2023:**
  - The labour shortage in Canada continues, affecting a number of sectors of the economy, with the unemployment rate still at approximately 5.0%.
  - The growth in the consumer price index slowed in 2023 compared with 2022, but it remains high. Inflation in Canada was 3.4% at the end of 2023, while inflation in automotive parts, accessories and supplies reached 5.8%.
  - In automobile insurance, driving habits continued to normalize in 2023 and the frequency of claims increased. Vehicle theft remains a major issue across the industry (particularly in Ontario and Québec).
  - Alberta implemented a freeze on premium rates for private passenger automobiles from January to December 2023.
  - The industry is being affected by weather events across Canada. In 2023, according to Catastrophe Indices and Quantification Inc. (CatIQ), catastrophic events caused insurable losses of $3.1 billion for the Canadian P&C insurance industry, such that 2023 was ranked 4th in terms of the size of extreme weather losses in Canada.
- **Industry trends:**
  - Operational excellence remains fundamental to the P&C insurance sector, especially when costs are under pressure, making profitability more of a challenge.
  - Digitalization and systems modernization remain important for insurers, as key players seek to derive a competitive advantage from their digital capabilities and mobile-focused functionalities.
  - Telematics solutions are becoming increasingly prevalent in Canada, with penetration of the key actors' programs rising sharply due to consumers' desire to see their new driving habits better reflected in pricing and insurers' efforts to reap the benefits of segmentation.
  - Insurers are increasingly exploiting advanced analytics across the value chain to generate efficiencies, secure segmentation gains and improve the client experience.
  - Consolidation in the brokerage sector is gathering pace, led by insurers and investment funds.
  - The impact of climate change is a major factor affecting the P&C insurance industry.

2024 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's strategies and priorities for 2024 fall within the scope of Desjardins Group’s strategic orientations and aim to help the Group attain its goal of being everyone’s #1 choice by constantly working in the best interests of members and clients. The strategic orientations of Desjardins Group, as presented in Section 1.4, "Strategic orientations and financial objectives", of this MD&A are also the strategic orientations of the Property and Casualty Insurance segment. The segment's priorities from 2024 to 2027 will be to:

- Modernize its business systems to support its member- and client-centered developments;
- Reduce operating risks and enhance the organization's agility;
- Pursue our objective of becoming a Canadian leader in the field of advanced analytics by rolling out several models in the period 2024 to 2027, including in the area of claims and pricing;
- Aim for profitable growth in business insurance, with a view to supporting our entrepreneur members and clients and achieving our various objectives.

Achieving these objectives is based on the commitment of all directors, managers and employees, as well as on a comprehensive and integrated offer of high quality and accessible services, always in the interests of members and clients.

ANALYSIS OF FINANCIAL RESULTS

Table 13 – Property and Casualty Insurance – Segment results
For the years ended December 31

(in millions of dollars and as a percentage)	2023	2022 Restated
Insurance service result		
Insurance revenue	**$ 6,642**	$ 6,225
Insurance service expenses	**(5,775)**	(5,738)
Net reinsurance service income (expenses)	**(67)**	(12)
	800	475
Net insurance finance result		
Net insurance investment income (loss)	**561**	(385)
Net insurance finance income (expenses)	**(343)**	226
Net reinsurance finance income (expenses)	**31**	(25)
	249	(184)
Net insurance service income (loss)	**1,049**	291
Other income (loss)	**(26)**	(33)
Total net income	**1,023**	258
Provision for credit losses	**5**	—
Non-interest expense		
Gross non-interest expense	**1,025**	988
Non-interest expense included in insurance service expenses(1)	**(651)**	(656)
Net non-interest expense	**374**	332
Income taxes on surplus earnings	**150**	(39)
Net surplus earnings (deficit) for the year	**$ 494**	$ (35)
Of which:		
Group's share	**$ 423**	$ (53)
Non-controlling interests' share	**71**	18
Indicators		
Direct written premiums(2)	**$ 6,856**	$ 6,205
Loss ratio(3)	**67.7%**	67.5%
Current year loss ratio(3)	**70.2**	69.8
Loss ratio related to catastrophes and major events(3)	**3.6**	3.9
Ratio of favourable changes in prior year claims(3)	**(6.1)**	(6.2)
Expense ratio(3)	**26.2**	26.6
Ratio of losses on onerous contracts(3)	**(0.9)**	3.3
Combined ratio(3)	**93.0**	97.4

(1) Represents the non-interest expense directly related to the fulfillment of insurance contracts presented under "Insurance service results".
(2) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.
(3) For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 3 and 4.

COMPARISON OF 2023 AND 2022

- **Net surplus earnings of $494 million,** compared to a net deficit of $35 million, for fiscal 2022. The change was due to the following:
  - Increase in the net insurance finance result.
  - Higher insurance service income in property and automobile insurance.
  - Favourable impact of the loss component on onerous contracts, compared to an unfavourable effect recorded in 2022.
  - Partly offset by higher claims expenses for the current year, mainly as a result of automobile and property insurance.

- **Insurance service result of $800 million,** up $325 million, or 68.4%.
  - **Insurance revenue** of $6,642 million, up $417 million, or 6.7%. By including ceded insurance revenue of $306 million presented under "Net reinsurance service income (expenses)", the increase was $303 million, or 5.0%, mainly due to premium growth in property insurance and automobile insurance.
  - **Insurance service expenses** of $5,775 million, up $37 million, or 0.6%. By including ceded insurance service expenses of $239 million presented under "Net reinsurance service income (expenses)", there was a decrease of $22 million, or 0.4%, due to the following:
    - Favourable effect of the loss component on onerous contracts, whereas an unfavourable effect had been recognized in 2022, mainly attributable to automobile insurance.
    - Partially offset by higher expenses related to claims compared with 2022 due to higher claims-related expenses for the current year compared to those recognized in 2022. This increase was mainly attributable to automobile insurance, in particular as a result of the increase in the average cost of claims due to the impact of inflation and the increase in car thefts, as well as to property insurance.

- **Net insurance finance result of $249 million,** up $433 million.
  - **Net insurance investment income** of $561 million, compared to losses of $385 million in fiscal 2022. The change was essentially due to the following:
    - Positive change in the fair value of matched bonds, whereas a negative change had been recognized in 2022, in particular due to a slight decline in market interest rates for fiscal 2023, whereas in 2022 the fair value had been affected by a significant rise in interest rates.
    - Net gains on shares, while net losses were recorded in fiscal 2022.
    - Higher interest income on fixed income securities compared to fiscal 2022.
  - **Net insurance finance expense of $343 million,** compared to income of $226 million for fiscal 2022. By including net reinsurance finance income of $31 million (expenses of $25 million in fiscal 2022), the net insurance and reinsurance finance expenses totalled $312 million, compared to income of $201 million in 2022. This change was due to the following:
    - Unfavourable impact of lower discount rates used to measure net liabilities for incurred claims, compared to a favourable impact of higher discount rates in 2022.
    - Unfavourable effect of higher accretion of net liabilities for incurred claims compared to 2022.

- **Other losses of $26 million**, down $7 million, mainly due to gains realized by a joint venture on the sale of its real estate portfolio.

- **Total net income of $1,023 million,** up $765 million.

- **Gross non-interest expense of $1,025 million,** up $37 million, or 3.7%. This increase is attributable to the following:
  - Upward remeasurement of the provision for the deferred compensation program and the post-retirement benefit plan for Desjardins agents, compared to a downward remeasurement recorded in 2022.
  - Higher salary expenses than in 2022, particularly on account of wage indexation.

  Note that a gross non-interest expense of $651 million was included in insurance service expenses, an amount comparable to what was recorded for 2022.

2.3.4 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 the liquidity surpluses and needs of the caisses. This category also includes the results for the support functions provided by the Federation to Desjardins Group including: finance, including treasury; operations; risk management, including compliance; human resources; marketing, communications, cooperation and the President's Office; Desjardins Group Security Office; legal affairs, including governance; and the Office of Sustainable Development. The Other category 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.

Table 14 – Other category

For the years ended December 31

(in millions of dollars)	2023	2022[(1)] Restated
Net interest income	**$ 436**	$ 645
Net insurance service income (loss)	**8**	5
Other income (loss)	**(1,059)**	(1,092)
Total net income (loss)	**(615)**	(442)
Provision for (recovery of) credit losses	**(2)**	3
Net non-interest expense	**(524)**	(270)
Income taxes on surplus earnings	**(111)**	(119)
Net surplus earnings (deficit) for the year	**$ 22**	$ (56)

(1) The data have been adjusted to conform to the current year’s presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.

COMPARISON OF 2023 AND 2022

- **Net surplus earnings of $22 million,** compared to a net deficit of $56 million in 2022.
  - In relation to treasury activities, market rate fluctuations and changes in hedging positions had an unfavourable effect on net interest income, partially offset by a favourable effect on net other investment income (loss) included under other income.
  - Non-interest expense included amounts invested for the continued implementation of Desjardins-wide strategic projects, in particular for the digital shift and security. These initiatives enhanced the member and client experience, improved productivity and ensured the implementation of best practices in security. They also included changes in contingency provisions for our operations, supplier agreements and the investment portfolio, as well as commitments made regarding the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions.

2.4 Analysis of fourth quarter results and quarterly trends

Table 15 – Results for the previous eight quarters

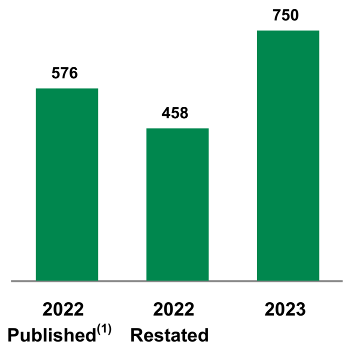
(unaudited, in millions of dollars and as a percentage)	2023				2022 Restated			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	**$ 1,789**	$ 1,818	$ 1,769	$ 1,657	$ 1,579	$ 1,649	$ 1,596	$ 1,506
Insurance service result								
Insurance revenue	**2,718**	2,656	2,562	2,493	2,480	2,462	2,406	2,377
Insurance service expenses	**(2,093)**	(2,245)	(2,238)	(2,358)	(2,177)	(2,158)	(2,221)	(2,056)
Net reinsurance service income (expenses)	**(47)**	(20)	(36)	(26)	(40)	(27)	25	(13)
	578	391	288	109	263	277	210	308
Net insurance finance result								
Net insurance investment income (loss)	**3,005**	(1,363)	249	1,080	286	119	(2,404)	(2,372)
Net insurance finance income (expenses)	**(2,780)**	1,479	(83)	(999)	(30)	(214)	2,250	2,588
Net reinsurance finance income (expenses)	**115**	(65)	11	42	(17)	11	(93)	(116)
	340	51	177	123	239	(84)	(247)	100
Net insurance service income (loss)	**918**	442	465	232	502	193	(37)	408
Other income								
Deposit and payment service charges	**134**	119	117	113	115	115	114	104
Lending fees and credit card service revenues	**185**	258	242	266	256	269	218	222
Brokerage and investment fund services	**347**	339	400	253	235	235	251	268
Management and custodial service fees	**207**	192	189	163	182	151	170	159
Other net investment income (loss)	**(158)**	(132)	(86)	(110)	(60)	(159)	(120)	(161)
Foreign exchange income	**59**	47	47	39	42	19	27	31
Other	**57**	50	96	54	21	70	91	79
	831	873	1,005	778	791	700	751	702
Total net income	**3,538**	3,133	3,239	2,667	2,872	2,542	2,310	2,616
Provision for credit losses	**231**	127	66	105	80	125	66	6
Non-interest expense								
Gross non-interest expense	**2,749**	2,443	2,680	2,345	2,525	2,317	2,427	2,256
Non-interest expense included in insurance service expenses(1)	**(250)**	(240)	(246)	(249)	(262)	(256)	(253)	(252)
Net non-interest expense	**2,499**	2,203	2,434	2,096	2,263	2,061	2,174	2,004
Income taxes on surplus earnings	**58**	189	186	124	71	61	32	155
Surplus earnings before member dividends	**750**	614	553	342	458	295	38	451
Member dividends, net of tax recovery	**68**	78	80	78	64	78	80	75
Net surplus earnings for the period after member dividends	**$ 682**	$ 536	$ 473	$ 264	$ 394	$ 217	$ (42)	$ 376
Of which:								
Group's share	**641**	520	462	261	379	214	(31)	365
Non-controlling interests' share	**41**	16	11	3	15	3	(11)	11
Total assets	**$ 422,940**	$ 414,056	$ 409,558	$ 398,604	$ 403,944	$ 404,268	$ 400,440	$ 393,829
Indicators								
Return on equity(2)	**8.6%**	7.4%	6.8%	4.3%	5.6%	3.6%	0.6%	5.5%
Tier 1A capital ratio(3)	**20.4**	20.8	20.9	19.9	20.2	18.7	19.5	20.6
Total capital ratio(3)	**21.9**	22.3	22.4	21.4	21.9	20.2	20.4	21.5

(1) Represents the non-interest expense directly related to the fulfillment of insurance contracts presented under "Insurance service result".
(2) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.
(3) In accordance with the *Capital Adequacy Guideline* issued by the AMF, see Section 3.2 "Capital management".

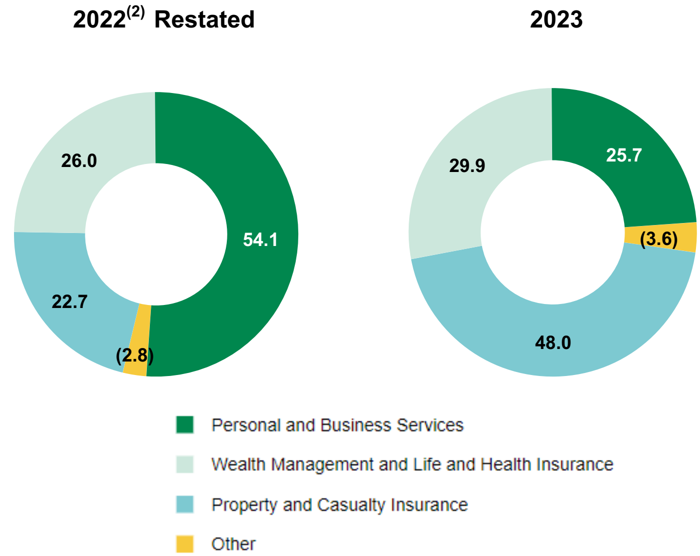
FOURTH QUARTER RESULTS

For the fourth quarter of 2023, Desjardins Group posted surplus earnings before member dividends of $750 million, up $292 million, or 63.8%, compared to the same period in 2022 and restated following the adoption of IFRS 17, "Insurance Contracts"[(1)], on January 1, 2023.

Surplus earnings before member dividends
(in millions of dollars)



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



- **Contribution of business segments to surplus earnings:**
  - Personal and Business Services: **Surplus earnings of $193 million,** down $55 million, or 22.2%, compared to the same period in 2022. This decrease is attributable to the following:
    - Higher provision for credit losses than in 2022, mainly in business loan portfolios.
    - Increase in the provision rate for rewards programs related to credit card payment activities.
    - Higher non-interest expenses, mainly due to higher technology costs.
    - Partly offset by growth in net interest income.
  - Wealth Management and Life and Health Insurance: **Surplus earnings of $224 million,** up $105 million, compared to the fourth quarter of 2022, mainly attributable to the net insurance finance result[(3)], including gains realized by a joint venture on the sale of its real estate portfolio in the fourth quarter of 2023.
  - Property and Casualty Insurance: **Surplus earnings of $360 million,** up $256 million compared to the fourth quarter of 2022, due to:
    - Favourable effect of loss component on onerous contracts compared to an unfavourable effect in the corresponding quarter of 2022.
    - Higher insurance revenue, largely due to automobile and property insurance.
    - Decrease in claims expenses, mainly attributable to automobile insurance.

- **Return on equity of 8.6%,** compared to 5.6% for the fourth quarter of 2022, mainly due to the higher surplus earnings.

- **Net interest income of $1,789 million,** up $210 million, or 13.3%, on account of:
  - Increase in the interest income on loans due to the higher interest rate environment.
  - Growth in average residential mortgages and business loans outstanding.
  - Rise in interest income from liquidities, also resulting from the higher interest rate environment.
  - Increase in average interest-bearing assets and liabilities outstanding in credit card payment activities.

  This increase was offset in part by:
  - Higher interest expense on deposits mainly as a result of rising interest rates and the migration of depositors to term products with higher rates.
  - Growth in financing cost for credit card payment activities.

(1) Surplus earnings before member dividends for the fourth quarter of 2022 were $576 million, under IFRS 4, "Insurance Contracts", the standard in effect before the adoption of IFRS 17.
(2) The data have been adjusted to conform to the current period's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.
(3) As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the prior period.

- **Net insurance service income of $918 million[(1)],** up $416 million compared to the same quarter in 2022. The change in this heading, which consists of the insurance service result and the net insurance finance result, can be explained by the items from the following segments:
  - Wealth Management and Life and Health Insurance segment:
    - Insurance service result of $123 million, the same amount as in the fourth quarter of 2022.
      - Increase in income from contracts to which the general measurement model is applied, in particular due to the favourable effect of the loss component of onerous contracts in group retirement savings.
      - Partly offset by higher insurance and reinsurance expenses for insurance contracts measured using the premium allocation approach, due to the following:
        - Unfavourable effect of the updating of actuarial assumptions in credit and direct insurance, partly offset by the favourable effect in group insurance.
        - Less favourable experience in credit and direct insurance, particularly in life loans.
    - Net insurance finance result[(2)] of $193 million, up $22 million, mainly from the following:
      - Gains realized by a joint venture on the sale of its real estate portfolio.
      - Partly offset by losses related to interest rate guarantees offered for universal life contracts.
  - Property and Casualty Insurance segment:
    - Insurance service result of $465 million, up $322 million.
      - Insurance revenue of $1,739 million, up $153 million, or 9.6%. Including ceded insurance service income of $88 million, presented under "Net reinsurance service income (expenses)", resulted in an increase of $121 million, or 7.9%, mainly due to premium growth in property and automobile insurance.
      - Insurance service expenses of $1,250 million, down $174 million, or 12.2%. Including ceded insurance service expenses of $64 million, presented under "Net reinsurance service income (expenses)", resulted in a decrease of $201 million, or 14.5%, primarily due to the following:
        - Favourable effect of the loss on onerous contracts item compared with an unfavourable effect in the corresponding quarter of 2022, largely due to automobile insurance.
        - Lower expenses related to claims compared to the corresponding quarter of 2022 due to the following items:
          * Expenses related to claims for the current year that were lower than in the corresponding quarter of 2022, mainly attributable to automobile insurance.
          * Partially offset by the impact of less favourable changes in prior year claims compared to the corresponding quarter of 2022, largely due to automobile insurance.
    - Net insurance finance result of $115 million, up $16 million, or 16.2%.
      - Net insurance investment income of $347 million, up $258 million compared to the corresponding quarter of 2022. This change is largely the result of the following:
        - A positive change in the fair value of matched bonds that was greater than that recorded in the corresponding quarter of 2022, due in particular to the effect of lower market interest rates in the fourth quarter of 2023, compared with an increase in the corresponding quarter of 2022.
        - Higher net gains on shares compared to the fourth quarter of 2022.
        - Higher interest income on fixed-income securities compared to the corresponding quarter of 2022.
      - Net insurance finance expenses of $254 million, compared with income of $10 million in the corresponding quarter of 2022. Including net reinsurance finance income of $22 million (nil in the corresponding quarter), net insurance and reinsurance finance expenses were $232 million, compared with income of $10 million in the corresponding quarter. This change was due to the following:
        - Unfavourable impact of lower discount rates used to measure net liabilities for incurred claims, compared to a favourable impact of higher discount rates recorded in the corresponding quarter of 2022.
        - Greater unfavourable effect of accretion of net liabilities for incurred claims than in the fourth quarter of 2022.

- **Other income rose to $831 million,** up $40 million, or 5.1%, compared to the fourth quarter of 2022, due to the following:
  - Income of $117 million related to operations acquired from Worldsource.
  - Partially offset by an increase in the provision rate for rewards programs linked to credit card payment activities.

- **Total net income of $3,538 million,** up $666 million, or 23.2%.

- **Provision for credit losses of $231 million,** up $151 million, compared to the same period in 2022. This change was primarily due to increases in the provision for credit losses on business loan portfolios due to a migration of credit quality and on credit card portfolios. The provision for the fourth quarter of 2023 reflected higher net write-offs, which are gradually returning to pre-pandemic levels.

  Desjardins Group continued to have a high-quality loan portfolio in 2023.
  - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.74%, compared to 0.48% as at December 31, 2022. This increase was due to a rise in the volume of gross impaired loans, mainly business loans, as a result of a migration in credit quality.

- **Gross non-interest expense of $2,749 million,** up $224 million, or 8.9%, compared to the fourth quarter of 2022, largely due to the following:
  - Expense of $120 million related to operations acquired from Worldsource.
  - Other items included in gross non-interest expense increased $104 million, or 4.1%, mainly due to wage indexation and increased spending on technology.

- **Income taxes on surplus earnings before member dividends of $58 million,** down $13 million compared to the corresponding period in 2022.
  - Effective tax rate[(3)] of 7.2% for the fourth quarter of 2023, down from 13.4% for the corresponding period of 2022, mainly due to the increase in non-taxable investment income compared to the fourth quarter of 2022.

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(1) The difference between total results and the sum of business segment results is due to intersegment transactions, which are eliminated in the Other category.

(2) As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as at January 1, 2023 and, consequently, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the prior period.

(3) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.

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. The results of Desjardins Group's most recent eight quarters were affected by developments in the global, U.S., Canadian and Québec economies as well as by inflation, with an expected rise of 1.1% in Canadian real GDP and an expected decline of 0.2% in Québec real GDP in 2023, compared to increases of 3.4% and 2.5%, respectively, in 2022. The Canadian key interest rate rose substantially during the four quarters of 2022, from 0.25% in March to 4.25% in December, while the four quarters of 2023 were marked by a total increase of another 75 basis points, to 5.00% as at December 31, 2023. Lastly, changes in actuarial assumptions as well as loss experience and weather conditions may also cause significant variations from one quarter to the next. No catastrophe was recorded in 2023, but there were eleven major events, compared to one catastrophe and five major events in 2022.

Following the transition to IFRS 17, "Insurance Contracts", on January 1, 2023, insurers' net surplus earnings are more sensitive, first to changes in financial markets but also to interest rates, and this has made the quarterly results more volatile than what was recorded in the past. In addition, the provisions of IFRS 17 allow for the review of the designation or classification of financial assets recognized under IFRS 9, "Financial Instruments", held in respect of insurance operations as at the date that IFRS 17 was first applied. Desjardins Group elected not to restate the comparative figures of its Combined Financial Statements to reflect the changes in designation or classification for these financial assets made as at January 1, 2023. As a result, the results for the 2023 and 2022 periods may be less comparable than they were in the past.

- **Net interest income – 2023 quarters up compared to 2022 quarters.**
  - Increase in the interest income on loans as a result of the higher interest rate environment.
  - Growth in average residential mortgages outstanding and average business loans outstanding.
  - Rise in interest income from liquidities, also resulting from the higher interest rate environment.
  - Increase in average interest-bearing assets and liabilities outstanding in credit card payment activities.

  This increase was offset in part by:
  - Higher interest expense on deposits, mainly as a result of rising interest rates and the migration of depositors to term products with higher rates.
  - Growth in the financing cost for credit card payment activities.

- **Net insurance service income (loss) – Quarterly fluctuations.**
  - **Wealth Management and Life and Health Insurance**:
    - Gains realized by a joint venture on the sale of its real estate portfolio in the fourth quarter of 2023.
    - Favourable net insurance finance result for the quarters of 2023 and for the first and fourth quarters of 2022.
    - Favourable adjustment made to rate curve parameters in the second quarter of 2023.
    - Favourable insurance service results over the last eight quarters:
      - Less favourable experience in credit and direct insurance for the quarters of 2023, partly offset by a more favourable experience in long-term disability coverage in group insurance for the first and third quarters of 2023.
      - Overall unfavourable effect of the update of actuarial assumptions in the fourth quarter of 2023, despite a favourable effect on group retirement savings.

  - **Property and Casualty Insurance**:
    - Upward trend in insurance revenue over the last eight quarters.
    - Higher current year claims expenses for the first three quarters of 2023 and the fourth quarter of 2022 in automobile insurance reflecting, among other things, the higher average cost of claims due to the impact of inflation and the increase in car thefts.
    - Favourable trend in prior-year automobile insurance claims over the last eight quarters that was considerably stronger in the second quarter of 2023 and the fourth quarter of 2022.
    - Impacts of catastrophes and major events over the last eight quarters:
      - Wind and water damage in Québec and Ontario in the third quarter of 2023;
      - An ice storm in Québec and Ontario in the second quarter of 2023;
      - Heavy rainfalls in Québec in the third quarter of 2022;
      - One catastrophe (i.e., a rare weather phenomenon known as a *derecho)* in the second quarter of 2022.
    - Favourable effect of the loss component on onerous contracts in automobile insurance in the third and fourth quarters of 2023, whereas it was unfavourable in all the quarters of 2022 and in the first and second quarters of 2023.
    - Net insurance financial result:
      - Favourable impact for all four quarters of 2023 and the fourth quarter of 2022;
      - Unfavourable impact for the first three quarters of 2022, mainly attributable to the net loss on shares, due to the decline on financial markets in 2022 and the effect of higher interest rates.

- **Other income – 2023 quarters up compared to 2022 quarters.**
  - Income related to operations acquired from Worldsource since the first quarter of 2023.
  - Growth in business volumes from credit card payment activities.
  - Partially offset by an increase in the provision rate for rewards programs related to credit card payment activities in the fourth quarter of 2023.

- **Provision for credit losses – 2023 quarters up compared to 2022 quarters.**
  - Increase in the provision in the first and fourth quarters of 2023 compared with the corresponding quarters of 2022, reflecting in particular a migration in credit quality.
  - Provisioning for the second and third quarters of 2023 relatively unchanged from the corresponding quarters of 2022.
  - Rising net write-offs since the end of 2022 as they gradually return to pre-pandemic levels.
  - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, up for the 2023 quarters compared to the 2022 quarters. Desjardins Group has nevertheless continued to have a high-quality loan portfolio.

- **Gross non-interest expense – Limited growth when 2023 and 2022 quarters are compared, with the increase coming mainly from the acquisition of Worldsource.**
  - Expenses related to the activities acquired from Worldsource since the first quarter of 2023.
  - Wage indexation and increased spending on technology.
  - Higher rewards program costs due to volume growth in the credit card payment business.
  - Higher expenses related to providers of credit card payment activities in the second and third quarters of 2023, particularly as a result of the impact of amendments to the *Excise Tax Act* announced in the Canadian government's Budget 2023 having retroactive effect to 2021.
  - Partially offset by a reduction in expenses, due in particular to the measures implemented to improve efficiency and effectiveness.

3.0 Balance sheet review

3.1 Balance sheet management

Table 16 – Combined Balance Sheets
As at December 31

(in millions of dollars and as a percentage)	2023		2022 Restated	
Assets				
Cash and deposits with financial institutions	**$ 8,987**	**2.1%**	$ 8,913	2.2%
Securities	**88,365**	**20.9**	85,295	21.1
Securities borrowed or purchased under reverse repurchase agreements	**13,678**	**3.2**	17,024	4.2
Net loans and acceptances	**265,935**	**62.9**	249,695	61.9
Segregated fund net assets	**24,754**	**5.9**	21,356	5.3
Derivative financial instruments	**5,861**	**1.4**	5,723	1.4
Other assets	**15,360**	**3.6**	15,938	3.9
Total assets	**$ 422,940**	**100.0%**	$ 403,944	100.0%
Liabilities and equity				
Deposits	**$ 279,329**	**66.1%**	$ 259,836	64.3%
Insurance contract liabilities	**32,961**	**7.8**	30,202	7.5
Commitments related to securities sold short	**11,686**	**2.8**	9,859	2.4
Commitments related to securities lent or sold under repurchase agreements	**12,032**	**2.8**	24,565	6.1
Derivative financial instruments	**6,626**	**1.6**	6,691	1.7
Segregated fund net liabilities	**21,233**	**5.0**	17,826	4.4
Other liabilities	**21,729**	**5.1**	19,630	4.9
Subordinated notes	**2,954**	**0.7**	2,928	0.7
Equity	**34,390**	**8.1**	32,407	8.0
Total liabilities and equity	**$ 422,940**	**100.0%**	$ 403,944	100.0%

ASSETS

As at December 31, 2023, Desjardins Group's total assets stood at $422.9 billion, up $19.0 billion, or 4.7%, since December 31, 2022.

Cash and deposits with financial institutions increased by $0.1 billion, or 0.8% and securities, including those borrowed or purchased under reverse repurchase agreements, declined by $0.3 billion, or 0.3%.

Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, grew by $16.2 billion, or 6.5%, mainly due to business and government loans which increased by $10.2 billion, or 15.2%. Desjardins Group's residential mortgages have increased by $6.2 billion, or 3.9%, since December 31, 2022. Consumer, credit card and other personal loans outstanding have remained stable since the end of 2022.

Information on the quality of Desjardins Group's loan portfolio is presented in Section 4.2, "Risk management", on pages 69 to 73 of this MD&A.

Segregated fund net assets were up $3.4 billion, or 15.9%, on account of the increase in the fair value of the portfolio as a result of financial market developments coupled with slight growth in contract holders.

Derivative financial instrument assets rose by $0.1 billion, or 2.4%.

Other assets declined by $0.6 billion, or 3.6%, mainly because of the decrease in amounts receivable from clients, brokers and financial institutions as well as net assets under defined benefit plans partially offset by the increase in intangible assets and goodwill resulting from the acquisition of Worldsource.

LIABILITIES

Desjardins Group's total liabilities amounted to $388.6 billion as at December 31, 2023, up $17.0 billion, or 4.6%, since December 31, 2022.

Outstanding deposits grew by $19.5 billion, or 7.5%. The increase in business and government deposits, which accounted for 45.5% of Desjardins Group's total deposit portfolio, was partially responsible for this growth. These outstanding deposits were up $13.0 billion, or 11.4%, owing in particular to various securities issued on Canadian, U.S. and international markets, which supported growth in Desjardins Group's funding requirements. Personal deposits outstanding, which accounted for 54.2% of the total deposit portfolio, were up $6.1 billion, or 4.2%, mainly as a result of growth in member deposits at the caisses. Deposits from deposit institutions were up $0.3 billion.

Desjardins Group's insurance contract liabilities rose by $2.8 billion, or 9.1%, largely as a result of the change in actuarial liabilities arising from life and health insurance operations.

Commitments related to securities sold short and lent or sold under repurchase agreements decreased by $10.7 billion, or 31.1%, to a volume of $23.7 billion.

Derivative financial instrument assets were down by $0.1 billion, or 1.0%.

Segregated fund net liabilities were up by $3.4 billion, or 19.1%, on account of the increase in the fair value of the portfolio due to financial market developments, coupled with a slight growth in contract holders.

Other liabilities grew by $2.1 billion, or 10.7%, mainly as a result of the increase in accounts payable and other accrued liabilities as well as interest payable.

Subordinated notes increased by $3.0 billion as at December 31, 2023, comparable to the December 31, 2022 amount.

EQUITY

Equity has increased by $2.0 billion, or 6.1%, since December 31, 2022, due to a net surplus after member dividends of $2.0 billion.

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

Table 17 – Information about member dividends, remuneration and dividends
For the years ended December 31

(in millions of dollars)	2023	2022	2021
Member dividends	**$ 412**	$ 403	$ 387
Remuneration on F capital shares	**293**	262	208
Dividends	**56**	80	25
	$ 761	$ 745	$ 620

Note 23, "Capital stock", and Note 24, "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 with an objective to ensure the financial soundness and sustainability of the Desjardins Cooperative Group. To help safeguard a capital level and structure that maintains the confidence of members and clients and optimizes the financial capital costs, the organization has adopted a target capital structure that takes into account the banking industry regulatory requirements, Desjardins Group's objectives for maintaining its credit ratings and the risk profiles of the organization and its components. The target structure is updated based on changes in the above factors and approved annually by the Federation's Board of Directors. To this end, the Board approved a new target for the Tier 1A capital ratio in November 2023. In accordance with market practices, the target determined annually by the Federation's Board of Directors will no longer be disclosed in Desjardins Group's and the Federation's public disclosure documents.

Desjardins Group's Integrated Capital Management Framework

Broadly speaking, Desjardins Group's Integrated Capital Management Framework includes the policies and processes required to set capitalization targets, 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 utilization procedures. The key principles and components of the target capital structure are set out in Desjardins Group's capital management policy.

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 Desjardins Group Finance and Risk Management Committee, to ensure that Desjardins Group maintains an adequate level of capital. The Finance Executive Division is responsible for preparing a capitalization plan on an annual basis to forecast capital trends, devise strategies and recommend action plans for achieving the target capital structure.

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, as well as any impacts on regulatory ratios. 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. In addition, each year, Desjardins Group carries out a comprehensive assessment of the significant risks to which it is exposed. This assessment, combined with the stress-testing program, feeds into the organization's risk profile assessment.

Each year, through the Internal Capital Adequacy Assessment Program (ICAAP), Desjardins Group ensures that the level of capital is appropriate to meet regulatory requirements, absorb shocks caused by a stress event, cover all significant risks and maintain high credit ratings with credit rating agencies. Additional information on the ICAAP and the stress-testing program is presented in Section 4.2, "Risk management".

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 in Canada and meet its targets.

Regulatory framework

Desjardins Group's regulatory capital ratios are calculated according to the *Capital Adequacy Guideline* issued by the AMF and applicable, in particular, to financial services cooperatives. The Guideline takes into account the global regulatory framework for more resilient banks and banking systems (Basel III) issued by the Bank for International Settlements. In February 2023, the AMF issued an update of the *Capital Adequacy Guideline* based on the Basel III regulatory reforms approved by the Basel Committee on Banking Supervision (BCBS) in 2017.

These reforms focus essentially on reducing the excessive variability of risk-weighted assets and improving the comparability and transparency of financial institutions' capital ratios by:
- Enhancing the robustness and sensitivity of standardized approaches for credit risk and operational risk.
- Restricting the use of Internal Ratings-Based (IRB) approaches by limiting the use of certain variables in calculating capital requirements and by revoking the use of advanced methods for certain portfolios.
- Adjusting the exposure measure for leverage ratio purposes.
- Replacing the existing threshold with a more robust and risk-sensitive floor based on the revised Basel III standardized approaches.

This update to the Capital Adequacy Guideline came into force in the first quarter of 2023 for the above items.

In accordance with the applicable regulatory framework, a minimum amount of capital must be maintained on a combined basis by all the Desjardins Group components. Some of these components are subject to separate requirements regarding regulatory capital, liquidity and funding, which are set by regulatory authorities governing trusts, credit unions, insurers and securities, among other things. Desjardins Group oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulations.

In this regard, it should be mentioned that the life and health insurance subsidiary under provincial jurisdiction is 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. These guidelines were updated in July 2022 to reflect IFRS 17, and the resulting changes came into force on January 1, 2023.

For the purpose of calculating capital, Desjardins Financial Corporation Inc., the holding corporation that mainly includes the insurance companies, was deconsolidated and presented as a partial deduction of Desjardins Group's capital under the rules for significant investments set out in the *Capital Adequacy Guideline*. Desjardins Financial Corporation Inc., is subject to the AMF's CARLI guideline.

In addition, since April 1, 2022, Desjardins Group has been required to maintain a minimum loss absorbing capacity at all times in order to support its internal recapitalization (bail-in) in the event of failure. Such capacity is composed of regulatory capital instruments and unsecured external long-term debt that meets the criteria under the *Total Loss Absorbing Capacity Guideline* (TLAC Guideline) issued by the AMF.

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

Table 18 – Summary of ratios regulated by the AMF under Basel III

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[(1)(2)]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at December 31, 2023
Tier 1A capital ratio[(3)]	> 4.5 %	2.5 %	> 7.0 %	1.0 %	> 8.0 %	**20.4 %**
Tier 1 capital ratio[(3)]	> 6.0	2.5	> 8.5	1.0	> 9.5	**20.4**
Total capital ratio[(3)]	> 8.0	2.5	> 10.5	1.0	> 11.5	**21.9**
TLAC ratio[(4)]	> 21.5	N/A	> 21.5	N/A	> 21.5	**29.4**
Leverage ratio[(5)]	> 3.0	N/A	> 3.0	0.5	> 3.5	**7.3**
TLAC leverage ratio[(6)]	> 6.75	N/A	> 6.75	N/A	> 6.75	**10.5**

(1) Supplement applicable to Desjardins Group as a domestic systemically important financial institution (D-SIFI).

(2) 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.

(3) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.

(4) The TLAC ratio is expressed as a percentage of regulatory capital and TLAC-eligible instruments (as set out in the TLAC Guideline) compared to risk-weighted assets at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.

(5) 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.

(6) The TLAC leverage ratio is calculated by dividing the sum total of regulatory capital and TLAC-eligible instruments by the exposure measure at the level of the resolution group.

Regulatory developments

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

In February 2023, the AMF issued an update to the *Capital Adequacy Guideline*, resulting from the Basel III regulatory reforms approved by the BCBS on December 7, 2017. The provisions relating to the market risk framework and the enhanced robustness and risk sensitivity of the standardized approaches for credit valuation adjustment (CVA) risk became effective on on January 1, 2024.

By late February 2024, the AMF expects to issue further revisions to its Capital Adequacy Guideline to harmonize the AMF's securitization risk management guidelines, adjust credit risk requirements and increase quality assurance requirements for capital statements. These changes are expected to be effective retroactively to 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, 2023, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 20.4%, 20.4% and 21.9%, respectively. The leverage ratio was 7.3%.

As at December 31, 2023, the Tier 1A capital ratio was up 20 basis point, compared to December 31, 2022, mainly due to surplus earnings for the year, the revision of certain methodological aspects at the level of risk-weighted assets and growth in risk-weighted assets.

The TLAC ratio and the TLAC leverage ratio were 29.4% and 10.5%, respectively, as at December 31, 2023.

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, 2023.

Regulatory capital and other TLAC instruments

The following tables present Desjardins Group's main capital components, regulatory capital balances and other TLAC instruments, as well as risk-weighted assets, regulatory ratios, and changes in regulatory capital and other TLAC instruments during the period.

Table 19 – Main capital components and other TLAC instruments

	Regulatory capital requirements and other TLAC instruments			
	Total capital			Other TLAC instruments
	Tier 1 capital		Tier 2 capital	
	Tier 1A[1]	Tier 1B[1]		
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • F capital shares	• Non-controlling interests[2]	• Eligible portion of allowance for credit losses • NVCC subordinated notes[3] • Eligible qualifying shares	• TLAC senior notes
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Net defined benefit plan assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowances • Gains and losses from fluctuations in the fair value of financial liabilities due to changes in the entity's credit risk • Equity investments in investment funds subject to the fallback approach[4]			
Deductions	• Mainly significant investments in financial entities[5]	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes • Subordinated financial instrument	

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios, for financial services cooperatives regulated by the AMF.
(2) The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(3) These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the *Capital Adequacy 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) New requirement in effect as of the first quarter of 2023, resulting from the update of the *Capital Adequacy Guideline*.
(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 20 – Regulatory capital and other TLAC instruments(1)
As at December 31

(in millions of dollars and as a percentage)	2023	2022
Tier 1A capital		
F capital shares(2)	**$ 4,889**	$ 4,889
Reserves and undistributed surplus earnings	**29,362**	28,906
Eligible accumulated other comprehensive income	**(708)**	(2,154)
Deductions(3)	**(4,865)**	(3,485)
Total Tier 1A capital	**28,678**	28,156
Total Tier 1 capital(4)	**28,678**	28,156
Tier 2 capital		
Eligible instruments(5)	**2,981**	2,954
Eligible portion of allowance for credit losses	**62**	161
Deductions	**(976)**	(826)
Total Tier 2 capital	**2,067**	2,289
Total regulatory capital (Tiers 1 and 2)	**$ 30,745**	$ 30,445
Total regulatory capital for TLAC purposes(6)	**$ 29,845**	$ 29,543
TLAC senior notes	**10,292**	9,179
Total loss absorbing capacity (TLAC) available	**40,137**	38,722
Risk-weighted assets and leverage ratio exposures		
Risk-weighted assets	**140,481**	139,311
Risk-weighted assets for TLAC purposes(6)	**136,311**	134,880
Leverage ratio exposure(7)	**390,563**	371,598
TLAC leverage ratio exposure(6)(7)	**383,474**	364,519
Ratios		
Tier 1A capital ratio	**20.4%**	20.2%
Tier 1 capital ratio	**20.4**	20.2
Total capital ratio	**21.9**	21.9
TLAC ratio(6)	**29.4**	28.7
Leverage ratio(7)	**7.3**	7.6
TLAC leverage ratio(6)(7)	**10.5**	10.6

(1) The data as at December 31, 2023, have been prepared in accordance with the requirements of the *Capital Adequacy Guideline*, which was updated to reflect the Basel III regulatory reforms approved by the BCBS on December 7, 2017, and became effective during the year. Comparative data were not restated.
(2) Including capital shares held in the Trust Fund of the Federation.
(3) Deductions from Tier 1A consist of regulatory adjustments ($2,371 million, $899 million in 2022), significant investments ($2,379 million, $2,463 million in 2022) and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers ($115 million, $123 million in 2022).
(4) No Tier 1B capital instrument has been issued to date.
(5) Corresponds to eligible qualifying shares and NVCC subordinated notes. For further information, see Note 20, "Subordinated notes", of the Combined Financial Statements and "Template CCA – Main features of regulatory capital instruments and other TLAC-eligible instruments" in the *Pillar 3 Report*.
(6) Data calculated at the resolution group level, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.
(7) In accordance with the temporary relief measures issued by the AMF in response to the effects of the COVID-19 pandemic, reserves with central banks were excluded from the total exposure used when calculating the leverage ratio. These measures ceased to apply in the fourth quarter of 2023.

The Federation is able to issue eligible instruments as NVCC on Canadian, U.S. and international markets. Since this program was implemented, it has carried out issues of such securities for a total of $3.0 billion as at December 31, 2023. As a result, should there be a trigger event as defined in the *Capital Adequacy Guideline*, these notes would automatically and immediately be converted into Tier 1A capital of the Federation.

In addition, Desjardins Group has been issuing TLAC-eligible debt since October 1, 2019, to meet the minimum requirements for a total of $10.3 billion as at December 31, 2023, $3.9 billion of which was issued in fiscal 2023.

On December 15, 2023, the Board of Directors approved an interest payment of $293 million to holders of F capital shares.

Table 21 – Change in regulatory capital and other TLAC instruments[1]
For the years ended December 31

(in millions of dollars)	2023	2022
Tier 1A capital		
Balance at beginning of year	**$ 28,156**	$ 28,437
Increase in reserves and undistributed surplus earnings[2]	**456**	2,093
Eligible accumulated other comprehensive income	**1,446**	(2,927)
Permanent shares and surplus shares subject to phase-out[3]	**—**	(84)
Deductions	**(1,380)**	637
Balance at end of year	**28,678**	28,156
Total Tier 1 capital[4]	**28,678**	28,156
Tier 2 capital		
Balance at beginning of year	**2,289**	1,284
Eligible instruments	**27**	969
Eligible portion of allowance for credit losses	**(99)**	36
Deductions	**(150)**	—
Balance at end of year	**2,067**	2,289
Total capital	**$ 30,745**	$ 30,445
Total regulatory capital for TLAC purposes[5]	**$ 29,845**	$ 29,543
Other TLAC instruments		
Balance at beginning of the year	**9,179**	5,328
TLAC senior notes	**1,113**	3,851
Balance at end of year	**10,292**	9,179
Total loss absorbing capacity (TLAC) available[5]	**$ 40,137**	$ 38,722

(1) The data as at December 31, 2023, have been prepared in accordance with the requirements of the *Capital Adequacy Guideline*, which was updated to reflect the Basel III regulatory reforms approved by the BCBS on December 7, 2017, and became effective during the year. Comparative data were not restated.
(2) Amount including the change in defined benefit pension plans.
(3) As these capital instruments no longer meet the eligibility criteria for capital tiers, they have been excluded from them since January 1, 2022. During the year ended December 31, 2022, the caisses redeemed all permanent shares and surplus shares for cancellation.
(4) No Tier 1B capital instrument has been issued to date.
(5) Data calculated at the resolution group level, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.

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 *Capital Adequacy Guideline* issued by the AMF.

As indicated in the following table, risk-weighted assets totalled $140.5 billion as at December 31, 2023. Of this amount, $115.3 billion was for credit risk, $2.9 billion for market risk, $22.3 billion for operational risk. As at December 31, 2022, risk-weighted assets stood at $139.3 billion.

Table 22 – Risk-weighted assets[1]

	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2023				Total as at December 31, 2022
(in millions of dollars and as a percentage)	Exposures [2]	Risk-weighted assets	Exposures [2]	Risk-weighted assets	Exposures [2]	Risk-weighted assets	Capital requirements [3]	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	$ 83,579	$ 6,934	$ 6,016	$ —	$ 89,595	$ 6,934	$ 556	7.7 %	$ 7,213
Non-central government public sector entities	—	—	8,578	1,715	8,578	1,715	137	20.0	N/A
Financial institutions	6,173	1,775	2,794	1,275	8,967	3,050	244	34.0	4,389
Businesses	34,994	19,937	13,869	12,765	48,863	32,702	2,616	66.9	51,062
Securitizations	—	—	26	326	26	326	26	1250.0	361
Equities	—	—	746	843	746	843	67	112.9	2,787
SMEs similar to other retail client exposures	9,633	5,241	238	179	9,871	5,420	434	54.9	5,041
Real estate	168,710	27,568	4,993	3,474	173,703	31,042	2,483	17.9	11,421
Other retail client exposures (excluding SMEs)	21,856	6,251	1,836	1,404	23,692	7,655	612	32.3	6,046
Qualifying revolving retail client exposures	15,326	4,310	91	69	15,417	4,379	350	28.4	5,527
Subtotal – Credit risk other than counterparty risk	340,271	72,016	39,187	22,050	379,458	94,066	7,525	24.8	93,847
Counterparty risk									
Financial institutions	4,792	1,245	14	6	4,806	1,251	100	26.0	1,624
Businesses	2	2	551	533	553	535	43	96.9	330
Trading portfolio	1,076	823	681	650	1,757	1,473	118	83.8	1,130
Credit valuation adjustment (CVA) charge	—	—	6,053	3,233	6,053	3,233	259	53.4	2,429
Additional requirements for banking and trading portfolio	—	—	246	16	246	16	1	6.5	47
Subtotal – Counterparty risk	5,870	2,070	7,545	4,438	13,415	6,508	521	48.5	5,560
Other assets[4]	—	—	—	—	21,845	14,739	1,179	67.5	14,948
Scaling factor[5]	—	—	—	—	—	—	—	—	4,428
Total credit risk	346,141	74,086	46,732	26,488	414,718	115,313	9,225	27.8	118,783
Market risk									
Value at Risk (VaR)	—	454	—	—	—	454	36	—	714
Stressed Value at Risk (SVaR)	—	1,078	—	—	—	1,078	86	—	2,163
Incremental risk charge (IRC)[6]	—	1,035	—	—	—	1,035	83	—	760
Other[7]	—	—	—	314	—	314	25	—	322
Total market risk[8]	—	2,567	—	314	—	2,881	230	—	3,959
Operational risk	—	—	—	22,287	—	22,287	1,783	—	15,114
Total risk-weighted assets before RWA floor	346,141	76,653	46,732	49,089	414,718	140,481	11,238	33.9	137,856
RWA floor adjustment[9]	—	—	—	—	—	—	—	—	1,455
Total risk-weighted assets	$ 346,141	$ 76,653	$ 46,732	$ 49,089	$ 414,718	$ 140,481	$ 11,238	33.9 %	$ 139,311

(1) The data as at December 31, 2023, have been prepared in accordance with the requirements of the *Capital Adequacy Guideline*, which was updated to reflect the Basel III regulatory reforms approved by the BCBS on December 7, 2017, and became effective during the year. Comparative data were not restated.

(2) Net exposures after credit risk mitigation (net of loss allowance for expected credit losses on credit-impaired loans other than retail clients, except for credit card loans, using the Standardized Approach, excluding those using the Internal Ratings-Based Approach, according to the *Capital Adequacy Guideline* issued by the AMF).

(3) The capital requirement is 8% of risk-weighted assets.

(4) This item includes, in particular, the portion of investments below a certain threshold in components deconsolidated for regulatory capital purposes (mainly Desjardins General Insurance Group Inc. and Desjardins Financial Security Life Insurance Company), which is weighted at 250%. In addition, this category excludes the CVA charge and additional requirements related to the banking and trading portfolio, which are disclosed in the counterparty credit risk section.

(5) 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 *Capital Adequacy Guideline* issued by the AMF.

(6) Supplementary charges representing an estimate of default and migration risks of unsecuritized products exposed to interest rate risk.

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

(8) In accordance with a new AMF guideline, the Value at Risk multipliers by risk factor have automatically been increased since June 30, 2022, based on back-testing.

(9) The RWA floor is determined using the Standardized Approaches.

Movements in risk-weighted assets

In credit risk, fluctuations in RWA for 2023 were segmented into two items, namely credit risk other than counterparty risk and counterparty risk.

- In credit risk other than counterparty risk, the net decrease of $4.3 billion in RWA was chiefly due to:
  - Changes in policies and procedures resulting in an $15.8 billion decrease in RWA.
  - Changes in exchange rates resulting in a $0.3 billion decrease in RWA.
  - Growth in portfolio size, which resulted in a $8.6 billion increase in RWA.
  - Changes in portfolio quality, generating an increase of $2.6 billion in RWA.
  - Update of models resulting in a $0.6 billion increase in RWA.
- For counterparty risk, an increase of $0.8 billion in RWA resulted primarily from changes in portfolio size partially offset by changes in policies and procedures.

In market risk, a $1.1 billion decrease in RWA was observed due to a fluctuation in risk levels.

In operational risk, a $7.2 billion increase in RWA resulted from changes in methods and policies as well as fluctuations in revenue generated.

The RWA floor adjustment as previously defined caused RWA to decrease by $1.5 billion in 2023.

Table 23 – Change in risk-weighted assets(1)
As at December 31

	2023			2022		
(in millions of dollars)	**Credit risk other than counterparty risk**	**Counterparty risk**	**Total**	Credit risk other than counterparty risk	Counterparty risk	Total
Credit risk						
Risk-weighted assets at beginning of year	**$ 113,092**	**$ 5,691**	**$ 118,783**	$ 112,182	$ 4,986	$ 117,168
Size of portfolio(2)	**8,591**	**1,965**	**10,556**	9,696	(459)	9,237
Quality of portfolio(3)	**2,565**	**(85)**	**2,480**	(785)	1,080	295
Updating of models(4)	**615**	**2**	**617**	(803)	—	(803)
Policies and procedures(5)	**(15,797)**	**(1,050)**	**(16,847)**	(7,778)	—	(7,778)
Acquisitions and transfers	**—**	**—**	**—**	—	—	—
Change in exchange rates	**(261)**	**(15)**	**(276)**	580	84	664
Total changes in risk-weighted assets	**(4,287)**	**817**	**(3,470)**	910	705	1,615
Risk-weighted assets at end of year	**$ 108,805**	**$ 6,508**	**$ 115,313**	$ 113,092	$ 5,691	$ 118,783

(in millions of dollars)	**2023**	2022
Market risk		
Risk-weighted assets at beginning of year	**$ 3,959**	$ 2,874
Change in risk levels(6)	**(1,078)**	1,080
Policies and procedures(5)	**—**	5
Total changes in risk-weighted assets	**(1,078)**	1,085
Risk-weighted assets at end of year	**$ 2,881**	$ 3,959
Operational risk		
Risk-weighted assets at beginning of year	**$ 15,114**	$ 14,476
Revenue generated	**2,091**	638
Policies and procedures(5)	**5,082**	—
Total changes in risk-weighted assets	**7,173**	638
Risk-weighted assets at end of year	**$ 22,287**	$ 15,114
RWA floor adjustment		
Risk-weighted assets at beginning of year	**$ 1,455**	$ —
Size of portfolio(2)	**—**	(2)
Quality of portfolio(3)	**—**	—
Updating of models(4)	**—**	—
Policies and procedures(5)	**(1,455)**	1,457
Acquisitions and transfers	**—**	—
Change in exchange rates	**—**	—
Other	**—**	—
Total changes in risk-weighted assets	**(1,455)**	1,455
Risk-weighted assets at end of year	**$ —**	$ 1,455

(1) The data as at December 31, 2023, have been prepared in accordance with the requirements of the *Capital Adequacy Guideline*, which was updated to reflect the Basel III regulatory reforms approved by the BCBS on December 7, 2017, and became effective during the same quarter. Comparative data were not restated.
(2) Increase or decrease in underlying risk exposures.
(3) Change in risk mitigation factors and portfolio quality.
(4) Change in risk models and parameters.
(5) Regulatory changes and developments in the regulatory capital calculation methods. In accordance with a new AMF guideline, the Value at Risk multipliers by risk factor have automatically been increased since June 30, 2022, based on back-testing.
(6) 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, 2023, Desjardins Group administered, for the account of its members and clients, assets totalling $535.3 billion, for a increase of $88.0 billion, or 19.7% since December 31, 2022. Financial assets placed with Desjardins Group as wealth manager amounted to $81.6 billion as at December 31, 2023, representing a increase of $5.4 billion, or 7.1% since December 31, 2022. The increase in assets under management and under administration resulted primarily from growth in the volume of assets managed and administered as well operations acquired from Worldsource.

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

(in millions of dollars)	2023	2022
Assets under management[1]		
Institutions and individuals	**$ 21,021**	$ 17,744
Investment funds	**60,530**	58,425
Total assets under management	**$ 81,551**	$ 76,169
Assets under administration[1]		
Individual and institutional trust and custodial services	**$ 373,821**	$ 322,917
Investment funds	**161,443**	124,395
Total assets under administration	**$ 535,264**	$ 447,312

(1) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.

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 the 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 funding 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 14, "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 9, "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.

4.1.1 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
Security breaches (including cybersecurity)	Risks related to cyber threats have been on the rise for a number of years and more specifically in the global socio-economic and geopolitical environment, but also in connection with wider use of artificial intelligence. Indeed, 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 is in place, 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 enhancing its internal processes and in technology for many years. This enhancement consists, first, in optimizing its processes to respond efficiently to incidents and, second, in attracting and training new talent to continue to develop our defence methods. A malicious act targeting the computer network may result in financial costs, damage to the organization's image, a breach of confidentiality rules or other applicable legislation, as well as operational difficulties. The Desjardins Group Security Office ensures the protection of members' and clients' assets.
Fraud risk	Although this is a well-known risk in the financial services industry, we have seen a significant increase in the number of fraud cases in recent quarters, particularly in cardless payments. Rapidly evolving technology, significant advances in artificial intelligence, and the growing complexity of fraud schemes make prevention increasingly challenging for financial institutions. Desjardins Group continues its efforts to combat fraud, in particular by investing in its systems and processes, training employees and raising member and client awareness.
Household and corporate indebtedness	With the rapid hikes in interest rates, debt service has considerably increased for many households and businesses. In addition, many households will have to renew their mortgage with a higher interest rate over the next few years. In such conditions, an increasing number of households and businesses could experience difficulties in assuming their financial obligations. As a result, their solvency could significantly deteriorate. Even though it is expected to be small, the recession anticipated in 2024 could also lead to growth in insolvency cases. Desjardins Group has sound practices in granting and managing mortgage financing, including a stress test involving interest rates for mortgage financing, which should allow it to circumvent this risk.
Technological developments	Innovative technologies are being increasingly taken into consideration and adopted by financial institutions. These innovative technologies, such as artificial intelligence, 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 members' and clients' growing needs to access banking transactions remotely and at any time require pursuing the shift that is well underway at Desjardins. Regulatory authorities' expectations 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. To meet the needs of its members and clients, Desjardins Group is in line with this trend and remains active in managing this operational and strategic risk, among others, by strengthening and rationalizing the technology ecosystem through investments and by reviewing and diversifying its products, services and distribution channels.

	Description
Regulatory developments	The financial services industry is one of the most tightly monitored and regulated, and industry regulation has been rapidly expanding for many years now. This trend is in response to a number of socio-economic phenomena: the development of new, increasingly complex financial products, ongoing volatility in the securities market, increasingly complex financial fraud, the fight against money laundering and terrorist financing, the fight against tax evasion, compliance with economic sanctions and the protection of personal information, environmental, social and governance issues, etc. Although Desjardins Group actively monitors and manages regulatory risk, changes in regulation, its complexity and its uncertainty could have an impact on the performance of its operations, its reputation, its strategies and its financial objectives. As an independent supervisory function, the Vice-President and Chief Compliance and Privacy Officer, Desjardins Group promotes a proactive approach to compliance by fully integrating it into the organization's regular operations. Maintaining an effective compliance management framework mobilizes significant amounts of technical, human and financial resources.
Interest rate developments	The Bank of Canada has significantly increased its key interest rates since March 2022 to curb high inflation. The constraining effects on demand are being felt and will continue to accumulate over the next few quarters. A slight recession is anticipated in 2024 in Canada (in particular in Québec and Ontario). Supply and demand are attaining a better equilibrium, which should ease the upward pressure on inflation. As a result, the Bank of Canada may leave the target overnight rate at 5.00%, before starting to gradually reduce it starting in the spring of 2024 to a neutral level ranging from 2% to 3%. Our financial results are sensitive to interest rate fluctuations as indicated under "Structural interest rate risk management" in pages 77 and 78.
Climate change	In a context where the impact of climate change risks is widely recognized, Desjardins Group understands the importance of better identifying the various aspects of those risks and measuring their current and future impact. The goal is twofold: to ensure the long-term resilience of our organization and to support our members and clients in the transition. The close interrelations between these risks and the political and regulatory environment, the macroeconomic situation, certain industry innovations, the global geopolitical situation or the more pressing social expectations, to name only a few, impose continuous monitoring in this area. Desjardins Group continues its efforts in that regard with various ongoing initiatives in relation with its governance framework and aimed at integrating these risks into strategies and climate change risk management.
Geopolitical uncertainties	Heightened geopolitical tensions, particularly with the war in Ukraine and conflicts in the Middle East, are increasing the number of clashes that can affect the global economy and financial markets. However, conflicts in the Middle East have had rather modest global economic consequences to date. The main risk consists of an escalation to other countries in the Middle East or North Africa that would have an impact on overall crude oil supplies and thereby raise prices. Tensions between China and the United States remained throughout 2023. The United States is pursuing a trade policy aimed at diminishing China's importance in U.S. supply chains. This appears to be coming to fruition, as a decline in trade between the two countries has been observed. Political polarization and some radicalization could also create uncertainty. The U.S. election outcome could also have consequences for international trade relations.

4.1.2 Other risk factors that could impact future results

	Description
General economic and business conditions in regions in which Desjardins Group operates	General economic and business conditions in the regions where Desjardins Group operates may significantly affect its income and surplus earnings. These conditions include short- and long-term interest rates, inflation, debt securities market fluctuations, foreign exchange rates, financial market volatility, tighter liquidity conditions in certain markets, the level of indebtedness, the strength of the economy, consumer spending and saving habits, and the volume of business conducted by Desjardins Group in a given region.
Monetary policies	The monetary policies of the Bank of Canada and the U.S. Federal Reserve, 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 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, an even greater increase in interest rates could have more impact on debt service, leading to an increased risk of loan losses for financial institutions. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.
Critical accounting estimates and accounting standards	The Combined Financial Statements are prepared in accordance with the IFRS. The accounting policies used by Desjardins Group determine how it reports its financial position and results of operations, and management may be required to make estimates or rely on assumptions about matters that are inherently uncertain. Any change in these estimates and assumptions, as well as in accounting standards and policies, may have a significant impact on Desjardins Group's financial position and results of operations. Significant accounting policies and future accounting changes are described in Note 2, "Accounting policies", to the Combined Financial Statements.
New products and services to maintain or increase market share	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 meet the expectations of its members and clients. Developing these new products and services may involve some risks. In that context, Desjardins remains active to manage these risks, in particular by making investments and by reviewing and diversifying its products, services and distribution channels. At Desjardins Group, there is a risk management governance that involves identifying, analyzing, disclosing and monitoring all financial and non-financial risks created by new products and services.

	Description
Geographic concentration	Although Desjardins Group is diversified through its insurance operations, its banking operations are heavily concentrated in Québec. As at December 31, 2023, its loans to Québec members and clients therefore accounted for 88.8% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results largely depend on economic conditions in Québec. Any deterioration in these conditions could adversely impact: • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; • the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes, which include risk management practices that involve identifying, analyzing, disclosing and monitoring all financial and non-financial risks created by acquisitions and joint arrangements.
Credit ratings	The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. These ratings may be revised or withdrawn at any time by the agencies. In addition, a significant downgrade to various ratings could push up Desjardins Group's cost of funding, reduce its access to financial markets, and increase additional obligations required by its counterparties.
Dependency on third parties	We need to rely on third parties in order to provide top-quality, secure services. These third parties and the suppliers of these third parties, such as IT, office automation, telecommunications, cloud and other providers and suppliers, 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. 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.
Ability to recruit and retain talents	Desjardins Group's future performance is based in part on its ability to recruit key people, develop them and retain them. There is strong competition, partially fueled by a relatively low unemployment rate, to attract and retain the best qualified people in the finance sectors, in particular with the arrival of new players in some sectors and the adoption of the concept of global workforce. Consequently, this aspect is periodically monitored through the governance mechanisms of the Management Committee of the Human Resources function, quarterly to the Desjardins Group Management Committee and annually with filing a report with Desjardins Group's Human Resources Commission, to deploy the appropriate strategies to put in place the success factors that enhance Desjardins Group's competitiveness as an employer.
Taxation risk	The Canadian, provincial and foreign tax laws, and their interpretations by tax authorities and courts, are constantly evolving, like the tax policies of governments. These numerous changes and the complexity in interpreting and applying legislation may have a significant impact on the tax expense amounts, the deferred tax balances and the effective tax rate during the year when they occur and, consequently, on the calculation of Desjardins Group's surplus earnings.
Other factors	Other factors that may have a potential impact on Desjardins Group's future results include interest rate benchmark reform (for further information, see Note 3, "Interest rate benchmark reform", to the Combined Financial Statements), unexpected changes in consumer spending and saving habits, the possible impact on operations of international conflicts, public health crises, such as pandemics and epidemics or any other similar disease affecting the local, national or global economy, as well as Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment. Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

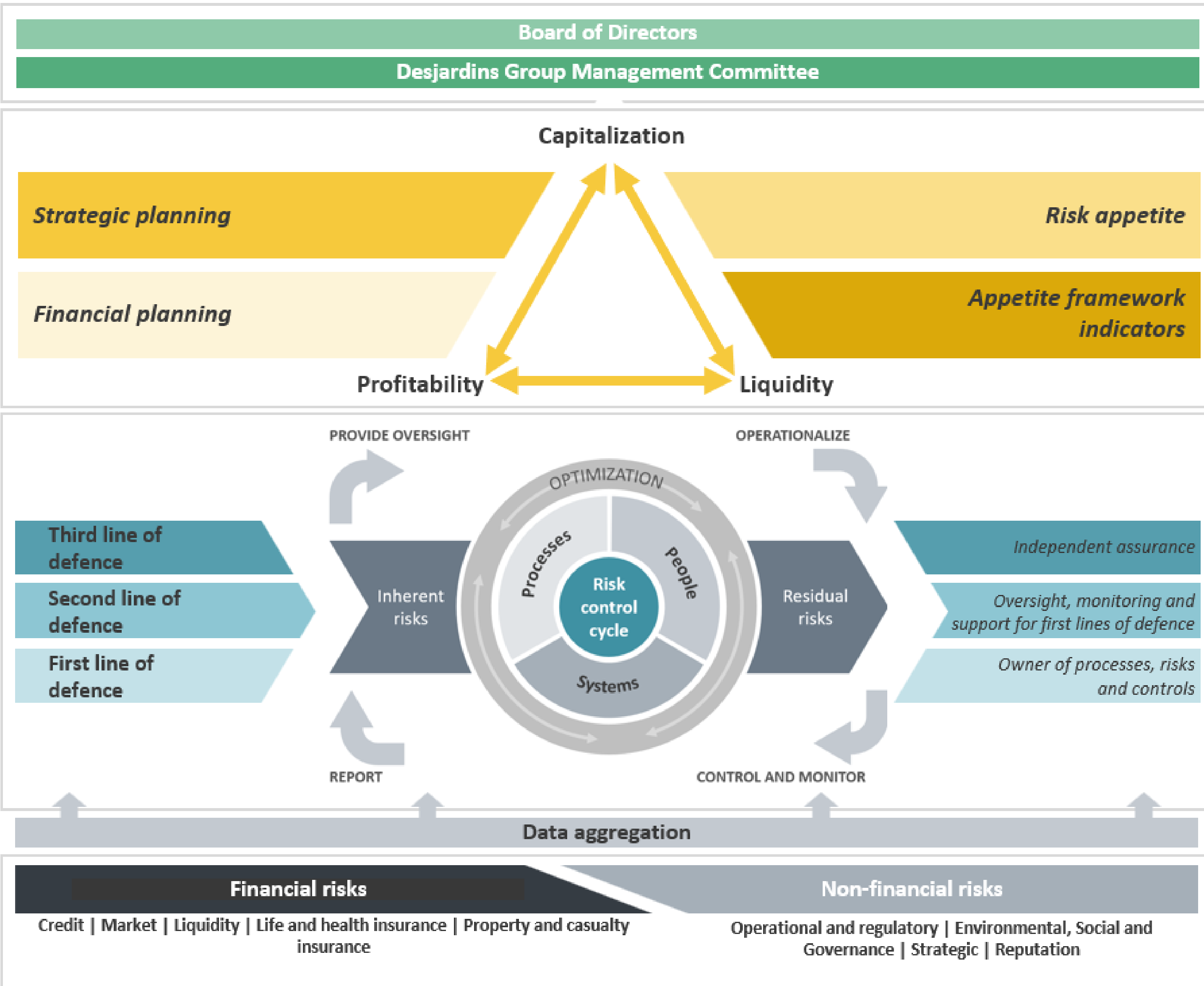
4.2 Risk management

4.2.1 Integrated Risk Management Framework

The objective of the Integrated Risk Management Framework is to enable Desjardins Group to appropriately manage all of its risks in accordance with its risk appetite and established organizational strategy.

The Integrated Risk Management Framework aims to be dynamic, efficient and able to evolve, having been tailored to the nature, size and complexity of Desjardins Group's operations. It provides sound and prudent risk management and ultimately optimizes capital use and supports decision-making, while governing the Group's various risks exposures.

In addition, Desjardins Group's internal and external operating environments are continuously assessed to monitor developments in best practices and trends, and detect emerging risks.



Risk identification

Desjardins Group is exposed to various risks in the normal course of business. Strict 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. Desjardins Group has a risk log that sets out the main categories and subcategories of risks which could affect it. 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	Environmental, social and governance	Regulatory

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, which are involved in various aspects of risk management, 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. Other quantitative models are also used in market risk measurement, economic capital calculations, asset valuation, pricing, technological obsolescence and cybercrime. 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.

Desjardins-wide integrated stress testing is conducted annually. It begins with an analysis of multi-factor scenarios developed by the Desjardins Group's Economic Studies team. These scenarios consider the current economic conditions, the principal risk factors to which the organization is exposed and emerging risk factors. Several scenarios are developed, and those that will be quantified are selected by Desjardins Group's senior management. The main factors projected for each scenario include housing prices, stock indices, inflation, unemployment rate and several interest rate curves.

This integrated stress testing exercise is performed with the input from various business units and business segments. The measured impacts deal mainly with the credit portfolio of the Desjardins caisse network and the Federation, the two insurance groups, namely Desjardins Financial Security Life Insurance Company and Desjardins General Insurance Group Inc., as well as the Desjardins Group Pension Plan. As the exercise incorporates a cross-sector perspective of Desjardins Group's operations, it is an essential risk management tool to identify diversification sources and potential vulnerability areas.

The results of the exercise are presented to various internal committees consisting of Desjardins Group's directors and senior management, i.e. the Asset/Liability Committee (ALCO), the Desjardins Group Finance and Risk Management Committee, the Desjardins Group Management Committee, the Risk Management Commission and the Federation's Board of Directors.

During Desjardins-wide stress testing in 2023, the scenarios developed separately considered the possibility of persistent inflation and a liquidity crisis. 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 exercise is tied in with Desjardins Group's integrated financial planning and is an essential component of the Internal Capital Adequacy Assessment Program (ICAAP). The results of the stress testing exercise are used as a complement to the results of the economic capital quantification in determining capitalization targets. They are also used in updating risk appetite indicators.

The scenarios quantified in the integrated stress testing exercise are part of a range of scenarios used by Desjardins Group to identify, assess and manage risks. They include the stress testing scenarios on which is based the living will exercise as well as the regulatory scenario developed using the assumptions prescribed by the *Autorité des marchés financiers* (AMF). This latter exercise is performed according to the frequency set by the AMF, generally every two years. The last regulatory scenario, *Global Stress Test* designed by the Financial Stability Board, was carried out in 2023.

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.

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 the necessary risks and manage them conscientiously to drive community development and help members and clients become financially empowered;
- 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;
- acting as a socio-economic leader in the development of a low greenhouse gas emission economy and supporting our members, clients and other stakeholders in the transition;
- 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 Board of Directors approves the Risk Appetite Framework and ensures 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, their targets, their levels and their limits with the Desjardins Group Risk Appetite Framework.

The risk management function ensures that Desjardins Group's risk profile is in line with its risk appetite. Each quarter, it reports to senior management and the Board of Directors on the compliance with the risk appetite statements and indicators. In the event a threshold or limit for a risk appetite indicator is exceeded, the investigation into the situation and the corrective measures, as applicable, are brought to the attention of the appropriate bodies.

Integrated risk management approach

An integrated 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. An integrated 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 integrated risk management approach, which relies on the *Desjardins Code of Professional Conduct.* The code sets out the values, principles and rules that Desjardins Group has espoused in order to maintain a high level of integrity.

Other methods used to support the integrated risk management approach and to promote accountability for risk include:
- a holistic approach to integrated risk management throughout the organization, taking into account the interrelationships and interdependencies between the various risk areas;
- an integrated risk management approach rather than an approach that considers risks separately. Accordingly, all risks considered less significant but which could become material when combined are also considered;
- risk management based on the significance of risks, i.e. the scope and frequency of the effects they are likely to have on the organization if they materialize;
- standardized processes and reliable information systems that allow them to identify connections between risks and to obtain reports that contain relevant, clear and adapted information in a timely manner so that the Management Committee and the Board of Directors can monitor the achievement of Desjardins Group's strategic objectives;
- the dissemination of risk management frameworks such as strategies, policies and procedures to identify, assess, quantify, control, mitigate and appropriately monitor the significant risks to which Desjardins Group is exposed and identify events likely to affect it beyond the limits of its risk appetite;
- determining and maintaining of its risk appetite, from which statements and indicators emerge clearly defining the risk tolerance thresholds and risk appetite limits for the most significant risks. It ensures that these benchmarks are integrated into its operations through frameworks resulting from the Risk Appetite Policy;
- a dynamic and evolving Integrated Risk Management Framework to adequately manage all of its risks based on its risk appetite. This framework is supported by a governance structure that clearly defines the roles and responsibilities of the various stakeholders involved in risk management;
- 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

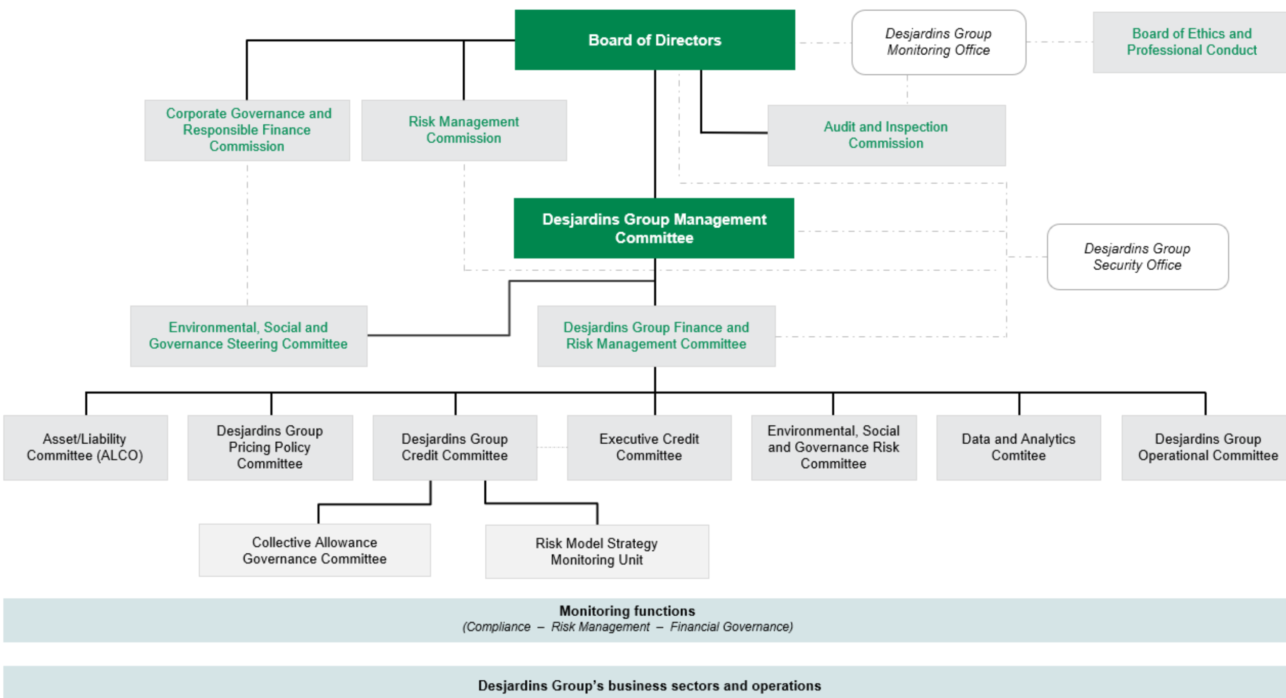
Desjardins Group has established strict governance with regard to total compensation. The Board of Directors, supported by the Human Resource Commission, is responsible for the annual changes in the total compensation of all employees and managers. In this regard, it establishes an annual salary review, sets the objectives and measures the results of the general incentive plan. It has developed, through adding environmental, social and governance (ESG) criteria, an additional mechanism to factor in not only financial risks, but also extra-financial risks in determining the overall incentive plan for all hierarchical levels. It also establishes a framework for all individual incentive plans that apply to Desjardins Group's sales force and investment teams. Lastly, it ensures that all total compensation offered by Desjardins Group is based on risk management principles.

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, managers and senior executives other than the President and Chief Executive Officer. The Committee on the Aggregate Remuneration and Succession 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 2023 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 and the Environmental, Social and Governance Steering Committee in performing its duties.

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. It reports to the Desjardins Group Management Committee and the Corporate Governance and Responsible Finance Commission.

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. This committee is supported by the Desjardins Group Credit Committee, the Data and Analytics Committee, the Desjardins Group Operational Risk Committee, the Executive Credit Committee, the the Environmental, Social and Governance (ESG) Risk Committee, the Asset/Liability Committee (ALCO) and the Desjardins Group Pricing Policy Committee.

- The Executive Credit Committee recommends significant commitments requiring the approval of the Federation's Board of Directors and approves significant commitments up to the limits delegated by the Desjardins Group Finance and Risk Management Committee.
- The Desjardins Group Credit Committee approves large credit commitments, which are within its own delegated limits taking into account ESG analysis, 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 Data and Analytics Committee monitors data quality and compliance with regulatory requirements related to data within the scope of Desjardins Group data governance.
- The Desjardins Group Operational Risk Committee has a cross-sector view and monitors the different categories of operational and regulatory risks to which Desjardins Group is exposed.
- The ESG Risk Committee has a cross-sector view and monitors the ESG factors to which Desjardins Group is exposed.
- The Asset/Liability Committee (ALCO) supports the Desjardins Group Finance and Risk Management Committee in providing interest rate and liquidity risk management oversight and monitoring.
- The Desjardins Group Pricing Policy Committee supports the Desjardins Group Finance and Risk Management Committee in ensuring compliance with the framework governing pricing and pricing consistency with Desjardins Group's strategic goals and financial targets.

The Desjardins 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

Desjardins Group has implemented a risk management structure consistent with the three lines of defence model on which the Desjardins Group's Integrated Risk Management Framework is based. This reliable control structure sets out a clear and orderly allocation of the roles and responsibilities of the various Desjardins Group risk management stakeholders. The roles and responsibilities relating to each line of defence are detailed in the following matrix:

	1 – PROVIDE OVERSIGHT	2 – OPERATIONALIZE (IDENTIFY, ASSESS AND MITIGATE)	3 – CONTROL AND MONITOR	4 – REPORT
First line of defence	▪ Is responsible for the performance of its activities ▪ Knows and adheres to established risk management frameworks, including the Risk Appetite Framework ▪ Completes required training and participates in awareness activities	▪ Manages its activities while adhering to the organization's risk appetite ▪ Identifies and assesses its operational risks, manages gaps between its processes, practices and controls, and escalates them as needed ▪ Develops, deploys and validates risk mitigation processes, controls and approaches to close gaps ▪ Coaches and trains employees on how to apply risk mitigation processes, controls and methods and makes them accountable ▪ Establishes practices to ensure compliance with frameworks is maintained over time	▪ Ensures that employees adopt and apply the processes and controls ▪ Measures and monitors the performance of the processes and controls deployed ▪ Adjusts processes and controls as required ▪ Demonstrates compliance with risk management frameworks on request ▪ Triggers the escalation process set out in the frameworks if one of the triggers is activated ▪ Participates in the drafting of action plans and their follow-up ▪ Performs required risk analyses	▪ Provides reporting on its operations and associated risks ▪ Produces and reports on its risk profile ▪ Transmits the information required for Desjardins Group analyses and reports on its operational risks to the second line of defence
Second line of defence	▪ Establishes risk management frameworks (including the Risk Appetite Framework) and ensures their application ▪ Establishes the expectations of the first line of defence, the escalation processes and the triggers for their activation ▪ Trains and raises awareness of the first line of defence in relation to organizational expectations, including the second line of defence frameworks ▪ Has the risk management frameworks approved by the appropriate organizational authority	▪ Advises and equips the first line of defence with respect to operationalizing the frameworks and implementing risk mitigation processes, controls and methods such that it fulfils its responsibilities ▪ Provides complementary expertise, a cross-functional vision, monitoring and constructive criticism regarding risk management ▪ Monitors emerging risks for Desjardins Group	▪ Conducts monitoring, including objective reviews, issues the resulting findings to stakeholders and monitors the implementation of action plans ▪ Performs monitoring and critical reviews, and tests the effectiveness of the controls deployed by the first line of defence ▪ Monitors for proper enforcement of risk management frameworks and escalation processes	▪ Monitors the risk levels of the processes and controls deployed ▪ Reports to the various stakeholders (senior management, authorities and regulators) as set out in the framework
Third line of defence	▪ Gives an independent and objective opinion on the effectiveness of governance, risk management and internal controls and issues findings and advice to improve effectiveness ▪ Provides objective assurance to the Management Committee and the Board regarding the overall effectiveness of governance, risk management and internal controls			

First line of defence

The first line of defence assumed by process owners provides products and services to members and clients. It identifies, assesses and manages the risks generated by its operations and ensures the effectiveness of the controls associated with the processes it owns. It is responsible for detecting risk exposures and application gaps, and for implementing risk mitigation measures in the event that the risk appetite is exceeded. It handles escalations where necessary and reporting in accordance with Desjardins Group's requirements in these areas.

Second line of defence

The second line of defence primarily consists of the Risk Management Executive Division, 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 is a supervisory function that is independent of the business sectors. It monitors emerging risks, sets out risk management frameworks and monitors compliance with and enforces application of the frameworks by Desjardins Group business sectors and functions. More broadly, it carries out monitoring activities on risk activities, carrying out objective reviews and ensuring the design and effectiveness of existing controls. In these circumstances, it issues observations and monitors the resulting action plans. It handles escalations where necessary and reporting in accordance with Desjardins Group's requirements in these areas.

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

Third line of defence

The third line of defence is the Desjardins Group Monitoring Office. It provides assurance, and independent and objective advice to the Management Committee and the Board of Directors regarding the overall effectiveness of governance, risk management and controls, as well as the extent to which they are aligned with Desjardins Group's operations.

In addition, it helps improve Desjardins Group's overall performance and maintain the confidence of its members, the public and regulatory bodies. The Desjardins Group Monitoring Office includes the internal audit services of Desjardins Group components.

4.2.2 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 25 – Economic capital and risk-weighted assets by business segment and by risk type
As at December 31, 2023
(in millions of dollars and as a percentage)

Desjardins Group

Economic capital	
Banking activities	
Credit risk	47.6%
Market risk	1.4
Operational risk	5.4
Other risks[1]	4.2
Total banking activities	58.6
Insurance activities	35.1
Risk related to goodwill and other intangible assets[2]	6.3

Risk-weighted assets	
Credit risk	$ 115,313
Market risk	2,881
Operational risk	22,287
RWA floor adjustment	—

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other
Balance sheet[3]				
Assets	$ 333,597	$ 62,696	$ 13,548	$ 13,099
Economic capital				
Proportion of total for Desjardins Group	38.5%	20.4%	14.4%	26.8%
Banking activities				
Credit risk	70.8	13.1	—	39.4
Market risk	2.0	—	—	1.8
Operational risk	12.9	—	—	—
Other risks[4]	14.3	—	—	58.8
Total banking activities	100.0	13.1	—	100.0
Insurance activities[5]	—	86.9	100.0	—
Risk related to goodwill and other intangible assets[2]	—	—	—	—
Risk-weighted assets				
Credit risk	$ 89,696	$ 3,615	$ 5,378	$ 16,624
Market risk	1,977	52	—	852
Operational risk	18,138	430	—	3,719

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 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".

4.2.3 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 62.9% of combined balance sheet assets as at December 31, 2023, compared to 61.8%, restated in accordance with IFRS 17, at the end of 2022. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as securities transactions.

The current macroeconomic environment, characterized in particular by high interest rates, growing geopolitical tensions and persistent inflation, continues to give rise to uncertainty.

In the current context of inflation and restrictive monetary policy by the Bank of Canada, Desjardins Group supports its vulnerable members and clients who are more greatly affected by the increase in interest rates.

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

The credit portfolio remains in good shape despite the economic uncertainty.

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

The Desjardins Group Credit Risk Management Framework consists of policies, standards and various other documents, which 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 (IRB) Approach. Desjardins Group has adopted the Internal Ratings-Based Approach for credit risk. However, some exposures are exempt from IRB Approach requirements because of units or components of lesser importance, and asset classes that are not significant in terms of amount and risk profile. In order to apply the IRB Approach, Desjardins Group had to make internal estimates to calculate the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

The calculation of risk-weighted assets (RWA) is used to measure Desjardins Group's credit risk, market risk and operational risk.

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

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

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

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

Differences between the parameters used for accounting and regulatory capital purposes

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

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

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

As at December 31, 2023, the EAD was $410.4 billion before using CRM techniques and $386.6 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 26, "Risk Exposure by Asset Class (Exposure at default [EAD])".

Desjardins Group uses the Internal Ratings-Based Approach on 85.9% of exposure at default. Consequently, 14.1% 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 26 – Risk exposure by asset class (Exposure at default) [EAD])[(1)*]
As at December 31

	2023							
(in millions of dollars and as a percentage)	**Used exposure**	**Unused exposure**	**Repo-style transactions**	**OTC derivatives**	**Off-balance sheet exposure**	**Total**	**Net exposure[(2)]**	**EAD as a % of total**
Standardized Approach								
Sovereign borrowers	**$ 5,262**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 5,262**	**$ 6,014**	**1.3%**
Non-central government public sector entities	**6,846**	**1,632**	**—**	**—**	**47**	**8,525**	**8,578**	**2.1**
Financial institutions	**2,190**	**69**	**46**	**6**	**23**	**2,334**	**2,809**	**0.6**
Businesses	**9,006**	**2,995**	**2,352**	**22**	**2,210**	**16,585**	**14,420**	**4.0**
SMEs similar to other retail client exposures	**167**	**78**	**—**	**—**	**7**	**252**	**238**	**0.1**
Real estate	**5,889**	**114**	**—**	**—**	**—**	**6,003**	**4,993**	**1.5**
Revolving retail client exposures	**75**	**16**	**—**	**—**	**—**	**91**	**91**	**—**
Other retail client exposures (excluding SMEs)	**1,232**	**760**	**—**	**—**	**6**	**1,998**	**1,836**	**0.5**
Securitization	**26**	**—**	**—**	**—**	**—**	**26**	**26**	**—**
Equities	**608**	**139**	**—**	**—**	**—**	**747**	**746**	**0.2**
Trading portfolio	**—**	**—**	**15,269**	**380**	**—**	**15,649**	**681**	**3.8**
Subtotal – Standardized Approach	**31,301**	**5,803**	**17,667**	**408**	**2,293**	**57,472**	**40,432**	**14.1**
Internal Ratings-Based Approach								
Sovereign borrowers	**34,628**	**1,166**	**—**	**—**	**75**	**35,869**	**83,581**	**8.7**
Non-central government public sector entities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Financial institutions	**4,955**	**1,085**	**783**	**4,716**	**133**	**11,672**	**10,964**	**2.8**
Businesses	**30,977**	**6,481**	**—**	**—**	**1,630**	**39,088**	**34,994**	**9.5**
SMEs similar to other retail client exposures	**7,161**	**3,722**	**—**	**2**	**119**	**11,004**	**9,635**	**2.7**
Real estate	**184,913**	**25,409**	**—**	**—**	**—**	**210,322**	**168,710**	**51.2**
Revolving retail client exposures	**7,225**	**8,101**	**—**	**—**	**—**	**15,326**	**15,326**	**3.7**
Other retail client exposures (excluding SMEs)	**14,659**	**8,125**	**—**	**—**	**5**	**22,789**	**21,856**	**5.6**
Trading portfolio	**—**	**—**	**5,944**	**932**	**—**	**6,876**	**1,076**	**1.7**
Subtotal – Internal Ratings-Based Approach	**284,518**	**54,089**	**6,727**	**5,650**	**1,962**	**352,946**	**346,142**	**85.9**
Total	**$ 315,819**	**$ 59,892**	**$ 24,394**	**$ 6,058**	**$ 4,255**	**$ 410,418**	**$ 386,574**	**100.0%**

	2022							
(in millions of dollars and as a percentage)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[(2)]	EAD as a % of total
Standardized Approach								
Sovereign borrowers	$ 7,110	$ —	$ —	$ —	$ 370	$ 7,480	$ 7,480	1.9%
Financial institutions	10,916	911	1,178	—	67	13,072	11,715	3.3
Businesses	11,738	3,632	1,165	332	1,619	18,486	17,047	4.6
SMEs similar to other retail client exposures	260	11	—	—	6	277	273	0.1
Real estate	177	—	—	—	—	177	177	—
Other retail client exposures (excluding SMEs)	1,080	1,168	—	—	6	2,254	1,942	0.6
Securitization	29	—	—	—	—	29	29	—
Equities	482	—	—	—	—	482	482	0.1
Trading portfolio	—	—	15,455	208	—	15,663	688	3.9
Subtotal – Standardized Approach	31,792	5,722	17,798	540	2,068	57,920	39,833	14.5
Internal Ratings-Based Approach								
Sovereign borrowers	36,923	1,310	—	—	53	38,286	74,006	9.5
Financial institutions	5,315	508	918	3,601	398	10,740	9,565	2.7
Businesses	85,105	9,498	—	—	1,166	95,769	81,606	23.8
SMEs similar to other retail client exposures	7,809	3,173	—	—	78	11,060	10,183	2.7
Real estate	117,780	20,701	—	—	—	138,481	118,969	34.4
Revolving retail client exposures	9,815	16,881	—	—	—	26,696	26,696	6.6
Other retail client exposures (excluding SMEs)	11,252	740	—	—	5	11,997	10,903	3.0
Trading portfolio	—	—	10,382	896	—	11,278	1,292	2.8
Subtotal – Internal Ratings-Based Approach	273,999	52,811	11,300	4,497	1,700	344,307	333,220	85.5
Total	$ 305,791	$ 58,533	$ 29,098	$ 5,037	$ 3,768	$ 402,227	$ 373,053	100.0%

(1) The definition of exposure classes related to regulatory capital requirements differs from the accounting classification. In addition, the exposure classes as at December 31, 2023, have been prepared in accordance with the requirements of the *Capital Adequacy Guideline*, which was updated to reflect the Basel III regulatory reforms approved by the BCBS on December 7, 2017, and became effective during the year. Comparative data were not restated.

(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 27 – Exposure at default – Businesses, sovereign borrowers and financial institutions by industry[(1)]*
As at December 31

	2023						
(in millions of dollars)	**Used exposure**	**Unused exposure**	**Repo-style transactions**	**OTC derivatives**	**Off-balance sheet exposure**	**Total**	**Net exposure[(2)]**
Agriculture	**$ 9,497**	**$ 509**	**$ —**	**$ —**	**$ 44**	**$ 10,050**	**$ 11,378**
Mining, oil and gas	**1,123**	**556**	**—**	**—**	**123**	**1,802**	**1,805**
Utilities	**2,021**	**1,088**	**—**	**—**	**210**	**3,319**	**3,318**
Construction	**3,176**	**1,127**	**—**	**—**	**302**	**4,605**	**4,654**
Manufacturing	**4,180**	**1,228**	**—**	**—**	**314**	**5,722**	**5,835**
Wholesale trade	**1,972**	**475**	**—**	**—**	**135**	**2,582**	**2,618**
Retail trade	**3,852**	**731**	**—**	**—**	**29**	**4,612**	**4,669**
Transportation	**1,162**	**432**	**—**	**1**	**75**	**1,670**	**1,686**
Information industry	**433**	**292**	**—**	**—**	**440**	**1,165**	**1,177**
Finance and insurance	**11,220**	**1,960**	**2,066**	**4,743**	**1,115**	**21,104**	**19,342**
Real estate	**4,638**	**1,162**	**—**	**—**	**106**	**5,906**	**18,641**
Professional services	**1,211**	**327**	**—**	**—**	**212**	**1,750**	**1,664**
Management of companies	**1,010**	**195**	**—**	**—**	**41**	**1,246**	**1,226**
Administrative services	**609**	**166**	**—**	**—**	**33**	**808**	**817**
Education	**143**	**25**	**—**	**—**	**2**	**170**	**174**
Health care	**601**	**120**	**—**	**—**	**18**	**739**	**2,148**
Arts and entertainment	**264**	**64**	**—**	**—**	**2**	**330**	**352**
Accommodation	**385**	**30**	**—**	**—**	**8**	**423**	**516**
Other services	**789**	**126**	**—**	**—**	**15**	**930**	**968**
Public agencies	**37,001**	**908**	**—**	**—**	**91**	**38,000**	**66,326**
Other businesses	**1,731**	**275**	**1,115**	**—**	**756**	**3,877**	**3,468**
Total	**$ 87,018**	**$ 11,796**	**$ 3,181**	**$ 4,744**	**$ 4,071**	**$ 110,810**	**$ 152,782**

	2022						
(in millions of dollars)	Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Net exposure[(2)]
Agriculture	$ 9,699	$ 549	$ —	$ —	$ 41	$ 10,289	$ 10,906
Mining, oil and gas	344	593	—	—	123	1,060	1,060
Utilities	1,268	661	—	—	201	2,130	2,130
Construction	6,429	2,088	—	—	251	8,768	8,771
Manufacturing	5,293	1,436	—	—	292	7,021	7,064
Wholesale trade	2,482	543	—	—	130	3,155	3,169
Retail trade	3,826	999	—	—	30	4,855	4,887
Transportation	1,183	698	—	1	75	1,957	1,968
Information industry	268	942	—	—	7	1,217	1,223
Finance and insurance	13,002	1,593	3,157	3,932	1,475	23,159	19,529
Real estate	51,673	1,814	—	—	110	53,597	54,200
Professional services	1,285	467	—	—	24	1,776	1,788
Management of companies	1,120	229	—	—	87	1,436	1,391
Administrative services	435	232	—	—	18	685	689
Education	560	126	—	—	9	695	696
Health care	4,652	303	—	—	17	4,972	4,992
Arts and entertainment	670	104	—	—	27	801	811
Accommodation	1,542	49	—	—	6	1,597	1,641
Other services	1,093	125	—	—	17	1,235	1,251
Public agencies	48,210	1,648	—	—	557	50,415	69,918
Other businesses	2,073	660	104	—	176	3,013	3,335
Total	$ 157,107	$ 15,859	$ 3,261	$ 3,933	$ 3,673	$ 183,833	$ 201,419

(1) The data as at December 31, 2023, have been prepared in accordance with the requirements of the *Capital Adequacy Guideline*, which was updated to reflect the Basel III regulatory reforms approved by the BCBS on December 7, 2017, and became effective during the year. Comparative data were not restated.

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

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 28 – 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.

PD tranches are updated annually and adjusted as necessary to appropriately reflect Desjardins Group's risk ratings.

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

Table 29 – Probabilities of default of businesses, financial institutions and sovereign borrowers by risk level*

	Business		Financial institutions		Sovereign borrowers			
Risk level	**Desjardins ratings**	**PD tranches**	**Desjardins ratings**	**PD tranches**	**Desjardins ratings**	**PD tranches**	**S&P ratings**	**Moody's ratings**
Acceptable risk								
Investment grade	[1 – 4]	**0.00% to 0.49%**	[1 – 5.5]	**0.00% to 0.51%**	[1 – 5.5]	**0.00% to 0.53%**	AAA – BBB-	Aaa – Baa3
Other than investment grade	[4.5 – 7]	**0.50% to 6.18%**	[6 – 8]	**0.52% to 3.71%**	[6 – 8]	**0.54% to 5.11%**	BB+ – B-	Ba1 – B3
Under watch	[7.5 – 9]	**6.19% to 99.99%**	[9 – 9.5]	**3.72% to 99.99%**	[9 – 9.75]	**5.12% to 99.99%**	CCC+ – CC	Caa1 – Ca
Default	10	**100.00%**	10	**100.00%**	10	**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, 2023, guaranteed or insured loans represented 20.1% of Desjardins Group's total gross loans, compared to 19.7% at the end of 2022. 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, 2023, no significant changes were made to the credit risk mitigation policies and no significant changes occurred in the quality of assets held as collateral.

Loan debt relief

In managing loan portfolios, Desjardins Group may, for economic 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.

Loans receiving relief amounted to $1,819 million as at December 31, 2023, compared to $1,356 million at the end of 2022. Of these loans, $168 million was classified as gross impaired loans as at December 31, 2023, compared to $106 million as at December 31, 2022.

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's *Capital Adequacy Guideline*, 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 collateral or a guarantee, where it exists.

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 3 to 6 months if certain conditions set out in the credit risk guidelines are met.

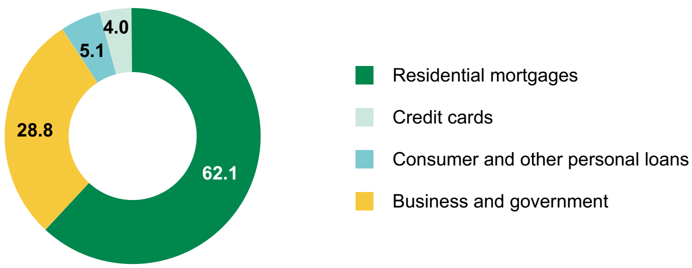
Monitoring of portfolio and reporting

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, 2023
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2023, the main sectors of the business loan portfolio were real estate, agriculture and construction. They accounted for 51.0% of the business loan portfolio, which amounted to $73.6 billion. The main industries were the same as at December 31, 2022.

Table 30 – Loans by borrower category and by industry
As at December 31

(in millions of dollars)	2023 Gross loans	2023 Gross credit-impaired loans	2022 Restated Gross loans	2022 Restated Gross credit-impaired loans
Residential mortgages	$ 165,858	$ 375	$ 159,682	$ 245
Consumer, credit card and other personal loans	24,239	224	24,211	170
Public agencies[(1)]	3,388	—	3,520	—
Business				
Agriculture	11,991	352	11,270	158
Mining, oil and gas	1,092	1	354	1
Utilities	2,090	—	1,137	—
Construction	8,062	182	6,660	116
Manufacturing	5,883	231	5,745	160
Wholesale trade	2,712	75	2,623	23
Retail trade	5,933	96	4,337	27
Transportation	1,620	14	1,420	24
Information industry	550	17	305	2
Finance and insurance	2,105	—	1,627	—
Real estate	17,474	164	15,569	86
Professional services	1,934	10	1,586	6
Management of companies	1,389	10	1,454	3
Administrative services	373	6	393	12
Education	265	4	241	4
Health care	4,411	145	4,325	67
Arts and entertainment	769	11	779	6
Accommodation	2,073	39	2,025	71
Other services	1,588	8	1,435	10
Other businesses	1,316	—	7	—
Total business loans	**$ 73,630**	**$ 1,365**	$ 63,292	$ 776
Total loans	**$ 267,115**	**$ 1,964**	$ 250,705	$ 1,191

(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, 2023, the loans granted by Desjardins to members and clients in Québec accounted for 88.8% of the total loan portfolio, compared to 90.3% as at December 31, 2022.

Table 31 – Loans by geographic distribution
As at December 31

	2023		2022 Restated	
(in millions of dollars)	**Gross loans**	**Gross credit-impaired loans**	Gross loans	Gross credit-impaired loans
Canada				
Québec	**$ 237,072**	**$ 1,710**	$ 226,281	$ 1,074
Other Canadian provinces	**29,718**	**254**	24,103	117
Total – Canada	**$ 266,790**	**$ 1,964**	$ 250,384	$ 1,191
Other countries	**325**	**—**	321	—
Total	**$ 267,115**	**$ 1,964**	$ 250,705	$ 1,191

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

Table 32 – Gross loans past due but not credit-impaired[(1)]
As at December 31

	2023			2022		
(in millions of dollars)	**31 to 90 days**	**91 days or more**	**Total**	31 to 90 days	91 days or more	Total
Residential mortgages	**$ 245**	**$ 95**	**$ 340**	$ 139	$ 20	$ 159
Consumer, credit card and other personal loans	**196**	**38**	**234**	134	38	172
Business and government	**41**	**128**	**169**	32	64	96
	$ 482	**$ 261**	**$ 743**	$ 305	$ 122	$ 427

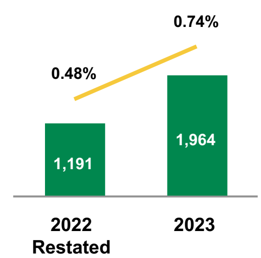
(1) Loans less than 31 days past due are not presented because, in general, they are not an indication that a borrower will not meet payment obligations.

As at December 31, 2023, according to Note 8, "Loans and allowance for credit losses", to the Combined Financial Statements, the allowance for expected credit losses on loans stood at $1,180 million and the allowance for expected credit losses on off-balance sheet items was $93 million, for a total of $1,273 million, up $185 million compared to December 31, 2022.

This increase was mainly due to the migration of credit quality, to the rise in outstandings, as well as to certain changes in methodology. The effects of this were, however, partially offset by the effects of updating forward-looking information. For more information on the methodology and assumptions used to estimate the loss allowance for expected credit losses, refer to Note 2, "Accounting policies", and Note 8, "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 0.74% as at December 31, 2023, compared with 0.48% as at December 31, 2022. The allowance for credit losses on credit-impaired loans totalled $495 million as at December 31, 2023, for a provisioning rate on credit-impaired loans of 25.2%.

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

(in millions of dollars and as a percentage)	2023 – Gross carrying amount – Gross loans and acceptances	2023 – Gross carrying amount – Gross credit-impaired loans[(1)]		2023 – Allowance for credit losses on credit-impaired loans	2023 – Net credit-impaired loans	2022 – Gross credit-impaired loans	2022 – Net credit-impaired loans
Residential mortgages	**$ 165,858**	**$ 375**	**0.23%**	**$ 24**	**$ 351**	$ 245	$ 229
Consumer, credit and other personal loans	**24,239**	**224**	**0.92**	**140**	**84**	170	79
Business and government	**77,018**	**1,365**	**1.77**	**331**	**1,034**	776	572
Total	**$ 267,115**	**$ 1,964**	**0.74%**	**$ 495**	**$ 1,469**	$ 1,191	$ 880

(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 106 to 113.

Table 34 – Change in gross credit-impaired loans
For the years ended December 31

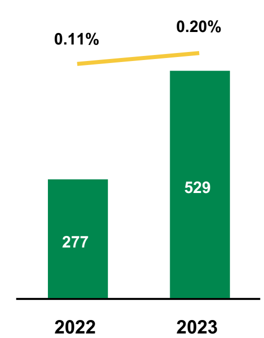
(in millions of dollars)	2023	2022
Gross credit-impaired loans at beginning of year	**$ 1,191**	$ 1,088
Gross loans that became credit-impaired during the year	**3,396**	2,411
Loans returned to unimpaired status	**(2,282)**	(2,083)
Write-offs and recoveries	**(336)**	(226)
Other changes	**(5)**	1
Gross credit-impaired loans at end of year	**$ 1,964**	$ 1,191

Desjardins Group's provision for credit losses totalled $529 million for 2023, up $252 million compared to 2022. This change was mainly due to the increases in the provision for credit losses on business loan portfolios owing to a migration of credit quality and on credit card portfolios. The provision for 2023 reflects higher net write-offs, which are gradually returning to pre-pandemic levels.

The credit loss provisioning rate was 0.20% at the end of fiscal 2023, compared to 0.11% recorded as at December 31, 2022.

Additional information about the credit risk related to the recognition and measurement of the allowance for credit losses is presented in Note 2, "Accounting policies", and Note 8, "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 106 to 113.

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 35 – Residential mortgage portfolio[1]
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[2]
As at December 31

	2023							
(in millions of dollars and as a percentage)	**Guaranteed or insured loans[3]**		**Uninsured loans[4]**		**Home equity lines of credit[5]**		**Total**	
Québec	**$ 28,778**	**97.8%**	**$ 91,395**	**95.1%**	**$ 5,691**	**94.9%**	**$ 125,864**	**95.7%**
Ontario	**610**	**2.1**	**4,673**	**4.9**	**309**	**5.1**	**5,592**	**4.3**
Other[6]	**19**	**0.1**	**40**	**—**	**—**	**—**	**59**	**—**
All geographic areas	**$ 29,407**	**100.0%**	**$ 96,108**	**100.0%**	**$ 6,000**	**100.0%**	**$ 131,515**	**100.0%**

	2022							
(in millions of dollars and as a percentage)	Guaranteed or insured loans[3]		Uninsured loans[4]		Home equity lines of credit[5]		Total	
Québec	$ 28,737	97.7%	$ 88,790	95.2%	$ 5,706	94.8%	$ 123,233	95.8%
Ontario	662	2.2	4,486	4.8	314	5.2	5,462	4.2
Other[6]	19	0.1	44	—	—	—	63	—
All geographic areas	$ 29,418	100.0%	$ 93,320	100.0%	$ 6,020	100.0%	$ 128,758	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 $216 million as at December 31, 2023 and $207 million as at December 31, 2022.
(2) 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 (FSRAO) rules.
(3) 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 public or private mortgage insurer, or a government.
(4) 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.
(5) Unamortized portion of home equity lines of credit and consumer lines of credit secured by a property with up to four units.
(6) Represents the geographic areas of Canada other than Québec and Ontario.

Table 36 – Average loan-to-value (LTV) ratio for uninsured residential mortgage loans granted during the quarter
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[1]
For the years ended December 31

	2023			2022		
(average loan to value ratio, by geographic area)	**Uninsured loans[2]**	**Home equity lines of credit and related loans[3]**	**Total uninsured**	Uninsured loans[2]	Home equity lines of credit and related loans[3]	Total uninsured
Québec	**62.1 %**	**64.3 %**	**63.8 %**	65.0 %	66.8 %	66.4 %
Ontario	**61.8**	**62.0**	**61.9**	66.0	64.7	65.3
Other[4]	**74.0**	**69.0**	**70.8**	71.0	67.4	69.1
All geographic areas	**62.1 %**	**64.2 %**	**63.7 %**	65.0 %	66.7 %	66.3 %

(1) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is subject instead to the FSRAO rules.
(2) Conventional term mortgages and amortized consumer loans secured by a property with up to four units.
(3) Home equity lines of credit including related amortized loans and consumer lines of credit secured by a property with up to four units.
(4) 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 37 – Remaining amortization period for residential mortgage loans[(1)(2)]
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[(3)]
As at December 31

	Total amortized loans			
(in millions of dollars in gross loans and as a percentage of the total by remaining amortization category)	**2023**		2022[(4)]	
0 to 10 years	**$ 9,100**	**7.3%**	$ 8,895	7.2%
10 to 20 years	**41,132**	**32.8**	40,284	32.8
20 to 25 years	**63,076**	**50.2**	61,324	50.0
25 to 30 years	**5,785**	**4.6**	4,726	3.9
30 to 35 years	**172**	**0.1**	146	0.1
35 years or more[(5)]	**6,250**	**5.0**	7,363	6.0
All amortization periods	**$ 125,515**	**100.0%**	$ 122,738	100.0%

(1) The variable rate mortgage loans of the caisse network represented 24.1% as at December 31, 2023 (29.1% as at December 31, 2022).
(2) In accordance with Desjardins Group's internal practices, the remaining amortization period for residential mortgages is limited to 30 years. However, exceeding this 30-year maximum amortization is permitted in certain exceptional situations.
(3) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is subject instead to the FSRAO rules.
(4) Comparative data have been adjusted to conform to the current year's presentation due to a refinement in methodology.
(5) Negative amortization loans are included in the 35 years or more category, which reflects the impact of interest rate hikes on the variable-rate mortgage portfolio.

International exposures

As at December 31, 2023, Desjardins Group credit risk exposures outside of Canada and the U.S. represented 1.9% of the total exposures.

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 due 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.

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, in particular, 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 2023 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 21, "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 21, "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 governed 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 6, "Offsetting financial assets and liabilities", Note 21, "Derivative financial instruments and hedging activities", and Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

4.2.4 Market risk

Market risk refers to the risk of loss arising from changes in the fair value of financial instruments as a result of 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 in the following pages.

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 38 – Link between market risk and the Combined Balance Sheets
As at December 31, 2023

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk – Trading activities[1][2]	Exposed to market risk – Non-trading activities[3]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 8,987	$ —	$ 8,987	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	36,627	11,945	24,682	—	Interest rate
Securities at fair value through other comprehensive income	51,692	—	51,692	—	Interest rate, FX, price
Securities at amortized cost	46	—	46	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	13,678	11,277	2,401	—	Interest rate
Net loans and acceptances	265,935	—	265,935	—	Interest rate
Segregated fund net assets	24,754	—	24,754	—	Interest rate, price
Derivative financial instruments	5,861	726	5,135	—	Interest rate, FX, price
Other assets	15,360	—	—	15,360	
Total assets	$ 422,940	$ 23,948	$ 383,632	$ 15,360	
Liabilities and equity					
Deposits	$ 279,329	$ —	$ 279,329	$ —	Interest rate
Insurance contract liabilities	32,961	—	32,961	—	Interest rate
Commitments related to securities sold short	11,686	11,361	325	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	12,032	10,726	1,306	—	Interest rate
Derivative financial instruments	6,626	971	5,655	—	Interest rate, FX, price
Segregated fund net liabilities for investment contracts	21,233	—	21,233	—	Interest rate, price
Other liabilities	21,729	—	867	20,862	Interest rate
Subordinated notes	2,954	—	2,954	—	Interest rate
Total equity	34,390	—	—	34,390	
Total liabilities and equity	$ 422,940	$ 23,058	$ 344,630	$ 55,252	

See next page for footnotes.

Table 38 – Link between market risk and the Combined Balance Sheets (continued)
As at December 31, 2022

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk		Not exposed to market risk	Principal risks associated with non-trading activities
		Trading activities(1)(2)	Non-trading activities(3)		
Assets					
Cash and deposits with financial institutions	$ 8,913	$ —	$ 8,913	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	33,987	9,801	24,186	—	Interest rate
Securities at fair value through other comprehensive income	51,258	—	51,258	—	Interest rate, FX, price
Securities at amortized cost	50	—	50	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	17,024	14,677	2,347	—	Interest rate
Net loans and acceptances	249,695	—	249,695	—	Interest rate
Segregated fund net assets	21,356	—	21,356	—	Interest rate, price
Derivative financial instruments	5,723	635	5,088	—	Interest rate, FX, price
Other assets	15,938	—	—	15,938	
Total assets	$ 403,944	$ 25,113	$ 362,893	$ 15,938	
			—		
Liabilities and equity					
Deposits	$ 259,836	$ —	$ 259,836	$ —	Interest rate
Insurance contract liabilities	30,202	—	30,202	—	Interest rate
Commitments related to securities sold short	9,859	9,611	248	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	24,565	23,893	672	—	Interest rate
Derivative financial instruments	6,691	689	6,002	—	Interest rate, FX, price
Segregated fund net liabilities for investment contracts	17,826	—	17,826	—	Interest rate, price
Other liabilities	19,630	—	654	18,976	Interest rate
Subordinated notes	2,928	—	2,928	—	Interest rate
Equity	32,407	—	—	32,407	
Total liabilities and equity	$ 403,944	$ 34,193	$ 318,368	$ 51,383	

(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 *Capital Adequacy Guideline* issued by the AMF.

Table 39 – Market risk measures for the trading portfolio*

(in millions of dollars)	**As at December 31, 2023**	**For the year ended December 31, 2023**			As at December 31, 2022	For the year ended December 31, 2022		
		Average	**High**	**Low**		Average	High	Low
Equities	**$ 0.2**	**$ 0.4**	**$ 2.1**	**$ 0.2**	$ 0.8	$ 0.6	$ 0.9	$ 0.3
Foreign exchange	**0.7**	**0.5**	**2.1**	**0.1**	0.9	0.7	3.0	0.05
Interest rate	**3.2**	**5.0**	**8.2**	**2.8**	6.6	4.4	7.8	2.2
Specific interest rate risk[1]	**4.5**	**3.1**	**13.4**	**0.8**	0.9	2.3	6.0	0.7
Diversification effect[2]	**(5.4)**	**(4.0)**	**N/A[3]**	**N/A[3]**	(2.1)	(3.4)	N/A[3]	N/A[3]
Aggregate VaR	**$ 3.2**	**$ 5.0**	**$ 8.9**	**$ 2.7**	$ 7.1	$ 4.6	$ 9.0	$ 2.4
Aggregate SVaR	**$ 5.7**	**$ 10.3**	**$ 18.5**	**$ 4.9**	$ 11.3	$ 12.0	$ 25.2	$ 6.0
Incremental risk charge (IRC)	**$ 82.8**	**$ 71.9**	**$ 93.4**	**$ 41.9**	$ 57.1	$ 69.3	$ 97.2	$ 49.7

(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 market risk categories can relate to different dates. It is not relevant to calculate a diversification effect.

The average of the trading portfolio's aggregate VaR was $5.0 million for 2023, up $0.4 million compared to 2022. As for the average of the aggregate SVaR, it was $10.3 million for fiscal 2023, down $1.7 million compared to 2022. The average of the incremental risk charge was $71.9 million, up $2.6 million compared to 2022.

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.

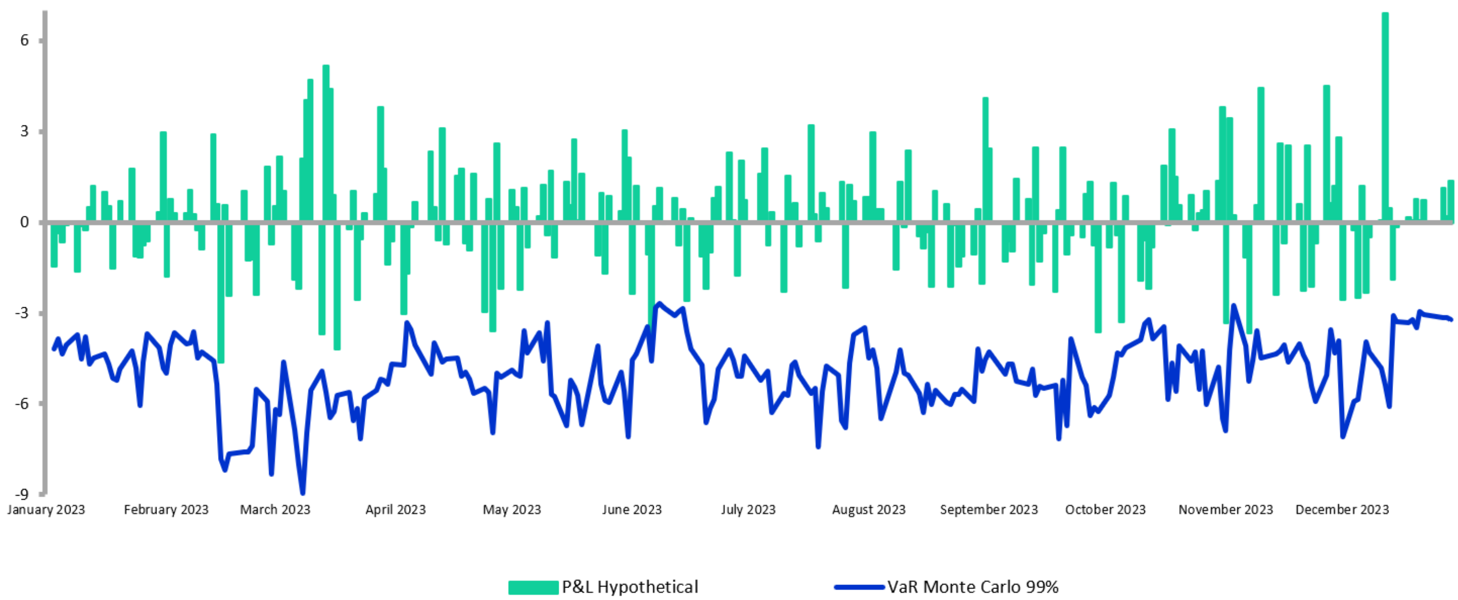
Back testing

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. During fiscal 2023, no overage of actual or hypothetical P&L was observed in relation to the VaR for Desjardins Group.

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



Stress testing

Certain events that are considered highly unlikely and that 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 the COVID-19 pandemic of 2020 or the 2008 financial crisis. Using such stress testing, changes can be monitored in the fair 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 (such as interest rates, exchange rates or 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 or 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-basis-point increase and decrease in interest rates on net interest income and the economic value of equity for Desjardins Group, assuming the balance sheet is stable and management takes no measures to mitigate risk.

Table 40 – Interest rate sensitivity (before income taxes)[(1)*]
As at December 31

	2023		2022	
(in millions of dollars)	**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	**$ 73**	**$ 6**	$ (100)	$ (402)
Impact of a 100-basis-point decrease in interest rates	**(77)**	**(118)**	108	382

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For information on interest rate sensitivity related to insurance activities, refer to Note 17, "Insurance and reinsurance contracts", 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.

Foreign exchange risk management

Foreign exchange risk corresponds to the potential loss arising from a change in exchange rates.

Desjardins Group and its components are exposed to foreign exchange risk, particularly with respect to the U.S. dollar and the euro, as a result of their intermediation activities with members and clients, and their financing and investment activities. Desjardins Group frameworks set foreign exchange risk exposure limits, which are monitored by the Risk Management Executive Division and by the insurance components for their respective operations. 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 fair value of assets, such as shares, commodities or real estate properties, 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 fair 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 fair 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 17, "Insurance and reinsurance contracts", to the Combined Financial Statements.

4.2.5 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 loans insured by Canada Mortgage and Housing Corporation (CMHC) in the course of its day-to-day 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.

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 Desjardins Group 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 (BCBS) 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 41 – Liquid assets[(1)]
As at December 31, 2023

(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	**$ 6,285**	**$ —**	**$ 6,285**	**$ 458**	**$ 5,827**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**50,143**	**14,216**	**64,359**	**22,883**	**41,476**
Other securities in Canada	**5,748**	**790**	**6,538**	**1,106**	**5,432**
Issued or guaranteed by foreign issuers	**233**	**1**	**234**	**1**	**233**
Loans					
Insured residential mortgage-backed securities	**13,022**	**—**	**13,022**	**2,221**	**10,801**
Total	**$ 75,431**	**$ 15,007**	**$ 90,438**	**$ 26,669**	**$ 63,769**

As at December 31, 2022

(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	$ 7,751	$ —	$ 7,751	$ 589	$ 7,162
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	50,469	16,651	67,120	34,407	32,713
Other securities in Canada	5,813	557	6,370	798	5,572
Issued or guaranteed by foreign issuers	567	3	570	6	564
Loans					
Insured residential mortgage-backed securities	9,564	—	9,564	3,065	6,499
Total	$ 74,164	$ 17,211	$ 91,375	$ 38,865	$ 52,510

(1) Excluding assets held by insurance subsidiaries.

Table 42 – Unencumbered liquid assets by entity[(1)]
As at December 31

(in millions of dollars)	2023	2022
Federation	**$ 35,264**	$ 27,381
Caisse network	**24,739**	20,858
Other entities	**3,766**	4,271
Total	**$ 63,769**	$ 52,510

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

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 alerted, based on the nature of the incident. 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 insurance contract liabilities. 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 43 – Encumbered assets
As at December 31, 2023

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 8,987	$ —	$ 8,987	$ 186	$ 458	$ 5,641	$ 2,702
Securities	88,365	23,176	111,541	33,188	850	45,262	32,241
Securities borrowed or purchased under reverse repurchase agreements	13,678	—	13,678	—	—	—	13,678
Net loans and acceptances	265,935	—	265,935	30,697	—	66,639	168,599
Segregated fund net assets	24,754	—	24,754	—	—	—	24,754
Other assets	21,221	—	21,221	—	—	—	21,221
Total	**$ 422,940**	**$ 23,176**	**$ 446,116**	**$ 64,071**	**$ 1,308**	**$ 117,542**	**$ 263,195**

As at December 31, 2022 Restated

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 8,913	$ —	$ 8,913	$ —	$ 589	$ 7,162	$ 1,162
Securities	85,295	23,686	108,981	41,121	545	38,869	28,446
Securities borrowed or purchased under reverse repurchase agreements	17,024	—	17,024	—	—	—	17,024
Net loans and acceptances[3]	249,695	—	249,695	28,097	—	71,454	150,144
Segregated fund net assets	21,356	—	21,356	—	—	—	21,356
Other assets	21,661	—	21,661	—	—	—	21,661
Total	$ 403,944	$ 23,686	$ 427,630	$ 69,218	$ 1,134	$ 117,485	$ 239,793

(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. Some of these other assets could eventually be pledged to the central bank.
(3) The data have been adjusted to conform to the current year's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.

Liquidity coverage ratio

The liquidity coverage ratio (LCR) was developed by the BCBS to promote the short-term resilience of the liquidity risk profile of financial institutions and was integrated into the AMF's *Liquidity Adequacy Guideline*. 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 guideline also prescribes weightings for cash inflows and outflows.

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 and clients and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

The following table presents quantitative information regarding the LCR, based on the template recommended by the disclosure requirements of the AMF's *Liquidity Adequacy Guideline*.

Table 44 – Liquidity coverage ratio[(1)]

(in millions of dollars and as a percentage)	For the quarter ended December 31, 2023 Total non-weighted[(2)] value (average[(4)])	For the quarter ended December 31, 2023 Total weighted[(3)] value (average[(4)])	For the quarter ended September 30, 2023 Total weighted[(3)] value (average[(4)])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 52,057**	$ 47,184
Cash outflows			
Retail deposits and small business deposits, including:	**$ 97,096**	**7,546**	7,467
Stable deposits	**49,334**	**1,480**	1,542
Less stable deposits	**47,762**	**6,066**	5,925
Unsecured wholesale funding, including:	**40,929**	**20,167**	18,320
Operational deposits (all counterparties) and deposits in cooperative bank networks	**14,393**	**3,468**	3,555
Non-operational deposits (all counterparties)	**16,552**	**6,715**	6,482
Unsecured debt	**9,984**	**9,984**	8,283
Secured wholesale funding	**N/A**	**76**	62
Additional requirements, including:	**23,351**	**4,265**	4,413
Outflows related to exposures on derivatives and other collateral required	**1,402**	**1,284**	1,284
Outflows related to funding loss on debt products	**263**	**263**	534
Credit and liquidity facilities	**21,686**	**2,718**	2,595
Other contractual funding liabilities	**2,877**	**1,224**	1,580
Other contingent funding liabilities	**92,301**	**2,633**	2,583
Total cash outflows	**N/A**	**$ 35,911**	$ 34,425
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 13,003**	**$ 422**	$ 301
Inflows related to completely effective exposures	**3,307**	**1,653**	1,737
Other cash inflows	**1**	**1**	17
Total cash inflows	**$ 16,311**	**$ 2,076**	$ 2,055

	Total adjusted value[(5)]	Total adjusted value[(5)]
Total high-quality liquid assets	**$ 52,057**	$ 47,184
Total net cash outflows	**33,835**	32,370
Liquidity coverage ratio	**154%**	146%

(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.

Desjardins Group's average LCR was 154% for the quarter ended December 31, 2023, a level slightly higher than the previous quarter. The LCR remains substantially higher than regulatory requirements. For the quarter ended December 31, 2023, the high quality liquid asset average was approximately $52.1 billion ($47.2 billion as at September 30, 2023) of which 94% (94% as at September 30, 2023) was composed of Level 1 assets according to Basel III criteria. These include, in particular, coin and banknotes, deposits with central banks, and securities issued or secured by sovereign issuers.

Net stable funding ratio

The net stable funding ratio (NSFR) was developed by the BCBS to promote the medium- and long-term resilience of the liquidity risk profile of financial institutions, and was incorporated into the AMF's *Liquidity Adequacy Guideline*. 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 for all on- and off-balance sheet items, and promotes funding stability.

This ratio presents the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). 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 ASF is composed mainly of capital, retail and business deposits, as well as wholesale funding liabilities. The amount of RSF is measured based on the broad characteristics of the liquidity risk profile of assets and off-balance sheet exposures. The RSF is composed mainly of mortgages, other institutional loans and, to a lesser extent, other assets and off-balance-sheet items. The amounts of ASF and RSF are weighted to reflect the degree of stability of liabilities and the liquidity of assets. According to the AMF's *Liquidity Adequacy Guideline*, this ratio should be equal to at least 100% on an on-going basis.

The table below presents quantitative information regarding the NSFR, based on the template recommended in the AMF's *Liquidity Adequacy Guideline* for disclosure requirements.

Table 45 – Net Stable Funding Ratio[1]

	As at December 31, 2023					As at September 30, 2023
	Unweighted value by residual maturity					
(in millions of dollars and as a percentage)	No maturity	< 6 months	From 6 months to < 1 year	≥ 1 year	Weighted value	Weighted value
Available Stable Funding (ASF) item						
Capital	$ 33,305	$ —	$ —	$ 3,000	$ 36,305	$ 35,210
Regulatory capital	33,305	—	—	3,000	36,305	35,210
Other capital instruments	—	—	—	—	—	—
Retail deposits and deposits from small business customers	77,450	49,482	17,992	36,932	169,027	166,817
Stable deposits	45,436	8,847	4,279	11,390	67,024	67,166
Less stable deposits	32,014	40,635	13,713	25,542	102,003	99,651
Wholesale funding	24,782	40,490	4,352	22,314	40,265	37,241
Operational deposits	13,642	—	—	—	6,821	6,715
Other wholesale funding	11,140	40,490	4,352	22,314	33,444	30,526
Liabilities with matching interdependent assets	—	964	843	12,158	—	—
Other liabilities[2]	26,368			12,802	—	—
NSFR derivative liabilities[2]	N/A			3,770	N/A	N/A
All other liabilities and equity not included in the above categories	26,368	9,032	—	—	—	—
Total ASF	N/A	N/A	N/A	N/A	$ 245,597	$ 239,268
Required Stable Funding (RSF) item						
Total NSFR high-quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	$ 851	$ 750
Deposits held by other financial institutions for operational purposes	$ —	$ —	$ —	$ —	—	—
Performing loans and securities	19,806	49,737	18,636	178,058	175,019	172,902
Performing loans to financial institutions secured by Level 1 HQLA	—	12,080	—	—	604	655
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	—	1,559	20	450	628	732
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:	13,911	25,370	10,910	68,375	85,310	82,984
Loans with a risk weight of less than than or equal to 35% under the Basel II Standardized Approach for credit risk	—	6,561	6,109	13,869	9,015	8,993
Performing residential mortgages, of which:	5,895	9,637	6,920	106,376	85,110	85,449
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	5,895	9,637	6,920	106,376	85,110	85,449
Securities that are not in default and do not quality as HQLA, including exchange-traded equities	—	1,091	786	2,857	3,367	3,082
Assets with matching interdependent liabilities	—	964	843	12,158	—	—
Other assets[2]	—			30,398	18,500	16,785
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			384	327	244
NSFR derivative assets[2]	N/A			5,771	319	308
NSFR derivative liabilities before deduction of variation margin posted[2]	N/A			6,389	—	—
All other assets not included in the above categories	—	—	—	17,854	17,854	16,233
Off-balance sheet items[2]	N/A			114,897	2,992	2,903
Total RSF	N/A	N/A	N/A	N/A	$ 197,362	$ 193,340
Net Stable Funding Ratio	N/A	N/A	N/A	N/A	124%	124%

(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.

For the quarter ended December 31, 2023, the NSFR remained stable at 124%, compared to September 30, 2023. This stability reflects the impact of growth in deposits offset by similar growth in assets, mainly related to growth in loans.

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 $279.3 billion as at December 31, 2023, up $19.5 billion since December 31, 2022. 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 2023, 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 international markets, as required.

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

Table 46 – Main financing programs

Financing program	Maximum authorized amount
Medium-term notes (Canadian)(1)	**$10 billion**
Covered bonds (multi-currency)(1)(2)	**$26 billion**
Short-term notes (multi-currency)	**€5 billion**
Short-term notes (U.S.)	**US$20 billion**
Medium-term and subordinated notes (multi-currency)(1)	**€10 billion**
NVCC subordinated notes (Canadian)(1)	**$5 billion**
Medium-term notes (Australian)(1)	**A$3 billion**

(1) Sustainable bonds may be issued under these funding programs in compliance with the Desjardins Sustainable Bond Framework.
(2) The maximum authorized amount remains subject to the prudential limit set by the AMF.

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

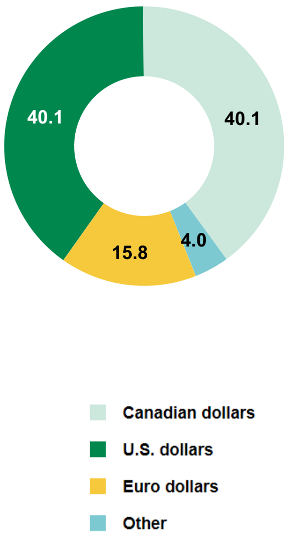
Table 47 – Remaining contractual term to maturity of wholesale funding
As at December 31

	2023								2022
(in millions of dollars)	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Total – Less than 1 year**	**1 to 2 years**	**Over 2 years**	**Total**	Total
Bearer discount notes	**$ 2,412**	**$ 549**	**$ 27**	**$ 6**	**$ 2,994**	**$ —**	**$ —**	**$ 2,994**	$ 3,005
Commercial paper	**11,068**	**5,710**	**260**	**—**	**17,038**	**—**	**—**	**17,038**	15,042
Medium-term notes	**—**	**—**	**1,656**	**1,714**	**3,370**	**4,094**	**6,198**	**13,662**	9,979
Mortgage securitization	**—**	**361**	**604**	**841**	**1,806**	**1,956**	**10,110**	**13,872**	13,075
Covered bonds	**1,097**	**—**	**—**	**1,096**	**2,193**	**2,058**	**8,671**	**12,922**	10,984
Subordinated notes	**—**	**—**	**—**	**—**	**—**	**—**	**2,954**	**2,954**	2,928
Total	**$ 14,577**	**$ 6,620**	**$ 2,547**	**$ 3,657**	**$ 27,401**	**$ 8,108**	**$ 27,933**	**$ 63,442**	$ 55,013
Including:									
Secured	**$ 1,097**	**$ 362**	**$ 604**	**$ 1,936**	**$ 3,999**	**$ 4,014**	**$ 21,735**	**$ 29,748**	$ 26,988
Unsecured	**13,480**	**6,258**	**1,943**	**1,721**	**23,402**	**4,094**	**6,198**	**33,694**	28,025

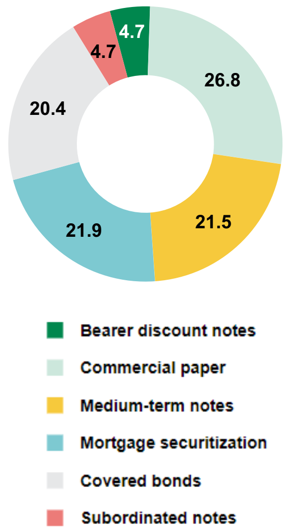
Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation. Total wholesale funding increased by $8.4 billion compared to December 31, 2022. This increase was primarily due to the increase in medium-term notes, commercial paper and covered bonds. Desjardins 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.

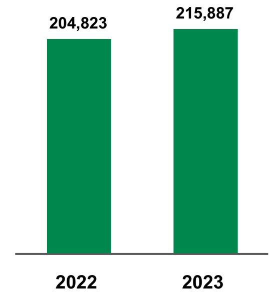
Wholesale funding by currency
As at December 31, 2023
(as a percentage)



Wholesale funding by category
As at December 31, 2023
(as a percentage)



Member deposits
As at December 31, 2023
(in millions of dollars)



Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $3.1 billion in 2023. During the same period and at the beginning of 2024, the Federation also made the following issues:

- On January 23, 2023, an issue totalling US$600 million, subject to the bail-in regime, under its multi-currency medium-term note program.
- On January 31, 2023, an issue totalling 325 million Swiss francs under its legislative covered bond program.
- On March 14, 2023, an issue totalling US$750 million, subject to the bail-in regime, under its multi-currency medium-term note program.
- On April 18, 2023, an issue totalling €750 million under its legislative covered bond program.
- On April 24, 2023, an issue totalling 34.3 billion Japanese yen, subject to the bail-in regime, under its multi-currency medium-term note program.
- On August 16, 2023, an issue totalling $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 August 30, 2023, an issue totalling 500 million GBP under its legislative covered bond program.
- On September 27, 2023, an issue totalling €500 million under its multi-currency medium-term note program.
- On October 11, 2023, an issue totalling 2.0 billion NOK (Norwegian krone) under its legislative covered bond program.
- On November 17, 2023, an issue totalling $1,250 million, subject to the bail-in regime, under its Canadian medium-term note program.
- On November 27, 2023, an issue totalling US$1.0 billion under its legislative covered bond program.
- On January 17, 2024, an issue totalling €1.0 billion, subject to the bail-in regime, under its multi-currency medium-term note program.
- On January 26, 2024, an issue totalling US$1.0 billion, subject to the bail-in regime, under its multi-currency medium-term note program.

Outstanding notes issued under the Federation's medium-term funding programs amounted to $40.5 billion as at December 31, 2023, compared to $34.0 billion as at December 31, 2022. 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 June 20, 2023, Fitch affirmed the ratings of the instruments issued by the Federation while maintaining the outlook as stable.
- On July 13, 2023, DBRS affirmed the ratings of the instruments issued by the Federation while maintaining the outlook as stable. This assessment reflects the strength of Desjardins Group in Québec, where it has leading market shares.
- On October 16, 2023, Standard & Poor's affirmed the ratings of the instruments issued by the Federation while maintaining the outlook as stable. This assessment reflects the strength of Desjardins Group's balance sheet.

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 48 – Credit ratings of securities issued and outstanding

	DBRS	FITCH	MOODY'S	STANDARD & POOR'S
Fédération des caisses Desjardins du Québec				
Counterparty/Deposits[(1)]	**AA**	**AA**	**Aa1**	**A+**
Short-term debt	**R-1 (high)**	**F1+**	**P-1**	**A-1**
Medium- and long-term debt, senior[(2)]	**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 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.

4.2.6 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 or the non-achievement of objectives, 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 to ensure its adequacy and relevance based on development in industry practices or new regulations.

Governance

Operational 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.

In addition, the primary mandate of the Desjardins Group Operational Risk Committee is to monitor the various categories of operational and regulatory risks to which Desjardins Group is exposed. It is composed of the owners of the operational and regulatory risk categories. Its governance is described in the Risk Management Governance Framework, addressed in Section 4.2.1, "Integrated Risk Management Framework", of this report.

Information technology and security risk

An information technology (IT) risk refers to the risk related to the inability to maintain in a management/perform 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, such as loss of confidentiality, through an intentional or unintentional act, such as an insider threat, error, negligence or omission, including cyber-attacks.

Technology is a crucial element in the development, maintenance and resilience of Desjardins Group's operations. A failure or disruption of IT systems may have a serious impact on its members and clients, as well as on its operations. These two risks are at the very core of risk management activities. Modernization programs to ensure that disruptions to its 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 sound practices is implemented to monitor and contain these risks at set acceptable tolerance levels. The Desjardins Group Security Office protects members and clients, their assets and their personal information.

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 third parties with proactive mechanisms to ensure efficient management of third party 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.

On April 24, 2023, OSFI issued a revised version of its Guideline B-10, *Third-Party Risk Management*, effective on May 1, 2024. This guideline, which is prudential in nature, applies to Canadian federal financial institutions, including Desjardins Trust Inc. and certain subsidiaries of Desjardins General Insurance Group Inc. It implements mechanisms to effectively manage the risks associated with any third-party agreement throughout the business relationship life cycle. The Desjardins Group third-party risk management frameworks broadly meet the principles and expectations of the new version of the Guideline. Work is already underway to achieve full operationalization of the processes adjusted in accordance with this revision.

Business continuity risk

Business continuity risk refers to the risk of business disruption caused by the unavailability of operational resources and means including information and communication systems and technologies, buildings, human resources and suppliers.

Business impact assessments can identify the organization's priority activities, based on an assessment of interruption events, considering operational, reputation, regulatory and financial aspects. Owing to 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.

Model risk

Model risk is a potential negative consequence of making a business decision based on the outputs of a poorly designed, used or managed model. This risk may arise, among others, from incorrect assumptions or inappropriate methodological choices, improper data, inappropriate deployment, incorrect use or insufficient maintenance.

A model is a method used to produce, based on assumptions and using inputs, a forecast, a classification or a proxy for unavailable information with an inherent uncertainty.

In order to ensure sound model risk management, Desjardins Group has a model risk management framework that covers all the models used in its operations. This framework includes model risk management practices required to meet the requirements of OSFI Guideline E-23, *Enterprise-Wide Model Risk Management for Deposit-Taking Institutions*. This framework also sets out the roles and responsibilities of model life cycle activity stakeholders such as design, performance monitoring and validation.

The validation group, which is independent from the units responsible for developing models and the units that use them, is in charge of carrying out validation work. This work consists of a series of points to be validated for evaluating the model on design methodology, including assumptions, reliability and data quality. This work also includes reviewing model implementation as well as assessing compliance with applicable regulatory requirements.

Data risk

Data risk is related to the quality and knowledge of the data used at Desjardins Group that affects strategic and business decision-making, the data life cycle and compliance with regulatory requirements.

As part of its program to improve operational control, Desjardins Group has adopted a data governance structure, supported by frameworks to ensure proper management and supervision. It is gradually integrating the necessary data risk management tools into the structure in both current processes and new activities. A monitoring framework is also being deployed as a second line of defence to objectively review front-line data risk assessments. The organization's growing data risk management maturity is accompanied by implementing controls to help strengthen data risk mitigation.

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 events	Operational risk event data and loss data is collected to list and quantify events in accordance with predetermined thresholds. Operational risk events are indexed in a database. Through analysis, causes are better understood, trends are determined, and corrective measures are taken when necessary. 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 the risk indicators in the risk appetite framework to help them proactively monitor any increase in their exposure to the most significant risks and act accordingly when the tolerance level is reached.
Risk disclosure	The nature and levels of operational risk are frequently disclosed to senior management as well as the various committees overseeing risk management. This promotes an effective management of operational risk that enables taking action quickly when required and establish the various priorities based on the importance of the risks involved.
Mitigation measures	Desjardins Group has a structure to ensure sound management of operational risks by overseeing the design and applying robust controls that contribute to risk mitigation. Once risks have been identified and assessed, Desjardins Group ensures they are maintained at an acceptable level, based on risk appetite, to promote achieving its goals and must continuously ensure the effectiveness of the various existing internal control mechanisms. Accordingly, in the event that established tolerance thresholds are exceeded, action plans are put in place to ensure that risk-taking is always consistent with Desjardins Group's risk appetite framework and goals.
Scenario analysis	Scenario analysis consists of assessing events that could lead to a major operational risk, but have little likelihood of occurring, such as an earthquake. The analysis makes it possible to identify vulnerabilities to such risks within the organization in order to apply the required mitigation measures.
Risk-sharing and 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 January 1, 2023, regulatory capital has been calculated under the new Basel III Standardized Approach. In response to these changes, a capital requirement calculator was developed in accordance with the AMF's *Capital Adequacy Guideline* requirements. The new approach involves an activity indicator component, derived from Desjardins Group's financial statements. Lastly, this component is combined with an internal loss multiplier to obtain capital requirements for operational risk purposes.

4.2.7 Insurance risk

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

Life and health insurance risk refers to the risk that the amount and timing of benefits and expenses payable on life insurance, health insurance or annuity contract products differ from those expected.

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 the risk that benefits payable on property and casualty insurance products differ from the amounts estimated when designing, pricing or measuring actuarial reserves.

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 such as fire, theft, water damage, vandalism, covered by the insurance products offered, excluding disasters, which mainly cover physical damage to property, bodily injury as well as liability of insureds, such as civil and legal liability;
- 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.

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 17, "Insurance and reinsurance contracts", to the Combined Financial Statements, as well as other risk factors identified in Section 4.1, "Risk factors that could impact future results".

4.2.8 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 or actions that may prevent Desjardins Group from achieving its strategic priorities.

This risk forms an integral part of Desjardins Group's Integrated Risk Management Framework and is the subject of the Strategic Risk Management Policy. It is first up to senior management and the Board of Directors to address, define and monitor developments in the strategic policy directions 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. To this end, Desjardins Group has implemented a rigorous process to update its strategic plan each year to factor in market developments, in particular major industry trends.

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. In addition, strategic positions, business acquisitions, new products and services, projects financed by the investment plan, major initiatives and transactions are subject to a risk analysis, including an objective review by the second line(s) of defence, before being implemented.

4.2.9 Reputation risk

Reputation risk refers to 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 a material unfavourable impact on revenues and equity or may significantly affect the confidence of its members and clients or, more broadly, public opinion.

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 also helps manage reputation risks.

4.2.10 Environmental, social and governance (ESG) risk

ESG risks refer to all environmental, social and governance (ESG) considerations that Desjardins Group and its entities must take into account as part of their operations, financing, investing or insurance activities and which could result, in particular, in credit risks, insurance risks, asset value losses or non-financial risks such as damage to the organization's reputation.

Environmental risk includes, in particular, climate change risks and biodiversity loss risk, in addition to greenwashing aspects. These risks include:
- The adverse impact that climate change can have on the organization through the vulnerabilities of Desjardins Group and its members and clients;
- The adverse impact that Desjardins has on them.

Social risk, on the other hand, takes into account how Desjardins Group and the companies in which it invests, work and act with employees, members, clients, partners, suppliers and communities. The Sustainability Accounting Standards Board (SASB) Foundation, now part of the International Financial Reporting Standards (IFRS) Foundation, defines two main social dimensions, with business issues, which can also be social risks:
- Social Capital includes human rights and community relations, privacy of client information, data security and consumer welfare.
- Human Capital includes employment, recruiting, and employee diversity and inclusion practices.

Governance risk is linked to an event, issue or governance factor, both externally and internally, which materializes in managing and operating Desjardins Group, its financing, investment and insurance activities, its commitments or as part of its major projects, whose direct and indirect consequences would be likely to generate financial losses or harm its reputation.

ESG risk governance

ESG risks are overseen by the Board of Directors, helped by the Desjardins Group Management Committee, which presents to it recommendations regarding ESG risk management strategies and frameworks, including climate change and biodiversity loss risks.

In fulfilling its responsibilities, the Desjardins Group Management Committee relies on the Desjardins Group Finance and Risk Management Committee and the Environmental, Social and Governance Steering Committee. The latter recommends ESG policy directions, including climate change, and monitors them. It is also responsible for ensuring that the organization is cohesive and that ESG risks are better taken into account in business decision-making processes.

The ESG Risk Committee, formerly the Climate Change Risk Committee, saw its mandate expanded in 2023. The purpose of this subcommittee of the Desjardins Group Finance and Risk Management Committee is now to see to:
- Gradually integrating ESG risk into cross-sector risk management practices and compliance with regulatory and disclosure expectations.
- Maintaining a harmonized approach throughout the various Desjardins Group components and legal entities, in particular by implementing policies and guidelines, clarifying the principles on which climate change risk management is based throughout the organization as well as the roles and responsibilities.
- Implementing the proposed initiatives and reporting all situations that may jeopardize meeting the related objectives.

Desjardins Group continues to implement its ESG risk policy directions. It also works to build a better understanding of these cross-sector risks within its various bodies and the organization while monitoring the best practices regarding these topics.

Strategy ESG

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 its risk appetite framework. It is also a signatory to several international United Nations frameworks for integrating ESG criteria into its business model: the Principles for Responsible Insurance (2019) and the Responsible Banking Principles (2019).

In 2021, Desjardins Group stated its net zero 2040 ambition for its extended operations and its financing and capital investment activities in three key sectors: energy, transportation and real estate. This ambition was formalized when Desjardins joined Business Ambition for 1.5°C, a global coalition organized by the Science-Based Targets initiative (SBTi). Desjardins Global Asset Management has made a commitment to the Net Zero Asset Managers Initiative.

In line with its ambitions, Desjardins Group was the first North American financial institution to join the Powering Past Coal Alliance to exit the thermal coal industry. In 2023, in striving to meet its climate commitments, in particular carbon neutrality, Desjardins set out targets applicable to the financing and capital investment activities in the energy sector. These targets are aimed more specifically at the oil and gas sectors, but also at the renewable energy sector, by 2030.

ESG risk management

Desjardins understands the importance of appropriately managing its risks and gauging their current and future impact. The acceleration of climate change and its increasingly visible impacts are also prompting Desjardins to adapt its practices, integrating these risks into its business model and ensuring compliance with the three lines of defence model.

As a result, ESG risks now form an integral part of Desjardins Group's Integrated Risk Management Framework and are the subject of Desjardins Group's Environmental, Social and Governance Risk Management Policy. The Policy is accompanied by a statement of appetite and Desjardins Group's Climate Change Risk Management Directive, recently enhanced by a Social Risk Management Directive, all aligned with the risk register. These governance documents, which constitute the organization's ESG risk management framework, play a significant role in prompting business sectors and support functions to integrate ESG risk management into their business operations and periodically identify the main risks affecting them and their impacts, together with Risk Management and Sustainable Development Office professionals.

Desjardins Group has continued to operationalize these governance documents: an inaugural climate risk appetite indicator was disclosed, qualitative risk analysis methodologies were refined and work focused on quantifying these risks, including scenario analyses and climate-related stress testing. ESG risk monitoring has been formalized by adopting a Climate Risk Monitoring Program. Reporting to the various bodies and governance have been improved in order to align with best practices. An ESG risk awareness campaign has also begun and will continue in 2024. In addition, Desjardins Group, in addition to the Social and Cooperative Responsibility Report prepared in accordance with the guidelines of the Global Reporting Initiative (GRI), is gradually integrating the requirements of IFRS S1 and S2 of the International Sustainability Standards Board (ISSB) and where applicable Guideline B-15 of the Office of the Superintendent of Financial Institutions (OSFI) of Canada. Desjardins Group also responds to the Climate Change Questionnaire provided by the Carbon Disclosure Project (CDP) 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).

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, namely energy, transportation and real estate, 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.

To achieve its net zero 2040 goal, Desjardins has set intermediate and sector science-based targets, which it has had approved by the Science-Based Targets initiative (SBTi). Work is in progress to specify the transition plans for our key carbon-intensive sectors and operationalize the methodologies used to monitor our exposures. In connection with Desjardins Group's statement of appetite for climate change risks, an appetite indicator is used to assess the achievement of our strategies. Others risk metrics are currently being developed.

We issued the third public disclosure of our financed emissions, including investing and lending, as per the methodology of the Partnership for Carbon Accounting Financials (PCAF).

4.2.11 Regulatory risks

The financial services industry is one of the most strictly regulated and monitored sectors. For several years, the regulations governing the industry have been expanding significantly, notably in terms of the extent and the complexity of applicable regulations. The pressure exerted by regulatory authorities is mounting and their oversight powers are increasing, and this exposes Desjardins Group to monetary sanctions and greater reputation risk.

Regulatory authorities and bodies

This evolution is 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), and the Canadian Investment Regulatory Organization (CIRO). 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.

Compliance management framework

Fulfilling an independent supervisory function, the Vice-President and Chief Compliance and Privacy Officer of Desjardins Group fosters a proactive approach to compliance by fully integrating compliance into the organization's current operations.

The management framework applies to legal and regulatory risks, including the fight against financial crimes and corruption as well as fraud and privacy risks. It is based on identifying and monitoring of regulatory obligations and overseeing the functional units subject to them. The compliance management framework provides for the following:

- developing frameworks and documentation to comply with the regulatory requirements in effect;
- implementing training programs and coaching initiatives (advisory role);
- deploying operations oversight and inspection programs;
- reporting on the compliance status to the Company's Board of Directors and senior management.

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 also adopted a code of professional conduct applicable to the officers and employees of all its components.

This compliance management framework provides 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.

Compliance organizational structure

The Vice-President and Chief Compliance and Privacy Officer of Desjardins Group reports to the Executive Vice-President, Risk Management of Desjardins Group. The Chief Compliance Officers of the components report to the Vice-President and Chief Compliance and Privacy Officer, Desjardins Group.

Legal and regulatory

Legal and regulatory risk is the risk associated with the non-compliance by Desjardins Group with obligations arising from the anticipation, 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.

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.

During fiscal 2023, several regulatory changes were proposed. In particular, the AMF issued the *Guideline on the management of incentives* on March 16, 2023, which is already in force, while the draft *Regulation respecting the handling of complaints and the resolution of disputes in the financial sector* was the subject of of a second consultation.

Protection of personal information

Privacy risk is the risk associated with inadequate handling of personal information (theft or breach, loss, collection, consent management, use, disclosure, retention, destruction or infringement of the rights of individuals related to their personal information), through intentional or unintentional actions (internal threat, error, negligence or omission). The key consequences of privacy risk deal with Desjardins Group's reputation, compliance and potential financial losses.

An Act to modernize legislative provisions as regards the protection of personal information came into force gradually as of September 2022 and provides for increased powers for the Commission on Access to Information (CAI) and the use of more significant sanctions against businesses since September 2023. Desjardins Group has completed the work associated with these new requirements, including obligations related to privacy impact assessments, consent, the confidentiality policy, automated decisions, rights of individuals and managing third parties. The federal bill C-27, *An Act to enact the Consumer Privacy Protection Act, the Personal Information and Data Protection Tribunal Act and the Artificial Intelligence and Data Act and to make consequential and related amendments to other Acts* is still under parliamentary consideration. Desjardins Group continues to monitor work in progress.

Fraud and financial crimes

Fraud and financial crime risk is the risk associated with acts conducted illegally by internal or external parties with the intent to cause harm, benefit from them or misappropriate assets belonging to Desjardins Group, members or clients, or the risk associated with non-compliance by Desjardins Group with obligations arising from the anticipation, interpretation or application of a legislative or regulatory provision regarding financial crimes.

To protect members and clients as well as the organization, Desjardins Group continually improves its processes and solutions to adequately prevent, detect and deal with fraud. To do so, fraud risks are identified on an ongoing basis and effective and robust mitigation measures are constantly evolving. With respect to the fight against money laundering and terrorist financing, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) imposing a monetary sanction to a Canadian financial institution confirms that this regulator is willing to impose more severe sanctions for non-compliance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

Desjardins Group also has a Financial Crime Governance Framework, which it is continuously improving. In the second quarter of 2023, the Department of Finance initiated a parliamentary review of Canada's anti-money laundering regime. Desjardins Group, represented by the Chief Anti-Money Laundering Officer, Desjardins Group, had the opportunity to make its recommendations to improve the Canada's anti-money laundering regime.

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, 2023, 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, 2023, 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

On January 1, 2023, the adoption of IFRS 17, "Insurance Contracts", materially affected Desjardins Group's internal control over financial reporting. Additions and changes have been made to controls related to actuarial and financial processes to comply with the requirements of this new standard. These processes also use new applications and technological tools.

For the opening balances as at January 1, 2022, we performed the following procedures to obtain the necessary assurance on the reliability of the financial reporting:
- Validate the completeness of internal controls to cover the significant risks of errors in the financial statements and the MD&A,
- Assess the implementation of the technological tools necessary to process IFRS 17 requirements,
- Analyze the supplier's report (SOC 1) to obtain assurance on the proper functioning of the controls operated by the supplier,
- Reconcile the opening balances as at January 1, 2022, before and after the adoption of IFRS 17.

We also reviewed the design and implementation of the financial and technological controls in place in 2022 used to validate the activities producing the 2022 comparative data in the 2023 documents.

In 2023, Desjardins Group designed new controls over financial reporting and modified some of them. It also provides:
- Monitor the progress on certain controls that have been modified or implemented since January 1, 2023, to validate their design,
- Perform effectiveness testing on all controls used for financial reporting in 2023, including those implemented in 2022 and 2023.

With the exception of the changes described above, Desjardins Group did not make any other significant changes to processes that had materially affected, or may materially affect, its internal control over financial reporting.

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the 2023 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, on terms similar to those offered to unrelated parties.

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 on terms similar to those offered to unrelated parties.

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 on terms similar to those offered to unrelated parties 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, 2023. The accounting policies are described in Note 2, "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 accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

The economic environment 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 8, "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.

Additional information about structured entities is presented in Note 14, "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 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 classified as at “Amortized cost” and loans classified as “At fair value through profit or loss” 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.

Deposits

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

Subordinated notes

The fair value of subordinated notes is based on market prices.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 21, "Derivative financial instruments and hedging activities", to the Combined Financial Statements specifies the nature of derivative financial instruments held by Desjardins Group.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments is a reasonable approximation of their fair value given their short-term maturity or their features. These financial instruments include the following items: “Cash and deposits with financial institutions”; “Securities borrowed or purchased under reverse repurchase agreements”; “Clients’ liability under acceptances”; “Amounts receivable from clients, brokers and financial institutions”; some items included in “Other assets – Other”; “Acceptances”; “Commitments related to securities lent or sold under repurchase agreements”; “Amounts payable to clients, brokers and financial institutions”; and some items included in “Other liabilities – Other”.

Additional information on the fair value of financial instruments is presented in Note 5, "Fair value of financial instruments", to the Combined Financial Statements. Note 2, "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 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.

Additional information about the derecognition of financial assets is presented in Note 9, "Derecognition of financial assets", to the Combined Financial Statements.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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 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.

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, LGD and 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 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 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.

For credit-impaired financial assets that are individually material, measuring the allowance for expected credit losses is based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions.

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.

The macroeconomic environment, which is notably characterized by high interest rates, growing geopolitical tensions and persistent inflation, still gives rise to uncertainty. Therefore, management has to continue making particularly complex judgments to estimate the allowance for credit losses in such situation.

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

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the allowance for expected credit losses.

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

Determination of significant increases in credit risk

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

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

Incorporation of forward-looking information

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

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 8, "Loans and allowance for credit losses" to the Combined Financial Statements.

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.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired requires management to make estimates and assumptions. 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

Insurance contract liabilities are measured mainly using two approaches, namely the general model and the premium allocation approach.

Note 17, "Insurance and reinsurance contracts", 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.

Contracts to which the general measurement model is applied

On initial recognition, the liability for a group of insurance contracts corresponds to the liability for remaining coverage, which is the total of the fulfilment cash flows, namely the estimate of the future cash flows, the adjustment for the time value of money and the risk adjustment for non-financial risk, as well as the contractual service margin (CSM) which represents unearned profit. At each reporting date, the carrying amount of a group of insurance contracts corresponds to the sum of the liability for remaining coverage, comprising the fulfilment cash flows related to services to be provided in future periods, and the CSM, and the liability for incurred claims, comprising the fulfilment cash flows related to past service, such as incurred claims and other incurred insurance service expenses.

Contracts to which the premium allocation approach is applied

On initial recognition, the carrying amount of the liability for remaining coverage of a group of insurance contracts is equal to the premiums received, minus the insurance acquisition cash flows allocated to that group on such date and adjusted, as the case may be, by the amount arising from the derecognition of an asset for insurance acquisition cash flows and any other asset or liability previously recognized and related to this group. At each reporting date, the liability for remaining coverage of a group on insurance contracts is equal to its carrying amount at the beginning of the year, plus the premiums received and amounts relating to the amortization of insurance acquisition cash flows, less the amount of insurance acquisition cash flows allocated and the amount recognized as revenue.

Key estimates and assumptions

The measurement of insurance contract liabilities is based on estimates and assumptions. The main assumptions used are described in the following paragraphs.

Estimates of future cash flows – Life and health insurance activities

The assumptions used to determine the estimates of future cash flows are those that are the most likely in management's judgment. The model used considers that best estimate future cash flows give the same result as the probability-weighted mean of the full range of possible outcomes. Assumptions are determined from the perspective of the life and health insurance subsidiary based on situations existing at the reporting date. The risks associated with the accuracy of the assumptions used to determine the estimates of future cash flows arise from the non-materialization of expected assumptions. The appointed actuary periodically carries out studies on the underwriting experience related to each assumption and modifies it, if appropriate, to take into account the current and future expected situation. Assumptions relating to mortality, morbidity, contract termination rate, expenses, taxes and policyholder dividends are prepared. In addition, the facts and circumstances indicating that a group of insurance contracts is or is becoming onerous are determined using judgment and data analysis.

Estimates of future cash flows – Property and casualty insurance activities

Facts and circumstances indicating a group is onerous

For each portfolio and each geographic area, the facts and circumstances indicating that a group of insurance contracts is or becomes onerous are determined quantitatively and qualitatively. The quantitative analysis is based on estimated combined ratios, which represent the sum of the loss ratio and the other insurance service expense ratio. When these ratios exceed a predetermined threshold, this signals that there are facts and circumstances indicating that a group of insurance contracts might be onerous. Loss experience monitoring reports are also used to identify facts and circumstances when there are significant variances from budget. The qualitative analysis is based on the judgments made by the members of a committee coming from various sectors (pricing, actuarial services, finances) who meet quarterly to discuss observed trends.

Liability for remaining coverage

Expected claims are based on historical ratios by portfolio and geographic area, adjusted to reflect expected future conditions. Selecting adjustment factors for historical ratios is based on the items mentioned in the "Liability for incurred claims" below as well as other items also requiring judgment, such as considering catastrophes and seasonality. Some insurance service expenses that the property and casualty insurance subsidiaries will have to incur to settle claims are not included in expected claims. These costs are allocated between groups of insurance contracts based on the efforts required to settle claims. Future premium receipts and expected other insurance service expenses, including insurance acquisition cash flows, if any, are also calculated by group of insurance contracts.

Liability for incurred claims

The liability for incurred claims includes the individual estimates of loss for each reported claim as well as a provision for claims incurred but not reported by the insured persons, for other insurance service expenses that will have to be incurred to settle those claims and for shortfalls in the estimates of losses for claims reported. The liability for incurred claims is estimated using appropriate actuarial techniques for loss prospective valuation in accordance with the Canadian Institute of Actuaries standards. The main assumption underlying these methods is that past claims development can be used to project future 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 or changes to adequately determine the liability for incurred claims that represents the probability-weighted mean of the possible outcomes for future claim payments. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various quantitative and qualitative factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends, and other factors like inflation and changes in market factors, such as public behaviour towards claims and economic conditions, as well as internal factors, such as the composition of the portfolio of insurance contracts, the terms of those contracts and the claim handling procedures. A degree of judgment is also involved in assessing the extent to which external factors, such as court decisions and government legislation, can influence this estimate.

Other estimates and assumptions

Adjustments to reflect the time value of money

The estimates of future cash flows have to be adjusted to reflect the time value of money and financial risks. Judgment is required in determining the yield curves to be used, as a result of the determination of the assets held in the reference portfolios, the risk-free rates, the adjustments for credit risk and the adjustments for liquidity.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk represents the compensation that the insurance subsidiaries require for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks when they fulfil insurance contracts. The risks to which the risk adjustment for non-financial risk relate are insurance risk and other non-financial risks, such as lapse risk and expenditure risk, which is the risk of an unexpected increase in administration expenses related to managing the contract. This adjustment also reflects the degree of risk aversion of the insurance subsidiaries and a benefit to reflect the degree of diversification the insurance subsidiaries consider when determining this compensation. The risk adjustment for non-financial risk is determined at the consolidated level for each insurance subsidiary, net of reinsurance, and then allocated to each group of insurance contracts and each group of reinsurance contracts held based of their risk profile.

Contractual service margin (CSM)

At the end of each period, the life and health insurance subsidiary recognizes in the Combined Statements of Income an amount of the CSM based on coverage units allocated to services provided. To determine this amount, the CSM at the reporting date is allocated equally to each remaining coverage unit. Management has to make judgments to determine the appropriate coverage units that adequately reflect the quantity of insurance contract services provided over the insurance contract coverage period. The quantity of insurance contract services should consider the services arising from the insurance coverage as well as any investment-return services for insurance contracts without direct participation features and any investment-related services for insurance contracts with direct participation features. To determine the quantity of insurance contract services for the insurance coverage, the life and health insurance subsidiary uses the amount it expects the contract holder could claim if an insured event occurs.

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.

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 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.

Note 28, "Income taxes on surplus earnings", to the Combined Financial Statements provides additional information on income taxes on surplus earnings.

EMPLOYEE BENEFITS

Desjardins Group offers to a 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 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.

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

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

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

Note 18, "Employee benefits – Pension and post-retirement benefit plans", 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 effective as at December 31, 2023, do not have a significant impact on Desjardins Group’s financial statements. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

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 Caisse Desjardins Ontario Credit Union Inc. (CDO). The CDO's financial information is compared to that of Desjardins Group in the table below.

Table 49 – CDO's financial information

As at December 31 or for the years ended December 31

	2023			2022 Restated		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Balance Sheets**	**% proportion**	CDO	Desjardins Group Combined Balance Sheets	% proportion
Total assets	**$11,922**	**$ 422,940**	**2.8%**	$10,756	$ 403,944	2.7%
Total liabilities	**11,107**	**388,550**	**2.9**	9,936	371,537	2.7
Total equity	**815**	**34,390**	**2.4**	820	32,407	2.5

	2023			2022 Restated		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Statements of Income**	**% proportion**	CDO	Desjardins Group Combined Statements of Income	% proportion
Total net income	**$ 183**	**$ 12,577**	**1.5%**	$ 286	$ 10,340	2.8%
Surplus earnings before member dividends	**5**	**2,259**	**0.2**	35	1,242	2.8
Net surplus earnings (deficit) for the year after member dividends	**(4)**	**1,955**	**(0.2)**	26	945	2.8

5.6 Five-year statistical review

Table 50 – Combined Balance Sheets
As at December 31

(in millions of dollars)	2023	2022 Restated	2021[(1)]	2020[(1)]	2019[(1)]
ASSETS					
Cash and deposits with financial institutions	**$ 8,987**	$ 8,913	$ 16,328	$ 12,126	$ 3,709
Securities					
Securities at fair value through profit of loss	**36,627**	33,987	39,772	34,960	35,168
Securities at fair value through other comprehensive income	**51,692**	51,258	53,286	52,679	22,909
Securities at amortized cost	**46**	50	41	29	1,616
	88,365	85,295	93,099	87,668	59,693
Securities borrowed or purchased under reverse repurchase agreements	**13,678**	17,024	12,019	9,658	10,032
Loans					
Residential mortgage	**165,858**	159,682	149,695	136,208	126,757
Consumer, credit card and other personal loans	**24,239**	24,211	24,386	25,310	27,022
Business and government	**77,018**	66,812	57,400	51,015	49,988
	267,115	250,705	231,481	212,533	203,767
Allowance for credit losses	**(1,180)**	(1,035)	(970)	(1,112)	(685)
	265,935	249,670	230,511	211,421	203,082
Segregated fund net assets	**24,754**	21,356	22,804	19,093	17,026
Other assets					
Clients' liability under acceptances	**—**	25	268	328	380
Premiums receivable	**N/A**	N/A	2,839	2,803	2,686
Derivative financial instruments	**5,861**	5,723	5,828	5,820	4,246
Amounts receivable from clients, brokers and financial institutions	**2,801**	3,486	2,557	2,499	2,229
Reinsurance contract assets	**1,676**	1,622	1,582	1,962	2,001
Right-of-use assets	**476**	543	530	565	566
Investment property	**974**	929	926	924	957
Property, plant and equipment	**1,549**	1,587	1,531	1,541	1,471
Goodwill	**563**	157	157	156	121
Intangible assets	**1,186**	663	497	424	381
Investments in companies accounted for using the equity method	**1,477**	1,465	1,380	1,189	1,034
Net defined benefits plan assets	**46**	679	62	—	—
Deferred tax assets	**1,244**	1,267	789	1,154	1,292
Other	**3,368**	3,540	3,378	2,704	2,090
	21,221	21,686	22,324	22,069	19,454
TOTAL ASSETS	**$ 422,940**	$ 403,944	$ 397,085	$ 362,035	$ 312,996
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 151,519**	$ 145,377	$ 136,332	$ 127,928	$ 111,665
Business and government	**127,219**	114,172	101,644	96,853	81,556
Deposit institutions	**591**	287	379	455	697
	279,329	259,836	238,355	225,236	193,918
Insurance contract liabilities	**32,961**	30,202	34,762	34,827	31,595
Other liabilities					
Acceptances	**—**	25	268	328	380
Commitments related to securities sold short	**11,686**	9,859	11,342	9,353	10,615
Commitments related to securities lent or sold under repurchase agreements	**12,032**	24,565	31,177	19,152	10,562
Derivative financial instruments	**6,626**	6,691	5,500	4,884	4,278
Amounts payable to clients, brokers and financial institutions	**9,350**	8,978	7,938	6,810	5,552
Lease liabilities	**553**	622	596	633	624
Reinsurance contract liabilities	**38**	36	N/A	N/A	N/A
Segregated fund net liabilities for investment contracts	**21,233**	17,826	22,796	19,089	17,002
Net defined benefit plan liabilities	**867**	654	1,048	3,107	3,068
Deferred tax liabilities	**252**	223	301	372	281
Other	**10,669**	9,092	7,516	6,488	6,294
	73,306	78,571	88,482	70,216	58,656
Subordinated notes	**2,954**	2,928	1,960	1,493	1,398
TOTAL LIABILITIES	**388,550**	371,537	363,559	331,772	285,567
EQUITY					
Capital stock	**4,731**	4,786	4,982	5,021	5,134
Undistributed surplus earnings	**2,668**	8,982	1,546	1,874	2,352
Accumulated other comprehensive income	**(708)**	(2,058)	765	1,302	211
Reserves	**26,784**	19,802	25,321	21,316	18,959
Equity – Group's share	**33,475**	31,512	32,614	29,513	26,656
Non-controlling interest	**915**	895	912	750	773
TOTAL EQUITY	**34,390**	32,407	33,526	30,263	27,429
TOTAL LIABILITIES AND EQUITY	**$ 422,940**	$ 403,944	$ 397,085	$ 362,035	$ 312,996

(1) In accordance with to the standards that were in force before Desjardins Group retrospectively adopted IFRS 17, "Insurance Contracts", on January 1, 2023, with restatement of the comparative periods for fiscal 2022.

Table 51 – Combined Statements of Income
For the years ended December 31

(in millions of dollars)	2023	2022 Restated	2021(1)	2020(1)	2019(1)
INTEREST INCOME					
Loans	**$ 11,900**	$ 8,278	$ 6,928	$ 7,278	$ 7,709
Securities	**2,067**	1,107	473	488	412
	13,967	9,385	7,401	7,766	8,121
INTEREST EXPENSE					
Deposits	**6,459**	2,829	1,508	2,010	2,618
Subordinated notes	**139**	78	65	57	72
Other	**336**	148	42	59	135
	6,934	3,055	1,615	2,126	2,825
NET INTEREST INCOME	**7,033**	6,330	5,786	5,640	5,296
NET PREMIUMS	**N/A**	N/A	11,278	9,920	9,412
INSURANCE SERVICE RESULT					
Insurance revenue	**10,429**	9,725	N/A	N/A	N/A
Insurance service expenses	**(8,934)**	(8,612)	N/A	N/A	N/A
Net reinsurance service income (expenses)	**(129)**	(55)	N/A	N/A	N/A
	1,366	1,058	N/A	N/A	N/A
NET INSURANCE FINANCE RESULT					
Net insurance investment income (loss)	**2,971**	(4,371)	N/A	N/A	N/A
Net insurance finance income (expenses)	**(2,383)**	4,594	N/A	N/A	N/A
Net reinsurance finance income (expenses)	**103**	(215)	N/A	N/A	N/A
	691	8	N/A	N/A	N/A
NET INSURANCE SERVICE INCOME	**2,057**	1,066	N/A	N/A	N/A
OTHER INCOME					
Deposit and payment service charges	**483**	448	424	388	431
Lending fees and credit card service revenues	**951**	965	735	628	774
Brokerage and investment fund services	**1,339**	989	1,108	954	886
Management and custodial service fees	**751**	662	732	617	582
Net other investment income (loss)	**(486)**	(500)	319	3,116	3,087
Overlay approach adjustment for insurance operations financial assets	**N/A**	N/A	(404)	(42)	(192)
Foreign exchange income (loss)	**192**	119	121	103	64
Other	**257**	261	221	149	417
	3,487	2,944	3,256	5,913	6,049
TOTAL NET INCOME	**12,577**	10,340	20,320	21,473	20,757
PROVISION FOR CREDIT LOSSES	**529**	277	69	863	365
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	**N/A**	N/A	6,883	9,233	9,111
NON-INTEREST EXPENSE					
Salaries and employee benefits	**5,428**	5,120	4,437	3,902	3,655
Professional fees	**817**	1,084	1,013	664	633
Technology	**1,131**	924	893	791	736
Commissions	**705**	306	881	788	837
Occupancy costs	**408**	391	406	419	389
Communications	**358**	379	329	290	344
Business and capital taxes	**123**	118	459	418	389
Other	**1,247**	1,203	1,148	1,025	1,049
Gross non-interest expense	**10,217**	9,525	9,566	8,297	8,032
Non-interest expense included in insurance service expenses(2)	**(985)**	(1,023)	N/A	N/A	N/A
NET NON-INTEREST EXPENSE	**9,232**	8,502	N/A	N/A	N/A
OPERATING SURPLUS EARNINGS	**2,816**	1,561	3,802	3,080	3,249
Income taxes on surplus earnings	**557**	319	860	661	651
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	**2,259**	1,242	2,942	2,419	2,598
Member dividends	**412**	403	387	330	317
Tax recovery on member dividends	**(108)**	(106)	(103)	(85)	(85)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	**$ 1,955**	$ 945	$ 2,658	$ 2,174	$ 2,366
Of which:					
Group's share	**$ 1,884**	$ 927	$ 2,515	$ 2,090	$ 2,320
Non-controlling interests' share	**71**	18	143	84	46

(1) In accordance with the standards that were in force before Desjardins Group retrospectively adopted IFRS 17, "Insurance Contracts", on January 1, 2023, with restatement of the comparative periods for fiscal 2022.

(2) Represents the non-interest expense directly related to the fulfillment of insurance contracts presented under "Insurance service result".

Table 52 – Selected financial measures

As at December 31 or for the years ended December 31

(in millions of dollars and as a percentage)	2023	2022 Restated	2021[1]	2020[1]	2019[1]
Tier 1A capital ratio[2]	**20.4%**	20.2%	21.1%	21.9%	21.6%
Tier 1 capital ratio[2]	**20.4**	20.2	21.1	21.9	21.6
Total capital ratio[2]	**21.9**	21.9	22.1	22.6	21.6
TLAC ratio[3]	**29.4**	28.7	26.5	24.7	22.6
Leverage ratio[2]	**7.3**	7.6	8.5	8.5	8.8
TLAC leverage ratio[3]	**10.5**	10.6	10.4	9.5	9.1
Liquidity coverage ratio[4]	**154**	140	140	157	130
Net Stable Funding Ratio[4]	**124**	126	129	N/A	N/A
Net interest margin[5]	**2.28**	2.13	2.06	2.38	2.47
Return on equity[6]	**6.8**	3.8	8.9	8.3	9.9
Credit loss provisioning rate[6]	**0.20**	0.11	0.03	0.41	0.18
Gross credit-impaired loans/gross loans and acceptances[6]	**0.74**	0.48	0.47	0.62	0.56
Productivity index – Personal and Business Services[6][7]	**76.3**	79.2	73.7	65.5	62.9
Insurance and annuity premiums – Wealth Management and Life and Health Insurance[6]	**$ 6,313**	$ 5,806	$ 5,667	$ 4,711	$ 4,689
Total contractual service margin (CSM) – Wealth Management and Life and Health Insurance[8]	**2,595**	2,627	N/A	N/A	N/A
Direct written premiums – Property and Casualty Insurance[6]	**6,856**	6,205	6,053	5,726	5,536
Assets under administration[6]	**535,264**	447,312	482,911	458,177	437,000
Assets under management[6]	**81,551**	76,169	91,258	77,474	67,553
Average assets[6]	**409,820**	399,913	383,204	342,354	307,220
Average interest-bearing assets[5]	**308,315**	296,712	280,510	236,644	214,492
Net interest income	**7,033**	6,330	5,786	5,640	5,296
Average net loans and acceptances[6]	**257,524**	240,621	221,317	207,727	196,628
Average deposits[6]	**268,099**	249,801	234,571	214,148	189,889
Risk-weighted assets[2]	**140,481**	139,311	134,518	120,101	113,861

(1) In accordance with the standards that were in force before Desjardins Group retrospectively adopted IFRS 17, "Insurance Contracts", on January 1, 2023, with restatement of the comparative periods for fiscal 2022.

(2) In accordance with the *Capital Adequacy Guideline* issued by the AMF for financial services cooperatives in particular. See Section 3.2, "Capital Management".

(3) In accordance with the *Total Loss Absorbing Capacity Guideline* (TLAC Guideline) issued by the AMF and based on risk-weighted assets and exposures for purposes of the leverage ratio at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc. 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 about non-GAAP financial measures and ratios, see "Non-GAAP and other financial measures" on pages 3 and 4.

(6) For further information about supplementary financial measures, see the Glossary on pages 106 to 113.

(7) Following the transition to IFRS 17, Desjardins Group now presents the productivity index of the Personal and Business Services segment, which is a supplementary financial measure, replacing Desjardins Group's productivity index, which was a non-GAAP financial measure.

(8) Total CSM of $2,813 million ($2,884 million as at December 31, 2022) presented net of reinsurance for a total of $218 million ($257 million of December 31, 2022). Included in the line items "Insurance contract liabilities" and "Reinsurance contract assets (liabilities)", on the Combined Balance Sheets. For more information, see Note 17, "Insurance and reinsurance contracts", to the Interim Combined Financial Statements.

5.7 Supplementary information

The tables below meet the financial disclosure requirements stipulated in the *Act Respecting Financial Services Cooperatives*.

Table 53 – Summary of the FCDQ's combined investments and loans
As at December 31

(unaudited, in millions of dollars and as a percentage)	Contractual maturities									Total		Average return[1]	
	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	More than 5 years	No stated maturity	2023	2022[2]	2023	2022[2]
Securities	$ 4	$ 257	$ 575	$ 288	$ 452	$ 3,113	$ 11,218	$ 10,792	$ 85	$ 26,784	$ 28,725	5.98%	2.83%
Securities borrowed or purchased under reverse repurchase agreements	11,461	—	—	—	—	—	—	—	—	11,461	5,753	4.24	1.93
Loans	17,648	3,007	748	844	958	3,090	4,752	966	2,873	34,886	26,124	6.79	4.12
Loans to member caisses	418	1,026	1,281	1,650	1,469	6,026	6,093	—	6,197	24,160	23,411	5.61	2.78
Consumer, credit card and other personal loans	22	50	130	137	177	939	4,067	6,062	6,066	17,650	17,558	7.52	6.66
Allowance for credit losses	—	—	—	—	—	—	—	—	(688)	(688)	(623)	—	—
Total investments and loans	$ 29,553	$ 4,340	$ 2,734	$ 2,919	$ 3,056	$ 13,168	$ 26,130	$ 17,820	$ 14,533	$114,253	$100,948	6.21%	3.75%

(1) Excluding the impact of derivative financial instruments.
(2) The data have been adjusted to conform to the current year's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.

Table 54 – Summary of combined deposits by member caisses
As at December 31

(unaudited, in millions of dollars and as a percentage)	Contractual maturities									Total		Average return	
	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	More than 5 years	No stated maturity	2023	2022	2023	2022
Demand deposits	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 4,482	$ 4,482	$ 5,066	4.88%	1.72%
Term deposits	291	618	1,171	860	770	1,936	6,623	5	—	12,274	10,544	3.80	1.96
Total deposits by member caisses	$ 291	$ 618	$ 1,171	$ 860	$ 770	$ 1,936	$ 6,623	$ 5	$ 4,482	$ 16,756	$ 15,610	4.12%	1.88%

Table 55 – General and other reserves
For the years ended December 31

(in millions of dollars)	General reserve	Capital gains reserve	Community Development Funds	Total
Balance as at December 31, 2021, as reported	$ 16,360	$ 6,763	$ 191	$ 23,314
Adoption of IFRS 17	—	549	—	549
Restated Balance as at January 1, 2022	16,360	7,312	191	23,863
Transfer (restated)	1,676	91	21	1,788
Equity transactions (restated)	—	(7,896)	—	(7,896)
Balance as at December 31, 2022	$ 18,036	$ (493)	$ 212	$ 17,755
Transfer	**5,014**	**(149)**	**20**	**4,885**
Balance as at December 31, 2023	**$ 23,050**	**$ (642)**	**$ 232**	**$ 22,640**

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.

Advanced 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, applicable maturity and exposure at default.

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 interest-bearing assets
Include securities, cash and deposits with financial institutions, as well as loans, and exclude life and health insurance and property and casualty insurance assets as well as all other assets not generating any net interest income.

Average interest-bearing liabilities
Include deposits, subordinated notes and other interest-bearing liabilities, and exclude life and health insurance and property and casualty insurance liabilities as well as all other liabilities not generating any net interest income.

Average liabilities
Average of liabilities 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

Ratios determined by dividing regulatory capital by risk-weighted assets. These measures are defined in the *Capital Adequacy Guideline* issued by the AMF.

Capital share

Equity security offered to Desjardins caisse members.

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 an 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.

Contractual service margin (CSM)

Represents the unearned profit that will be recognized under "Insurance revenue", in the Combined Statements of Income, as insurance contract services are provided.

Countercyclical buffer

The countercyclical buffer aims to ensure that capital requirements take account of the macro-financial environment in which Desjardins Group operates. The AMF could deploy this buffer when it judges that excessive credit growth is associated with a build-up of system-wide risks and, as such, would provide a buffer of capital to absorb potential losses.

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 on loans and off-balance sheet items 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 and issuer 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.

Direct written premiums

In property and casualty insurance, the premiums stipulated in insurance policies issued and in force during the year. In life and health insurance, insurance or annuity premiums for the policies or certificates issued during the year.

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, social and governance (ESG) risk factors

Refer to all environmental, social and governance (ESG) considerations that Desjardins Group and its entities must take into account as part of their operations, financing, investing or insurance activities and which could result, in particular, in credit risks, insurance risks, asset value losses or non-financial risks such as damage to the organization's reputation.

Exposure at default (EAD)

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.

Exposures related to residential mortgage loans

In accordance with the regulatory capital framework, risk category that includes mortgage loans and credit margins secured by real property granted to individuals.

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.

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.

Foundation 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, applicable maturity and exposure at default. The regulator prescribes the loss given default parameters.

Fraud and financial crime risk

Risk associated with acts conducted illegally by internal or external parties with the intent to cause harm, benefit from them or misappropriate assets belonging to Desjardins Group, members or clients, or the risk associated with non-compliance by Desjardins Group with obligations arising from the anticipation, interpretation or application of a legislative or regulatory provision regarding financial crimes.

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, or 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.

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
Insurance contracts are contracts that transfer a significant insurance risk to an insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate a contract holder if a specified uncertain future event adversely affects the contract holder. In certain situations, an insurance contract may also transfer a financial risk.

Insurance contract liabilities
Obligation representing the amount of an insurance company's commitments toward all insureds and beneficiaries, including in particular an amount to cover the payment of benefits and claims.

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
- Life and health insurance risk refers to the risk that the amount and timing of benefits and expenses payable on life insurance, health insurance or annuity contract products differ from those expected.
- Property and casualty insurance risk is the risk that benefits payable on property and casualty insurance products differ from the amounts estimated when designing, pricing or measuring actuarial reserves.

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 Models 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).

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 anticipation, 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 calculated as the capital measure, which is Tier 1 capital, divided by the exposure measure. The exposure measure includes:
- on-balance sheet exposures;
- securities financing transaction exposures;
- derivative exposures; and
- off-balance sheet items.

Liquidity coverage ratio
Ratio determined by dividing the stock of unencumbered HQLA by the amount of net cash outflows for the next 30 days assuming 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 (LGD)
Economic loss that may be incurred should the borrower default, expressed as a percentage of exposure at default.

Loss on onerous contracts
When a group of insurance contracts is onerous on initial recognition or subsequently becomes onerous, a loss on onerous contracts is recognized as insurance service expenses and a loss component is added to the liability for remaining coverage. Subsequent changes in the loss component related to future service are recognized as losses and reversals of losses on onerous contracts under “Insurance service expenses” in the Combined Statements of Income.

Market risk
Risk of loss arising from changes in the fair value of financial instruments as a result of 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 notes.

Net interest margin
Net interest income expressed as a percentage of average interest-bearing assets.

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.

Net stable funding ratio (NSFR)
Ratio determined by dividing available stable funding, designated by capital and liabilities, by required stable funding, designated by assets.

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 *Capital Adequacy Guideline* issued by the AMF, in particular securities issued by 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 consideration the impact of failures to achieve the strategic objectives of the component concerned or Desjardins Group, if applicable.

Operating leverage
Represents the difference between the growth rate for total net income and the growth rate for net non-interest expense.

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.

Privacy risk
Risk associated with inadequate handling of personal information (theft or breach, loss, collection, consent management, use, disclosure, retention, destruction or infringement of the rights of individuals related to their personal information), through intentional or unintentional actions (internal threat, error, negligence or omission). The key consequences of privacy risk deal with Desjardins Group's reputation, compliance and potential financial losses.

Probability of default (PD)
Probability that a borrower defaults on his obligations over a period of one year.

Productivity index – Personal and Business Services
Gross non-interest expense for the Personal and Business Services segment expressed as a percentage of total net income for the Personal and Business Services segment.

Provision for credit losses
Amount recognized in profit or loss to bring the allowance for credit losses to a level determined appropriate by management. It includes provisions for credit losses on unimpaired and impaired financial assets.

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.

Regulatory capital
In accordance with the definition set out in the *Capital Adequacy Guideline* 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 Section 3.2 "Capital management" 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.

Reinsurance contract
Contract whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite such a contract, 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 a material unfavourable impact on revenues and equity or may significantly affect the confidence of its members and clients or, more broadly, public opinion.

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.

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 adjustment for non-financial risk
Represents the compensation that the insurance subsidiaries require for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks when they fulfil insurance contracts.

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 guidelines 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 risk assets measured using the Internal Ratings-Based Approach, applied to credit exposures in compliance with section 1.3 of the *Capital Adequacy Guideline* issued by the AMF.

Securitization
Process by which financial assets, such as mortgage loans, are converted into asset-backed securities.

Security borrowed or purchased
Security typically borrowed or purchased to cover a short position. The borrowing or purchase usually requires that an asset, taking the form or cash or highly rated securities, be pledged as collateral by the borrower.

Security lent or sold
Security typically lent or sold to cover a short position of the borrower. The loan or sale usually requires that an asset, taking the form or cash or highly rated securities, be pledged as collateral by the borrower.

Security sold short
Commitment by a seller to sell a security it does not own. Typically, the seller initially borrows the security to deliver it to the purchaser. At a later date, the seller buys an identical security to replace the borrowed security.

Segregated fund
Type of fund offered by insurance companies through a variable contract that provides the contract holder with a number of guarantees, such as principal repayment upon death. Segregated funds encompass a range of categories of securities and are designed to meet a variety of investment objectives. Segregated fund deposits represent amounts invested by clients. Segregated funds are comprised of investment funds with capital guaranteed upon death or at maturity.

Segregated fund deposits
Amounts paid by annuity contract holders in order to invest in segregated funds. Individual annuity contracts provide for a guarantee of the principal on death or at maturity.

Standardized Approach

– <u>Credit risk</u>
  Default approach used to calculate risk-weighted assets. Under this method, the entity uses valuations performed by external credit assessment institutions recognized by the AMF to determine the risk-weighting factors related to the various exposure categories.
– <u>Market risk</u>
  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.
– <u>Operational risk</u>
  Standardized Approach for operational risk based on two main components: a Business Indicator Component (BIC), which is based on financial statements, and a Loss Component (LC), from which an Internal Loss Multiplier (ILM) is calculated using average historical losses. The operational risk capital requirement is calculated by multiplying the BIC and the ILM, and risk-weighted assets for operational risk are equal to this capital requirement multiplied by 12.5.

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

Stressed Value at Risk
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 total loss absorbing capacity by the exposure measure. The exposure measure is independent from risk and includes:
- on-balance sheet exposures;
- securities financing transaction exposures;
- derivative exposures; and
- off-balance sheet items.

TLAC ratio
Ratio determined by dividing the total loss absorbing capacity (TLAC) by risk-weighted assets.

Total loss absorbing capacity – TLAC
Regulatory capital and instruments that meet the eligibility criteria set out in the *Total Loss Absorbing Capacity Guideline* issued by the AMF.

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)
Potential loss that could occur by the next business day in normal market conditions and at a confidence level of 99% (approximate loss that could occur once every 100 days).