



Financial Report

Second quarter of 2021

Desjardins Group posts surplus earnings of \$935 million for the second quarter of 2021

FINANCIAL HIGHLIGHTS

(in millions of dollars and as a percentage)	As at and for the three-month periods ended			As at and for the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Results					
Net interest income	\$ 1,452	\$ 1,403	\$ 1,368	\$ 2,855	\$ 2,721
Net premiums	2,587	2,585	2,238	5,172	4,760
Other operating income ⁽¹⁾	830	795	678	1,625	1,445
Operating income⁽¹⁾	4,869	4,783	4,284	9,652	8,926
Investment income (loss) ⁽¹⁾	909	(1,748)	2,325	(839)	2,379
Total income	5,778	3,035	6,609	8,813	11,305
Provision for (recovery of) credit losses	(3)	4	271	1	595
Claims, benefits, annuities and changes in insurance contract liabilities	2,191	(206)	3,606	1,985	5,677
Non-interest expense	2,377	2,165	2,012	4,542	4,011
Income taxes on surplus earnings	278	274	191	552	208
Surplus earnings before member dividends	\$ 935	\$ 798	\$ 529	\$ 1,733	\$ 814
Contribution to combined surplus earnings by business segment⁽²⁾					
Personal and Business Services	\$ 397	\$ 414	\$ 315	\$ 811	\$ 505
Wealth Management and Life and Health Insurance	235	125	261	360	220
Property and Casualty Insurance	330	248	16	578	89
Other	(27)	11	(63)	(16)	-
	\$ 935	\$ 798	\$ 529	\$ 1,733	\$ 814
Return to members and the community					
Member dividends	\$ 90	\$ 90	\$ 80	\$ 180	\$ 157
Sponsorships, donations and bursaries ⁽³⁾	20	12	14	32	30
Desjardins Member Advantages program	5	4	12	9	23
	\$ 115	\$ 106	\$ 106	\$ 221	\$ 210
Indicators					
Net interest margin ⁽¹⁾⁽⁴⁾	2.09%	2.10%	2.23%	2.09%	2.29%
Return on equity ⁽¹⁾	11.5	10.3	7.5	10.9	5.8
Productivity index ⁽¹⁾	66.3	66.8	67.0	66.5	71.3
Credit loss provisioning rate ⁽¹⁾	(0.01)	0.01	0.52	0.00	0.58
Gross credit-impaired loans/gross loans and acceptances ⁽¹⁾	0.55	0.57	0.63	0.55	0.63
Liquidity coverage ratio ⁽⁵⁾	151	155	167	151	167
On-balance sheet and off-balance sheet					
Assets	\$ 389,278	\$ 376,981	\$ 349,934	\$ 389,278	\$ 349,934
Net loans and acceptances	222,023	215,005	207,169	222,023	207,169
Deposits	238,670	230,919	220,270	238,670	220,270
Equity	32,719	31,644	28,767	32,719	28,767
Assets under administration	485,806	464,678	433,888	485,806	433,888
Assets under management ⁽⁶⁾	85,360	77,169	71,294	85,360	71,294
Capital ratios and leverage ratio					
Tier 1A capital ratio	21.4%	22.1%	21.8%	21.4%	21.8%
Tier 1 capital ratio	21.4	22.1	21.8	21.4	21.8
Total capital ratio	22.6	22.6	22.4	22.6	22.4
Leverage ratio	8.5	8.7	8.6	8.5	8.6
Other information					
Number of employees	52,056	50,172	48,550	52,056	48,550

⁽¹⁾ See "Non-GAAP measures".

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

⁽³⁾ Including \$10 million from the caisses' Community Development Fund (\$5 million in the first quarter of 2021, \$8 million in the second quarter of 2020, \$15 million in the first half of 2021 and \$14 million in the first half of 2020).

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

⁽⁵⁾ The ratio is presented based on the average of daily data during the quarter.

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

MESSAGE FROM SENIOR MANAGEMENT

Lévis, August 12, 2021 – For the second quarter ended June 30, 2021, Desjardins Group, the largest financial cooperative in North America, posted surplus earnings before member dividends of \$935 million, up \$406 million compared to the corresponding quarter of 2020. The growth in surplus earnings was mainly due to a decline in the provision for credit losses, solid performance from the caisse network and a lower loss experience in the Property and Casualty Insurance segment. It is worth noting that surplus earnings for the second quarter of 2020 were marked by an increase in the provision for credit losses, affected by the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.

This result reflects the contribution of \$397 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed \$235 million and \$330 million, respectively, to surplus earnings.

The total amount returned to members and the community was \$115 million in the second quarter of 2021, including a \$90 million provision for member dividends, \$20 million in the form of sponsorships, donations and bursaries, and \$5 million paid out through the Desjardins Member Advantages program, compared to a total amount returned to members and the community of \$106 million for the corresponding period of 2020. In addition to this, commitments totalling \$8 million were made in the second quarter of 2021 for the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions.

Desjardins Group complies with Basel III rules and maintains very good capitalization. As at June 30, 2021, Desjardins Group's Tier 1A and total capital ratios were 21.4% and 22.6%, respectively, compared to 21.9% and 22.6%, respectively, as at December 31, 2020.

"Desjardins posted excellent financial results for the second quarter due, in particular, to strong performance from the caisse network and a lower claims rate in property and casualty insurance," said Desjardins President and CEO Guy Cormier. "Among other things, solid results like these make it possible for the Desjardins Group to help its members and clients achieve their goals. We are also proud to play a leading role in developing the circular economy in Canada. This is why we are actively financing innovative companies, like QScale, that look for sustainable solutions. Desjardins Capital, as the manager of Capital régional et coopératif Desjardins (CRCD), invested \$60 million in QScale. This is the largest investment it has made since its founding."

ENHANCED DISCLOSURE TASK FORCE RECOMMENDATIONS INDEX

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

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

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

Type of risk	Recommendation	Disclosure	2020 Annual Report	Interim Financial Report	Supplemental Financial Information	Pillar 3 Report
General	1	Summary of risk information	XXX	Current page		
	2	Risk terminology, risk measures and key parameters	65-70, 233-240		56, 57	40-42
	3	Principal and emerging risks	53, 54, 62, 63, 70-72, 88	12, 13, 34, 35		
	4	New regulatory ratios	53-56, 88-94, 193, 194	30-32, 41, 42, 44-46	7, 8	
Risk governance, risk management and business models	5	Organizational risk management structure	66-70			
	6	Risk management culture	66-70			
	7	Risks from business model and risk appetite	12, 32-43, 53, 57-59, 65-72			
	8	Stress testing	66			
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	53-55	30		6-8, 34, 35
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	55, 56, 193, 194	31	6, 7, 9	9, 10, 34
	11	Movements in regulatory capital	55, 56	32	7	
	12	Capital management and planning	53-56	29-33	6	
	13	Risk-weighted assets by business segments	57-59, 71		10, 11	5
	14	Breakdown of capital requirements by type of risk and by calculation method	57-59, 76, 77, 84, 85	32, 33	10, 11	5
	15	Credit risk		32, 33	23-47	25
	16	Movements in risk-weighted assets by type of risk	59	32, 33	12-14	25
	17	Back testing and validation of credit models	76		44	
Liquidity	18	Management of liquidity needs and reserve	88-94	41-46		36
Funding	19	Encumbered and unencumbered assets	90-94, 198-200	43-45		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	91-93, 200-204	47, 49-52		
	21	Funding sources and strategies	52, 88, 91-93	41, 42, 47		
Market risk	22	Reconciliation of market risk measures to balance sheet	83, 84	37, 38		
	23	Market risk factors	82-87, 177, 178	36-41		
	24	Assumptions, limitations and validation procedures for market risk models	84-86	38-40		
	25	Extreme loss measures	53, 66, 84-86	38-40		
Credit risk	26	Credit risk profile	51, 52, 63, 64, 66, 76, 77, 79-82	28, 35, 36	23-55	16-25
	27	Policy for identifying gross credit-impaired loans	78, 121-139			
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	51, 52, 78-81, 121-139, 152-160	28, 35, 36, 72-78		
	29	Counterparty risk related to derivatives	81, 82, 182-191			26-30
	30	Credit risk mitigation techniques	77, 81, 82, 182-191		23-25	18, 19
Other risks	31	Management of other risks	57-59, 68-71, 94-99	32-35		
	32	Publicly known risk events	95, 198-200			

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Management's Discussion and Analysis (MD&A) dated August 12, 2021 presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended June 30, 2021, in comparison to previous periods. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* (Regulation 52-109) prescribed by the Canadian Securities Administrators (CSA). Unlike the Federation, Desjardins Group is not a reporting issuer, on a combined basis, under this or any other applicable securities regulations. Pursuant to Decision No. 2021-FS-0091 of the *Autorité des marchés financiers* (AMF) dated April 23, 2021, the Combined Financial Statements and MD&As of Desjardins Group will henceforth be filed by the Federation in place of the Consolidated Financial Statements and MD&As of the Federation, in order to meet the financial disclosure obligations of the Federation, as a reporting issuer, under *Regulation 51-102 respecting Continuous Disclosure Obligations* (Regulation 51-102) of the CSA, and the Federation will maintain controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group in compliance with Regulation 52-109. Since April 23, 2021, and pursuant to the AMF and CSA decision, the Federation has used the financial statements and MD&As of Desjardins Group for all relevant purposes under the applicable securities regulations (including, in particular, Regulation 52-109 and Regulation 51-102). Information on the controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group may be found in the "Additional information" section of this MD&A.

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

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

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

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions made may be incorrect, or the predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Furthermore, the uncertainty created by the COVID-19 pandemic has sharply increased this risk by generating additional difficulties in determining assumptions, forecasts and other forward-looking statements compared to previous periods.

Readers are cautioned not to rely unduly on the forward-looking statements since a number of factors, many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in the "Risk management" section and under "COVID-19 pandemic" in the "Significant events" section of Desjardins Group's 2020 annual MD&A and this MD&A for the second quarter of 2021, such as credit, market, liquidity, operational, insurance, strategic and reputation risk, the risk related to pension plans, environmental or social risk, and legal and regulatory risk.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to the COVID-19 pandemic, climate change, government, corporate and household indebtedness, technological advancement and regulatory developments, interest rate fluctuations and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; security breaches; monetary policies; the critical accounting estimates and accounting standards applied by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; geographic concentration; acquisitions and joint arrangements; and credit ratings. Other factors include amendments to tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact on operations of international conflicts, public health crises, such as pandemics and epidemics, or any other similar disease affecting the local, national or global economy, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment. Additional information about these factors is found in the "Risk management" section and under "COVID-19 pandemic" in the "Significant events" section of Desjardins Group's 2020 annual MD&A and this MD&A for the second quarter of 2021.

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

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

The significant economic assumptions underlying the forward-looking statements in this document are described in Section 1.5 "Economic environment and outlook" of Desjardins Group's 2020 annual MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section. To develop our economic growth forecasts, in general and for the financial services sector, we mainly use historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies. Given how the COVID-19 pandemic has developed and its impact on the global economy and financial market conditions, as well as Desjardins Group's business operations, financial results and financial position, greater uncertainty is attached to our economic assumptions compared to previous periods, such assumptions being determined based on uncertain future developments and considering the difficulty of anticipating the extent of the pandemic's long-term effects.

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

SIGNIFICANT EVENTS

Acquisition of the investment firm Hexavest Inc.'s assets

On May 31, 2021, Desjardins Group, through Desjardins Global Asset Management Inc., a wholly-owned indirect subsidiary of the Federation, signed an agreement to acquire the assets of investment firm Hexavest which serves a primarily institutional clientele located mainly in Canada and also internationally. The results of the acquired operations will be included in Desjardins Group's Combined Financial Statements as of the closing of the transaction, which is expected to occur on September 1, 2021 and is subject to customary closing conditions.

COVID-19 pandemic

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

Since the start of the pandemic, various restrictions, varying in severity from one province and region to another, have been imposed, eased and then reintroduced by governments depending on trends in the spread of COVID-19. In June 2021, in response to the steady drop in the number of positive COVID-19 cases and the smooth rollout of the vaccination campaign, governments eased restrictions and started the first phase in their reopening plans. In Québec, teleworking is no longer mandatory, but is still recommended. Desjardins continues to make the health and safety of its members and employees its top priority, and to favour online or remote service delivery. In June 2021, more than 80% of employees were working from home. Desjardins is closely monitoring the situation and continues to adjust to ensure service continuity during the COVID-19 pandemic. Desjardins is an active participant in the vaccination effort. Since May 18, 2021, the *Cité de la coopération* in Lévis has been a COVID-19 vaccination site. It should be noted that Desjardins is following the order of priority for vaccination established by the government, and is not prioritizing its employees or its members and clients.

Main measures for the benefit of members and clients

Desjardins has deployed a number of measures to support its members and clients in the context of the COVID-19 pandemic. The main relief measures that have been in effect since March 16, 2020 are still in place and evolving in order to offer solutions at all times for members and clients in financial difficulty, by providing solutions tailored to their needs.

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

The table below presents, as at June 30, 2021, Desjardins members' and clients' use of the main relief measures since the start of the pandemic.

Products			
Financing	Number of requests	Total loans - relief granted	Loan balance as at June 30, 2021
Residential mortgages and consumer loans	172,934	\$19.3 billion	\$1.9 billion
Credit card and other personal loans	167,050	\$1.7 billion	\$6 million
Business loans	35,080	\$17.2 billion	\$1.1 billion
Insurance	Number	Value of refund	
Automobile insurance premium refund	2,151,000	\$155 million	

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

- Canada Emergency Business Account (CEBA):
 - As at June 30, 2021, 149,100 loans totalling \$5.0 billion had been granted to Desjardins Group members and clients since the CEBA program began. Members and clients were able to take advantage of this program until June 30, 2021.
- Business Development Bank of Canada (BDC) Co-Lending Program:
 - As at June 30, 2021, 134 loans totalling \$81 million had been granted to Desjardins Group members and clients since the beginning of the co-lending program. Members and clients can take advantage of this program until December 31, 2021.
- BDC mid-market financing program:
 - No loans have been granted by Desjardins since the program was launched in July 2020. Members and clients can take advantage of this program until December 31, 2021.
- BDC Highly Affected Sectors Credit Availability Program (HASCAP) Guarantee:
 - As at June 30, 2021, 118 loans totalling \$26 million had been granted to Desjardins Group members and clients since the beginning of the program. Members and clients can take advantage of this program until December 31, 2021.
- Loan guarantees for small- and medium-sized enterprises (EDC):
 - As at June 30, 2021, 127 loans totalling \$76 million had been granted to Desjardins Group members and clients since the start of this program. Members and clients can take advantage of this program until December 31, 2021.
- Mid-market guarantee program (EDC):
 - No loans have been granted by Desjardins since the program was launched. Members and clients can take advantage of this program until December 31, 2021.

- Concerted temporary action program for businesses (PACTE) with Investissement Québec:
 - As at June 30, 2021, 209 loans totalling \$76 million had been granted to Desjardins Group members and clients since the start of the PACTE program. Applications for financial assistance under this program can be submitted up to no later than four weeks after the lifting of the public health emergency or, in the case of tourism sector businesses, up to four weeks after the complete reopening of the Canada-U.S. border if this reopening occurs after the lifting of the state of emergency.

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

Capital and liquidity measures

In view of the COVID-19 pandemic, the AMF introduced a series of measures to support Québec’s financial system, including adjustments to capital requirements related to the COVID-19 pandemic, regulatory and administrative relief in respect of certain provisions of the *Deposit Institutions and Deposit Protection Act*, and additional information regarding the consultation and supervisory processes. For details on the measures put in place by Desjardins Group in this regard, please see the “Capital management” section of this MD&A for the second quarter of 2021.

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

These additional funding sources have allowed Desjardins Group to maintain adequate liquidity levels to deal with the repercussions of the pandemic. Furthermore, Desjardins Group complies with Basel III rules and maintains very good capitalization. As at June 30, 2021, Desjardins Group’s Tier 1A and total capital ratios were 21.4% and 22.6%, respectively, compared to 22.1% and 22.6% as at March 31, 2021, and 21.9% and 22.6% as at December 31, 2020.

Social measures and reopening of the economy

For information on the hygiene and protection measures applied by Desjardins Group since March 2020 to help limit the spread of COVID-19 and its effects, see Desjardins Group’s 2020 annual MD&A.

To contribute to the reopening of the Québec and Ontario economies, Desjardins has put forward a number of initiatives to encourage innovation and entrepreneurship and thereby help out businesses and community organizations. These initiatives include, in particular, the \$250 million GoodSpark Fund and the \$10 million Momentum Fund, as well as a partnership with Google and Bonjour Startup Montréal to hold an innovation competition. Information on these initiatives may be found under “COVID-19 pandemic” in Section 1.3 “Significant events” of Desjardins Group’s 2020 annual MD&A.

Impact of the pandemic

As mentioned in the “Economic environment and outlook” section of this MD&A, the spread of COVID-19 has had a disruptive impact on the countries and Canadian provinces where Desjardins Group operates, and on the global economy in general, while triggering higher volatility on financial markets. Should the COVID-19 pandemic be prolonged or should subsequent waves of the pandemic occur, or should other variants or diseases appear with similar effects, the adverse impact on the global economy could be exacerbated and lead to declines on financial markets. The impact of the COVID-19 pandemic could have a negative effect on Desjardins Group’s operations, operating results, profitability, reputation and financial position for an undetermined, considerable period of time. Desjardins Group is continuing to monitor developments in the COVID-19 pandemic and the potential detrimental effects on its operations. The pandemic’s repercussions on the economy and the markets as well as on Desjardins’ operations and financial position depend on highly uncertain future developments that are difficult to foresee given the uncertainty about the magnitude, gravity and duration of the pandemic, the size of the current wave in Québec and the rest of Canada, vaccine efficacy, as well as the possibility of subsequent waves or the emergence of new variants that could prolong the closure of certain sectors of the economy, or result in additional closures or a tightening of lockdown measures by government authorities. More information on the impact of the pandemic may be found under “COVID-19 pandemic” in Section 1.3 “Significant events” of Desjardins Group’s 2020 annual MD&A.

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

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

NON-GAAP MEASURES

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

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

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

Productivity index

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Non-interest expense	\$ 2,377	\$ 2,165	\$ 2,012	\$ 4,542	\$ 4,011
Total income	5,778	3,035	6,609	8,813	11,305
Claims, benefits, annuities and changes in insurance contract liabilities	(2,191)	206	(3,606)	(1,985)	(5,677)
Total income excluding claims	\$ 3,587	\$ 3,241	\$ 3,003	\$ 6,828	\$ 5,628
Productivity index	66.3%	66.8%	67.0%	66.5%	71.3%

Net interest margin

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

Gross credit-impaired loans/gross loans and acceptances

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

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

Loss ratio – Expense ratio – Combined ratio

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

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

The loss ratio is comprised of the following ratios:

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

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

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net premiums	\$ 1,464	\$ 1,427	\$ 1,215	\$ 2,891	\$ 2,592
Claims, benefits, annuities, and changes in insurance contract liabilities	\$ 683	\$ 685	\$ 1,026	\$ 1,368	\$ 2,068
Market yield adjustment (MYA)	(9)	117	(119)	108	(241)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	\$ 674	\$ 802	\$ 907	\$ 1,476	\$ 1,827
Loss ratio	46.0%	56.2%	74.7%	51.1%	70.5%
Non-interest expense	\$ 370	\$ 327	\$ 317	\$ 697	\$ 646
Other expenses excluded from the expense ratio ⁽¹⁾	(3)	(2)	(2)	(5)	(4)
Operating expenses	\$ 367	\$ 325	\$ 315	\$ 692	\$ 642
Expense ratio	25.1%	22.8%	25.9%	23.9%	24.8%
Combined ratio	71.1%	79.0%	100.6%	75.0%	95.3%

⁽¹⁾ Comes mainly from investment management expenses.

Return on equity

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Surplus earnings before member dividends	\$ 935	\$ 798	\$ 529	\$ 1,733	\$ 814
Non-controlling interests' share	(39)	(30)	(7)	(69)	(20)
Group's share	\$ 896	\$ 768	\$ 522	\$ 1,664	\$ 794
Average equity before non-controlling interests	\$ 31,367	\$ 30,184	\$ 28,177	\$ 30,749	\$ 27,670
Return on equity⁽¹⁾	11.5%	10.3%	7.5%	10.9%	5.8%

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

Income

Operating income

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

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

Investment income

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

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Presentation of income in the Combined Financial Statements					
Net interest income	\$ 1,452	\$ 1,403	\$ 1,368	\$ 2,855	\$ 2,721
Net premiums	2,587	2,585	2,238	5,172	4,760
Other income					
Deposit and payment service charges	105	99	83	204	188
Lending fees and credit card service revenues	182	187	141	369	337
Brokerage and investment fund services	285	273	235	558	476
Management and custodial service fees	177	169	147	346	297
Net investment income (loss) ⁽¹⁾	1,055	(1,602)	2,624	(547)	2,166
Overlay approach adjustment for insurance operations financial assets	(146)	(146)	(299)	(292)	213
Foreign exchange income	28	30	14	58	60
Other	53	37	58	90	87
Total income	\$ 5,778	\$ 3,035	\$ 6,609	\$ 8,813	\$ 11,305
Presentation of income in the MD&A					
Net interest income	\$ 1,452	\$ 1,403	\$ 1,368	\$ 2,855	\$ 2,721
Net premiums	2,587	2,585	2,238	5,172	4,760
Other operating income					
Deposit and payment service charges	105	99	83	204	188
Lending fees and credit card service revenues	182	187	141	369	337
Brokerage and investment fund services	285	273	235	558	476
Management and custodial service fees	177	169	147	346	297
Foreign exchange income	28	30	14	58	60
Other	53	37	58	90	87
Operating income	4,869	4,783	4,284	9,652	8,926
Investment income (loss)					
Net investment income (loss) ⁽¹⁾	1,055	(1,602)	2,624	(547)	2,166
Overlay approach adjustment for insurance operations financial assets	(146)	(146)	(299)	(292)	213
Investment income (loss)	909	(1,748)	2,325	(839)	2,379
Total income⁽²⁾	\$ 5,778	\$ 3,035	\$ 6,609	\$ 8,813	\$ 11,305

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

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

Credit loss provisioning rate

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Provision for (recovery of) credit losses	\$ (3)	\$ 4	\$ 271	\$ 1	\$ 595
Average gross loans	219,425	214,224	207,566	217,128	206,299
Average gross acceptances	122	241	145	191	223
Average gross loans and acceptances	\$ 219,547	\$ 214,465	\$ 207,711	\$ 217,319	\$ 206,522
Credit loss provisioning rate⁽¹⁾	(0.01)%	0.01%	0.52%	0.00%	0.58%

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

DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial cooperative in North America, with assets of \$389.3 billion. As at June 30, 2021, the organization included 214 caisses in Québec, as well as the Caisse Desjardins Ontario Credit Union Inc., the *Fédération des caisses Desjardins du Québec* and its subsidiaries, and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of over 52,000 employees and the commitment of more than 2,500 directors.

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

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

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

CHANGES IN THE REGULATORY ENVIRONMENT

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

Data confidentiality and security

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. On June 16, 2020, the Québec *Ministère de la Justice* tabled Bill 64, *An Act to modernize legislative provisions as regards the protection of personal information*. As anticipated, Bill 64 follows the broad outline of the European Union's *General Data Protection Regulation*, particularly as it concerns transparency, the duty to inform, consent, the right to data portability and the right to be forgotten. On June 11, 2021, the section-by-section detailed study was suspended until the National Assembly resumes its work in September. On November 17, 2020, the Government of Canada tabled Bill C-11, *An Act to enact the Consumer Privacy Protection Act and the Personal Information and Data Protection Tribunal Act and to make related and consequential amendments to other Acts*. The content of Bill C-11 is similar to that of Bill 64, with a few exceptions. Bill C-11 is still in its first reading. Desjardins Group is closely monitoring work on the bills to determine their impact on its 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 across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group has issued a Pillar 3 Report since December 31, 2018 in order to comply with it. On January 1, 2020, the Pillar 3 financial disclosure requirements were included by the AMF in a separate document entitled *Pillar 3 Disclosure Requirements Guideline*, which features new requirements that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. During the first two quarters of 2020, the AMF announced relief measures intended to minimize the impact of COVID-19 on Québec's financial system. These measures included, in particular, postponing the effective date of the disclosures to first quarter 2023 and the adjustment of certain existing requirements in order to include additional information on regulatory capital. The table of systemic risk indicators, which aims to present an assessment of Desjardins's relative size within the global financial system, is expected to be applicable as of the disclosure for first quarter 2022.

Report on Ontario's automobile insurance system

Since the government introduced "Putting Drivers First", its 2019 plan for the auto insurance system, some progress has been made on its commitments related to increased competition, choice and innovation for insurance consumers. However, the changes that would address the existing cost pressures in the system have not yet been implemented. Steps to introduce a "Care, Not Cash" default clause to ensure that a driver's auto insurance coverage will pay for treatment instead of costly legal fees and reforming the flawed medical assessment process to bring credibility and accountability to the assessments that injured claimants must undergo after an accident should be prioritized. The Financial Services Regulatory Authority of Ontario (FSRA) has created a Technical Advisory Committee for Transforming Auto Insurance Rate Regulation. Desjardins and other stakeholders are actively working with the government to ensure a better auto insurance system for Ontario drivers.

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

On June 25, 2020, the Canadian Securities Administrators (CSA) launched a consultation on the regulatory framework for the operations of self-regulatory organizations (SROs), for the purpose of seeking input on whether the current SRO framework best serves the interests of Canadian investors and the securities industry, in light of the evolution of the financial services industry. On August 3, the CSA issued a Position Paper confirming the establishment of a New SRO and the consolidation of the two existing investor protection funds into a single protection fund which will be independent from the New SRO. This Position Paper also outlines the regulatory framework for the New SRO. In the coming weeks, the CSA working group will review the comments received by October 4, 2021 and, at the same time, the CSA will begin work on implementing the New SRO. Desjardins Group is currently analyzing the potential impact of the regulatory framework for the New SRO on its operations.

Client focused reforms

In October 2019, the CSA adopted new obligations for brokerage firms and investment dealers, called the Client Focused Reforms. The new obligations have to do in particular with “know your client” and “know your product”, the suitability of recommendations and dealing with conflicts of interest. The CSA also developed a new fundamental requirement for registrants, namely that clients’ interests come first in terms of suitability. Desjardins Group is continuing its work in order to comply with the required implementation dates. As a result of COVID-19 challenges, the in-force date is now December 31, 2021 for all elements other than the conflict of interest provisions, which came into force on June 30, 2021.

Interest rate benchmark reform

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. Its objective is to improve benchmark indices by making sure they comply with robust international standards. The gradual withdrawal of certain interest rate benchmarks began on May 17, 2021, with the discontinuation of six-month and 12-month CDOR. In addition, regulators announced that the publication of LIBOR would officially cease after December 31, 2021 for all currencies except certain USD LIBOR settings which will not cease publication until after June 30, 2023. Desjardins Group has set up a task force to ensure a smooth transition from benchmark interest rates to risk-free rates, and is closely monitoring the preparation of the schedule for withdrawing certain benchmark rates.

Minimum qualifying rate for mortgages

On May 20, 2021, the AMF and the federal government announced changes to the minimum qualifying rate for mortgages. As of June 1, 2021, the minimum qualifying rate for insured and uninsured mortgages is the higher of the mortgage contract rate plus 2% or 5.25% as a minimum floor. This qualifying rate will be reviewed periodically to ensure that it remains appropriate for the risks in the environment.

ECONOMIC ENVIRONMENT AND OUTLOOK

Global economy

The course of the pandemic continues to have a strong impact on global economic growth. The second wave of COVID-19 has had major economic repercussions in several countries. Those hardest hit had to substantially tighten their health measures, and this had major impacts on economic activity in early 2021. The third wave of COVID-19 is also affecting certain regions of the world. This includes India, which has had to close large swaths of its economy. The changing nature of the pandemic is therefore making global economic recovery rather uneven. Some countries are approaching pre-crisis levels of economic activity, while others, such as China and the United States, have already surpassed theirs. However, several economies are still far from this threshold, and this is particularly true in Europe. The differences in economic growth are also due to the uneven success rates of national vaccination campaigns. In the eurozone, most countries are reopening, yet only very gradual progress is being made. Following a 6.7% drop in 2020, the eurozone's real GDP is expected to grow 4.6% in 2021 and 4.3% in 2022. Economic growth in China slowed in the first half of 2021. The country's real GDP is expected to grow more rapidly in the next few quarters, but there is still a sense that the Chinese economy has lost some of its momentum. Overall, global real GDP is expected to expand 6.0% in 2021, following an estimated 3.6% contraction in 2020. For the time being, the economic impact of the recent increase in COVID-19 cases related to the Delta variant is expected to be limited and temporary in highly vaccinated countries.

Despite some hesitations related to the third wave of COVID-19, stock market indices continued to surge in the second quarter. By the end of June, the S&P 500 and S&P/TSX were up approximately 15% since the beginning of the year. This strong performance was due to a rapid recovery in earnings as companies in the S&P 500 index reported record profits for the first quarter of 2021. Following a difficult first quarter, the bond market also performed well when long-term bond yields fell in the spring, particularly in the U.S., despite growing inflationary pressures. The U.S. Federal Reserve (the Fed) nevertheless adopted a much more optimistic tone at its June meeting, even signaling that strong outlooks for inflation and the labour market could justify moving more quickly to normalize monetary policy.

After last year's spectacular gains, particularly in the U.S., the major stock market indices may well enter a period of consolidation. However, the outlook for stock markets remains relatively favourable in the medium term, as economic growth is expected to be strong. Higher inflation, combined with a gradual tapering of bond purchases by central banks, particularly in Canada, suggest that bond yields will trend upward over the next few quarters. But the first hikes in key interest rates are not expected until late 2022.

United States

The U.S. economy is recovering from problems caused by the pandemic. After annualized quarterly growth of 6.3% in the first quarter of 2021, a 6.5% in U.S. real GDP in the second quarter put it back above its pre-pandemic level. The U.S. economy is benefiting in particular from the US\$900 billion and US\$1.9 trillion relief plans passed by the federal government. However, job creation is not as brisk as was hoped, as 5,702,000 fewer people are working compared to the peak reached in February 2020. For now at least, the unwillingness of former workers to re-enter the labour market appears to be a constraint, even though job openings abound. While real GDP has fully recovered, a similar recovery in the labour market may not be achieved until the fall of 2022. In addition to the labour shortage, many industries are also having difficulty procuring parts and raw materials, and are facing challenges shipping their merchandise. Costs are up, and increasingly this is filtering down into the prices paid by consumers. After a 3.5% decline in 2020, U.S. real GDP is expected to grow by 6.7% in 2021. The economy should grow 4.1% in 2022.

Canada

The Canadian economy performed relatively well despite the restrictions imposed in early 2021 to counter the second wave of COVID-19. From the fourth quarter of 2020 to the first quarter of 2021, real GDP grew 1.4%, for an annualized quarterly increase of 5.6%. Residential investment was particularly strong, rising 43.3%, on an annualized basis, from the previous quarter. In March, housing starts and existing home sales reached new all-time highs. The strong housing market is nevertheless expected to ease somewhat over the next few quarters, since several temporary factors that had disrupted supply and demand during the pandemic are expected to return to more normal levels. The third wave of COVID-19 will also have an impact on the Canadian economy in the second quarter. Several provinces, including Ontario, introduced new health measures in the spring to limit the pandemic's spread. The outlook for the Canadian economy is nevertheless very good. The low level of infections and the success of vaccination campaigns are encouraging the provinces to gradually lift their health restrictions. Under these conditions, Canadian real GDP should rebound in the third quarter and then continue to grow at a relatively fast pace. Despite larger quarterly fluctuations, the forecast for 2021 as a whole remains unchanged, with a 6.3% increase in real GDP and another 4.1% gain expected in 2022.

Québec

Despite closures among some types of businesses early in the year, the Québec economy continued to recover in the first quarter. Compared to the last quarter of 2020, real GDP grew at an annualized quarterly rate of 5.9%. The economy had even fully recovered by March 2021 on the strength of those industries minimally affected by the pandemic. Business investment surged early in the year, up 25.9% for machinery and equipment and 4.1% for non-residential structures. Residential investment grew 17.4% in the first quarter due to an exceptional start to the year for new construction. Home sales are in decline from the peak reached a few months earlier, and prices appear to be stabilizing. In addition, household spending declined in the first quarter, in part due to the closure of non-essential businesses from December 25, 2020 to February 7, 2021. The savings rate rose to 17.2% in the first quarter as a result of weak consumption and rising after-tax income. The outlook for the next few quarters is positive, especially for the service sector, which will finally benefit from the gradual reopening that began in the spring. Québec's successful vaccination campaign also bodes well for the future.

REVIEW OF FINANCIAL RESULTS

ANALYSIS OF RESULTS

Financial results and indicators

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Results					
Net interest income	\$ 1,452	\$ 1,403	\$ 1,368	\$ 2,855	\$ 2,721
Net premiums	2,587	2,585	2,238	5,172	4,760
Other operating income ⁽¹⁾					
Deposit and payment service charges	105	99	83	204	188
Lending fees and credit card service revenues	182	187	141	369	337
Brokerage and investment fund services	285	273	235	558	476
Management and custodial service fees	177	169	147	346	297
Foreign exchange income	28	30	14	58	60
Other	53	37	58	90	87
Operating income⁽¹⁾	4,869	4,783	4,284	9,652	8,926
Investment income (loss) ⁽¹⁾					
Net investment income (loss)	1,055	(1,602)	2,624	(547)	2,166
Overlay approach adjustment for insurance operations financial assets	(146)	(146)	(299)	(292)	213
Investment income (loss)⁽¹⁾	909	(1,748)	2,325	(839)	2,379
Total income	5,778	3,035	6,609	8,813	11,305
Provision for (recovery of) credit losses	(3)	4	271	1	595
Claims, benefits, annuities and changes in insurance contract liabilities	2,191	(206)	3,606	1,985	5,677
Non-interest expense	2,377	2,165	2,012	4,542	4,011
Income taxes on surplus earnings	278	274	191	552	208
Surplus earnings before member dividends	\$ 935	\$ 798	\$ 529	\$ 1,733	\$ 814
Contribution to combined surplus earnings by business segment⁽²⁾					
Personal and Business Services	\$ 397	\$ 414	\$ 315	\$ 811	\$ 505
Wealth Management and Life and Health Insurance	235	125	261	360	220
Property and Casualty Insurance	330	248	16	578	89
Other	(27)	11	(63)	(16)	-
	\$ 935	\$ 798	\$ 529	\$ 1,733	\$ 814
Return to members and the community					
Member dividends	\$ 90	\$ 90	\$ 80	\$ 180	\$ 157
Sponsorships, donations and bursaries ⁽³⁾	20	12	14	32	30
Desjardins Member Advantages program	5	4	12	9	23
	\$ 115	\$ 106	\$ 106	\$ 221	\$ 210
Indicators					
Net interest margin ⁽¹⁾⁽⁴⁾	2.09%	2.10%	2.23%	2.09%	2.29%
Return on equity ⁽¹⁾	11.5	10.3	7.5	10.9	5.8
Productivity index ⁽¹⁾	66.3	66.8	67.0	66.5	71.3
Credit loss provisioning rate ⁽¹⁾	(0.01)	0.01	0.52	0.00	0.58

⁽¹⁾ See "Non-GAAP measures".

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

⁽³⁾ Including \$10 million from the caisses' Community Development Fund (\$5 million in the first quarter of 2021, \$8 million in the second quarter of 2020, \$15 million in the first half of 2021 and \$14 million in the first half of 2020).

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

COMPARISON OF THE SECOND QUARTERS OF 2021 AND 2020

Surplus earnings

For the second quarter ended June 30, 2021, Desjardins Group posted surplus earnings before member dividends of \$935 million, up \$406 million compared to the corresponding quarter of 2020. The growth in surplus earnings was mainly due to a decline in the provision for credit losses, solid performance from the caisse network and a lower loss experience in the Property and Casualty Insurance segment. It is worth noting that surplus earnings for the second quarter of 2020 were marked by an increase in the provision for credit losses, affected by the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.

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

- A total of \$115 million was returned to members and the community, up \$9 million compared to the corresponding period of 2020.
 - The provision for member dividends totalled \$90 million for the quarter ended June 30, 2021, up \$10 million compared to the same period in 2020.
 - An amount of \$20 million was returned in the form of sponsorships, donations and bursaries, compared to \$14 million for the same period in 2020, including \$10 million in the second quarter of 2021 and \$8 million in the second quarter of 2020 from the caisses' Community Development Fund.
 - Through the Desjardins Member Advantages program, \$5 million was paid out, compared to \$12 million for the corresponding period of 2020.
- Commitments of \$8 million were made in the second quarter of 2021 with regard to the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions.

Business segment contributions to surplus earnings

- Personal and Business Services: **Surplus earnings of \$397 million**, up \$82 million, or 26.0%, compared to the same period in 2020. This increase is chiefly due to the following:
 - Decrease in the provision for credit losses in the second quarter of 2021 compared to the same quarter in 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
 - Solid performance from the caisse network.
 - Offset by an increase in investments, particularly related to the digital shift and security.
- Wealth Management and Life and Health Insurance: **Surplus earnings of \$235 million**, down \$26 million, or 10.0%, compared to the second quarter of 2020, mainly due to the following:
 - The markets' more positive impact on guaranteed investment funds during the comparative quarter.
 - In the second quarter of 2020, the travel insurance provisions recognized in first quarter 2020 were revised downward.
 - Offset by the favourable effect of changes in actuarial assumptions related to potential risk of default.
- Property and Casualty Insurance: **Surplus earnings of \$330 million**, up \$314 million compared to the second quarter of 2020, on account of the following:
 - Lower cost of claims due, in particular, to the following:
 - ♦ Favourable changes in prior year claims, mainly in automobile insurance.
 - ♦ Absence of catastrophes and major events, whereas one catastrophe, a hailstorm, took place in the comparative quarter.
 - Increase in net premiums, including the impact of the \$155 million in automobile insurance premium refunds granted to members and clients as a relief measure to support them during the COVID-19 pandemic in the comparative quarter.
- **Return on equity was 11.5%**, up compared to 7.5% for the quarter ended June 30, 2020, mainly because of higher surplus earnings, as explained earlier.

Operating income

Operating income, which comprises net interest income, net premiums and other operating income, totalled \$4,869 million, up \$585 million, or 13.7%, compared to the second quarter of 2020.

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

- **Net interest income totalled \$1,452 million**, up \$84 million, or 6.1%, mainly because of:
 - Growth in average residential mortgages outstanding.
 - A decrease in the average cost of funds, resulting in lower interest expense despite an increase in deposit volume.
 - Offset by a decline in the average return on loans due to lower interest rates.
- **Net interest margin of 2.09%** for the quarter ended June 30, 2021, as a percentage of average interest-bearing assets, down 14 basis points compared to the same period in 2020, mainly because of the increase in securities and liquidities generating a smaller net interest margin, as well as lower interest rates.

Net premiums totalled \$2,587 million, up \$349 million, or 15.6%, compared to the second quarter of 2020, due to elements from the following segments:

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of \$1,197 million**, up \$110 million, or 10.1%, essentially on account of the following:
 - Increase of \$69 million in group insurance premiums
 - Growth of \$36 million in group annuity premiums.

Property and Casualty Insurance segment

- **Net premiums of \$1,464 million**, up \$249 million, or 20.5%, as a result of:
 - Growth in the average premium for property insurance, reflecting the trend in the Canadian P&C insurance market.
 - In the second quarter of 2020, automobile insurance premium refunds of \$155 million were granted to members and clients as a relief measure to support them during the pandemic.

Other operating income stood at \$830 million, up \$152 million, or 22.4%, compared to the second quarter of 2020, due to the following:

- Increase in income from growth in assets under management.
- Increase in business volumes from payment activities at Desjardins Card Services.
- Increase in income from online brokerage activities.
- Higher income from deposit and payment service charges. Relief measures had been granted to members during the comparative period.
- Income from the operations of DuProprio and Purplebricks Canada.
- Offset by a change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that the change was offset by the results of these groups.

Investment income

Investment income totalled \$909 million, down \$1,416 million compared to the second quarter of 2020, essentially due to the following:

- Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
 - Positive change in the fair value of matched bonds than in the comparative quarter, chiefly because of a decrease in market interest rates in the second quarter of 2021 that was less than the decrease recorded in the comparative quarter of 2020.
 - Decrease largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Lower gains on the disposal of securities compared to second quarter 2020.
- Positive change in the fair value of matched bonds in the Property and Casualty Insurance segment than in the comparative quarter of 2020, chiefly because of a decrease in market interest rates in the second quarter of 2021 that was less than the decrease recorded in the comparative quarter. This change in the fair value of bonds was offset by an adjustment in the cost of claims on account of a matching strategy.
- Lower trading income as a result of developments on financial markets.

Total income

Total income amounted to \$5,778 million, a decrease of \$831 million, or 12.6%, compared to the same period in 2020.

Provision for credit losses

The recovery of the provision for credit losses totalled \$3 million for the second quarter of 2021, compared to a provision for credit losses of \$271 million for the same period in 2020. While the provision for credit losses in the second quarter of 2021 mainly reflected the impact of the improvement in borrowers' credit quality, the provision for the second quarter of 2020 reflected the significant negative impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic. The provision for credit losses in the second quarter of 2021 also reflected lower net write-offs in the credit card portfolio compared to the same period in 2020.

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

- The provision for credit losses was in a recovery position in the second quarter of 2021, compared to a credit loss provisioning rate of 0.52% for the corresponding period of 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.55%, compared to 0.63% as at June 30, 2020.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$2,191 million, down \$1,415 million, or 39.2% compared to the corresponding quarter of 2020. This reduction, which is offset by a similar change in the item "Investment income (loss)", is due to elements from the following segments:

Wealth Management and Life and Health Insurance segment

- **Cost of claims of \$1,516 million**, down \$1,074 million, or 41.5%, basically due to the following:
 - Decrease of \$1,329 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, presented under "Investment income (loss)", as well as the favourable effect of changes in actuarial assumptions related to potential risk of default.

This decrease was partially offset by:

- Increase in benefits related to dental insurance claim applications.
- In the second quarter of 2020, the travel insurance provisions recognized in first quarter 2020 were revised downward.

Property and Casualty Insurance segment

- **Cost of claims of \$683 million**, down \$343 million, or 33.4%, due to the following:
 - Loss ratio of 46.0% compared to 74.7% for the corresponding period of 2020.
 - More favourable ratio of changes in prior year claims than in the comparative quarter of 2020, i.e. (13.6)% vs. (1.5)%, mainly in automobile insurance.
 - Lower loss ratio for catastrophes and major events than in the comparative quarter, i.e., a nil ratio, vs. 8.4%. The second quarter of 2021 was characterized by an absence of catastrophes and major events, whereas the comparative quarter in 2020 was marked by one catastrophe, a hailstorm in Alberta.
 - Lower current year loss ratio compared to the corresponding period of 2020, i.e. 59.6% vs. 67.8%, basically in property insurance.
 - Unfavourable impact of the smaller decrease than in the comparative quarter of 2020 in the discount rates used to measure the provision for claims. It should be mentioned that the impact on the cost of claims was partially offset by a change in the fair value of matched bonds, presented under "Investment income (loss)".
 - Offset by business growth, resulting in a higher cost of claims.

Non-interest expense and productivity index

- **Non-interest expense totalled \$2,377 million**, up \$365 million, or 18.1%, compared to the second quarter of 2020, essentially because of:
 - Higher salaries due to growth in operations and indexing.
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.
 - Growth in payment activities, including expenses related to the rewards program.
- **Productivity index at 66.3% for the second quarter of 2021**, compared to 67.0% for the corresponding period of 2020.

Income taxes

- **Income taxes on surplus earnings before member dividends of \$278 million**, up \$87 million compared to the second quarter of 2020.
 - Effective tax rate of 22.9% for the quarter ended June 30, 2021, down compared to 26.5% for the corresponding period of 2020.
 - The increase in income tax expense stems from higher surplus earnings compared to second quarter 2020, combined with the change in the annual effective tax rate expected for 2021.

COMPARISON OF THE FIRST SIX MONTHS OF 2021 AND 2020

Surplus earnings

For the first six months ended June 30, 2021, Desjardins Group posted surplus earnings before member dividends of \$1,733 million, up \$919 million compared to the corresponding period of 2020. The growth in surplus earnings was mainly due to a decline in the provision for credit losses, good performance from the caisse network, a lower loss experience in the Property and Casualty Insurance segment and changes in actuarial assumptions related to life and health insurance operations. It is worth noting that surplus earnings for the first half of 2020 were marked by the start of the COVID-19 pandemic. The provision for credit losses was affected by the impact of the deterioration in the economic outlook, the travel insurance provisions that had been recognized and the \$155 million in automobile insurance premium refunds granted to members and clients.

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

- A total of \$221 million was returned to members and the community, compared to \$210 million for the corresponding period of 2020.
 - The provision for member dividends totalled \$180 million for the six months ended June 30, 2021, up \$23 million compared to the first six months of 2020.
 - An amount of \$32 million was returned in the form of sponsorships, donations and bursaries, compared to \$30 million in the first six months of 2020, including \$15 million in the first half of 2021 and \$14 million in the first half of 2020 from the caisses' Community Development Fund.
 - Through the Desjardins Member Advantages program, \$9 million was paid out, compared to \$23 million in the corresponding period of 2020.
- Commitments of \$15 million were made in the first six months of 2021 with regard to the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions. Since 2017, Desjardins Group has made commitments totalling \$138 million.

Business segment contributions to surplus earnings

- Personal and Business Services: **Surplus earnings of \$811 million**, up \$306 million compared to the first six months of 2020, essentially due to the following:
 - Lower provision for credit losses in the first six months of 2021 than in the corresponding period of 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
 - Solid performance from the caisse network.
 - Offset by an increase in investments, particularly related to the digital shift and security.
- Wealth Management and Life and Health Insurance: **Surplus earnings of \$360 million**, up \$140 million compared to the first six months of 2020, mainly because of the following:
 - Positive effect of the changes in actuarial assumptions related to potential risk of default.
 - Effect of the travel insurance provisions recognized in first quarter 2020, in spite of their revision in second quarter 2020.
 - The markets' positive impact on guaranteed investment funds, whereas the funds had been negatively affected in the comparative period.
 - Offset by lower gains on the disposal of securities and real estate investments compared to 2020.

- **Property and Casualty Insurance: Surplus earnings of \$578 million**, up \$489 million compared to the first six months of 2020, due to the following:
 - Lower cost of claims, particularly on account of:
 - ♦ Lower current year loss ratio, essentially in automobile insurance, in particular on account of changes in driving habits related to the COVID-19 pandemic, as well as in property insurance.
 - ♦ Favourable change in prior year claims, chiefly in automobile insurance.
 - Increase in net premiums, including the impact of \$155 million in automobile insurance premium refunds granted to members and clients as a relief measure to support them during the COVID-19 pandemic in the comparative period.
- **Return on equity was 10.9%**, up compared to 5.8% for the six-month period ended June 30, 2020, mainly because of the increase in surplus earnings, as explained earlier.

Operating income

Operating income, which comprises net interest income, net premiums and other operating income, totalled \$9,652 million, up \$726 million, or 8.1%, compared to the first six months of 2020.

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

- **Net interest income totalled \$2,855 million**, up \$134 million, or 4.9%, mainly because of the following:
 - Growth in average residential mortgages outstanding.
 - Decrease in the average cost of funds, resulting in lower interest expense despite an increase in deposit volume.
 - Higher interest income from the securities portfolio related to treasury activities.
 This increase was partially offset by:
 - Decrease in average consumer and credit card loans outstanding.
 - Decline in the average return on loans due to lower interest rates.
- **Net interest margin of 2.09%** for the six months ended June 30, 2021, as a percentage of average interest-bearing assets, down 20 basis points compared to the same period in 2020, mainly because of the increase in securities and liquidities generating a lower net interest margin, as well as the lower interest rates.

Net premiums totalled \$5,172 million, up \$412 million, or 8.7%, compared to the first six months of 2020, due to elements from the following segments:

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of \$2,426 million**, up \$122 million, or 5.3%, mainly because of the following:
 - Increase of \$77 million in group insurance premiums
 - Growth of \$40 million in group annuity premiums.

Property and Casualty Insurance segment

- **Net premiums of \$2,891 million**, up \$299 million, or 11.5%, basically due to the following:
 - Growth in the average home insurance premium, reflecting the trend in the Canadian P&C insurance market.
 - In the second quarter of 2020, automobile insurance premium refunds of \$155 million were granted to members and clients as a relief measure to support them during the pandemic.

Other operating income stood at \$1,625 million, up \$180 million, or 12.5%, compared to the corresponding period of 2020, due to the following:

- Higher income from growth in assets under management.
- Increase in income from online brokerage activities.
- Income from the operations of DuProprio and Purplebricks Canada.
- Higher business volume from payment activities at Desjardins Card Services.
- Higher income from deposit and payment service charges. Relief measures had been granted to members during the comparative period.
- Offset by a change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that the change was offset by the results of these groups.

Investment income

An \$839 million loss, presented under "Investment income (loss)", compared to income of \$2,379 million recorded in the first six months of 2020, essentially because of the following:

- Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
 - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to higher market interest rates in the first half of 2021, whereas they were lower in the comparative period in 2020.
 - Decrease largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Negative change in the fair value of matched bonds in the Property and Casualty Insurance segment whereas there had been a positive change in the comparative period, due mainly to higher market interest rates in the first half of 2021, whereas they were lower in the comparative period in 2020. It should be remembered that this change in the fair value of bonds was offset by an adjustment in the cost of claims because of a matching strategy.
- Lower gains on the disposal of securities and real estate investments compared to the first six months of 2020.

Total income

Total income amounted to \$8,813 million, a decrease of \$2,492 million, or 22.0%, compared to the same period in 2020.

Provision for credit losses

The provision for credit losses totalled \$1 million, down \$594 million compared to the same period in 2020. While the provision for credit losses for the first six months of 2021 mainly reflects the impact of the lower credit card portfolio volumes during first quarter 2021 as well as the improvement in borrowers' credit quality, the provision for the first half of 2020 reflected the significant negative impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic. The provision for credit losses for the first six months of 2021 also reflects the decrease in net write-offs in the credit card portfolio compared to the corresponding period of 2020.

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

- The credit loss provisioning rate was nil for the first six months of 2021, compared to 0.58% for the corresponding period of 2020. The decrease in this indicator for the first six months of 2021 is due to the fact that the provision for credit losses for the period was lower than in the corresponding six months of 2020, which reflected the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.55% compared to 0.63% as at June 30, 2020.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$1,985 million, down \$3,692 million, or 65.0%, compared to the corresponding period of 2020. This reduction, which is offset by a similar change in "Investment income (loss)", is due to elements from the following segments:

Wealth Management and Life and Health Insurance segment

- **Cost of claims of \$632 million**, down \$2,999 million, basically due to the following:
 - Decrease of \$3,085 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, presented under "Investment income (loss)", as well as the positive effect of the changes in actuarial assumptions related to potential risk of default.
 - Decrease related to the travel insurance provisions recognized during the comparative period, in connection with the COVID-19 pandemic.
 - Offset by the increase in benefits related to dental insurance claim applications.

Property and Casualty Insurance segment

- **Cost of claims of \$1,368 million**, down \$700 million, or 33.8%, as a result of the following:
 - Loss ratio of 51.1%, compared to 70.5% for the corresponding period of 2020.
 - ♦ Lower current year loss ratio compared to the corresponding period, i.e. 61.7% vs. 72.2%, basically in automobile insurance, particularly due to changes in driving habits during the COVID-19 pandemic, as well as in property insurance.
 - ♦ More favourable ratio of changes in prior year claims than in the first half of 2020, i.e. (10.6)% vs. (5.6)%, mainly in automobile insurance.
 - ♦ Lower loss ratio for catastrophes and major events than in the comparative period, i.e., a nil ratio, vs. 3.9%. The first six months of 2021 were characterized by an absence of catastrophes and major events, whereas the comparative period was marked by one catastrophe, a hailstorm in Alberta.
 - Favourable impact of the increase in the discount rates used to measure the provision for claims, whereas an unfavourable impact had been recorded in the comparative period of 2020. It should be mentioned that this impact on the cost of claims was partially offset by a change in the fair value of matched bonds, presented under "Investment income (loss)".
 - Offset by business growth, which led to a higher cost of claims.

Non-interest expense and productivity index

- **Non-interest expense totalled \$4,542 million**, up \$531 million, or 13.2%, compared to the first six months of 2020, essentially because of:
 - Increase in salaries as a result of growth in operations and indexing.
 - Increase in expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.
 - Growth in payment activities, including expenses related to the rewards program.
- **Productivity index at 66.5% for the first six months of 2021**, compared to 71.3% for the corresponding period in 2020. The improvement in the productivity index in the first half of 2021 was due to the increase in surplus earnings.

Income taxes

- **Income taxes on surplus earnings before member dividends of \$552 million**, up \$344 million compared to the corresponding period in 2020.
 - Effective tax rate of 24.2% for the first six months of 2021, compared to 20.4% for the corresponding period in 2020.
 - The increase in income tax expense stems from higher surplus earnings compared to the first half of 2020, combined with the change in the annual effective tax rate expected for 2021.

RESULTS BY BUSINESS SEGMENT

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

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

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

Personal and Business Services

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

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

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

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

Personal and Business Services – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net interest income	\$ 1,260	\$ 1,215	\$ 1,195	\$ 2,475	\$ 2,439
Other operating income ⁽¹⁾	663	658	543	1,321	1,186
Operating income⁽¹⁾	1,923	1,873	1,738	3,796	3,625
Investment income ⁽¹⁾	72	102	133	174	107
Total income	1,995	1,975	1,871	3,970	3,732
Provision for (recovery of) credit losses	(2)	6	262	4	581
Non-interest expense	1,458	1,411	1,193	2,869	2,483
Income taxes on surplus earnings	142	144	101	286	163
Surplus earnings before member dividends	397	414	315	811	505
Member dividends, net of income tax recovery	66	66	58	132	115
Net surplus earnings for the period after member dividends	\$ 331	\$ 348	\$ 257	\$ 679	\$ 390
Indicators					
Average gross loans and acceptances ⁽¹⁾	\$ 215,526	\$ 209,470	\$ 203,274	\$ 212,873	\$ 201,891
Average deposits ⁽¹⁾	192,879	182,867	185,482	187,412	176,444
Credit loss provisioning rate ⁽¹⁾	0.00%	0.01%	0.52%	0.00%	0.58%
Gross credit-impaired loans/gross loans and acceptances ⁽¹⁾	0.39	0.58	0.64	0.39	0.64

⁽¹⁾ See "Non-GAAP measures".

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

- **Surplus earnings before member dividends of \$397 million**, up \$82 million, or 26.0%, compared to the same period in 2020. This increase was primarily due to the following:
 - Lower provision for credit losses in second quarter 2021 than in the corresponding quarter in 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
 - Solid performance of the caisse network.
 - Offset by the increase in investments, particularly related to the digital shift and security.

- **Operating income of \$1,923 million**, up \$185 million, or 10.6%.
- **Net interest income of \$1,260 million**, up \$65 million, or 5.4%, as a result of:
 - Growth in average residential mortgages outstanding.
 - Decrease in the average cost of funds, resulting in lower interest expense despite a higher volume of deposits.
 - Offset by a decline in the average return on loans due to lower interest rates.
- **Other operating income of \$663 million**, up \$120 million, or 22.1%, mainly due to:
 - Growth in business volumes from payment activities at Desjardins Card Services.
 - Increase in income from online brokerage activities.
 - Higher income from deposit and payment service charges. Relief measures had been granted to members during the comparative period.
- **Investment income of \$72 million**, down \$61 million, or 45.9%, essentially because of:
 - Smaller gains on disposal of securities compared to second quarter 2020.
 - Lower trading income as a result of developments on financial markets.
 - Unfavourable fluctuation in credit spreads compared to second quarter 2020.
 - Offset by favourable change in activities related to derivative financial instruments.
- **Total income of \$1,995 million**, up \$124 million, or 6.6%.
- **Recovery of the provision for credit losses of \$2 million**, compared to a provision for credit losses of \$262 million for the same period in 2020. While the provision for credit losses in the second quarter of 2021 mainly reflected the impact of the improvement in borrowers' credit quality, the provision for the second quarter of 2020 reflected the significant negative impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic. The provision for credit losses in the second quarter of 2021 also reflected lower net write-offs in the credit card portfolio compared to the same period in 2020.
- **Non-interest expense of \$1,458 million**, up \$265 million, or 22.2%, essentially due to:
 - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including those related to wealth management advisory activities.
 - Increase in investments, particularly related to the digital shift and security.
 - Growth in payment activities, including expenses related to the rewards program.

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

- **Surplus earnings before member dividends of \$811 million**, up \$306 million, compared to the first half of 2020, essentially due to:
 - Lower provision for credit losses in the second half of 2021 than in the corresponding half-year of 2020, reflecting the impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic.
 - Solid performance of the caisse network.
 - Offset by the increase in investments, particularly related to the digital shift and security.
- **Operating income of \$3,796 million**, up \$171 million, or 4.7%.
- **Net interest income of \$2,475 million**, up \$36 million, or 1.5%, as a result of:
 - Growth in average residential mortgages outstanding.
 - Decrease in the average cost of funds, resulting in lower interest expense despite a higher volume of deposits.
 This increase was partially offset by:
 - Drop in average consumer and credit card loans outstanding.
 - Decline in the average return on loans due to lower interest rates.
- **Other operating income of \$1,321 million**, up \$135 million, or 11.4%, mainly due to the following:
 - Increase in income from online brokerage activities.
 - Growth in sales by the caisse network of various Desjardins Group products designed by the subsidiaries, such as investment funds.
 - Higher income from deposit and payment service charges. Relief measures had been granted to members during the comparative period.
 - Growth in business volumes from payment activities at Desjardins Card Services.
- **Investment income of \$174 million**, up \$67 million essentially due to:
 - Favourable fluctuation in activities related to derivative financial instruments due in particular to developments on financial markets and credit spreads compared to the first half of 2020.
 - Offset by smaller gains on disposal of securities compared to the first half of 2020.
- **Total income of \$3,970 million**, up \$238 million, or 6.4%.

- **Provision for credit losses of \$4 million**, down \$577 million compared to the same period in 2020. While the provision for credit losses in the first half of 2021 mainly reflected the impact of the lower credit card portfolio volumes during first quarter 2021 as well as the improvement in borrowers' credit quality, the provision for the first half of 2020 reflected the significant negative impact of the deterioration in the economic outlook as a result of the COVID-19 pandemic. The provision for credit losses in the first half of 2021 also reflected lower net write-offs in the credit card portfolio compared to the same period in 2020.
- **Non-interest expense of \$2,869 million**, up \$386 million, or 15.5%, essentially due to:
 - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including those related to wealth management advisory activities.
 - Increase in investments, particularly related to the digital shift and security.
 - Growth in payment activities, including expenses related to the rewards program.

Wealth Management and Life and Health Insurance

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

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

The Wealth Management and Life and Health Insurance segment's vast and diversified Canada-wide distribution networks are one of its greatest strengths:

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

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

Wealth Management and Life and Health Insurance – Segment results

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net interest income	\$ -	\$ -	\$ 3	\$ -	\$ 6
Net premiums	1,197	1,229	1,087	2,426	2,304
Other operating income ⁽¹⁾	369	354	317	723	638
Operating income⁽¹⁾	1,566	1,583	1,407	3,149	2,948
Investment income (loss) ⁽¹⁾	847	(1,737)	2,041	(890)	1,998
Total income (loss)	2,413	(154)	3,448	2,259	4,946
Provision for credit losses	-	-	1	-	3
Claims, benefits, annuities and changes in insurance contract liabilities	1,516	(884)	2,590	632	3,631
Non-interest expense	605	576	519	1,181	1,043
Income taxes on surplus earnings	57	29	77	86	49
Net surplus earnings for the period	\$ 235	\$ 125	\$ 261	\$ 360	\$ 220
Indicators					
Net sales of savings products	\$ 1,160	\$ 3,669	\$ 679	\$ 4,829	\$ 2,578
Insurance sales	144	179	81	323	203
Group insurance premiums	868	840	799	1,708	1,631
Individual insurance premiums	225	222	220	447	442
Annuity premiums	104	167	68	271	231
Segregated fund receipts	881	1,860	448	2,741	1,213

⁽¹⁾ See "Non-GAAP measures".

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

- **Net surplus earnings of \$235 million**, down \$26 million, or 10.0%, compared to the second quarter of 2020, mainly due to the following:
 - The markets' more positive impact on guaranteed investment funds during the comparative quarter.
 - In the second quarter of 2020, a downward revision was made to the travel insurance provisions recognized in first quarter 2020.
 - Offset by the favourable effect of changes in actuarial assumptions related to potential risk of default.
- **Operating income of \$1,566 million**, up \$159 million, or 11.3%.
- **Net premiums of \$1,197 million**, up \$110 million, or 10.1%, essentially on account of the following:
 - Increase of \$69 million in group insurance premiums.
 - Growth of \$36 million in group annuity premiums.
- **Other operating income of \$369 million**, up \$52 million, or 16.4%, mainly as a result of the increase in assets under management.
- **Investment income of \$847 million**, down \$1,194 million, compared to the second quarter of 2020, mainly due to the following:
 - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
 - ♦ Positive change in the fair value of matched bonds than in the comparative quarter, chiefly because of a decrease in market interest rates in the second quarter of 2021 that was less than the decrease recorded in the comparative quarter of 2020.
 - ♦ This decrease was largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
 - Lower gains on the disposal of securities than in second quarter 2020.
- **Total income of \$2,413 million**, down \$1,035 million, or 30.0%.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$1,516 million**, down \$1,074 million, or 41.5%, essentially due to the following:
 - Decrease of \$1,329 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, which is presented under "Investment income (loss)", as well as the favourable effect of changes in actuarial assumptions related to potential risk of default.
 This decrease was partially offset by the following:
 - Increase in benefits related to dental insurance claim applications.
 - In the second quarter of 2020, a downward revision was made to the travel insurance provisions recognized in first quarter 2020.
- **Non-interest expense of \$605 million**, up \$86 million, or 16.6%, primarily due to the following:
 - Increase in administration costs to improve services for caisse members and clients.
 - Higher expenses as a result of the increase in assets under management.
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.

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

- **Net surplus earnings of \$360 million**, up \$140 million, compared to the first half of 2020, mainly due to the following items:
 - Favourable effect of changes in actuarial assumptions related to potential risk of default.
 - Effect of the travel insurance provisions recognized in first quarter 2020, in spite of their revision in second quarter 2020.
 - Markets' positive impact on guaranteed investment funds, whereas the funds had been unfavourably affected in the comparative half-year period.
 - Offset by smaller gains on the disposal of securities and real estate investments than in 2020.
- **Operating income of \$3,149 million**, up \$201 million, or 6.8%.
- **Net premiums of \$2,426 million**, up \$122 million, or 5.3%, mainly due to:
 - Increase of \$77 million from group insurance premiums.
 - Growth of \$40 million in group annuity premiums.
- **Other operating income of \$723 million**, up \$85 million, or 13.3%, mainly on account of an increase in assets under management.
- **Loss of \$890 million, presented under "Investment income (loss)"**, compared to income of \$1,998 million in the first half of 2020, mainly due to:
 - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
 - ♦ Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to higher market interest rates in the first half of 2021, whereas they were lower in the comparative six-month period in 2020.
 - ♦ This decrease was largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
 - Lower gains on the disposal of securities and real estate investments compared to the first half of 2020.
- **Total income of \$2,259 million**, down \$2,687 million, or 54.3%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$632 million**, down \$2,999 million, essentially due to:
 - Decrease of \$3,085 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, presented under "Investment income (loss)", as well as the favourable effect of changes in actuarial assumptions related to potential risk of default.
 - Decrease related to the travel insurance provisions recognized during the comparative six months, in connection with the COVID-19 pandemic.
 - Offset by the increase in benefits related to dental insurance claim applications.
- **Non-interest expense of \$1,181 million**, up \$138 million, or 13.2%, mainly due to:
 - Increase in administration costs to improve services for caisse members and clients.
 - Higher expenses as a result of the increase in assets under management.
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.

Property and Casualty Insurance

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

Desjardins General Insurance Group Inc., which has more than 3 million clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner.

Property and Casualty Insurance – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021 ⁽¹⁾	June 30, 2020
Net premiums	\$ 1,464	\$ 1,427	\$ 1,215	\$ 2,891	\$ 2,592
Other operating income (loss) ⁽¹⁾	(44)	(54)	(13)	(98)	(43)
Operating income⁽¹⁾	1,420	1,373	1,202	2,793	2,549
Investment income(loss) ⁽¹⁾	75	(36)	164	39	278
Total income	1,495	1,337	1,366	2,832	2,827
Claims, benefits, annuities and changes in insurance contract liabilities	683	685	1,026	1,368	2,068
Non-interest expense	370	327	317	697	646
Income taxes on surplus earnings	112	77	7	189	24
Net surplus earnings for the period	\$ 330	\$ 248	\$ 16	\$ 578	\$ 89
Of which:					
Group's share	\$ 291	\$ 218	\$ 9	\$ 509	\$ 69
Non-controlling interests' share	39	30	7	69	20
Indicators					
Gross written premiums	\$ 1,656	\$ 1,315	\$ 1,439	\$ 2,971	\$ 2,683
Loss ratio ⁽¹⁾	46.0%	56.2%	74.7%	51.1%	70.5%
Current year loss ratio ⁽¹⁾	59.6	63.8	67.8	61.7	72.2
Loss ratio related to catastrophes and major events ⁽¹⁾	-	-	8.4	-	3.9
Ratio of favourable changes in prior year claims ⁽¹⁾	(13.6)	(7.6)	(1.5)	(10.6)	(5.6)
Expense ratio ⁽¹⁾	25.1	22.8	25.9	23.9	24.8
Combined ratio ⁽¹⁾	71.1	79.0	100.6	75.0	95.3

⁽¹⁾ See "Non-GAAP measures".

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

- **Net surplus earnings of \$330 million**, up \$314 million compared to the second quarter of 2020, due to:
 - Lower cost of claims due, in particular, to the following:
 - ♦ Favourable developments in prior year claims, mainly in automobile insurance.
 - ♦ Absence of catastrophes and major events, whereas one catastrophe, a hailstorm, took place in the comparative quarter.
 - Increase in net premiums, including the impact of the \$155 million in automobile insurance premium refunds granted to members and clients as a relief measure to support them during the COVID-19 pandemic in the comparative quarter.

- **Operating income of \$1,420 million**, up \$218 million, or 18.1%.
- **Net premiums of \$1,464 million**, up \$249 million, or 20.5%, as a result of the following:
 - Growth in the average premium for property insurance, reflecting the trend in the Canadian P&C insurance market.
 - In the second quarter of 2020, automobile insurance premium refunds of \$155 million were granted to members and clients as a relief measure to support them during the pandemic.
- **Loss of \$44 million, presented under “Other operating income (loss)”**, compared to a loss of \$13 million in the comparative quarter, as a result of the following:
 - Change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.
 - Larger increase than in the second quarter of 2020 in the contingent consideration payable as part of the acquisition of Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm) and arising from the favourable developments in claims taken over.
- **Investment income of \$75 million**, down \$89 million, as a result of:
 - Positive change in the fair value of matched bonds than in the comparative quarter of 2020, chiefly because of lower market interest rates in the second quarter of 2021 than in the comparative quarter of 2020. It should be remembered that this change in the fair value of the bonds was offset by an adjustment to the cost of claims on account of a matching strategy.
- **Total income of \$1,495 million**, up \$129 million, or 9.4%.
- **Cost of claims totalling \$683 million**, down \$343 million, or 33.4%, as a result of
 - Loss ratio of 46.0% compared to 74.7% for the corresponding quarter of 2020.
 - More favourable ratio of changes in prior year claims than in the comparative quarter of 2020, i.e. (13.6)% vs. (1.5)%, mainly in automobile insurance.
 - Lower loss ratio for catastrophes and major events than in the comparative quarter, i.e., a nil ratio vs. 8.4%. The second quarter of 2021 was characterized by an absence of catastrophes and major events, whereas the comparative quarter in 2020 was marked by one catastrophe, a hailstorm in Alberta.
 - Lower current year loss ratio compared to the corresponding period of 2020, i.e. 59.6% vs. 67.8%, basically in property insurance.
 - Unfavourable impact of the smaller decrease than in the comparative quarter of 2020 in the discount rates used to measure the provision for claims. It should be mentioned that the impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under Investment income (loss).
 - Offset by business growth, resulting in a higher cost of claims.
- **Non-interest expense of \$370 million**, up \$53 million, or 16.7%, due to:
 - Higher expenses related to remuneration on premiums.
 - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.

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

- **Net surplus earnings of \$578 million**, up \$489 million compared to the first half of 2020, due to:
 - Lower cost of claims, particularly on account of:
 - Lower current year loss ratio, mainly in automobile insurance, in particular on account of changes in driving habits related to the COVID-19 pandemic, as well as in property insurance.
 - Favourable change in prior year claims, chiefly in automobile insurance.
 - Increase in net premiums, including the impact of automobile insurance premium refunds of \$155 million granted to members and clients as a relief measure to support them during the COVID-19 pandemic in the comparative six-month period.
- **Operating income of \$2,793 million**, up \$244 million, or 9.6%.
- **Net premiums of \$2,891 million**, up \$299 million, or 11.5%, essentially due to:
 - Growth in the average premium for property insurance, reflecting the trend in the Canadian P&C insurance market.
 - In the second quarter of 2020, automobile insurance premium refunds of \$155 million were granted to members and clients as a relief measure to support them during the pandemic.
- **Loss of \$98 million, presented under “Other operating income (loss)”**, compared to a loss of \$43 million in the comparative six months, as a result of the change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.
- **Investment income of \$39 million**, down \$239 million, essentially as a result of:
 - Decrease in the fair value of matched bonds whereas there had been an increase during the comparative six-month period, due mainly to higher market interest rates in the first half of 2021 whereas they were lower in the comparative period in 2020. It should be remembered that this decrease in the fair value of the bonds was offset by an adjustment in the cost of claims because of a matching strategy.
 - Offset by net gains on common shares whereas a net loss had been recorded in the comparative six-month period.
- **Total income of \$2,832 million**, up \$5 million, or 0.2%.

- **Cost of claims totalling \$1,368 million**, down \$700 million, or 33.8%, as a result of:
 - Loss ratio of 51.1%, compared to 70.5% for the corresponding period of 2020.
 - Lower current year loss ratio compared to the corresponding period, i.e. 61.7% vs. 72.2%, essentially in automobile insurance, particularly due to changes in driving habits during the COVID-19 pandemic, as well as in property insurance.
 - More favourable ratio of changes in prior year claims than in the first half of 2020, i.e. (10.6)% vs. (5.6)%, mainly in automobile insurance.
 - Lower loss ratio for catastrophes and major events than in the comparative period, i.e., a nil ratio, compared to 3.9%. The first six months of 2021 were characterized by an absence of catastrophes and major events, whereas the comparative period was marked by one catastrophe, a hailstorm in Alberta.
 - Favourable impact of the increase in the discount rates used to measure the provision for claims, whereas an unfavourable impact had been recorded in the comparative period of 2020. It should be mentioned that this impact on the cost of claims was partially offset by a decrease in the fair value of matched bonds, which is presented under Investment income (loss).
 - Offset by business growth, which led to a higher cost of claims.
- **Non-interest expense of \$697 million**, up \$51 million, or 7.9%, due to the Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes.

Other category

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

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

Other category

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net interest income	\$ 192	\$ 188	\$ 170	\$ 380	\$ 276
Net premiums	(74)	(71)	(64)	(145)	(136)
Other operating income (loss) ⁽¹⁾	(158)	(163)	(169)	(321)	(336)
Operating income (loss)⁽¹⁾	(40)	(46)	(63)	(86)	(196)
Investment income (loss) ⁽¹⁾	(85)	(77)	(13)	(162)	(4)
Total income (loss)	(125)	(123)	(76)	(248)	(200)
Provision for (recovery of) credit losses	(1)	(2)	8	(3)	11
Claims, benefits, annuities and changes in insurance contract liabilities	(8)	(7)	(10)	(15)	(22)
Non-interest expense	(56)	(149)	(17)	(205)	(161)
Income taxes on surplus earnings	(33)	24	6	(9)	(28)
Net surplus earnings (deficit) for the period	\$ (27)	\$ 11	\$ (63)	\$ (16)	\$ -

⁽¹⁾ See "Non-GAAP measures".

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

- **Net deficit of \$27 million**, compared to net deficit of \$63 million for the second quarter of 2020.
 - In relation to treasury activities, market rate fluctuations as well as changes in hedging positions for matching activities had an overall favourable effect on total income.
 - Non-interest expense included expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes, thereby enhancing the member and client experience, improving productivity and ensuring the implementation of best practices in security. It also included commitments made regarding the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions, and the amounts paid out under the Desjardins Member Advantages program.

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

- **Net deficit of \$16 million** for the first six months ended June 30, 2021.
 - In relation to treasury activities, market rate fluctuations as well as changes in hedging positions for matching activities had an overall favourable effect on total income.
 - Non-interest expense included expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, protection of information, security and improving business processes, thereby enhancing the member and client experience and improving productivity and ensuring the implementation of best practices in security. It also included commitments made with regard to the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions, and the amounts paid out under the Desjardins Member Advantages program.

SUMMARY OF INTERIM RESULTS

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

Results of the most recent eight quarters

(in millions of dollars)	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net interest income	\$ 1,452	\$ 1,403	\$ 1,455	\$ 1,464	\$ 1,368	\$ 1,353	\$ 1,383	\$ 1,363
Net premiums	2,587	2,585	2,626	2,534	2,238	2,522	2,527	2,326
Other operating income ⁽¹⁾								
Deposit and payment service charges	105	99	104	96	83	105	109	116
Lending fees and credit card service revenues	182	187	165	126	141	196	185	193
Brokerage and investment fund services	285	273	243	235	235	241	226	223
Management and custodial service fees	177	169	168	152	147	150	155	148
Foreign exchange income	28	30	21	22	14	46	12	11
Other	53	37	48	14	58	29	341	12
Operating income⁽¹⁾	4,869	4,783	4,830	4,643	4,284	4,642	4,938	4,392
Investment income (loss) ⁽¹⁾								
Net investment income (loss)	1,055	(1,602)	646	304	2,624	(458)	(93)	608
Overlay approach adjustment for insurance operations financial assets	(146)	(146)	(112)	(143)	(299)	512	(22)	(13)
Investment income (loss)⁽¹⁾	909	(1,748)	534	161	2,325	54	(115)	595
Total income	5,778	3,035	5,364	4,804	6,609	4,696	4,823	4,987
Provision for (recovery of) credit losses	(3)	4	169	99	271	324	113	154
Claims, benefits, annuities and changes in insurance contract liabilities	2,191	(206)	1,781	1,775	3,606	2,071	1,411	2,247
Non-interest expense	2,377	2,165	2,332	1,954	2,012	1,999	2,172	1,861
Income taxes on surplus earnings	278	274	206	247	191	17	192	155
Surplus earnings before member dividends	935	798	876	729	529	285	935	570
Member dividends, net of income tax recovery	66	66	70	60	58	57	57	60
Net surplus earnings for the period after member dividends	\$ 869	\$ 732	\$ 806	\$ 669	\$ 471	\$ 228	\$ 878	\$ 510
Of which:								
Group's share	\$ 830	\$ 702	\$ 763	\$ 648	\$ 464	\$ 215	\$ 858	\$ 499
Non-controlling interests' share	39	30	43	21	7	13	20	11

⁽¹⁾ See "Non-GAAP measures".

Quarterly income, expenses and surplus earnings before member dividends are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the financial markets. Since the beginning of 2020, the quarters have been affected by the public health crisis related to the COVID-19 pandemic, leading to significant fluctuations in quarterly results, compared to those normally recognized by Desjardins. The results of the fourth quarter of 2019, on the other hand, were affected by the sale to Global Payments of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand, completed on December 31, 2019. For more information about quarterly trends, see pages 47 and 48 of the 2020 annual MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

Combined Balance Sheets

(in millions of dollars and as a percentage)	As at June 30, 2021		As at December 31, 2020	
Assets				
Cash and deposits with financial institutions	\$ 17,731	4.6%	\$ 12,126	3.3%
Securities	90,707	23.3	87,668	24.2
Securities borrowed or purchased under reverse repurchase agreements	14,345	3.7	9,658	2.7
Net loans and acceptances	222,023	57.0	211,749	58.5
Segregated fund net assets	21,474	5.5	19,093	5.3
Derivative financial instruments	5,703	1.5	5,820	1.6
Other assets	17,295	4.4	15,921	4.4
Total assets	\$ 389,278	100.0%	\$ 362,035	100.0%
Liabilities and equity				
Deposits	\$ 238,670	61.4%	\$ 225,236	62.2%
Commitments related to securities sold short	10,763	2.8	9,353	2.6
Commitments related to securities lent or sold under repurchase agreements	25,194	6.5	19,152	5.3
Derivative financial instruments	5,216	1.3	4,884	1.3
Insurance contract liabilities	33,580	8.6	34,827	9.6
Segregated fund net liabilities	21,468	5.5	19,089	5.3
Other liabilities	19,244	4.9	17,738	4.9
Subordinated notes	2,424	0.6	1,493	0.4
Equity	32,719	8.4	30,263	8.4
Total liabilities and equity	\$ 389,278	100.0%	\$ 362,035	100.0%

Assets

As at June 30, 2021, Desjardins Group's total assets stood at \$389.3 billion, up by \$27.2 billion, or 7.5%, since December 31, 2020. This growth was mainly due to an increase in net loans and acceptances, securities, including securities borrowed or purchased under reverse repurchase agreements, and cash and deposits with financial institutions.

Desjardins Group's cash and deposits with financial institutions were up \$5.6 billion, or 46.2%, and securities, including securities borrowed or purchased under reverse repurchase agreements, increased by \$7.7 billion, or 7.9%.

Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, increased by \$10.3 billion, or 4.9%. Residential mortgages, which have an important place in Desjardins Group's credit activities, were responsible for this growth and accounted for 64.5% of its portfolio as at June 30, 2021.

Loans and acceptances

(in millions of dollars and as a percentage)	As at June 30, 2021		As at December 31, 2020	
Residential mortgages	\$ 143,741	64.5%	\$ 136,208	64.0%
Consumer, credit card and other personal loans	24,859	11.1	25,310	11.9
Business and government	54,425	24.4	51,343	24.1
	223,025	100.0%	212,861	100.0%
Allowance for credit losses	(1,002)		(1,112)	
Total loans and acceptances by borrower category	\$ 222,023		\$ 211,749	

Desjardins Group's residential mortgages were up \$7.5 billion, or 5.5%, since December 31, 2020. Desjardins Group was able to capitalize on the sustained growth in housing activity, particularly in Québec. Outstanding business and government loans, including acceptances, increased by \$3.1 billion, or 6.0%. Consumer, credit card and other personal loans outstanding were down \$451 million, or 1.8%, since the end of 2020.

Information on the quality of Desjardins Group's credit portfolio can be found in the "Risk management" section, on pages 35 and 36 of this MD&A.

Segregated fund net assets were up \$2.4 billion, or 12.5%, mainly on account of changes in the fair value of the portfolio.

Derivative financial instrument assets were down by \$117 million, or 2.0%, particularly because of changes on financial markets.

Other assets increased by \$1.4 billion, or 8.6%, mainly as a result of the higher amounts receivable from clients, brokers and financial institutions.

Liabilities

Desjardins Group's total liabilities amounted to \$356.6 billion as at June 30, 2021, up \$24.8 billion, or 7.5%, since December 31, 2020, largely due to the increase in deposits and commitments related to securities sold short and lent or sold under repurchase agreements.

Outstanding deposits grew by \$13.4 billion, or 6.0%. The increase in business and government deposits, which comprised 43.9% of Desjardins Group's total deposit portfolio as at the same date, partly accounted for this growth. In fact, these outstanding deposits were up \$7.9 billion, or 8.1%, particularly because of growth in business member deposits in the caisse network. Various securities, including medium-term notes and covered bonds, issued on U.S., Canadian and European markets, made it possible to support the growth of Desjardins Group's funding requirements.

Deposits

(in millions of dollars and as a percentage)

	As at June 30, 2021		As at December 31, 2020	
Individuals	\$ 133,112	55.7%	\$ 127,928	56.8%
Business and government	104,706	43.9	96,853	43.0
Deposit-taking institutions	852	0.4	455	0.2
Total deposits	\$ 238,670	100.0%	\$ 225,236	100.0%

Personal deposits outstanding, which accounted for 55.7% of the total deposit portfolio, increased by \$5.2 billion, or 4.1%, because of growth in member deposits in the caisse network. Deposits from deposit-taking institutions were up by \$397 million.

Commitments related to securities sold short and lent or sold under repurchase agreements were up by \$7.5 billion, or 26.1%, to reach a volume of \$36.0 billion.

Derivative financial instrument liabilities were up \$332 million, or 6.8%, notably because of developments in financial markets.

Desjardins Group's insurance contract liabilities were down by \$1.2 billion, or 3.6%, largely as a result of a change in actuarial liabilities arising from life and health insurance operations.

Segregated fund net liabilities increased by \$2.4 billion, or 12.5%, mainly because of changes in the fair value of the portfolio.

Other liabilities grew by \$1.5 billion, or 8.5%, due to the higher amounts payable to clients, brokers and financial institutions.

Equity

Equity has increased by \$2.5 billion, or 8.1%, since December 31, 2020. Net surplus earnings after member dividends, totalling \$1.6 billion for the first six months of 2021, and other comprehensive income of \$873 million were the primary sources of this growth.

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

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, and regulators' expectations and requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of Desjardins Group's 2020 annual MD&A.

Regulatory framework and internal policies

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

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

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

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

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

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

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

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

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

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

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs ⁽³⁾⁽⁴⁾	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at June 30, 2021
Tier 1A capital	> 4.5 %	2.5 %	> 7.0 %	1.0 %	> 8.0 %	21.4 %
Tier 1 capital	> 6.0	2.5	> 8.5	1.0	> 9.5	21.4
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	22.6
Leverage ratio	> 3.5	N/A	> 3.5	N/A	> 3.5	8.5

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

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

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

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

Regulatory developments

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

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

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

On June 25, 2021, the AMF published a draft for consultation on the *Ligne directrice sur les normes relatives à la suffisance du capital de base* (guideline on adequacy of capital base standards) for financial services cooperatives. Interested parties were invited to submit comments until July 23, 2021. The draft is related to the Basel III regulatory reforms approved by the BCBS on December 7, 2017.

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

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

Implementation of these reforms is required for January 1, 2023.

Compliance with requirements

As at June 30, 2021, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 21.4%, 21.4% and 22.6%, respectively. The leverage ratio was 8.5%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

As at June 30, 2021, the Tier 1A capital ratio was down 53 basis points compared to December 31, 2020 on account of growth in risk-weighted assets, largely due to changes in methodology, partially offset by the increase in reserves and undistributed surplus earnings as well as the decrease in net defined benefit plan liabilities as at June 30, 2021.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at June 30, 2021.

Regulatory capital

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

Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A ⁽¹⁾	Tier 1B ⁽¹⁾	
Eligible items	<ul style="list-style-type: none"> Reserves and undistributed surplus earnings Eligible accumulated other comprehensive income F capital shares Caisse permanent shares and surplus shares subject to phase-out Eligible portion of general allowance⁽⁴⁾ 	<ul style="list-style-type: none"> Non-controlling interests⁽²⁾ 	<ul style="list-style-type: none"> General allowance Senior notes subject to phase-out NVCC subordinated notes⁽³⁾ Eligible qualifying shares
Regulatory adjustments	<ul style="list-style-type: none"> Goodwill Software Other intangible assets Deferred tax assets essentially resulting from loss carryforwards Shortfall in allowance 		
Deductions	<ul style="list-style-type: none"> Mainly significant investments in financial entities⁽⁵⁾ 	<ul style="list-style-type: none"> Investment in preferred shares of a component deconsolidated for regulatory capital purposes 	<ul style="list-style-type: none"> Investment in preferred shares of a component deconsolidated for regulatory capital purposes Subordinated financial instrument

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

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

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

⁽⁴⁾ On March 31, 2020, the AMF published transitional provisions stipulating that a portion of the general allowance initially included in Tier 2 capital could be included in Tier 1A capital. For more information, see the "Capital management" section in the 2020 annual MD&A.

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

Regulatory capital, risk-weighted assets and capital ratios

(in millions of dollars and as a percentage)	As at June 30, 2021	As at December 31, 2020
Capital		
Tier 1A capital	\$ 27,898	\$ 26,317
Tier 1 capital	27,898	26,317
Total capital	29,489	27,114
Risk-weighted assets		
Credit risk	\$ 112,423	\$ 103,658
Market risk	4,087	2,561
Operational risk	14,004	13,705
Total risk-weighted assets before the RWA floor	130,514	119,924
RWA floor adjustment	-	177
Total risk-weighted assets	\$ 130,514	\$ 120,101
Ratios and leverage ratio exposure		
Tier 1A capital	21.4%	21.9%
Tier 1 capital	21.4	21.9
Total capital	22.6	22.6
Leverage	8.5	8.5
Leverage ratio exposure	\$ 328,513	\$ 307,925

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them since January 1, 2013, as prescribed. In accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% until January 1, 2022. These instruments include permanent shares and surplus shares issued before September 12, 2010, which totalled \$2.1 billion.

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

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

Change in regulatory capital

For the six-month periods ended

(in millions of dollars)	June 30, 2021
Tier 1A capital	
Balance at beginning of period	\$ 26,317
Increase in reserves and undistributed surplus earnings ⁽¹⁾	2,667
Eligible accumulated other comprehensive income	(271)
Permanent shares and surplus shares subject to phase-out	(24)
Deductions	(791)
Balance at end of period	27,898
Total Tier 1 capital⁽²⁾	27,898
Tier 2 capital	
Balance at beginning of period	797
Eligible instruments	969
Senior notes subject to phase-out	(186)
General allowance	11
Deductions	-
Balance at end of period	1,591
Total capital	\$ 29,489

⁽¹⁾ Amount including the change in defined benefit pension plan liabilities.

⁽²⁾ No Tier 1B capital instrument has been issued to date.

Risk-weighted assets (RWA)

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

Credit risk

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

Market risk

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

Operational risk

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

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

RWA totalled \$130.5 billion as at June 30, 2021, up \$6.1 billion compared to the previous quarter.

For credit risk, changes in RWA for the second quarter of 2021 are divided into two segments: credit risk other than counterparty risk, and counterparty risk. In credit risk other than counterparty risk, the net increase of \$5.8 billion in RWA was mainly the result of changes in portfolio size, which caused a \$4.0 billion increase in RWA, as well as changes in methods and policies, which led to a \$2.4 billion increase in RWA, partially offset by portfolio quality, which resulted in a \$0.6 billion decrease in RWA. In counterparty risk, a slight \$321 million increase in RWA was due to the increase in portfolio size, offset by changes in portfolio quality.

In market risk, a \$1.2 billion increase in RWA resulted mainly from the withdrawal of the AMF's relief measure for market risk. This measure, which allowed reduction of the stressed Value-at-Risk multiplier from 3 to 1, was in effect from March 31, 2020 to April 30, 2021.

An increase of \$182 million in RWA was noted in operational risk as a result of fluctuations in the income generated.

The RWA floor adjustment as previously defined decreased by \$1.4 billion compared to the previous quarter, mainly due to changes in methods and policies.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

Assets under management and under administration

As at June 30, 2021, Desjardins Group administered, for the account of its members and clients, assets worth \$485.8 billion, for an increase of \$27.6 billion, or 6.0% since December 31, 2020. The financial assets entrusted to Desjardins Group as wealth manager totalled \$85.4 billion as at June 30, 2021, up \$7.9 billion, or 10.2%, since December 31, 2020. The increase in assets under management and under administration is due mainly to new management mandates and growth in assets stemming from changes on financial markets.

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

RISK MANAGEMENT

RISK MANAGEMENT

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

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

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

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

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

- **Market risk**
 - Market data have been significantly affected by the global pandemic. Therefore, the extreme volatility observed in the first quarter of 2020 affected the one-year data history used to calculate the VaR for subsequent quarters. As a result, there was a decrease recorded in the VaR level for the second quarter of 2021 compared to previous quarters because this period of extreme volatility was excluded from the data history.
- **Credit risk – Portfolio quality**
 - The quality of the credit portfolio has remained stable since the second quarter of 2020. A possible increase in delinquencies is being monitored.
- **Credit risk – Provisioning**
 - Despite the continued application of public health measures and closures of certain sectors, delinquencies and defaults did not increase as anticipated. Consequently, the expected credit losses recognized because of the anticipated effects of the COVID-19 pandemic have not materialized for the time being, but an increase in bankruptcies over the coming months could bring about these expected losses. Desjardins Group continues to monitor developments in the situation.
- **Insurance risk – Life and Health Insurance**
 - The evolution of the experience as a result of the pandemic continues to be monitored, in particular for disability and mortality.
- **Insurance risk – Property and Casualty Insurance**
 - Given COVID-19 public health measures, claims, particularly in automobile insurance, have been declining since the beginning of the pandemic. The Property and Casualty Insurance segment has provided support to its insured clients by applying rate adjustments due to changes in driving habits during the COVID-19 pandemic, which slowed down growth in the average premium. The P&C Insurance segment also adjusted its programs with the launch of a new version of Ajusto based on modified use of the motor vehicle driven. Ajusto is a telematics program providing personalized feedback on driving and is used to reflect the changes in insured clients' driving habits.
 - There is still uncertainty about growth in premiums versus claims, the likely increase in fraud and potential civil liability claims for businesses. Additional margins are included in loss reserves and unearned premiums.
- **Liquidity risk**
 - In order to prevent liquidity from drying up, the Government of Canada has set up exceptional liquidity granting programs to facilitate access to funding from financial institutions. The use of these programs by Desjardins Group and growth in deposits have resulted in very high liquidity ratios. With the stabilization of market conditions, certain programs have expired and the liquidity level remains high.
- **Operational risks – Information security**
 - With the new reality of teleworking, remote monitoring has been reinforced, including on applications with confidential data. The adequacy of the working environment for all employees has been assessed to ensure compliance with information security standards.
- **Operational risks – Technology**
 - The robustness and monitoring of technology infrastructures were enhanced in order to better meet performance needs for telework and the increased use of digital services by our members and clients. Enhanced monitoring of infrastructure stability has been put in place.

- Operational risks – Business continuity
 - The risk of abnormal absenteeism caused by another wave of COVID-19 affecting Desjardins employees and their families is being monitored, and business continuity plans are adjusted and finetuned on an ongoing basis to ensure backup of operations.
- Operational risks – Third parties
 - The pandemic is heightening third party risk. There is increased monitoring, in particular, of major suppliers' business continuity strategies. Furthermore, special attention is being paid to their financial health.

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

CREDIT RISK

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

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

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

Quality of loan portfolio

As at June 30, 2021, in accordance with Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements, the loss allowance for expected credit losses on loans totalled \$1,002 million, down \$110 million compared to December 31, 2020. This decrease was mainly due to lower credit card portfolio volumes in the first quarter of 2021 and to improved borrower credit quality. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements.

Gross credit-impaired loans outstanding are considered Stage 3 loans of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.55% for the second quarter of 2021, compared to 0.62% as at December 31, 2020. The allowance for credit losses on credit-impaired loans totalled \$293 million as at June 30, 2021, resulting in a provisioning rate of 23.9% for credit-impaired loans.

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

Gross loans past due but not credit-impaired

As at June 30, 2021

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 1,266	\$ 82	\$ 27	\$ 1	\$ 1,376
Consumer, credit card and other personal loans	478	74	40	30	622
Business and government	231	8	4	1	244
	\$ 1,975	\$ 164	\$ 71	\$ 32	\$ 2,242

As at December 31, 2020

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

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

Gross credit-impaired loans by borrower category

(in millions of dollars and as a percentage)	As at June 30, 2021					As at December 31, 2020	
	Gross carrying amount			Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans
	Gross loans and acceptances	Gross credit-impaired loans					
Residential mortgages	\$ 143,741	\$ 253	0.18%	\$ 23	\$ 230	\$ 374	\$ 345
Consumer, credit card and other personal loans	24,859	156	0.63	91	65	212	86
Business and government	54,425	818	1.50	179	639	737	556
Total loans	\$ 223,025	\$ 1,227	0.55%	\$ 293	\$ 934	\$ 1,323	\$ 987

Change in gross credit-impaired loans

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Gross credit-impaired loans at the beginning of the period	\$ 1,236	\$ 1,323	\$ 1,167	\$ 1,323	\$ 1,142
Gross loans that became credit-impaired since the last period	679	608	634	1,287	1,117
Loans returned to unimpaired status	(616)	(699)	(366)	(1,315)	(773)
Write-offs and recoveries	(58)	(56)	(88)	(114)	(193)
Other changes	(14)	60	(40)	46	14
Gross credit-impaired loans at the end of the period	\$ 1,227	\$ 1,236	\$ 1,307	\$ 1,227	\$ 1,307

Counterparty and issuer risk

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

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

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

MARKET RISK

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

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

Governance

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

Link between market risk and the Combined Balance Sheets

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

Link between market risk and the Combined Balance Sheets

As at June 30, 2021

	Exposed to market risk					
	Combined Balance Sheets	Trading activities ⁽¹⁾⁽²⁾	Non-trading activities ⁽³⁾	Not exposed to market risk	Principal risks associated with non-trading activities	
(in millions of dollars)						
Assets						
Cash and deposits with financial institutions	\$ 17,731	\$ -	\$ 17,731	\$ -	Interest rate	
Securities						
Securities at fair value through profit or loss	39,195	12,750	26,445	-	Interest rate	
Securities at fair value through other comprehensive income	51,477	-	51,477	-	Interest rate, FX, price	
Securities at amortized cost	35	-	35	-	Interest rate	
Securities borrowed or purchased under reverse repurchase agreements	14,345	13,550	795	-	Interest rate	
Net loans and acceptances	222,023	-	222,023	-	Interest rate	
Segregated fund net assets	21,474	-	21,474	-	Interest rate, price	
Derivative financial instruments	5,703	355	5,348	-	Interest rate, FX, price	
Other assets	17,295	-	-	17,295		
Total assets	\$ 389,278	\$ 26,655	\$ 345,328	\$ 17,295		
Liabilities and equity						
Deposits	\$ 238,670	\$ -	\$ 238,670	\$ -	Interest rate	
Commitments related to securities sold short	10,763	10,761	2	-	Interest rate	
Commitments related to securities lent or sold under repurchase agreements	25,194	23,958	1,236	-	Interest rate	
Derivative financial instruments	5,216	275	4,941	-	Interest rate, FX, price	
Insurance contract liabilities	33,580	-	33,580	-	Interest rate	
Segregated fund net liabilities	21,468	-	21,468	-	Interest rate, price	
Other liabilities	19,244	-	1,677	17,567	Interest rate	
Subordinated notes	2,424	-	2,424	-	Interest rate	
Equity	32,719	-	-	32,719		
Total liabilities and equity	\$ 389,278	\$ 34,994	\$ 303,998	\$ 50,286		

Footnotes to this table are presented on the next page.

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

As at December 31, 2020

		Exposed to market risk			
(in millions of dollars)	Combined Balance Sheets	Trading activities ⁽¹⁾⁽²⁾	Non-trading activities ⁽³⁾	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	\$ 12,126	\$ -	\$ 12,126	\$ -	Interest rate
Securities					
Securities at fair value through profit or loss	34,960	8,170	26,790	-	Interest rate
Securities at fair value through other comprehensive income	52,679	-	52,679	-	Interest rate, FX, price
Securities at amortized cost	29	-	29	-	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	9,658	8,842	816	-	Interest rate
Net loans and acceptances	211,749	-	211,749	-	Interest rate
Segregated fund net assets	19,093	-	19,093	-	Interest rate, price
Derivative financial instruments	5,820	405	5,415	-	Interest rate, FX, price
Other assets	15,921	-	-	15,921	
Total assets	\$ 362,035	\$ 17,417	\$ 328,697	\$ 15,921	
Liabilities and equity					
Deposits	\$ 225,236	\$ -	\$ 225,236	\$ -	Interest rate
Commitments related to securities sold short	9,353	9,352	1	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	19,152	12,508	6,644	-	Interest rate
Derivative financial instruments	4,884	548	4,336	-	Interest rate, FX, price
Insurance contract liabilities	34,827	-	34,827	-	Interest rate
Segregated fund net liabilities	19,089	-	19,089	-	Interest rate, price
Other liabilities	17,738	-	3,107	14,631	Interest rate
Subordinated notes	1,493	-	1,493	-	Interest rate
Equity	30,263	-	-	30,263	
Total liabilities and equity	\$ 362,035	\$ 22,408	\$ 294,733	\$ 44,894	

⁽¹⁾ Trading activity positions for which the risk measure is VaR and SVaR.⁽²⁾ The amounts presented in trading activities take into account inter-company 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 day-to-day basis under specific frameworks, which set out the risk factors that must be measured and the limit for each of these factors as well as the total. Tolerance limits are also provided for various stress testing. Compliance with these limits is monitored daily and a market risk dashboard is produced on a daily basis and sent to senior management. Any limit exceeded is immediately analyzed and the appropriate action is taken.

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

In addition to aggregate VaR, Desjardins Group calculates an aggregate stressed VaR (SVaR). It is calculated in the same way as aggregate VaR, except for the use of historical data. Therefore, instead of using the interval of the past year, aggregate SVaR takes into account the historical data for a crisis period of one year from September 2008. However, a ratio of aggregate SVaR to VaR is calculated on a daily basis to ensure that the stress period selected is still adequate. In addition, this stress period is reviewed periodically, as well as stress testing.

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

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

Market risk measures for the trading portfolio

(in millions of dollars)	For the quarter ended June 30, 2021				For the quarters ended			
					March 31, 2021		June 30, 2020	
	As at June 30, 2021	Average	High	Low	As at March 31, 2021	Average	As at June 30, 2020	Average
Equities	\$ 0.3	\$ 0.3	\$ 0.6	\$ 0.2	\$ 0.6	\$ 0.8	\$ 1.8	\$ 2.9
Foreign exchange	0.2	0.4	1.4	0.1	0.8	1.3	2.0	1.2
Interest rate	3.7	4.4	5.9	3.1	3.0	4.7	5.0	4.9
Specific interest rate risk ⁽¹⁾	2.6	1.9	3.3	1.2	1.4	2.0	3.6	4.9
Diversification effect ⁽²⁾	(3.1)	(2.5)	N/A ⁽³⁾	N/A ⁽³⁾	(2.5)	(3.4)	(6.6)	(7.7)
Aggregate VaR	\$ 3.7	\$ 4.5	\$ 5.8	\$ 3.2	\$ 3.3	\$ 5.4	\$ 5.8	\$ 6.2
Aggregate SVaR	\$ 11.8	\$ 16.0	\$ 22.2	\$ 11.2	\$ 17.3	\$ 14.9	\$ 23.1	\$ 18.9
Incremental risk charge (IRC)	\$ 88.1	\$ 70.9	\$ 88.1	\$ 52.6	\$ 64.5	\$ 59.9	\$ 54.9	\$ 56.7

⁽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 specific risk from general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of an issuer, such as provinces, municipalities and companies, and a sub-portfolio that contains the positions considered to be without issuer risk, such as governments in the local currency.

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

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

The average of the trading portfolio's aggregate VaR was \$4.5 million for the quarter ended June 30, 2021, down \$0.9 million compared to the quarter ended March 31, 2021. The average of the aggregate SVaR was \$16.0 million for the quarter ended June 30, 2021, up \$1.1 million compared to the quarter ended March 31, 2021. The average of the incremental risk charge totalled \$70.9 million, up \$11.0 million compared to the previous quarter.

It should be noted that the decline in the Desjardins average VaR is essentially due to a decrease in the foreign exchange VaR as well as in the equities VaR and interest rate VaR. The decline in VaR levels is also a result of the impact of data for the crisis in first quarter 2020, which are no longer included in the data history used to calculate the VaR.

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

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

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

Back testing

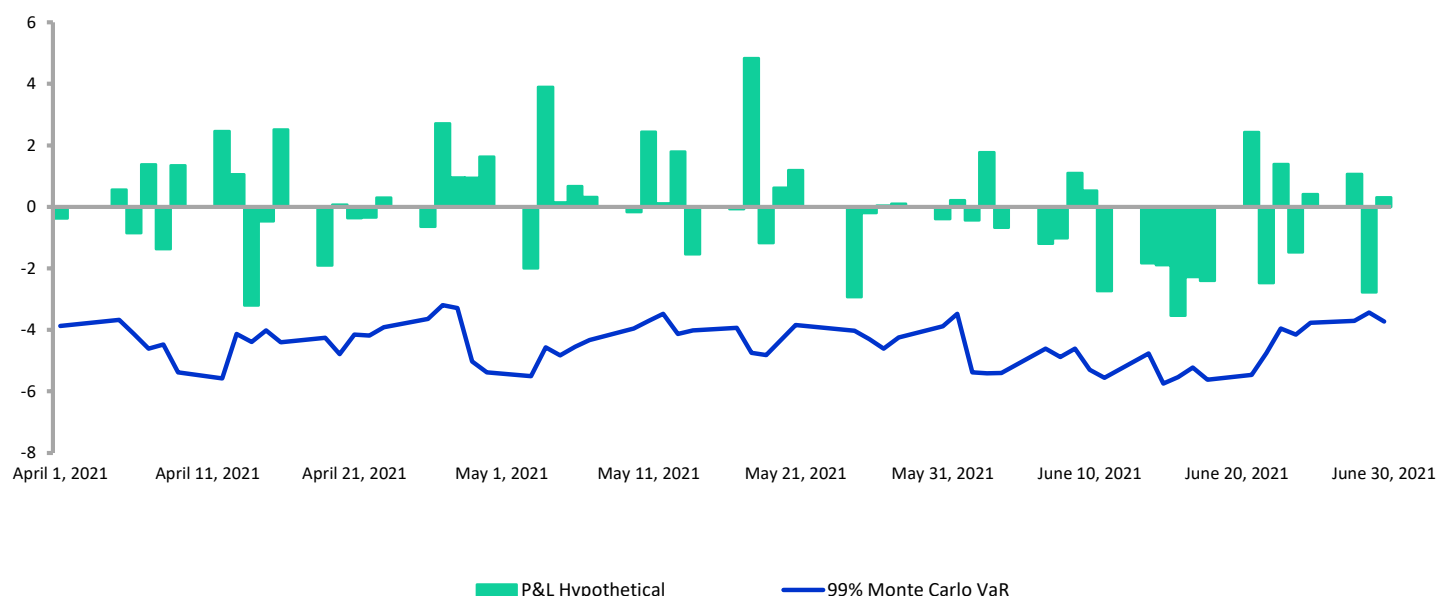
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the model every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

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

The following graph shows changes in VaR for trading activities as well as the hypothetical P&L related to these activities. During the second quarter of 2021, no overage of actual P&L and hypothetical P&L was observed in relation to the Desjardins Group VaR.

VaR compared to hypothetical P&L for trading activities

(in millions of dollars)

**Stress testing**

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

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

Structural interest rate risk management

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

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

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

In addition to the total sensitivity gap, the main structural interest rate risk factors are:

- the trend in interest rate level and volatility;
- the changes in the shape of the yield curve;
- member and client behaviour in their choice of products;
- the financial intermediation margin;
- the optionality of the various financial products offered.

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

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

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

Interest rate sensitivity (before income taxes)⁽¹⁾

(in millions of dollars)	As at June 30, 2021		As at March 31, 2021		As at June 30, 2020	
	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾
Impact of a 100-basis-point increase in interest rates	\$ 56	\$ (125)	\$ 35	\$ (154)	\$ 13	\$ (31)
Impact of a 25-basis-point decrease in interest rates ⁽⁴⁾	(21)	28	(13)	37	(2)	(7)

⁽¹⁾ Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a \$196 million decrease in the economic value of equity before taxes as at June 30, 2021, and in a \$162 million and \$168 million decrease as at March 31, 2021 and June 30, 2020, respectively. A 25-basis-point decrease in interest rates would result in a \$51 million increase in the economic value of equity before taxes as at June 30, 2021, and of \$44 million as at March 31, 2021. A 100-basis-point decrease would result in a \$311 million increase in the economic value of equity as at June 30, 2020.

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

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

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

Foreign exchange risk management

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

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

LIQUIDITY RISK

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

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

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

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

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

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

In the current context of the COVID-19 pandemic, the Government of Canada has set up exceptional liquidity programs to facilitate access to funding for financial institutions. Additional information on Government of Canada programs is presented under “Sources of funding” in the “Liquidity risk” section of Desjardins Group’s 2020 annual MD&A. Desjardins Group has used these programs to maintain adequate liquidity in order to deal with this unprecedented situation. However, as market conditions stabilized, some Bank of Canada programs to provide temporary liquidity to the financial system ended. Among others, the contingent term liquidity facility was deactivated in early April 2021, while the Standing Term Liquidity Facility was terminated in mid-May 2021. Desjardins Group’s average LCR was 151% for the quarter ended June 30, 2021, compared to 155% for the previous quarter. Despite this decline, the average ratio for the second quarter rose to a very high level because of the use of the aforementioned programs and the increase in deposits. The AMF requires that in the absence of stressed conditions, the ratio be greater than or equal to the minimum requirement of 100%. However, in order to promote the effective circulation of liquidity during the COVID-19 pandemic crisis, the AMF could exceptionally accept levels this one time that are lower than the minimum requirements. Desjardins Group does not expect its regulatory ratio to fall below the regulatory limit. This ratio is proactively managed by Desjardins Group’s Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group’s main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

Liquid assets

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

Liquid assets⁽¹⁾

As at June 30, 2021

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	\$ 16,879	\$ -	\$ 16,879	\$ -	\$ 16,879
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	54,139	13,831	67,970	33,898	34,072
Other securities in Canada	4,633	878	5,511	2,326	3,185
Issued or guaranteed by foreign issuers	418	2	420	9	411
Loans					
Insured residential mortgage-backed securities	6,348	-	6,348	2,092	4,256
Total	\$ 82,417	\$ 14,711	\$ 97,128	\$ 38,325	\$ 58,803

As at December 31, 2020

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	\$ 11,300	\$ -	\$ 11,300	\$ -	\$ 11,300
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	51,483	8,526	60,009	24,139	35,870
Other securities in Canada	4,273	1,387	5,660	4,446	1,214
Issued or guaranteed by foreign issuers	421	3	424	6	418
Loans					
Insured residential mortgage-backed securities	7,366	-	7,366	1,610	5,756
Total	\$ 74,843	\$ 9,916	\$ 84,759	\$ 30,201	\$ 54,558

⁽¹⁾ Excluding assets held by insurance subsidiaries.

Unencumbered liquid assets by entity⁽¹⁾

(in millions of dollars)	As at June 30, 2021	As at December 31, 2020
Federation	\$ 38,878	\$ 34,603
Caisse network	17,077	17,463
Other entities	2,848	2,492
Total	\$ 58,803	\$ 54,558

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

Encumbered assets

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

Encumbered assets

As at June 30, 2021

	Breakdown of total assets						
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other ⁽¹⁾	Available as collateral	Other ⁽²⁾
Cash and deposits with financial institutions	\$ 17,731	\$ -	\$ 17,731	\$ -	\$ 609	\$ 16,270	\$ 852
Securities	90,707	20,432	111,139	41,281	959	37,383	31,516
Securities borrowed or purchased under reverse repurchase agreements	14,345	-	14,345	-	-	-	14,345
Net loans and acceptances	222,023	-	222,023	28,761	-	77,158	116,104
Segregated fund net assets	21,474	-	21,474	-	-	-	21,474
Other assets	22,998	-	22,998	-	-	-	22,998
Total	\$ 389,278	\$ 20,432	\$ 409,710	\$ 70,042	\$ 1,568	\$ 130,811	\$ 207,289

As at December 31, 2020

	Breakdown of total assets						
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other ⁽¹⁾	Available as collateral	Other ⁽²⁾
Cash and deposits with financial institutions	\$ 12,126	\$ -	\$ 12,126	\$ -	\$ 359	\$ 10,941	\$ 826
Securities	87,668	14,649	102,317	32,945	1,173	36,708	31,491
Securities borrowed or purchased under reverse repurchase agreements	9,658	-	9,658	-	-	-	9,658
Net loans and acceptances	211,749	-	211,749	28,401	-	73,167	110,181
Segregated fund net assets	19,093	-	19,093	-	-	-	19,093
Other assets	21,741	-	21,741	-	-	-	21,741
Total	\$ 362,035	\$ 14,649	\$ 376,684	\$ 61,346	\$ 1,532	\$ 120,816	\$ 192,990

⁽¹⁾ Assets that cannot be used for legal or other reasons.⁽²⁾ "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.**Liquidity coverage ratio**

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

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

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

Liquidity Coverage Ratio⁽¹⁾

	For the quarter ended June 30, 2021		For the quarter ended March 31, 2021
	Total unweighted value ⁽²⁾ (average ⁽⁴⁾)	Total weighted value ⁽³⁾ (average ⁽⁴⁾)	Total weighted value ⁽³⁾ (average ⁽⁴⁾)
(in millions of dollars and as a percentage)			
High-quality liquid assets			
Total high-quality liquid assets	N/A	\$ 47,629	\$ 46,101
Cash outflows			
Retail deposits and deposits from small business customers, including:	\$ 98,459	6,470	6,265
Stable deposits	48,215	1,446	1,398
Less stable deposits	50,244	5,024	4,867
Unsecured wholesale funding, including:	37,422	17,936	17,202
Operational deposits (all counterparties) and deposits in cooperative bank networks	11,379	2,721	2,281
Non-operational deposits (all counterparties)	18,485	7,657	6,677
Unsecured debt	7,558	7,558	8,244
Secured wholesale funding	N/A	10	6
Additional requirements, including:	14,824	3,154	3,097
Outflows related to exposures on derivatives and other collateral required	1,354	1,236	1,231
Outflows related to funding loss on debt products	114	114	78
Credit and liquidity facilities	13,356	1,804	1,788
Other contractual funding liabilities	4,870	3,240	2,470
Other contingent funding liabilities	99,484	2,542	2,493
Total cash outflows	N/A	\$ 33,352	\$ 31,533
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	\$ 7,524	\$ 164	\$ 41
Inflows related to completely effective exposures	3,259	1,629	1,700
Other cash inflows	80	80	113
Total cash inflows	\$ 10,863	\$ 1,873	\$ 1,854
		Total adjusted value⁽⁵⁾	Total adjusted value⁽⁵⁾
Total high-quality liquid assets		\$ 47,629	\$ 46,101
Total net cash outflows		31,479	29,679
Liquidity coverage ratio		151%	155%

⁽¹⁾ Excluding the insurance subsidiaries.

⁽²⁾ The unweighted values of cash inflows and outflows represent unpaid balances either maturing or falling due and payable within 30 days.

⁽³⁾ Weighted values are calculated after the "haircuts" prescribed for high-quality liquid assets and the rates prescribed for cash inflows and outflows have been applied.

⁽⁴⁾ The ratio is presented based on the average of daily data for the quarter.

⁽⁵⁾ The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

Net stable funding ratio

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

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

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

Net Stable Funding Ratio⁽¹⁾

	For the quarter ended June 30, 2021					For the quarter ended March 31, 2021
	Unweighted value by residual maturity					
	No maturity	< 6 months	From 6 months to < 1 year	≥ 1 year	Weighted value	Weighted value
(in millions of dollars and as a percentage)						
Available Stable Funding (ASF) item						
Capital	\$ 31,842	\$ -	\$ -	\$ -	\$ 31,842	\$ 30,742
Regulatory capital	31,842	-	-	-	31,842	30,742
Other capital instruments	-	-	-	-	-	-
Retail deposits and deposits from small business customers	78,428	42,240	16,047	28,310	153,397	149,810
Stable deposits	44,914	6,256	5,764	9,646	63,733	61,134
Less stable deposits	33,514	35,984	10,283	18,664	89,664	88,676
Wholesale funding	25,793	42,429	2,640	16,078	30,613	25,692
Operational deposits	9,787	-	-	-	4,894	4,790
Other wholesale funding	16,006	42,429	2,640	16,078	25,719	20,902
Liabilities with matching interdependent assets	-	678	835	10,734	-	-
Other liabilities	20,056	9,861	5,149	-	-	-
NSFR derivative liabilities	N/A	-	5,149	-	N/A	N/A
All other liabilities and equity not included in the above categories	20,056	9,861	-	-	-	-
Total ASF	N/A	N/A	N/A	N/A	\$ 215,852	\$ 206,244
Required Stable Funding (RSF) item						
Total NSFR high-quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	\$ 527	\$ 455
Deposits held by other financial institutions for operational purposes	\$ -	\$ -	\$ -	-	-	-
Performing loans and securities	18,569	40,650	19,575	145,216	144,378	138,256
Performing loans to financial institutions secured by Level 1 HQLA	-	12,723	-	-	636	582
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	2,024	-	375	578	596
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:	13,045	19,383	8,283	50,956	65,986	64,019
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	-	6,711	4,644	11,243	7,308	6,871
Performing residential mortgages, of which:	5,515	5,934	10,997	91,438	74,650	71,302
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	5,515	5,934	10,997	91,437	74,651	71,302
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	9	586	295	2,447	2,528	1,757
Assets with matching interdependent liabilities	-	678	835	10,734	-	-
Other assets ⁽²⁾	-	-	24,072	-	13,570	13,018
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	-	575	-	489	493
NSFR derivative assets ⁽²⁾	N/A	-	5,524	-	257	259
NSFR derivative liabilities before deduction of variation margin posted ⁽²⁾	N/A	-	5,149	-	-	-
All other assets not included in the above categories	-	13	4	12,807	12,824	12,266
Off-balance sheet items	N/A	-	112,709	-	2,670	2,646
Total RSF	N/A	N/A	N/A	N/A	\$ 161,145	\$ 154,375
Net Stable Funding Ratio (%)	N/A	N/A	N/A	N/A	134%	134%

⁽¹⁾ Excluding the insurance subsidiaries.

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

Sources of funding

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to \$238.7 billion as at June 30, 2021, up \$13.4 billion since December 31, 2020. Additional information on deposits is presented in the "Balance sheet management" section.

Funding programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, and these strategies are regulated by policies. In the first six months of 2021, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional funding and the contribution of the caisse network. Short-term wholesale funding is used to finance very liquid assets while long-term wholesale funding is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

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

Main funding programs

As at June 30, 2021

	Maximum authorized amount
Medium-term notes (Canadian)	\$10 billion
Covered bonds (multi-currency) ⁽¹⁾	\$18 billion
Short-term notes (European)	€3 billion
Short-term notes (U.S.)	US\$15 billion
Medium-term and subordinated notes (multi-currency)	€7 billion
NVCC subordinated notes (Canadian)	\$3 billion

⁽¹⁾ On April 6, 2021, the AMF announced the unwinding, effective immediately, of the temporary increase in the covered bond issue limits and, therefore, a return to the normal target of 5.5% of Desjardins Group's assets, as calculated according to the AMF's decision on the matter. The maximum authorized amount under the covered bond program was therefore lowered from \$26 billion to \$18 billion (calculated as at June 30, 2021).

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

Remaining contractual term to maturity of wholesale funding

(in millions of dollars)	As at June 30, 2021								As at December 31, 2020
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total – Less than 1 year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	\$ 2,040	\$ 1,013	\$ 52	\$ 8	\$ 3,113	\$ -	\$ -	\$ 3,113	\$ 3,833
Commercial paper	6,867	3,116	799	-	10,782	-	-	10,782	11,676
Medium-term notes	-	1,470	-	999	2,469	832	5,561	8,862	6,446
Mortgage loan securitization	-	326	351	833	1,510	1,836	8,908	12,254	12,100
Covered bonds	-	-	464	978	1,442	2,339	4,249	8,030	9,979
Subordinated notes	-	-	-	-	-	-	2,424	2,424	1,493
Total	\$ 8,907	\$ 5,925	\$ 1,666	\$ 2,818	\$ 19,316	\$ 5,007	\$ 21,142	\$ 45,465	\$ 45,527
Including:									
Secured	\$ -	\$ 326	\$ 815	\$ 1,811	\$ 2,952	\$ 4,175	\$ 15,581	\$ 22,708	\$ 23,572
Unsecured	8,907	5,599	851	1,007	16,364	832	5,561	22,757	21,955

Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding decreased slightly by \$62 million compared to December 31, 2020. Desjardins Group does not foresee any event, commitment or requirement that could have a major impact on its ability to raise funds through wholesale funding or its members' deposits.

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

Wholesale funding by currency

(in millions of dollars and as a percentage)	As at June 30, 2021		As at December 31, 2020	
Canadian dollars	\$ 23,022	50.7 %	\$ 24,205	53.2 %
U.S. dollars	16,334	35.9	13,491	29.6
Other	6,109	13.4	7,831	17.2
	\$ 45,465	100.0 %	\$ 45,527	100.0 %

Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of \$0.8 billion in the first six months of 2021. During the same period, the Federation also made the following issues:

- On January 21, 2021, an issue of \$1.0 billion, subject to the bail-in regime, under its Canadian medium-term note program;
- On April 8, 2021, an issue totalling 500 million euros under its legislative covered bond program;
- On May 21, 2021, an issue totalling US\$1.25 billion, subject to the bail-in regime, under its multi-currency medium-term note program;
- On May 28, 2021, an issue of \$1.0 billion in notes eligible as Non-Viability Contingent Capital under its Canadian NVCC subordinated notes program.

Outstanding notes issued under the Federation's medium-term funding programs amounted to \$29.1 billion as at June 30, 2021, compared to \$28.5 billion as at December 31, 2020. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Combined Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled \$0.5 billion as at June 30, 2021, unchanged from December 31, 2020.

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

Credit ratings of securities issued and outstanding

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

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

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

On July 12, 2021, Moody's upgraded to A1 from A2 the rating for medium- and long-term senior debt subject to the bail-in regime applicable to Desjardins Group ("bail-inable" senior debt). This upgrade follows Moody's methodology update, reflecting its expectation that the Federation will issue a sufficient amount of subordinated debt in the next 12 months.

On July 15, 2021, DBRS affirmed the ratings of the instruments issued by the Federation while maintaining its outlook as stable. This reflects Desjardins Group's strong presence in Québec, with leading market shares for deposits, residential mortgages and insurance.

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

Credit ratings of securities issued and outstanding

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

⁽¹⁾ Represents Moody's long-term deposit rating and counterparty risk rating, S&P's issuer credit rating, DBRS's long-term deposit rating, and Fitch's long-term issuer default rating, long-term deposit rating and derivative counterparty rating.

⁽²⁾ Includes medium- and long-term senior debt issued before March 31, 2019, as well as that issued on or after that date and excluded from the bail-in regime applicable to Desjardins Group.

⁽³⁾ Includes medium- and long-term senior debt issued on or after March 31, 2019, which meets the eligibility criteria for the bail-in regime applicable to Desjardins Group.

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

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

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

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

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

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

As at June 30, 2021

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	\$ 17,336	\$ 389	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,731
Securities										
Securities at fair value through profit or loss ⁽¹⁾	220	661	1,084	545	885	1,444	6,925	21,679	5,752	39,195
Securities at fair value through other comprehensive income ⁽¹⁾	498	271	994	803	320	5,474	25,575	17,475	67	51,477
Securities at amortized cost	-	-	1	-	1	1	5	27	-	35
Securities borrowed or purchased under reverse repurchase agreements	13,204	232	909	-	-	-	-	-	-	14,345
Loans										
Residential mortgages ⁽²⁾	2,641	2,880	7,425	8,375	7,891	19,476	80,479	8,625	5,949	143,741
Consumer, credit card and other personal loans ⁽²⁾	92	119	225	184	133	1,295	5,492	7,673	9,646	24,859
Business and government ⁽²⁾	12,275	5,050	5,952	4,541	4,804	4,319	8,739	2,897	5,758	54,335
Allowance for credit losses	-	-	-	-	-	-	-	-	(1,002)	(1,002)
Segregated fund net assets	-	-	-	-	-	-	-	-	21,474	21,474
Clients' liability under acceptances	70	20	-	-	-	-	-	-	-	90
Premiums receivable	166	62	13	3	-	-	-	-	2,553	2,797
Derivative financial instruments	122	286	304	186	360	1,456	2,694	295	-	5,703
Amounts receivable from clients, brokers and financial institutions	3,135	2	-	-	-	-	-	-	765	3,902
Reinsurance assets	33	58	70	61	59	162	326	1,098	-	1,867
Right-of-use assets	-	-	-	-	-	-	-	-	556	556
Investment property	-	-	-	-	-	-	-	-	922	922
Property, plant and equipment	-	-	-	-	-	-	-	-	1,505	1,505
Goodwill	-	-	-	-	-	-	-	-	156	156
Intangible assets	-	-	-	-	-	-	-	-	476	476
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,281	1,281
Deferred tax assets	-	-	-	-	-	-	-	-	797	797
Other assets	611	202	129	12	46	20	46	11	1,959	3,036
Total assets	\$ 50,403	\$ 10,232	\$ 17,112	\$ 14,710	\$ 14,499	\$ 33,647	\$ 130,281	\$ 59,780	\$ 58,614	\$ 389,278

See page 52 for footnotes.

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

As at June 30, 2021

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals ⁽³⁾	\$ 4,036	\$ 4,415	\$ 7,066	\$ 5,205	\$ 10,454	\$ 11,303	\$ 16,150	\$ 353	\$ 74,130	\$ 133,112
Business and government ⁽³⁾	10,759	6,507	2,427	1,907	2,240	6,282	16,421	3,942	54,221	104,706
Deposit-taking institutions ⁽³⁾	20	-	6	3	1	8	1	-	813	852
Acceptances	70	20	-	-	-	-	-	-	-	90
Commitments related to securities sold short ⁽⁴⁾	240	27	84	550	10	1,685	2,686	5,479	2	10,763
Commitments related to securities lent or sold under repurchase agreements	24,970	204	20	-	-	-	-	-	-	25,194
Derivative financial instruments	154	304	275	194	335	1,420	2,420	114	-	5,216
Amounts payable to clients, brokers and financial institutions	3,965	4	-	-	-	-	-	-	6,033	10,002
Lease liabilities	6	11	16	16	16	61	167	319	9	621
Insurance contract liabilities	457	781	979	895	855	2,246	4,780	19,574	3,013	33,580
Segregated fund net liabilities	-	-	-	-	-	-	-	-	21,468	21,468
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,677	1,677
Deferred tax liabilities	-	-	-	-	-	-	-	-	326	326
Other liabilities	2,655	362	131	336	388	118	151	30	2,357	6,528
Subordinated notes	-	-	-	-	-	-	-	2,424	-	2,424
Total equity	-	-	-	-	-	-	-	-	32,719	32,719
Total liabilities and equity	\$ 47,332	\$ 12,635	\$ 11,004	\$ 9,106	\$ 14,299	\$ 23,123	\$ 42,776	\$ 32,235	\$ 196,768	\$ 389,278
Off-balance sheet commitments										
Credit commitments ⁽⁵⁾	\$ 2,120	\$ 528	\$ 1,016	\$ 274	\$ 1,056	\$ 3,656	\$ 7,302	\$ 220	\$ 108,554	\$ 124,726
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,078	1,078
Documentary letters of credit	4	2	3	3	2	-	-	-	-	14
Guarantees and standby letters of credit	157	199	255	212	478	39	30	42	16	1,428
Credit default swaps	-	-	-	-	-	-	632	-	-	632

See page 52 for footnotes.

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

As at December 31, 2020

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

See page 52 for footnotes.

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

As at December 31, 2020

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

⁽¹⁾ Equity securities are classified under "No stated maturity".⁽²⁾ Amounts repayable on demand are classified under "No stated maturity".⁽³⁾ Deposits payable on demand or after notice are considered as having "No stated maturity".⁽⁴⁾ Amounts are presented by remaining contractual maturity of the underlying security.⁽⁵⁾ Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the six-month period ended June 30, 2021, Desjardins Group did not make any changes to its policies, procedures and other processes with regard to internal control that had materially affected, or may materially affect, its internal control over financial reporting. The parties involved and their responsibilities regarding such internal control are described on pages 99 and 100 of Desjardins Group's 2020 annual MD&A.

RELATED PARTY DISCLOSURES

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Group is essential to understanding the Annual and Interim Combined Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements on pages 121 to 139 of the 2020 Annual Report, except for the amendments to IFRS 9, IAS 39 and IFRS 7, issued on January 1, 2021, as part of Phase 2 of the interest rate benchmark reform project, and described in Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 100 to 106 of the 2020 annual MD&A. There was no material change made to these accounting policies during the first half of 2021. However, the COVID-19 pandemic situation continues to result in new sources of uncertainty affecting the judgments as well as the estimates and assumptions made by management in applying these accounting policies for the six-month period ended June 30, 2021. This concerns in particular the loss allowance for expected credit losses. For more information about the significant judgments made to estimate the loss allowance for expected credit losses, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements.

FUTURE ACCOUNTING CHANGES

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

ADDITIONAL INFORMATION REQUIRED PURSUANT TO THE AMF'S DECISION NO. 2021-FS-0091

In addition to the entities comprising the Desjardins Cooperative Group (as defined under "Desjardins Group profile") and the subsidiaries of such entities, Desjardins Group's Combined Financial Statements include the Caisse Desjardins Ontario Credit Union Inc. (CDO). The CDO's financial information compared to that of Desjardins Group is presented in the table below.

(in millions of dollars and as a percentage)	As at June 30, 2021			As at December 31, 2020		
	Desjardins Group			Desjardins Group Combined		
	CDO	Combined Balance Sheets	% of total	CDO	Balance Sheets	% of total
Total assets	\$ 9,332	\$ 389,278	2.4%	\$ 8,463	\$ 362,035	2.3%
Total liabilities	8,580	356,559	2.4	7,803	331,772	2.4
Total equity	752	32,719	2.3	660	30,263	2.2

(in millions of dollars and as a percentage)	For the three-month periods ended									For the six-month periods ended					
	June 30, 2021			March 31, 2021			June 30, 2020			June 30, 2021			June 30, 2020		
	CDO	Desjardins Group Combined Statements of Income	% of total	CDO	Desjardins Group Combined Statements of Income	% of total	CDO	Desjardins Group Combined Statements of Income	% of total	CDO	Desjardins Group Combined Statements of Income	% of total	CDO	Desjardins Group Combined Statements of Income	% of total
Total income	\$ 65	\$ 5,778	1.1%	\$ 78	\$ 3,035	2.6%	\$ 48	\$ 6,609	0.7%	\$ 143	\$ 8,813	1.6%	\$ 72	\$ 11,305	0.6%
Surplus earnings (deficit) before member dividends	31	935	3.3	41	798	5.1	14	529	2.6	72	1,733	4.2	11	814	1.4
Net surplus earnings (deficit) for the period after member dividends	30	869	3.5	38	732	5.2	12	471	2.5	68	1,601	4.2	7	699	1.0

COMBINED FINANCIAL STATEMENTS

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Combined Balance Sheets

(unaudited)

(in millions of Canadian dollars)		Notes	As at June 30, 2021	As at December 31, 2020
ASSETS				
Cash and deposits with financial institutions			\$ 17,731	\$ 12,126
Securities				
Securities at fair value through profit or loss			39,195	34,960
Securities at fair value through other comprehensive income			51,477	52,679
Securities at amortized cost			35	29
			90,707	87,668
Securities borrowed or purchased under reverse repurchase agreements			14,345	9,658
Loans		5		
Residential mortgages			143,741	136,208
Consumer, credit card and other personal loans			24,859	25,310
Business and government			54,335	51,015
			222,935	212,533
Allowance for credit losses		5	(1,002)	(1,112)
			221,933	211,421
Segregated fund net assets			21,474	19,093
Other assets				
Clients' liability under acceptances			90	328
Premiums receivable			2,797	2,803
Derivative financial instruments			5,703	5,820
Amounts receivable from clients, brokers and financial institutions			3,902	2,499
Reinsurance assets			1,867	1,962
Right-of-use assets			556	565
Investment property			922	924
Property, plant and equipment			1,505	1,541
Goodwill			156	156
Intangible assets			476	424
Investments in companies accounted for using the equity method			1,281	1,189
Deferred tax assets			797	1,154
Other			3,036	2,704
			23,088	22,069
TOTAL ASSETS			\$ 389,278	\$ 362,035
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits		6		
Individuals			\$ 133,112	\$ 127,928
Business and government			104,706	96,853
Deposit-taking institutions			852	455
			238,670	225,236
Other liabilities				
Acceptances			90	328
Commitments related to securities sold short			10,763	9,353
Commitments related to securities lent or sold under repurchase agreements			25,194	19,152
Derivative financial instruments			5,216	4,884
Amounts payable to clients, brokers and financial institutions			10,002	6,810
Lease liabilities			621	633
Insurance contract liabilities			33,580	34,827
Segregated fund net liabilities			21,468	19,089
Net defined benefit plan liabilities			1,677	3,107
Deferred tax liabilities			326	372
Other			6,528	6,488
			115,465	105,043
Subordinated notes			2,424	1,493
TOTAL LIABILITIES			356,559	331,772
EQUITY				
Capital stock			5,007	5,021
Undistributed surplus earnings			1,863	1,874
Accumulated other comprehensive income		7	1,032	1,302
Reserves			23,978	21,316
Equity – Group's share			31,880	29,513
Non-controlling interests			839	750
TOTAL EQUITY			32,719	30,263
TOTAL LIABILITIES AND EQUITY			\$ 389,278	\$ 362,035

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

Combined Statements of Income

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended June 30		For the six-month periods ended June 30	
		2021	2020	2021	2020
INTEREST INCOME					
Loans		\$ 1,730	\$ 1,753	\$ 3,442	\$ 3,688
Securities		116	123	229	232
		1,846	1,876	3,671	3,920
INTEREST EXPENSE					
Deposits		364	494	769	1,139
Subordinated notes		15	10	29	28
Other		15	4	18	32
		394	508	816	1,199
NET INTEREST INCOME	9	1,452	1,368	2,855	2,721
NET PREMIUMS		2,587	2,238	5,172	4,760
OTHER INCOME					
Deposit and payment service charges		105	83	204	188
Lending fees and credit card service revenues		182	141	369	337
Brokerage and investment fund services		285	235	558	476
Management and custodial service fees		177	147	346	297
Net investment income (loss)	9	1,055	2,624	(547)	2,166
Overlay approach adjustment for insurance operations financial assets		(146)	(299)	(292)	213
Foreign exchange income		28	14	58	60
Other		53	58	90	87
		1,739	3,003	786	3,824
TOTAL INCOME		5,778	6,609	8,813	11,305
PROVISION FOR CREDIT LOSSES	5	(3)	271	1	595
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE					
CONTRACT LIABILITIES		2,191	3,606	1,985	5,677
NON-INTEREST EXPENSE					
Salaries and fringe benefits		1,158	1,006	2,219	1,919
Premises, equipment and furniture, including depreciation		229	208	452	415
Service agreements and outsourcing		59	64	115	126
Communications		60	56	121	122
Other		871	678	1,635	1,429
		2,377	2,012	4,542	4,011
OPERATING SURPLUS EARNINGS		1,213	720	2,285	1,022
Income taxes on surplus earnings		278	191	552	208
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS		935	529	1,733	814
Member dividends		90	80	180	157
Tax recovery on member dividends		(24)	(22)	(48)	(42)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		\$ 869	\$ 471	\$ 1,601	\$ 699
of which:					
Group's share		\$ 830	\$ 464	\$ 1,532	\$ 679
Non-controlling interests' share		39	7	69	20

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

Combined Statements of Comprehensive Income

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2021	2020	2021	2020
Net surplus earnings for the period after member dividends	\$ 869	\$ 471	\$ 1,601	\$ 699
Other comprehensive income, net of income taxes				
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	172	(1,221)	1,123	29
Share of associates and joint ventures accounted for using the equity method	-	(7)	6	-
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	-	3	1	-
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	-	(6)	-	(1)
	172	(1,231)	1,130	28
Items that will be reclassified subsequently to the Combined Statements of Income				
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income				
Net unrealized gains (losses)	11	390	(279)	610
Provision for credit losses recognized in profit or loss	-	7	-	13
Reclassification of net gains to the Combined Statements of Income	(4)	(115)	(61)	(191)
	7	282	(340)	432
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	139	217	286	(215)
Reclassification of net (gains) losses to the Combined Statements of Income	(30)	14	(66)	48
	109	231	220	(167)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(61)	80	(111)	570
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	(14)	(4)	(26)	(5)
	(75)	76	(137)	565
	41	589	(257)	830
Total other comprehensive income, net of income taxes	213	(642)	873	858
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 1,082	\$ (171)	\$ 2,474	\$ 1,557
of which:				
Group's share	\$ 1,032	\$ (180)	\$ 2,378	\$ 1,541
Non-controlling interests' share	50	9	96	16

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

Combined Statements of Comprehensive Income *(continued)*

(unaudited)

Income taxes on other comprehensive income

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2021	2020	2021	2020
(in millions of Canadian dollars)				
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	\$ 60	\$ (437)	\$ 401	\$ 11
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	-	(1)	-	(2)
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	-	(2)	-	-
	60	(440)	401	9
Items that will be reclassified subsequently to the Combined Statements of Income				
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income				
Net unrealized gains (losses)	4	143	(98)	217
Provision for credit losses recognized in profit or loss	-	3	-	5
Reclassification of net gains to the Combined Statements of Income	(1)	(41)	(21)	(70)
	3	105	(119)	152
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	41	64	87	(64)
Reclassification of net (gains) losses to the Combined Statements of Income	(4)	4	(15)	18
	37	68	72	(46)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(22)	22	(41)	203
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	(5)	(2)	(9)	(2)
	(27)	20	(50)	201
	13	193	(97)	307
Total income tax expense (recovery)	\$ 73	\$ (247)	\$ 304	\$ 316

Combined Statements of Changes in Equity

(unaudited)

For the six-month periods ended June 30

	Capital stock	Undistributed surplus earnings	Accumulated other comprehensive income (Note 7)	Reserves				Equity - Group's share	Non-controlling interests	Total equity
				Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves			
(in millions of Canadian dollars)										
BALANCE AS AT DECEMBER 31, 2020	\$ 5,021	\$ 1,874	\$ 1,302	\$ 795	\$ 1,159	\$ 19,362	\$ 21,316	\$ 29,513	\$ 750	\$ 30,263
Net surplus earnings for the period after member dividends	-	1,532	-	-	-	-	-	1,532	69	1,601
Other comprehensive income for the period	-	1,116	(270)	-	-	-	-	846	27	873
Comprehensive income for the period	-	2,648	(270)	-	-	-	-	2,378	96	2,474
Redemption of shares of capital stock	(14)	-	-	-	-	-	-	(14)	-	(14)
Transactions related to non-controlling interests	-	-	-	-	-	-	-	-	6	6
Dividends	-	-	-	-	-	-	-	-	(13)	(13)
Transfer from undistributed surplus earnings (to reserves)	-	(2,662)	-	-	201	2,461	2,662	-	-	-
Other	-	3	-	-	-	-	-	3	-	3
BALANCE AS AT JUNE 30, 2021	\$ 5,007	\$ 1,863	\$ 1,032	\$ 795	\$ 1,360	\$ 21,823	\$ 23,978	\$ 31,880	\$ 839	\$ 32,719
BALANCE AS AT DECEMBER 31, 2019	\$ 5,134	\$ 2,352	\$ 211	\$ 796	\$ 978	\$ 17,185	\$ 18,959	\$ 26,656	\$ 773	\$ 27,429
Net surplus earnings for the period after member dividends	-	679	-	-	-	-	-	679	20	699
Other comprehensive income for the period	-	26	836	-	-	-	-	862	(4)	858
Comprehensive income for the period	-	705	836	-	-	-	-	1,541	16	1,557
Redemption of shares of capital stock	(97)	-	-	-	-	-	-	(97)	-	(97)
Transactions related to non-controlling interests	-	-	-	-	-	-	-	-	(93)	(93)
Loss on dilution of non-controlling interest	-	(14)	-	-	-	-	-	(14)	-	(14)
Dividends	-	-	-	-	-	-	-	-	(13)	(13)
Transfer from undistributed surplus earnings (to reserves)	-	(1,056)	-	-	(104)	1,160	1,056	-	-	-
Other	-	(2)	-	-	-	-	-	(2)	-	(2)
BALANCE AS AT JUNE 30, 2020	\$ 5,037	\$ 1,985	\$ 1,047	\$ 796	\$ 874	\$ 18,345	\$ 20,015	\$ 28,084	\$ 683	\$ 28,767

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

Combined Statements of Cash Flows

(unaudited)

(in millions of Canadian dollars)	For the six-month periods ended June 30	
	2021	2020
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	\$ 2,285	\$ 1,022
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment, and investment property, and amortization of intangible assets	187	172
Amortization of premiums and discounts	224	65
Net change in insurance contract liabilities	(1,247)	2,860
Provision for credit losses	1	595
Gains on securities classified as at fair value through other comprehensive income	(60)	(262)
Net gains on disposal of property, plant and equipment, intangible assets and investment property	(1)	(101)
Overlay approach adjustment for insurance operations financial assets	292	(213)
Deferred income taxes	(8)	(47)
Other	(27)	(27)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	(4,235)	776
Securities borrowed or purchased under reverse repurchase agreements	(4,687)	(678)
Loans	(10,513)	(4,474)
Derivative financial instruments, net amount	973	(1,291)
Net amounts receivable from and payable to clients, brokers and financial institutions	1,789	747
Deposits	13,434	26,352
Commitments related to securities sold short	1,410	(4,593)
Commitments related to securities lent or sold under repurchase agreements	6,042	8,927
Other	593	(420)
Payment of the contingent consideration	(104)	(206)
Income taxes paid on surplus earnings	(692)	(114)
Payment of member dividends	(333)	-
	5,323	29,090
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	991	997
Repayment of subordinated notes	-	(899)
Purchase of debt securities and subordinated notes from third parties on the market	(44)	(45)
Repayment of lease liabilities	(46)	(27)
Redemption of shares of capital stock	(14)	(97)
Remuneration on capital stock	(208)	(210)
Transactions related to non-controlling interests	6	(107)
Dividends paid	(13)	(13)
	672	(401)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	(14,805)	(44,560)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	11,471	15,780
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	3,205	11,015
Acquisitions of property, plant and equipment, intangible assets and investment property	(188)	(175)
Proceeds from disposal of property, plant and equipment, intangible assets and investment property	12	129
Payment of the contingent consideration recognized at acquisition date	-	(2)
Acquisitions of joint ventures and associates accounted for using the equity method	(85)	(89)
	(390)	(17,902)
Net increase in cash and cash equivalents	5,605	10,787
Cash and cash equivalents at beginning of period	12,126	3,709
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 17,731	\$ 14,496
Supplemental information on cash flows from (used in) operating activities		
Interest paid	\$ 1,088	\$ 1,445
Interest received	4,003	4,037
Dividends received	111	101

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

NOTES TO THE CONDENSED INTERIM COMBINED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – INFORMATION ON DESJARDINS GROUP

Nature of operations

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

Basis of presentation of the Combined Financial Statements

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

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

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of Compliance

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

These Interim Combined Financial Statements should be read in conjunction with the audited Annual Combined Financial Statements (the Annual Combined Financial Statements) for the year ended December 31, 2020, and the shaded areas of section 4.0, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Combined Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements, except for the changes described in the "Changes in accounting policies" section of this note.

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

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

Presentation and functional currency

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

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

CHANGES IN ACCOUNTING POLICIES

Interest rate benchmark reform

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

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

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

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

Progress and risks arising from the interest rate benchmark reform

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. The objective is to improve benchmark indices by making sure they comply with robust international standards.

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

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

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

The working group also monitors closely the evolution of the expected timeframe for the retirement of certain interest rate benchmarks, which will start on May 17, 2021 with the cessation of the 6-month and 12-month CDOR. In addition, regulatory authorities announced that the publication of LIBOR will officially cease after December 31, 2021 for all currencies except for some USD LIBOR, for which the publication will cease after June 30, 2023. The work of the working group continues to progress and meets the timeline set out in the Desjardins Group's transition plan.

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

	USD LIBOR	GBP LIBOR	OTHER ⁽²⁾
	Maturing after June 30, 2023	Maturing after December 31, 2021	Maturing after December 31, 2021
As at June 30, 2021			
Non-derivative financial assets ⁽³⁾	\$ 1,319	\$ 63	\$ 1
Derivative financial instruments ⁽⁴⁾	9,437	-	-
Loan commitments ⁽⁵⁾	1,975	105	9

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

⁽²⁾ Include the following rates: Euro LIBOR, EONIA (Euro Overnight Index Average), CHF LIBOR, and 6- and 12-month CDOR.

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

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

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

FUTURE ACCOUNTING CHANGES

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

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income		Amortized cost ⁽²⁾	Total
	Classified as at fair value through profit or loss ⁽¹⁾	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income ⁽²⁾	Designated as at fair value through other comprehensive income		
As at June 30, 2021						
Financial assets						
Cash and deposits with financial institutions	\$ 1	\$ 262	\$ 645	\$ -	\$ 16,823	\$ 17,731
Securities	19,227	19,968	51,410	67	35	90,707
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	14,345	14,345
Loans	-	-	-	-	221,933	221,933
Other financial assets						
Clients' liability under acceptances	-	-	-	-	90	90
Derivative financial instruments ⁽³⁾	5,703	-	-	-	-	5,703
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	3,902	3,902
Other	2	-	-	-	1,787	1,789
Total financial assets	\$ 24,933	\$ 20,230	\$ 52,055	\$ 67	\$ 258,915	\$ 356,200
Financial liabilities						
Deposits	\$ -	\$ 234	\$ -	\$ -	\$ 238,436	\$ 238,670
Other financial liabilities						
Acceptances	-	-	-	-	90	90
Commitments related to securities sold short	10,763	-	-	-	-	10,763
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	25,194	25,194
Derivative financial instruments ⁽³⁾	5,216	-	-	-	-	5,216
Amounts payable to clients, brokers and financial institutions	-	-	-	-	10,002	10,002
Other	97	-	-	-	3,100	3,197
Subordinated notes	-	-	-	-	2,424	2,424
Total financial liabilities	\$ 16,076	\$ 234	\$ -	\$ -	\$ 279,246	\$ 295,556

⁽¹⁾ An amount of \$3,556 million corresponds to financial assets designated for the overlay approach.

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

⁽³⁾ Include derivative financial instruments designated as hedging instruments amounting to \$307 million in assets and \$118 million in liabilities.

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

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

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

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

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

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at June 30, 2021		As at December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Securities	\$ 35	\$ 36	\$ 29	\$ 29
Loans	221,933	222,701	211,421	213,920
Financial liabilities				
Deposits	238,436	239,366	225,030	226,762
Subordinated notes	2,424	2,515	1,493	1,592

FAIR VALUE HIERARCHY

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

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

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at June 30, 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	\$ -	\$ 263	\$ -	\$ 263
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	10,077	-	-	10,077
Provincial governmental entities and municipal corporations in Canada	15,954	656	-	16,610
School or public corporations in Canada	14	89	-	103
Foreign public administrations	392	-	-	392
Other securities				
Financial institutions	-	1,360	10	1,370
Other issuers	61	4,230	651	4,942
Equity securities	4,530	-	1,171	5,701
	31,028	6,335	1,832	39,195
Derivative financial instruments				
Interest rate contracts	-	1,593	-	1,593
Foreign exchange contracts	-	319	-	319
Other contracts	-	3,791	-	3,791
	-	5,703	-	5,703
Other assets	-	2	-	2
Total financial assets at fair value through profit or loss	31,028	12,303	1,832	45,163
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	-	645	-	645
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,290	6,237	-	14,527
Provincial governmental entities and municipal corporations in Canada	27,354	3,306	-	30,660
School or public corporations in Canada	14	49	-	63
Foreign public administrations	14	-	-	14
Other securities				
Financial institutions	32	5,017	-	5,049
Other issuers	10	1,021	66	1,097
Equity securities	-	2	65	67
	35,714	15,632	131	51,477
Total financial assets at fair value through other comprehensive income	35,714	16,277	131	52,122
Financial instruments of segregated funds	7,391	13,760	297	21,448
Total financial assets	\$ 74,133	\$ 42,340	\$ 2,260	\$ 118,733
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	\$ -	\$ 234	\$ -	\$ 234
Other liabilities				
Commitments related to securities sold short	10,141	622	-	10,763
Other	-	-	97	97
	10,141	856	97	11,094
Derivative financial instruments				
Interest rate contracts	-	978	-	978
Foreign exchange contracts	-	650	-	650
Other contracts	-	3,588	-	3,588
	-	5,216	-	5,216
Total financial liabilities	\$ 10,141	\$ 6,072	\$ 97	\$ 16,310

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

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

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

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

Sensitivity of financial instruments categorized within Level 3

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 *(continued)*

Changes in fair value of financial instruments categorized within Level 3

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

	Balance at beginning of period	Unrealized gains / losses recognized in profit or loss ⁽¹⁾	Unrealized gains / losses recognized in other comprehensive income ⁽²⁾	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
For the six-month period ended June 30, 2021							
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other securities							
Financial institutions							
Mortgage bonds	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10
Other issuers							
Hedge funds	3	-	-	-	-	-	3
Asset-backed term notes	3	-	-	-	-	-	3
Mortgage bonds	668	(17)	-	-	-	(69)	582
Other debt securities	61	-	-	-	3	(1)	63
Equity securities	964	63	-	-	156	(12)	1,171
Total financial assets at fair value through profit or loss	1,709	46	-	-	159	(82)	1,832
Financial assets at fair value through other comprehensive income							
Securities							
Other securities							
Other issuers							
Mortgage bonds	69	-	(2)	-	-	(1)	66
Equity securities	64	-	1	-	-	-	65
Total financial assets at fair value through other comprehensive income	133	-	(1)	-	-	(1)	131
Financial instruments of segregated funds	127	7	-	142	33	(12)	297
Total financial assets	\$ 1,969	\$ 53	\$ (1)	\$ 142	\$ 192	\$ (95)	\$ 2,260
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	\$ 155	\$ 46	\$ -	\$ -	\$ -	\$ (104)	\$ 97
Total financial liabilities	\$ 155	\$ 46	\$ -	\$ -	\$ -	\$ (104)	\$ 97

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

⁽²⁾ Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized gains (losses)" on debt securities at fair value through other comprehensive income, while unrealized gains or losses on financial assets "Designated as at fair value through other comprehensive income" are recognized under "Net change in gains and losses on equity securities designated as at fair value through other comprehensive income" in the Combined Statements of Comprehensive Income.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 *(continued)*Changes in fair value of financial instruments categorized within Level 3 *(continued)*

	Balance at beginning of period	Realized gains / losses recognized in profit or loss ⁽¹⁾	Unrealized gains / losses recognized in profit or loss ⁽²⁾	Unrealized gains / losses recognized in other comprehensive income ⁽³⁾	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
For the six-month period ended June 30, 2020							
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other securities							
Financial institutions							
Mortgage bonds	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55
Other issuers							
Hedge funds	2	2	(1)	-	-	-	3
Asset-backed term notes	4	-	1	-	-	(1)	4
Mortgage bonds	710	-	26	-	-	(26)	710
Other debt securities	55	-	-	-	6	(2)	59
Equity securities	794	(2)	8	-	76	(9)	867
Total financial assets at fair value through profit or loss	1,620	-	34	-	82	(38)	1,698
Financial assets at fair value through other comprehensive income							
Securities							
Other securities							
Other issuers							
Mortgage bonds	70	-	-	1	-	(1)	70
Equity securities	57	-	-	(2)	-	-	55
Total financial assets at fair value through other comprehensive income	127	-	-	(1)	-	(1)	125
Financial instruments of segregated funds	81	-	(3)	-	45	(5)	118
Total financial assets	\$ 1,828	\$ -	\$ 31	\$ (1)	\$ 127	\$ (44)	\$ 1,941
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	\$ 268	\$ -	\$ 38	\$ -	\$ -	\$ (208)	\$ 98
Total financial liabilities	\$ 268	\$ -	\$ 38	\$ -	\$ -	\$ (208)	\$ 98

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

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

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

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

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

Loans

As at June 30, 2021	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Excellent	\$ 683	\$ -	\$ -	\$ 683
Very low	49,244	2	-	49,246
Low	57,842	4,422	-	62,264
Moderate	16,341	10,834	-	27,175
High	1,193	2,789	-	3,982
Default	-	138	253	391
Total gross residential mortgages	\$ 125,303	\$ 18,185	\$ 253	\$ 143,741
Allowance for credit losses	(71)	(81)	(23)	(175)
Total net residential mortgages	\$ 125,232	\$ 18,104	\$ 230	\$ 143,566
Consumer, credit card and other personal loans				
Excellent	\$ 3,133	\$ -	\$ -	\$ 3,133
Very low	3,615	-	-	3,615
Low	9,720	257	-	9,977
Moderate	4,325	1,601	-	5,926
High	443	1,550	-	1,993
Default	-	59	156	215
Total gross consumer, credit card and other personal loans	\$ 21,236	\$ 3,467	\$ 156	\$ 24,859
Allowance for credit losses	(122)	(236)	(91)	(449)
Total net consumer, credit card and other personal loans	\$ 21,114	\$ 3,231	\$ 65	\$ 24,410
Business and government loans⁽¹⁾				
Acceptable risk:				
Investment grade	\$ 9,635	\$ 35	\$ -	\$ 9,670
Other than investment grade	27,545	4,548	-	32,093
Under watch	6,122	5,621	-	11,743
Default	-	101	818	919
Total gross business and government loans	\$ 43,302	\$ 10,305	\$ 818	\$ 54,425
Allowance for credit losses	(87)	(112)	(179)	(378)
Total net business and government loans	\$ 43,215	\$ 10,193	\$ 639	\$ 54,047

⁽¹⁾ Include clients' liability under acceptances.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (*continued*)EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS (*continued*)Loans (*continued*)

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

⁽¹⁾ Include clients' liability under acceptances.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS *(continued)*Off-balance sheet items⁽¹⁾

As at June 30, 2021	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages, consumer, credit card and other personal loans				
Excellent	\$ 18,850	\$ -	\$ -	\$ 18,850
Very low	21,608	-	-	21,608
Low	34,046	93	-	34,139
Moderate	4,009	2,621	-	6,630
High	391	1,034	-	1,425
Default	-	-	51	51
Total gross off-balance sheet items	\$ 78,904	\$ 3,748	\$ 51	\$ 82,703
Allowance for credit losses	(51)	(15)	-	(66)
Total net off-balance sheet items	\$ 78,853	\$ 3,733	\$ 51	\$ 82,637
Business and government				
Acceptable risk:				
Investment grade	\$ 22,874	\$ 9	\$ -	\$ 22,883
Other than investment grade	15,436	1,772	-	17,208
Under watch	1,271	1,939	-	3,210
Default	-	8	156	164
Total gross off-balance sheet items	\$ 39,581	\$ 3,728	\$ 156	\$ 43,465
Allowance for credit losses	(7)	(2)	-	(9)
Total net off-balance sheet items	\$ 39,574	\$ 3,726	\$ 156	\$ 43,456

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

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

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

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

ALLOWANCE FOR CREDIT LOSSES

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

For the six-month period ended June 30, 2021	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Balance at beginning of period	\$ 64	\$ 98	\$ 29	\$ 191
Provision for credit losses				
Transfers to ⁽¹⁾ :				
Stage 1	34	(31)	(3)	-
Stage 2	(6)	13	(7)	-
Stage 3	-	(2)	2	-
Net remeasurement due to transfers ⁽²⁾	(8)	12	8	12
Changes in model inputs ⁽³⁾	(35)	(4)	(1)	(40)
New originations or acquisitions ⁽⁴⁾	28	10	-	38
Derecognition and maturities ⁽⁵⁾	(6)	(13)	(6)	(25)
Net drawdowns (repayments) ⁽⁶⁾	-	(2)	-	(2)
	7	(17)	(7)	(17)
Write-offs and recoveries	-	-	1	1
Balance at end of period	\$ 71	\$ 81	\$ 23	\$ 175
Consumer, credit card and other personal loans⁽⁷⁾				
Balance at beginning of period	\$ 184	\$ 313	\$ 126	\$ 623
Provision for credit losses				
Transfers to ⁽¹⁾ :				
Stage 1	150	(140)	(10)	-
Stage 2	(30)	72	(42)	-
Stage 3	-	(18)	18	-
Net remeasurement due to transfers ⁽²⁾	(22)	28	78	84
Changes in model inputs ⁽³⁾	(117)	18	53	(46)
New originations or acquisitions ⁽⁴⁾	40	24	-	64
Derecognition and maturities ⁽⁵⁾	(18)	(31)	(30)	(79)
Net drawdowns (repayments) ⁽⁶⁾	(7)	(13)	(4)	(24)
	(4)	(60)	63	(1)
Write-offs and recoveries	-	-	(98)	(98)
Balance at end of period	\$ 180	\$ 253	\$ 91	\$ 524
Business and government				
Balance at beginning of period	\$ 70	\$ 125	\$ 181	\$ 376
Provision for credit losses				
Transfers to ⁽¹⁾ :				
Stage 1	20	(20)	-	-
Stage 2	(8)	12	(4)	-
Stage 3	-	(5)	5	-
Net remeasurement due to transfers ⁽²⁾	(2)	4	16	18
Changes in model inputs ⁽³⁾	(35)	(11)	17	(29)
New originations or acquisitions ⁽⁴⁾	46	18	-	64
Derecognition and maturities ⁽⁵⁾	(10)	(14)	(24)	(48)
Net drawdowns (repayments) ⁽⁶⁾	6	3	5	14
	17	(13)	15	19
Write-offs and recoveries	-	-	(17)	(17)
Balance at end of period	\$ 87	\$ 112	\$ 179	\$ 378
Total balances at end of period	\$ 338	\$ 446	\$ 293	\$ 1,077
Composed of:				
Loans	\$ 280	\$ 429	\$ 293	\$ 1,002
Off-balance sheet items ⁽⁸⁾	58	17	-	75

⁽¹⁾ Represent transfers between stages before the remeasurement of expected credit losses.

⁽²⁾ Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.

⁽³⁾ Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.

⁽⁴⁾ Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

⁽⁵⁾ Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

⁽⁶⁾ Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.

⁽⁷⁾ For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet items categories are not material.

⁽⁸⁾ The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

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

For the six-month period ended June 30, 2020	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Balance at beginning of period	\$ 27	\$ 26	\$ 24	\$ 77
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	12	(11)	(1)	-
Stage 2	(18)	23	(5)	-
Stage 3	-	(2)	2	-
Net remeasurement due to transfers ⁽²⁾	(4)	19	9	24
Changes in model inputs ⁽³⁾	19	66	(2)	83
New originations or acquisitions ⁽⁴⁾	14	7	-	21
Derecognition and maturities ⁽⁵⁾	(2)	(4)	(5)	(11)
Net drawdowns (repayments) ⁽⁶⁾	1	(3)	-	(2)
	22	95	(2)	115
Write-offs and recoveries	-	-	2	2
Balance at end of period	\$ 49	\$ 121	\$ 24	\$ 194
Consumer, credit card and other personal loans⁽⁷⁾				
Balance at beginning of period	\$ 145	\$ 203	\$ 143	\$ 491
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	159	(150)	(9)	-
Stage 2	(43)	82	(39)	-
Stage 3	(1)	(24)	25	-
Net remeasurement due to transfers ⁽²⁾	(13)	20	142	149
Changes in model inputs ⁽³⁾	(108)	109	128	129
New originations or acquisitions ⁽⁴⁾	25	18	-	43
Derecognition and maturities ⁽⁵⁾	(10)	(17)	(34)	(61)
Net drawdowns (repayments) ⁽⁶⁾	(7)	(12)	(5)	(24)
Other	-	(1)	1	-
	2	25	209	236
Write-offs and recoveries	-	-	(185)	(185)
Balance at end of period	\$ 147	\$ 228	\$ 167	\$ 542
Business and government				
Balance at beginning of period	\$ 31	\$ 20	\$ 104	\$ 155
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	8	(8)	-	-
Stage 2	(28)	33	(5)	-
Stage 3	-	(2)	2	-
Net remeasurement due to transfers ⁽²⁾	(2)	16	57	71
Changes in model inputs ⁽³⁾	18	74	48	140
New originations or acquisitions ⁽⁴⁾	22	9	-	31
Derecognition and maturities ⁽⁵⁾	(5)	(6)	(13)	(24)
Net drawdowns (repayments) ⁽⁶⁾	5	2	5	12
Other	-	-	(3)	(3)
	18	118	91	227
Write-offs and recoveries	-	-	(10)	(10)
Balance at end of period	\$ 49	\$ 138	\$ 185	\$ 372
Total balances at end of period	\$ 245	\$ 487	\$ 376	\$ 1,108
Composed of:				
Loans	\$ 202	\$ 470	\$ 376	\$ 1,048
Off-balance sheet items ⁽⁸⁾	43	17	-	60

⁽¹⁾ Represent transfers between stages before the remeasurement of expected credit losses.

⁽²⁾ Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.

⁽³⁾ Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.

⁽⁴⁾ Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

⁽⁵⁾ Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.

⁽⁶⁾ Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.

⁽⁷⁾ For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet items categories are not material.

⁽⁸⁾ The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

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

KEY DATA AND ASSUMPTIONS

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

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

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

	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
As at June 30, 2021						
Macroeconomic variables⁽¹⁾						
Gross domestic product (annualized change)	4.3%	1.5%	6.4%	2.1%	2.2%	1.3%
Unemployment rate (average)	5.0%	4.2%	4.2%	3.3%	6.5%	5.7%
Consumer Price Index (annualized change)	1.7%	1.8%	4.1%	2.1%	1.1%	1.1%
Housing prices (annualized change)	0.2%	(0.9)%	9.7%	1.5%	(14.7)%	(1.6)%
Corporate credit spread ⁽²⁾ (average)	117 bp	111 bp	91 bp	86 bp	145 bp	134 bp
S&P/TSX stock index ⁽²⁾ (annualized change)	8.8%	4.8%	15.0%	6.3%	(8.2)%	5.2%

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

⁽²⁾ Macroeconomic variables related to the Canadian economy.

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

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

⁽²⁾ Macroeconomic variables related to the Canadian economy.

The economic activity in Canada and Québec has suffered the effects of the COVID-19 third wave in spring 2021, but the impact was less than during the first wave, in spring 2020. Vaccine distribution in Canada and Québec shows good progress, but some uncertainty remains as a result of the emergence and progression of new variants, which could require adjusting vaccination. Overall, the economic forecasts prepared for calculating the loss allowance for expected credit losses as at June 30, 2021 are more optimistic than those prepared for calculating the allowance as at December 31, 2020.

The base scenario forecasts that the economic activity will be strong in the third quarter of 2021. Economic growth pace would slow down afterwards and should converge toward GDP potential growth in 2023. These forecasts are based on the gradual reopening of the economy, helped by the vaccination campaign, which should meet government objectives by September 2021. Under this scenario, the unemployment rate should continue to decrease over the coming quarters and then should slowly converge toward its pre-pandemic level. The base scenario forecasts that the housing market will begin moderating during summer 2021 and does not foresee any major corrections in house prices in the years to come. To prevent inflation from increasing too much, central banks will have to gradually tighten their monetary policies. This scenario therefore includes a first hike in key rates in Canada in fall 2022.

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

KEY DATA AND ASSUMPTIONS *(continued)*

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

The upside scenario essentially assumes that the economic recovery will be faster than in the base scenario. This recovery would be supported by a faster withdrawal of health restrictions as well as a more pronounced release of savings accumulated by many households during the pandemic. The unemployment rate would continue to decrease quite rapidly to less than 4.5% by the end of 2021 and less than 4% the following year. The increase in house prices would remain quite strong until the end of 2021, but the faster increase in interest rates under this scenario would still eventually temper the housing market in future years.

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

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

Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at June 30, 2021	As at December 31, 2020
Under IFRS 9	\$ 784	\$ 854
Weighting of 100% assigned to the scenario:		
Base	\$ 674	\$ 740
Upside	633	699
Downside	1,164	1,233

Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at June 30, 2021	As at December 31, 2020
Under IFRS 9	\$ 784	\$ 854
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	\$ 708	\$ 765

NOTE 6 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at June 30, 2021				As at December 31, 2020			
	Payable on demand	Payable upon notice	Payable on a fixed date	Total	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	\$ 68,585	\$ 5,379	\$ 59,148	\$ 133,112	\$ 64,544	\$ 4,985	\$ 58,399	\$ 127,928
Business and government	53,545	688	50,473	104,706	43,871	473	52,509	96,853
Deposit-taking institutions	813	-	39	852	387	-	68	455
	\$ 122,943	\$ 6,067	\$ 109,660	\$ 238,670	\$ 108,802	\$ 5,458	\$ 110,976	\$ 225,236

NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at June 30, 2021		As at December 31, 2020	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains on debt securities classified as at fair value through other comprehensive income ⁽¹⁾	\$ 336	\$ 1	\$ 670	\$ 7
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	367	26	166	7
Net gains on derivative financial instruments designated as cash flow hedges	329	-	466	-
Accumulated other comprehensive income	\$ 1,032	\$ 27	\$ 1,302	\$ 14

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

NOTE 8 – CAPITAL MANAGEMENT

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

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

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

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

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

(in millions of dollars and as a percentage)	As at June 30, 2021	As at December 31, 2020
Capital		
Tier 1A capital	\$ 27,898	\$ 26,317
Tier 1 capital	27,898	26,317
Total capital	29,489	27,114
Risk-weighted assets		
Credit risk	112,423	103,658
Market risk	4,087	2,561
Operational risk	14,004	13,705
Total risk-weighted assets before RWA floor	130,514	119,924
RWA floor	-	177
Total risk-weighted assets	\$ 130,514	\$ 120,101
Ratios and leverage ratio exposure		
Tier 1A capital	21.4%	21.9%
Tier 1 capital	21.4	21.9
Total capital	22.6	22.6
Leverage	8.5	8.5
Leverage ratio exposure	\$ 328,513	\$ 307,925

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

NET INTEREST INCOME

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2021	2020	2021	2020
Interest income on financial assets				
At amortized cost	\$ 1,740	\$ 1,763	\$ 3,461	\$ 3,706
At fair value through other comprehensive income	101	113	201	213
At fair value through profit or loss	5	-	9	1
	1,846	1,876	3,671	3,920
Interest expense on financial liabilities				
At amortized cost	394	508	816	1,199
	\$ 1,452	\$ 1,368	\$ 2,855	\$ 2,721

NET INVESTMENT INCOME (LOSS)

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

For the three-month periods ended June 30	2021			2020		
	Interest income and expense	Change in fair value and other	Total	Interest income and expense	Change in fair value and other	Total
Net investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	\$ 82	\$ 321	\$ 403	\$ 49	\$ 572	\$ 621
Designated as at fair value through profit or loss	129	465	594	115	1,672	1,787
Classified as at fair value through other comprehensive income	26	(3)	23	26	155	181
At amortized cost and other	30	5	35	30	5	35
	\$ 267	\$ 788	\$ 1,055	\$ 220	\$ 2,404	\$ 2,624

For the six-month periods ended June 30	2021			2020		
	Interest income and expense	Change in fair value and other	Total	Interest income and expense	Change in fair value and other	Total
Net investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	\$ 136	\$ 362	\$ 498	\$ 105	\$ (172)	\$ (67)
Designated as at fair value through profit or loss	255	(1,474)	(1,219)	254	1,472	1,726
Classified as at fair value through other comprehensive income	51	60	111	61	262	323
At amortized cost and other	60	3	63	62	122	184
	\$ 502	\$ (1,049)	\$ (547)	\$ 482	\$ 1,684	\$ 2,166

NOTE 10 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

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

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
For the three-month periods ended June 30	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net interest income	\$ 1,260	\$ 1,195	\$ -	\$ 3	\$ -	\$ -	\$ 192	\$ 170	\$ 1,452	\$ 1,368
Net premiums	-	-	1,197	1,087	1,464	1,215	(74)	(64)	2,587	2,238
Other income	735	676	1,216	2,358	31	151	(243)	(182)	1,739	3,003
Total income	1,995	1,871	2,413	3,448	1,495	1,366	(125)	(76)	5,778	6,609
Provision for credit losses	(2)	262	-	1	-	-	(1)	8	(3)	271
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	1,516	2,590	683	1,026	(8)	(10)	2,191	3,606
Non-interest expense	1,458	1,193	605	519	370	317	(56)	(17)	2,377	2,012
Operating surplus earnings	539	416	292	338	442	23	(60)	(57)	1,213	720
Income taxes on surplus earnings	142	101	57	77	112	7	(33)	6	278	191
Surplus earnings before member dividends	397	315	235	261	330	16	(27)	(63)	935	529
Member dividends, net of income tax recovery	66	58	-	-	-	-	-	-	66	58
Net surplus earnings for the period after member dividends	\$ 331	\$ 257	\$ 235	\$ 261	\$ 330	\$ 16	\$ (27)	\$ (63)	\$ 869	\$ 471
of which:										
Group's share	\$ 331	\$ 257	\$ 235	\$ 261	\$ 291	\$ 9	\$ (27)	\$ (63)	\$ 830	\$ 464
Non-controlling interests' share	-	-	-	-	39	7	-	-	39	7

NOTE 10 – SEGMENTED INFORMATION (continued)

RESULTS BY BUSINESS SEGMENT (continued)

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
For the six-month periods ended June 30	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net interest income	\$ 2,475	\$ 2,439	\$ -	\$ 6	\$ -	\$ -	\$ 380	\$ 276	\$ 2,855	\$ 2,721
Net premiums	-	-	2,426	2,304	2,891	2,592	(145)	(136)	5,172	4,760
Other income	1,495	1,293	(167)	2,636	(59)	235	(483)	(340)	786	3,824
Total income	3,970	3,732	2,259	4,946	2,832	2,827	(248)	(200)	8,813	11,305
Provision for credit losses	4	581	-	3	-	-	(3)	11	1	595
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	632	3,631	1,368	2,068	(15)	(22)	1,985	5,677
Non-interest expense	2,869	2,483	1,181	1,043	697	646	(205)	(161)	4,542	4,011
Operating surplus earnings	1,097	668	446	269	767	113	(25)	(28)	2,285	1,022
Income taxes on surplus earnings	286	163	86	49	189	24	(9)	(28)	552	208
Surplus earnings before member dividends	811	505	360	220	578	89	(16)	-	1,733	814
Member dividends, net of income tax recovery	132	115	-	-	-	-	-	-	132	115
Net surplus earnings for the period after member dividends	\$ 679	\$ 390	\$ 360	\$ 220	\$ 578	\$ 89	\$ (16)	\$ -	\$ 1,601	\$ 699
of which:										
Group's share	\$ 679	\$ 390	\$ 360	\$ 220	\$ 509	\$ 69	\$ (16)	\$ -	\$ 1,532	\$ 679
Non-controlling interests' share	-	-	-	-	69	20	-	-	69	20

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at June 30, 2021	\$ 298,608	\$ 52,395	\$ 16,097	\$ 22,178	\$ 389,278
As at December 31, 2020 ⁽¹⁾	\$ 276,630	\$ 51,019	\$ 15,457	\$ 18,929	\$ 362,035

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

NOTE 11 – SIGNIFICANT TRANSACTION

On May 31, 2021, Desjardins Group, through Desjardins Global Asset Management Inc., a wholly-owned indirect subsidiary of the Federation, signed an agreement to acquire the assets of investment firm Hexavest which serves a primarily institutional clientele located mainly in Canada and also internationally. The results of the acquired operations will be included in Desjardins Group's Combined Financial Statements as of the closing of the transaction, which is expected to occur on September 1, 2021 and is subject to customary closing conditions.

GENERAL INFORMATION

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