Desjardins

Financial Report

Third quarter of 2022

Desjardins Group posts surplus earnings of $478 million for the third quarter of 2022

FINANCIAL HIGHLIGHTS

(in millions of dollars and as a percentage)	As at and for the three-month periods ended September 30, 2022	June 30, 2022	September 30, 2021	As at and for the nine-month periods ended September 30, 2022	September 30, 2021
Results					
Net interest income	**$ 1,649**	$ 1,596	$ 1,476	**$ 4,751**	$ 4,331
Net premiums	**2,747**	2,633	2,905	**8,030**	8,077
Other operating income[1]	**899**	903	869	**2,696**	2,494
Operating income[1]	**5,295**	5,132	5,250	**15,477**	14,902
Investment income (loss)[1]	**186**	(1,838)	(114)	**(3,835)**	(953)
Total income	**5,481**	3,294	5,136	**11,642**	13,949
Provision for credit losses	**125**	66	52	**197**	53
Claims, benefits, annuities and changes in insurance contract liabilities	**2,204**	(133)	1,713	**1,716**	3,698
Non-interest expense	**2,565**	2,712	2,288	**7,805**	6,830
Income taxes on surplus earnings	**109**	172	267	**450**	819
Surplus earnings before member dividends	**$ 478**	$ 477	$ 816	**$ 1,474**	$ 2,549
Contribution to combined surplus earnings by business segment[2]					
Personal and Business Services	**$ 307**	$ 290	$ 401	**$ 912**	$ 1,212
Wealth Management and Life and Health Insurance	**155**	173	109	**465**	469
Property and Casualty Insurance	**83**	104	289	**334**	867
Other	**(67)**	(90)	17	**(237)**	1
	$ 478	$ 477	$ 816	**$ 1,474**	$ 2,549
Return to members and the community[1]					
Member dividends	**$ 106**	$ 109	$ 90	**$ 317**	$ 270
Sponsorships, donations and scholarships[3]	**22**	36	20	**74**	52
	$ 128	$ 145	$ 110	**$ 391**	$ 322
Indicators					
Net interest margin[4]	**2.19 %**	2.17 %	2.07 %	**2.15 %**	2.09 %
Return on equity[5]	**5.8**	5.8	9.6	**5.9**	10.5
Productivity index[4]	**78.3**	79.1	66.8	**78.6**	66.6
Credit loss provisioning rate[5]	**0.20**	0.11	0.09	**0.11**	0.03
Gross credit-impaired loans/gross loans and acceptances[5]	**0.44**	0.44	0.52	**0.44**	0.52
Liquidity Coverage Ratio[6]	**136**	135	150	**136**	150
Net Stable Funding Ratio[6]	**126**	126	132	**126**	132
On-balance sheet and off-balance sheet					
Assets	**$ 408,071**	$ 404,070	$ 390,641	**$ 408,071**	$ 390,641
Net loans and acceptances	**247,410**	242,113	227,027	**247,410**	227,027
Deposits	**255,452**	252,671	239,677	**255,452**	239,677
Equity	**32,314**	32,794	33,603	**32,314**	33,603
Assets under administration[5]	**426,332**	426,393	480,578	**426,332**	480,578
Assets under management[5]	**74,994**	75,604	90,527	**74,994**	90,527
Capital measures					
Tier 1A capital ratio[7]	**18.7 %**	19.5 %	21.2 %	**18.7 %**	21.2 %
Tier 1 capital ratio[7]	**18.7**	19.5	21.2	**18.7**	21.2
Total capital ratio[7]	**20.2**	20.4	22.4	**20.2**	22.4
Leverage ratio[7]	**7.5**	7.7	8.7	**7.5**	8.7
Risk-weighted assets[7]	**$ 150,038**	$ 142,774	$ 135,334	**$ 150,038**	$ 135,334
TLAC ratio[8]	**26.2 %**	25.3 %	26.9 %	**26.2 %**	26.9 %
TLAC leverage ratio[8]	**10.4**	9.7	10.8	**10.4**	10.8
Other information					
Number of employees	**58,379**	57,744	52,827	**58,379**	52,827

(1) For more information about financial measures that are not generally accepted accounting principles (GAAP) financial measures, see “Non-GAAP and other financial measures” on pages 7 to 10.
(2) The breakdown by line item is presented in Note 11, “Segmented information”, to the Interim Combined Financial Statements.
(3) Including $9 million from the caisses’ Community Development Fund ($12 million for the second quarter of 2022, $8 million for the third quarter of 2021, $27 million for the first nine months of 2022, and $23 million for the first nine months of 2021).
(4) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 7 to 10.
(5) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
(6) In accordance with the Liquidity Adequacy Guideline issued by the *Autorité des marchés financiers* (AMF), see the “Risk management” section.
(7) In accordance with the base capital adequacy guideline applicable to financial services cooperatives (in French only) issued by the AMF, and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic, see the “Capital management” section.
(8) Under the Total Loss Absorbing Capacity Guideline (“TLAC Guideline”) issued by the AMF and based on risk-weighted assets and exposures for purposes of the leverage ratio at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc., see the “Capital management” section.

MESSAGE FROM SENIOR MANAGEMENT

Lévis, November 10, 2022 – For the third quarter ended September 30, 2022, Desjardins Group, the largest financial cooperative group in North America, posted surplus earnings before member dividends of $478 million, down $338 million compared to the corresponding quarter of 2021. This decrease in surplus earnings was mostly due to a rise in the cost of claims in the Property and Casualty Insurance segment, reflecting among other things the impact of inflation and the increased frequency in claims. The third quarter of 2022 was also marked by two major events: heavy rainfalls in Québec and Hurricane Fiona in the Atlantic provinces and Québec. In addition, surplus earnings fell due to the increase in the provision for credit losses, mainly as a result of the deteriorating macroeconomic outlook, accelerated investments, particularly in projects provided in the strategic orientations, and a rise in spending on personnel. This reduction in surplus earnings was partially offset by an increase in net interest income and other operating income[1].

This result reflects the contribution of $307 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 $155 million and $83 million, respectively, to surplus earnings.

The total amount returned to members and the community[1], was $128 million in the third quarter of 2022, including a $106 million provision for member dividends and $22 million in the form of sponsorships, donations and scholarships, $9 million of which was from the caisses' Community Development Fund, compared to a total amount returned to members and the community[1] of $110 million for the corresponding period of 2021. In addition to this, commitments of $3 million were made for the third quarter of 2022 in connection with the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions. Since 2017, Desjardins Group has made commitments totalling $153 million to the GoodSpark Fund.

Desjardins Group complies with Basel III rules and maintains solid capitalization. As at September 30, 2022, Desjardins Group's Tier 1A and total capital ratios were 18.7% and 20.2%, respectively, compared to 21.1% and 22.1%, respectively, as at December 31, 2021. This decline is mainly due to the increase in risk-weighted assets as a result of growth in operations relating to business loans and the mortgage portfolio and to the decrease in the value of the bond portfolio because of higher interest rates.

“Member dividends and operating income[1] remained on the rise in the third quarter, while Desjardins Group continued to demonstrate strong financial strength," said Desjardins Group President and CEO Guy Cormier. "Furthermore, we are actively supporting our members and clients to help them cope with the increased pressures of the current inflationary environment through efforts such as personalized assistance tailored to their individual needs. We also continue to support young people by creating the right conditions for them to be able to reach their full potential. A good example of our commitment is our regional tour to discuss today's issues with young people in partnership with the *Regroupement des jeunes chambres de commerce du Québec*."

[1] For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 7 to 10.

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 2021 Annual Report, the interim financial report for the third quarter of 2022 and the documents "Supplemental Financial Information" and "Pillar 3 Report", which are available on Desjardins Group's website at www.desjardins.com/ca/about-us/investor-relations. The documents "Supplemental Financial Information" and "Pillar 3 Report" are not incorporated by reference in this Management's Discussion and Analysis (MD&A).

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

				Third quarter of 2022		
Type of risk	**Recommen-dation**	**Disclosure**	**2021 Annual Report**	**Interim Financial Report**	**Supplemental Financial Information**	**Pillar 3 Report**
General	1	Summary of risk information	XXXV	Current page		
	2	Risk terminology, risk measures and key parameters	65-71, 117-124	57-64	11	73-75
	3	Principal and emerging risks	54, 55, 62-64, 71-97	13		
	4	New regulatory ratios	54-57, 90, 93, 94, 209, 210	31-34, 43, 44, 46-48		
Risk governance, risk management and business models	5	Organizational risk management structure	65-71			
	6	Risk management culture	67-71			
	7	Risks from business model and risk appetite	14, 32, 36, 40, 44, 54, 58-59, 65-72			
	8	Stress testing	54, 66, 71, 86-88			
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	54, 55	31		10-12, 67, 68
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	56-58, 209, 210	32		14, 15, 24, 67
	11	Movements in regulatory capital	56-58	33		
	12	Capital management and planning	53-60	30-34		
	13	Risk-weighted assets by business segments	59, 72			5-8
	14	Breakdown of capital requirements by type of risk and by calculation method	58-60, 73, 74, 77, 78, 86-88	33, 34		5-7, 9
	15	Credit risk	58-60	33, 34		45-48, 51
	16	Movements in risk-weighted assets by type of risk	59, 60	33		5-9, 45
	17	Back testing and validation of credit models	77			51
Liquidity	18	Management of liquidity needs and reserve	90-94	43-48		69
Funding	19	Encumbered and unencumbered assets	91-93, 95-97, 214-216	44-47		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	94, 95, 216-220	49, 51-54		
	21	Funding sources and strategies	53, 90, 95, 96	43, 44, 49, 50		
Market risk	22	Reconciliation of market risk measures and balance sheet	85, 86	39, 40		
	23	Market risk factors	85-89, 192-196	38-43		
	24	Assumptions, limitations and validation procedures for market risk models	86-88	40-42		
	25	Extreme loss measures	54, 66, 86-88	40-42		
Credit risk	26	Credit risk profile	52, 64, 66, 77, 78, 80-84	29, 35-38	6-10	26-51
	27	Policy for identifying gross credit-impaired loans	79, 136-155			
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	52, 79-84, 136-155, 168-175	29, 36, 83-89		35-44
	29	Counterparty risk related to derivatives	84, 198-207			52-60
	30	Credit risk mitigation techniques	78, 84, 198-207			28-32
Other risks	31	Management of other risks	58-60, 62-64, 69-72, 98-103	34, 35		
	32	Publicly known risk events	98, 99, 214-216			

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 MD&A dated November 10, 2022, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended September 30, 2022, 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 regulation. Pursuant to Decision No. 2021-FS-0091 of the Autorité des marchés financiers (AMF) dated April 23, 2021, the Combined Financial Statements and MD&As of Desjardins Group will henceforth be filed by the Federation in place of the Consolidated Financial Statements and MD&As of the Federation, in order to meet the financial disclosure obligations of the Federation, as a reporting issuer, under Regulation 51-102 respecting Continuous Disclosure Obligations of the CSA, and the Federation will maintain controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group in compliance with Regulation 52-109. Since April 23, 2021, and pursuant to the AMF and CSA decision, the Federation has used the financial statements and MD&As of Desjardins Group for all relevant purposes under the applicable securities regulations. Information on the controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group may be found in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Combined Financial Statements (the Interim Combined Financial Statements), including the notes thereto, as at September 30, 2022, and Desjardins Group's 2021 Annual Report (the 2021 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 for the years ended prior to December 31, 2021, 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, "Significant accounting policies", to the Annual 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, and the impact of the COVID-19 pandemic on its operations, its results and its financial position, as well as on economic conditions and financial markets. Such forward-looking statements are typically identified by words or phrases such as “target”, “objective”, “believe”, “expect”, “count on”, “anticipate”, “intend”, “estimate”, “plan”, “forecast”, “aim”, “propose”, “should” and “may”, words and expressions of similar import, and future and conditional verbs.

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

The factors that may affect the accuracy of the forward-looking statements in this MD&A include those discussed in the “Risk management” section of Desjardins Group’s 2021 annual MD&A and this MD&A for the third quarter of 2022, as well as under “COVID-19 pandemic” in Section 1.3, “Significant events” of Desjardins Group’s 2021 annual MD&A and, in particular, credit, market, liquidity, operational, insurance, strategic and reputational risk, the risk related to pension plans, environmental or social risk, and legal and regulatory risk.

Such factors also include those related to the COVID-19 pandemic, the war in Ukraine, security breaches, government, corporate and household indebtedness, technological advancements and regulatory developments, interest rate fluctuations, climate change, and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; monetary policies; the critical accounting estimates and accounting standards applied by Desjardins Group; new products and services to maintain or increase Desjardins Group’s market share; geographic concentration; acquisitions and joint arrangements; credit ratings and reliance on third parties. Other factors include interest rate benchmark reform, changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group’s disaster recovery plan within a reasonable time, the potential impact of international conflicts on operations, public health crises, such as pandemics and epidemics, or any other similar disease affecting the local, national or global economy, as well as Desjardins Group’s ability to anticipate and properly manage the risks associated with these factors despite a disciplined risk management environment. Additional information about these factors is found in the “Risk management” section of Desjardins Group’s 2021 annual MD&A and of this MD&A for the third quarter of 2022, and under “COVID-19 pandemic” in Section 1.3, “Significant events”, of Desjardins Group’s 2021 annual MD&A.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group’s results. Additional information about these and other factors is found in the “Risk management” section of Desjardins Group’s 2021 annual MD&A and of this MD&A for the third quarter of 2022.

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 MD&A are described under “Economic environment and outlook” of Desjardins Group’s 2021 annual MD&A and of this MD&A for the third quarter of 2022. Readers are cautioned to consider the foregoing factors when reading this section. When relying on forward-looking statements to make decisions about Desjardins Group, they should carefully consider these factors, as well as other uncertainties and contingencies. To develop our economic growth forecasts in general, and for the financial services sector in particular, 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 and the war in Ukraine have developed and their impact on the global economy and financial market conditions, as well as on Desjardins Group’s business operations, financial results and financial position, there is greater uncertainty associated with our economic assumptions compared with periods prior to the onset of these events, as these assumptions are based on uncertain future developments and it is difficult to predict the extent of the long-term effects of these events.

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

SIGNIFICANT EVENT

Announced retirement of Francine Champoux

In October 2022, Francine Champoux, Executive Vice-President, Risk Management, announced that she will be retiring in March 2023 after a remarkable 25-year career with Desjardins. Ms. Champoux will remain with the Risk Management Executive Division until she leaves for her retirement in order to ensure a seamless transition. A process has been initiated to find her replacement.

NON-GAAP AND OTHER FINANCIAL MEASURES

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

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

Non-GAAP financial measures

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

Return to members and the community

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

More detailed information about the amounts returned to members and the community may be found in the "Financial results and indicators" table on page 14 of this MD&A.

Income

Operating income

The concept of operating income is used to analyze financial results. This concept allows for better structuring of financial data and makes it easier to compare operating activities from one period to the next by excluding the volatility of results specific to investments, particularly regarding the extent of life and health insurance and Property and Casualty (P&C) Insurance operations, for which a very large proportion of investments is 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 (loss)" 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.

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

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2022	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Presentation of income in the Combined Financial Statements					
Net interest income	**$ 1,649**	$ 1,596	$ 1,476	**$ 4,751**	$ 4,331
Net premiums	**2,747**	2,633	2,905	**8,030**	8,077
Other income					
Deposit and payment service charges	**115**	114	109	**333**	313
Lending fees and credit card service revenues	**276**	225	198	**728**	567
Brokerage and investment fund services	**235**	251	283	**754**	841
Management and custodial service fees	**182**	200	185	**575**	531
Net investment loss(1)	**(38)**	(2,209)	(90)	**(4,583)**	(637)
Overlay approach adjustment for insurance operations financial assets	**224**	371	(24)	**748**	(316)
Foreign exchange income	**19**	27	34	**77**	92
Other	**72**	86	60	**229**	150
Total income(2)	**$ 5,481**	$ 3,294	$ 5,136	**$ 11,642**	$ 13,949
Presentation of income in the MD&A					
Net interest income	**$ 1,649**	$ 1,596	$ 1,476	**$ 4,751**	$ 4,331
Net premiums	**2,747**	2,633	2,905	**8,030**	8,077
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Other	**72**	86	60	**229**	150
Operating income	**5,295**	5,132	5,250	**15,477**	14,902
Investment income (loss)					
Net investment loss(1)	**(38)**	(2,209)	(90)	**(4,583)**	(637)
Overlay approach adjustment for insurance operations financial assets	**224**	371	(24)	**748**	(316)
Investment income (loss)	**186**	(1,838)	(114)	**(3,835)**	(953)
Total income(2)	**$ 5,481**	$ 3,294	$ 5,136	**$ 11,642**	$ 13,949

(1) The breakdown of this line item is presented in Note 10, "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.

Non-GAAP ratios

Non-GAAP ratios that are used by Desjardins Group and do not have a standardized definition, are not directly comparable to similar measures used by other companies, and may not be directly comparable to any GAAP measures. Regulation 52-112 states, among other things, that any ratio that has at least one non-GAAP financial measure meets the definition of a non-GAAP ratio. Non-GAAP ratios can be useful to investors in analyzing Desjardins Group's financial position or performance, and they are defined as follows:

Productivity index

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

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

Productivity index

	For the three-month periods ended			For the nine-month periods ended	
(in millions of dollars and as a percentage)	**September 30, 2022**	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Non-interest expense	**$ 2,565**	$ 2,712	$ 2,288	**$ 7,805**	$ 6,830
Total income	**5,481**	3,294	5,136	**11,642**	13,949
Claims, benefits, annuities and changes in insurance contract liabilities	**(2,204)**	133	(1,713)	**(1,716)**	(3,698)
Total income excluding claims	**$ 3,277**	$ 3,427	$ 3,423	**$ 9,926**	$ 10,251
Productivity index	**78.3 %**	79.1 %	66.8 %	**78.6 %**	66.6 %

Net interest margin

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

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

The "Net interest income on average assets and liabilities" table on page 17 of this MD&A provides more detailed information on net interest margin, average interest-bearing assets and average interest-bearing liabilities.

Loss ratio – Expense ratio – Combined ratio

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

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

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

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

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

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

Loss ratio - Expense ratio - Combined ratio

	For the three-month periods ended			For the nine-month periods ended	
(in millions of dollars and as a percentage)	**September 30, 2022**	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Net premiums	**$ 1,524**	$ 1,486	$ 1,505	**$ 4,481**	$ 4,396
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 1,145**	$ 927	$ 763	**$ 2,905**	$ 2,131
Market yield adjustment (MYA)	**51**	169	18	**443**	126
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 1,196**	$ 1,096	$ 781	**$ 3,348**	$ 2,257
Loss ratio	**78.5 %**	73.8 %	51.9 %	**74.7 %**	51.3 %
Non-interest expense	**$ 385**	$ 382	$ 359	**$ 1,140**	$ 1,056
Other expenses excluded from the expense ratio(1)	**(3)**	(3)	(3)	**(10)**	(8)
Non-interest expense excluding certain items	**$ 382**	$ 379	$ 356	**$ 1,130**	$ 1,048
Expense ratio	**25.1 %**	25.5 %	23.7 %	**25.2 %**	23.8 %
Combined ratio	**103.6**	99.3	75.6	**99.9**	75.1

(1) Due to investment management expenses.

Supplementary financial measures

In accordance with Regulation 52-112, supplementary financial measures are used to show historical or expected future financial performance, financial position or cash flow. In addition, these measures are not disclosed in the financial statements. Desjardins Group uses certain supplementary financial measures, and their composition is presented in the Glossary on pages 57 to 64.

DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial cooperative group in North America, with assets of $408.1 billion. As at September 30, 2022, the organization included 212 caisses in Québec, as well as the Caisse Desjardins Ontario Credit Union Inc., the *Fédération des caisses Desjardins du Québec* and its subsidiaries, and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association, and Desjardins Florida Branch.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of over 58,300 employees and the commitment of close to 2,450 directors in the caisse network.

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

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

Summary additional information on the entities that are not part of the Desjardins Cooperative Group or the subsidiaries of the entities that comprise it, but are included in Desjardins Group's financial statements, may be found under "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 2021 annual MD&A, and the "Capital management" section of this MD&A for the third quarter of 2022 presents further information on regulatory developments relating to capital. Since the release of Desjardins Group's 2021 annual MD&A, the changes in the regulatory environment described below must also be considered:

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

The final version of the amendments to the PCMLTFA and its regulations, tabled in June 2018, was released by the Department of Finance Canada on July 10, 2019. These amendments came into force in three phases: on July 10, 2019, June 1, 2020 and June 1, 2021. In February 2020, the Department of Finance Canada issued new proposed regulatory changes, which were commented by Desjardins. The final publication of these regulatory changes on June 10, 2020 had to do in particular with ongoing monitoring of business relationships. Further amendments were made to the PCMLTFA on June 29, 2021 and April 27, 2022 to cover crowdfunding platforms. Once the regulatory changes were issued, a project was implemented to make the changes required by the amended regulations to Desjardins Group's business line systems, processes and procedures.

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

Under anti-tax evasion rules, a completed Declaration of Tax Residence (self-certification) is required to open a new account, as well as to report a change in circumstances that could affect a member or client's tax residence. Since January 1, 2021, monetary penalties of up to $5,000 per defaulted account may be imposed by the Canada Revenue Agency on Canadian financial institutions. In addition, to ensure compliance with these requirements, anti-tax evasion rules provide that effective measures should be implemented by Canadian financial institutions, such as freezing or closing accounts.

Protection of data confidentiality and security

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. After being passed by the National Assembly and assented to in September 2021, *an Act to modernize legislative provisions as regards the protection of personal information,* will come into force by being phased in over a three-year period. Desjardins Group complies fully with the provisions that came into force on September 22, 2022, namely the designation of a person in charge of the protection of personal information, the handling of confidentiality incidents, and the frameworks for releasing personal information for study or research purposes or for the production of statistics, and as part of concluding a commercial transaction. Work is being continued to ensure that Desjardins Group's operations comply with the new legislative provisions within the prescribed time period. Desjardins Group also continues to be on the lookout for announced regulatory amendments to other Canadian privacy laws and, in particular, it completed consideration of the provisions of federal Bill C-27, "*An Act to enact the Consumer Privacy Protection Act*".

Legislative and regulatory developments in insurance in Ontario

Financial Services Regulatory Authority of Ontario (FSRA) released its final guidance outlining sound practices for operational risk management in the rating and underwriting of automobile insurance. This information guidance is intended to outline foundational and sound practices for operational risk management in the rating and underwriting of automobile insurance. This guidance is part of FSRA's broader strategy to reform the regulation of rates and underwriting in Ontario's auto insurance sector, which is a priority in FSRA's 2022-2025 Annual Business Plan.

Interest rate benchmark reform

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. Its objective is to improve benchmark indices by making sure they comply with robust international standards. The gradual withdrawal of certain interest rate benchmarks, began on May 17, 2021, with the discontinuation of the six-month and 12-month Canadian Dollar Offered Rate (CDOR). In addition, on March 5, 2021, rate administrators announced that the publication of the London Interbank Offered Rate (LIBOR) would officially cease after December 31, 2021 for all currencies except certain USD LIBOR settings, which will not cease publication until after June 30, 2023. Subsequently, on July 29, 2021, USD LIBOR rate administrators officially recommended the use of the Secured Overnight Financing Rate (SOFR) for loans, which concludes the final phase of the transition plan that was initiated to promote the use of SOFRs. On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), CDOR's administrator, announced that it would cease publishing all tenors of CDOR after June 28, 2024. This announcement triggered the two-stage transition period recommended by the Canadian Alternative Reference Rate (CARR) Working Group in its December 2021 White Paper. By June 30, 2023, the end of the first stage of the transition plan, CDOR will have to be replaced by an alternative reference rate for new derivative products (except in certain specific circumstances) and for securities. By June 28, 2024, the end of the second stage of the transition plan, CDOR-based loan contracts will have to have transitioned to the alternative reference rate. On October 7, 2022, the CARR's working group announced its intention to begin the process of developing the Term Canadian Overnight Repo Rate Average (Term CORRA) stemming from the feedback received on a public consultation on the topic. Desjardins Group has set up a task force on interest rate benchmark reform internally to ensure a seamless transition from benchmark interest rates, including CDOR, to risk-free rates.

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

An Act respecting French, the official and common language of Québec came into force on June 1, 2022. This Act proposes major changes to the *Charter of the French Language* in order to make its requirements more stringent. The objectives are, in particular, to strengthen the presence and use of French in Québec, and to affirm that French is the only official language of Québec. The main points addressed include the status of the French language, the language of work, the language of commerce and business, the language of instruction, the francization of enterprises, and penal provisions and other sanctions. The implementation periods for the various provisions of the Act vary from 0 to 12 months. Desjardins Group will comply with the applicable provisions as they come into force.

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

Regulators continue to focus sustained attention on the issue of climate change in 2022, after several consultations and surveys in 2021:

- Consultation process launched by the CSA on its proposed National Instrument 51-107, *Climate-related Disclosure Requirements* and related Companion Policy, which closed in January 2022; NI 51-107 could be applicable to issuers as early as the end of 2023.
- In January 2022, the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI) issued the final report on the pilot project to analyze climate change scenarios.
- A bill regarding climate-aligned finance was tabled in the Senate in March 2022 to require banks to increase capital risk weights and capital reserve requirements for financing exposed to acute transition risks.
- Internationally, the International Sustainability Standards Board (ISSB), established by the IFRS Foundation, completed a consultation that closed in July 2022, on IFRS S1, Sustainability-related Disclosure Requirements and IFRS S2, Climate-related Disclosure Requirements. These standards should be issued by early 2023.
- The OSFI closed its consultation in September 2022, on Guideline B-15, Climate Risk Management. The Guideline should be issued by early 2023, and phased in starting in 2024 for the fiscal years ending after October 1, 2023.

These points confirm that climate change consideration and disclosure requirements will be strengthened in the future. Desjardins Group continues to closely monitor developments in this file and responds, where relevant, to consultations on this subject directly or via industry associations. Desjardins is also ensuring that it follows best practices in ESG integration, monitoring and disclosure. This disclosure is reflected in the annual Social and Cooperative Responsibility report, which is aligned with the standards of the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The key elements of disclosure related to the TCFD recommendations are summarized under "Environmental or social risk" in Section 4.0, "Risk management" in the 2021 annual MD&A and detailed in the dedicated report "Climate action at Desjardins – 2021 TCFD report on Climate change-related risks and opportunities".

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

On June 25, 2020, the CSA launched a consultation on the regulatory framework for the operations of self-regulatory organizations (SROs), 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. Since then, the CSA has 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, and announced the members of the boards of directors of the new SRO and the new investor protection fund (IPF). At the close of this extensive consultation, on September 29, 2022, the MFDA and IIROC approved the creation of the new unified SRO, which will foster innovation and competitiveness in the industry and provide value to investors. Desjardins Group continues to analyze the potential impact of the new SRO regulatory framework on its operations.

Economic sanctions – Russia-Ukraine war

Since the beginning of the Russia-Ukraine war on February 24, 2022, international economic sanctions targeting, in particular, designated individuals or entities (such as banks) and industries have been adopted with regard to Belarus, Russia and Ukraine (the Crimean, Donetsk and Louhansk regions). In order to ensure compliance with this rapidly changing regulatory framework, Desjardins Group monitors the situation on a daily basis and takes the necessary measures in conjunction with the relevant operational teams, particularly with regard to investments and electronic funds transfers (EFTs) in connection with these sanctioned countries. In order to reduce its regulatory risks, Desjardins Group has temporarily stopped sending EFTs to Russia.

Bill C-26, An Act respecting cyber security, amending the Telecommunications Act and making consequential amendments to other Acts

On June 14, 2022, the House of Commons introduced Bill C-26, *An Act respecting cyber security, amending the Telecommunications Act and making consequential amendments to other Acts*. Bill C-26 aims to secure telecommunication systems and strengthen the protection of essential cyber systems (which may include banking systems) in the private sector under federal regulations. Even if Desjardins Group is not directly targeted by this Bill because it is under provincial jurisdiction, it already meets the requirements announced and will carefully monitor the progress of the Bill to learn from best practices, where applicable.

Capital adequacy requirements for insurers

On July 21, 2022, the AMF issued an update to the Guideline on Capital Adequacy Requirements – Life and Health Insurance as well as an update to the Guideline on Capital Adequacy Requirements – Property and Casualty Insurance. On the same date, OSFI released the final version of the Minimum Capital Test guideline for federally-regulated property and casualty insurance companies. The changes made to the various guidelines take the new IFRS 17 into account and will come into force on January 1, 2023. The insurance subsidiaries will comply with these requirements as soon as they come into force.

ECONOMIC ENVIRONMENT AND OUTLOOK

Global economy

The global economy is still reeling from the effects of the pandemic, the war in Ukraine and surging inflationary. Europe's economy continues to bear the brunt of the war in Ukraine and its impact on energy prices. Inflation is running particularly high in the eurozone and the UK, and this is affecting both household incomes and corporate profitability. China remains in the grips of economic problems stemming from its zero-COVID policy, with the rebound in output still modest. Its property market is still stalled; the government has been introducing a series of measures to overcome the situation, with only limited success so far. The deteriorating economic outlook has, however, led to a downward revision of the demand for several commodities, spurring a fairly generalized slide in prices, including for oil. These prices now seem to have stabilized. The sharp key interest rate hikes implemented by the major central banks and rising market rates are also weakening the economic environment and raising fears of a more pronounced downturn in economic activity.

The effects of the war in Ukraine are being felt most keenly in Europe. Some euroland confidence indices have slipped and are now suggesting that a recession is likely. Euroland's real gross domestic product (GDP) is expected to grow 3.2% in 2022 and then fall by 0.1% in 2023. This includes several quarters of decline in euroland real GDP beginning in the fall of 2022. Several consecutive declines in real GDP are also expected in the UK, where it should rise 4.1% in 2022, only to fall 1.1% in 2023. In China, real GDP is expected to grow by 3.3% in 2022 and 4.8% in 2023. The forecast for the global economy is now for 2.9% growth in 2022, followed by another 2.2% increase in 2023.

In the financial markets, volatility remains high due to the deteriorating economic outlook and the quick interest rate increases implemented by the central banks. The current stock market weakness is expected to continue into early 2023 against a backdrop of downward revisions to corporate earnings outlooks. Bond yields rose sharply in 2022, but the trend is expected to reverse next year, starting with longer maturities. The yield curve is likely to remain inverted for several more quarters. In terms of currencies, the US dollar continues to exert strong appeal due to its role as a safe haven and expectations that the US Federal Reserve is likely to enact more interest rate hikes in the coming months. The Canadian dollar is expected to end 2022 at around US$0.72, with a risk of further depreciation at the beginning of 2023 if economic conditions deteriorate more than expected.

United States

U. S. real GDP posted two successive declines in the first half of 2022, but resumed growth with an annualized gain of 2.6% in the third quarter. The labour market continues to perform well with the creation of 3,778,000 jobs since the beginning of 2022. After several months of decline, US consumer confidence has stabilized thanks in particular to a drop in gas prices from their spring highs.

Real GDP growth should slowdown again at the end of 2022, with further declines expected in early 2023. Rising interest rates and inflation's impact on real household income should lead to further declines in real consumption of goods and further slowdown the housing market activity. Following a 5.9% gain in 2021, real GDP is expected to have grown 1.8% in 2022, followed by only 0.2% in 2023.

Canada

In the first half of 2022, Canadian real GDP grew at a respectable 4.0% annualized rate. However, much of this strong overall performance can be attributed to the last phase of post-pandemic reopenings, as evidenced by the surge in consumption of services. Canada's economic outlook has therefore deteriorated for the second half of 2022 and early 2023. After a strong start to the year, residential investment reversed course in the second quarter in response to rising borrowing costs. Ultimately, the slowdown in demand in interest-rate-sensitive sectors, particularly housing, is expected to provoke a mild recession in the Canadian economy in the first half of 2023. Following a 4.5% gain in 2021, real GDP growth is expected to slip to 3.2% in 2022 and be virtually flat in 2023.

Québec

The Québec economy had an exceptionally good start to the year, but growth slowed sharply in the spring. Annualized real GDP growth fell from 5.9% to 1.0% from the first to the second quarter, due in part to a steep drop in residential investment, which was the first sector affected by the jump in interest rates. Spending on new construction and renovations, as well as the resale market, all contributed to this decline. Household consumption rose by 8.8% at an annualized rate in the second quarter due to a 19.5% rally in spending on services. This rebound will be short-lived, as it reflected bars, restaurants and theatres reopening at full capacity in the spring. Deteriorating household confidence and rising interest rates should soon moderate the growth in consumer spending. Support measures announced by the federal government and potentially others provincial measures are intended to help households cope with the rising cost of living. Some households will also dip into their savings, as Quebecers' high savings rate ─ at 10.2% in the second quarter ─ gives some latitude to many consumers. Even though the labour market remains tight, since the spring a series of job gains have given way to some hesitation. In October, the unemployment rate remained very low at 4.4%, but this is up from an all-time low of 3.9% in April. As the economy slows down and demand for workers eases somewhat, the unemployment rate is expected to rise to nearly 6% within the next year. Business investment continued to grow at a healthy pace of 8.0% in the second quarter, but a decline is expected in the near term due to the deteriorating global economic environment and rising interest rates. The province's exports were also up in the second quarter but are expected to fall again in the near term. While Quebec's economy has been showing signs of weakness since spring, the 0.5% drop in real GDP in July could well signal the beginning of a recession. This is not only the fourth consecutive monthly decline, but also the largest since August 2017, excluding the rollercoaster effect of the pandemic lockdown.

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 September 30, 2022	June 30, 2022	September 30, 2021	For the nine-month periods ended September 30, 2022	September 30, 2021
Results					
Net interest income	**$ 1,649**	$ 1,596	$ 1,476	**$ 4,751**	$ 4,331
Net premiums	**2,747**	2,633	2,905	**8,030**	8,077
Other operating income[1]					
Deposit and payment service charges	**115**	114	109	**333**	313
Lending fees and credit card service revenues	**276**	225	198	**728**	567
Brokerage and investment fund services	**235**	251	283	**754**	841
Management and custodial service fees	**182**	200	185	**575**	531
Foreign exchange income	**19**	27	34	**77**	92
Other	**72**	86	60	**229**	150
Operating income[1]	**5,295**	5,132	5,250	**15,477**	14,902
Investment income (loss)[1]					
Net investment loss	**(38)**	(2,209)	(90)	**(4,583)**	(637)
Overlay approach adjustment for insurance operations financial assets	**224**	371	(24)	**748**	(316)
Investment income (loss)[1]	**186**	(1,838)	(114)	**(3,835)**	(953)
Total income	**5,481**	3,294	5,136	**11,642**	13,949
Provision for credit losses	**125**	66	52	**197**	53
Claims, benefits, annuities and changes in insurance contract liabilities	**2,204**	(133)	1,713	**1,716**	3,698
Non-interest expense	**2,565**	2,712	2,288	**7,805**	6,830
Income taxes on surplus earnings	**109**	172	267	**450**	819
Surplus earnings before member dividends	**$ 478**	$ 477	$ 816	**$ 1,474**	$ 2,549
Contribution to combined surplus earnings by business segment[2]					
Personal and Business Services	**$ 307**	$ 290	$ 401	**$ 912**	$ 1,212
Wealth Management and Life and Health Insurance	**155**	173	109	**465**	469
Property and Casualty Insurance	**83**	104	289	**334**	867
Other	**(67)**	(90)	17	**(237)**	1
	$ 478	$ 477	$ 816	**$ 1,474**	$ 2,549
Return to members and the community[1]					
Member dividends	**$ 106**	$ 109	$ 90	**$ 317**	$ 270
Sponsorships, donations and scholarships[3]	**22**	36	20	**74**	52
	$ 128	$ 145	$ 110	**$ 391**	$ 322
Indicators					
Net interest margin[4]	**2.19 %**	2.17 %	2.07 %	**2.15 %**	2.09 %
Return on equity[5]	**5.8**	5.8	9.6	**5.9**	10.5
Productivity index[4]	**78.3**	79.1	66.8	**78.6**	66.6
Credit loss provisioning rate[5]	**0.20**	0.11	0.09	**0.11**	0.03

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 7 to 10.
(2) The breakdown by line item is presented in Note 11, “Segmented information”, to the Interim Combined Financial Statements.
(3) Including $9 million from the caisses’ Community Development Fund ($12 million for the second quarter of 2022, $8 million for the third quarter of 2021, $27 million for the first nine months of 2022, and $23 million for the first nine months of 2021).
(4) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 7 to 10.
(5) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.

Surplus earnings

Comparison of the third quarters of 2022 and 2021

For the third quarter ended September 30, 2022, Desjardins Group posted surplus earnings before member dividends of $478 million, for a $338 million decrease compared to the corresponding quarter of 2021. This decrease in surplus earnings was mostly due to a rise in the cost of claims in the Property and Casualty Insurance segment, reflecting among other things the impact of inflation and the increased frequency in claims. The third quarter of 2022 was also marked by two major events: heavy rainfalls in Québec and Hurricane Fiona in the Atlantic provinces and Québec. In addition, surplus earnings fell due to the increase in the provision for credit losses, mainly as a result of the deteriorating macroeconomic outlook, accelerated investments, particularly in projects provided in the strategic orientations, and a rise in spending on personnel. This reduction in surplus earnings was partially offset by an increase in net interest income and other operating income[1].

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the third quarter of 2022.

- A total of $128 million was returned to members and the community,[1] for an increase of $18 million compared to the third quarter of 2021.
  - The provision for member dividends totalled $106 million for the quarter ended September 30, 2022, up $16 million compared to the corresponding quarter of 2021.
  - An amount of $22 million was returned in the form of sponsorships, donations and scholarships, compared to $20 million for the same period in 2021, including $9 million in the third quarter of 2022 and $8 million in the third quarter of 2021 from the caisses' Community Development Fund.
- Commitments of $3 million were made in the third quarter of 2022 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 $153 million.

Business segment contributions to surplus earnings

- Personal and Business Services: **Surplus earnings of $307 million,** down $94 million, or 23.4%, compared to the same period in 2021, essentially due to the following:
  - Growth in non-interest expense, mainly as a result of accelerated investment in strategic projects related, in particular, to security and the digital shift, and a rise in spending on personnel to support growth in operations and enhance the services offered to members and clients.
  - Increase in the provision for credit losses due mainly to the worsening macroeconomic outlook during the third quarter of 2022.
  - Offset by an increase in net interest income and other operating income[1].
- Wealth Management and Life and Health Insurance: **Surplus earnings of $155 million,** up $46 million, or 42.2%, compared to the third quarter of 2021, mainly due to the following:
  - Overall more favourable experience than for the comparative quarter, essentially in group insurance.
  - Higher gains on disposal of securities compared to the third quarter of 2021.
  - Offset by an increase in non-interest expense, mainly due to a rise in spending on personnel in order to support growth in operations and enhance the services offered to members and clients, as well as to accelerated investment in strategic projects related, in particular, to security and the digital shift.
- Property and Casualty Insurance: **Surplus earnings of $83 million,** down $206 million, or 71.3%, compared to third quarter 2021, due to:
  - Higher loss ratio compared to the corresponding quarter, mainly in property insurance and automobile insurance. The third quarter of 2022 was affected, in particular, by the following:
    - Impact of inflation.
    - Higher frequency of claims compared to the corresponding quarter of 2021, particularly in automobile insurance.
    - Two major events, namely heavy rainfall in Québec, and Hurricane Fiona in the Atlantic provinces and Québec, compared to one catastrophe, a hailstorm in Alberta, in the third quarter of 2021.
  - Offset by an increase in investment income[1], excluding the change in the fair value of matched bonds.

- **Return on equity was 5.8%,** compared to 9.6% for the quarter ended September 30, 2021, mainly because of the decrease in surplus earnings, as explained earlier.

The following table presents the calculation of the return on equity.

Return on equity

	For the three-month periods ended			For the nine-month periods ended	
(in millions of dollars and as a percentage)	**September 30, 2022**	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Surplus earnings before member dividends	**$ 478**	$ 477	$ 816	**$ 1,474**	$ 2,549
Non-controlling interests' share	**(14)**	(16)	(34)	**(50)**	(103)
Group's share before member dividends	**$ 464**	$ 461	$ 782	**$ 1,424**	$ 2,446
Average equity before non-controlling interests	**$ 31,697**	$ 32,104	$ 32,305	**$ 32,072**	$ 31,244
Return on equity[1][2]	**5.8 %**	5.8 %	9.6 %	**5.9 %**	10.5 %

(1) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
(2) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

Comparison of the first nine months of 2022 and 2021

For the first nine months ended September 30, 2022, Desjardins Group posted surplus earnings before member dividends of $1,474 million, down $1,075 million compared to the same period in 2021. This decrease in surplus earnings was mostly due to a rise in the cost of claims in the Property and Casualty Insurance segment, reflecting in particular the impact of inflation, and an increase in road traffic, which had fallen considerably in the comparative period as a result of the pandemic. In addition, the first nine months of 2022 were marked by one catastrophe, a rare weather phenomenon known as a *derecho*, in Québec and Ontario, and by four major events (windstorm, flooding, heavy rainfall and Hurricane Fiona), while the corresponding period in 2021 was affected by one catastrophe, namely a hailstorm in Alberta. Surplus earnings also fell as a result of accelerated investments, particularly in projects provided in the strategic orientations, and a rise in spending on personnel. This reduction in surplus earnings was partially offset by an increase in net interest income and other operating income(1).

- A total of $391 million was returned to members and the community,(1) compared to $322 million for the first nine months of 2021.
  - The provision for member dividends totalled $317 million, up $47 million compared to the corresponding period of 2021.
  - An amount of $74 million was returned in the form of sponsorships, donations and scholarships, compared to $52 million for the same period in 2021, including $27 million for the first nine months of 2022, and $23 million for the first nine months of 2021 from the caisses' Community Development Fund.
- Commitments of $6 million were made for the first nine months of 2022 with regard to the GoodSpark Fund.

Business segment contributions to surplus earnings

- Personal and Business Services: **Surplus earnings of $912 million,** down $300 million, or 24.8%, compared to the first nine months of 2021, primarily due to:
  - Growth in non-interest expense, mainly as a result of accelerated investment in strategic projects related, in particular, to security and the digital shift, and a rise in spending on personnel to support growth in operations and enhance the services offered to members and clients.
  - Higher provision for credit losses in the first nine months of 2022, compared to the corresponding period in 2021, which reflected the impact of borrowers' improved credit quality.
  - Offset by an increase in net interest income and other operating income(1).
- Wealth Management and Life and Health Insurance: **Surplus earnings of $465 million,** down $4 million, or 0.9%, compared to the first nine months of 2021, mainly due to the following:
  - Increase in non-interest expense mainly as a result of accelerated investment in strategic projects as well as increased personnel costs.
  - Effect of revisions of actuarial assumptions related to the potential risk of default that favourably affected the first nine months of 2021.
  - Markets' negative impact on guaranteed investment funds, which had been positively affected by markets in the comparative period of 2021.

  This decrease was partly offset by:
  - Overall more favourable experience than for the comparative period of 2021, mainly in group insurance.
  - Positive effect of higher interest rates on policy liabilities.
  - Higher gains on the disposal of securities and real estate investments compared to the gains realized in the first nine months of 2021.
- Property and Casualty Insurance: **Surplus earnings of $334 million,** down $533 million, or 61.5%, compared to the first nine months of 2021, due to:
  - Higher loss ratio than in the corresponding period, mainly in property insurance and automobile insurance given that the first nine months of 2022 were affected by the following, in particular:
    - Increase in road traffic, which had fallen considerably in the comparative period as a result of the pandemic.
    - Impact of inflation.
    - One catastrophe, a rare weather phenomenon called a *derecho*, and four major events (windstorm, flooding, heavy rainfall and Hurricane Fiona), compared to one catastrophe during the first nine months of 2021.
  - Offset by an increase in investment income(1), excluding the change in the fair value of matched bonds.

- **Return on equity was 5.9%,** compared to 10.5% for the nine-month period ended September 30, 2021, mainly because of the decrease in surplus earnings, as explained earlier.

Operating income(1)

Comparison of the third quarters of 2022 and 2021

Operating income, which comprises net interest income, net premiums and other operating income, totalled $5,295 million, up $45 million, or 0.9%, compared to the third quarter of 2021.

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 $1,649 million, up $173 million, or 11.7%, because of:
- Increase in the average return on loans due to the higher interest rate environment.
- Higher interest income from liquidities and securities.
- Growth in average residential mortgages and business loans outstanding.
- Offset by an increase in the average cost of funds resulting in higher interest expense.

- **Net interest margin of 2.19%** for the quarter ended September 30, 2022, up 12 basis points compared to the corresponding period of 2021. This increase was chiefly due to higher interest rates coupled with growth in the average loan volume.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

The table below presents the calculation of the net interest margin.

Net interest income on average assets and liabilities

	For the three-month periods ended									For the nine-month periods ended					
	September 30, 2022			June 30, 2022			September 30, 2021			**September 30, 2022**			September 30, 2021		
(in millions of dollars and as a percentage)	**Average balance**	**Interest**	**Average rate**	Average balance	Interest	Average rate	Average balance	Interest	Average rate	**Average balance**	**Interest**	**Average rate**	Average balance	Interest	Average rate
Assets															
Interest-bearing assets[1]	**$ 298,154**	**$ 2,504**	**3.33 %**	$ 294,675	$ 2,084	2.84 %	$ 282,647	$ 1,883	2.64 %	**$294,830**	**$ 6,460**	**2.93 %**	$ 277,389	$ 5,554	2.68 %
Other assets	**10,442**			9,819			9,558			**9,882**			9,697		
Total assets	**$ 308,596**	**$ 2,504**	**3.22 %**	$ 304,494	$ 2,084	2.75 %	$ 292,205	$ 1,883	2.56 %	**$304,712**	**$ 6,460**	**2.83 %**	$ 287,086	$ 5,554	2.59 %
Liabilities and equity															
Interest-bearing liabilities[1]	**$ 254,445**	**$ 855**	**1.33 %**	$ 249,793	$ 488	0.78 %	$ 240,380	$ 407	0.67 %	**$248,554**	**$ 1,709**	**0.92 %**	$ 234,944	$ 1,223	0.70 %
Other liabilities	**29,904**			31,164			28,347			**34,052**			29,084		
Equity	**24,247**			23,537			23,478			**22,106**			23,058		
Total liabilities and equity	**$ 308,596**	**$ 855**	**1.10 %**	$ 304,494	$ 488	0.64 %	$ 292,205	$ 407	0.55 %	**$304,712**	**$ 1,709**	**0.75 %**	$ 287,086	$ 1,223	0.57 %
Net interest income		**$ 1,649**			$ 1,596			$ 1,476			**$ 4,751**			$ 4,331	
Net interest margin[2]			**2.19 %**			2.17 %			2.07 %			**2.15 %**			2.09 %

[1] For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.
[2] For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 7 to 10.

Net premiums totalled $2,747 million, down $158 million, or 5.4%, compared to the third quarter of 2021, due to items from the following segments:

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $1,307 million,** down $168 million, or 11.4%, on account of the following:
  – Decrease of $225 million in annuity premiums mainly from group annuities related, in particular, to the addition of two major groups in the comparative quarter of 2021. This decrease was reflected by a similar change in actuarial liabilities included under "Claims, benefits, annuities and changes in insurance contract liabilities".
  – Offset by an increase of $49 million in group insurance premiums and of $8 million in individual insurance premiums.

Property and Casualty Insurance segment

- **Net premiums totalled $1,524 million,** up $19 million, or 1.3%, in particular as a result of business growth.

Other operating income amounted to $899 million, up $30 million, or 3.5%, compared to the third quarter of 2021, due to the following:
- Increase in business volumes from payment activities at Desjardins Card Services.
- 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.
- Smaller increase than in the third quarter of 2021, in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm), arising from favourable developments in claims taken over.
- Offset by a decrease in assets under management, related particularly to the impact of financial market developments.

Comparison of the first nine months of 2022 and 2021

Operating income totalled $15,477 million, up $575 million, or 3.9%, compared to the first nine months of 2021.

Net interest income totalled $4,751 million, up $420 million, or 9.7%, as a result of:
- Growth in average residential mortgages and business loans outstanding.
- Higher interest income from liquidities and securities.
- Increase in the average return on loans due to the higher interest rate environment.
- Offset by an increase in the average cost of funds, resulting in higher interest expense.

- **Net interest margin of 2.15%** for the first nine months ended September 30, 2022, up 6 basis points compared to the same period in 2021, mainly because of growth in average loan volume, coupled with higher interest rates.

Net premiums totalled $8,030 million, down $47 million, or 0.6%, compared to the first nine months of 2021, due to the items from the following segments:

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $3,793 million,** down $108 million, or 2.8%, mainly due to:
  - Decrease of $237 million in annuity premiums mainly from group annuities related, in particular, to the addition of two major groups in the first nine months of 2021. This decrease was reflected by a similar change in actuarial liabilities included under “Claims, benefits, annuities and changes in insurance contract liabilities”.
  - Offset by an increase of $95 million in group insurance premiums and of $34 million in individual insurance premiums.

Property and Casualty Insurance segment

- **Net premiums of $4,481 million,** up $85 million, or 1.9%, due in particular to business growth.

Other operating income stood at $2,696 million, up $202 million, or 8.1%, compared to the corresponding period of 2021, due to:
- Higher business volume from payment activities at Desjardins Card Services.
- 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.
- Smaller increase than in the first nine months of 2021 in the contingent consideration payable as part of the acquisition of State Farm’s Canadian operations, arising from the favourable developments in claims taken over.

Investment income[(1)]

Comparison of the third quarters of 2022 and 2021

Investment income totalled $186 million, compared to a loss of $114 million for the third quarter of 2021, essentially due to the following:
- Increase in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to fluctuations in the fair value of the bond portfolio mainly because of lower long-term market interest rates in the third quarter of 2022, compared to higher rates in the corresponding quarter.
  - It should be noted that this change in the fair value of bonds was offset by a rise in the cost of claims due to matching.
- Higher net gains on the disposal of securities compared to net gains realized in the third quarter of 2021.
- Offset by a decrease in activities related to derivative financial instruments.

Comparison of the first nine months of 2022 and 2021

A $3,835 million loss, presented under “Investment income (loss)”, compared to a $953 million loss recorded for the first nine months of 2021, 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 because of a larger increase in long-term market interest rates than in the first nine months of 2021.
- Larger decrease in the fair value of matched bonds in the Property and Casualty Insurance segment compared to the corresponding nine-month period of 2021, due to a larger increase in market interest rates in 2022 than in the corresponding nine-month period of 2021. It should be remembered that this change in the fair value of the bonds was offset by a decrease in the cost of claims because of a matching strategy.
- Decrease in activities related to derivative financial instruments.
- Offset by higher net gains on the disposal of securities compared to the gains realized in the first nine months of 2021.

Total income

For the third quarter of 2022, **total income amounted to $5,481 million,** up $345 million, compared to the third quarter of 2021. This increase was primarily due to the increase in investment income, as explained earlier, and was mostly offset by a similar change in actuarial liabilities included under “Claims, benefits, annuities and changes in insurance contract liabilities”.

For the first nine months of 2022, **total income stood at $11,642 million,** down $2,307 million compared to the first nine months of 2021. This decrease was mainly due to the decline in investment income, as explained earlier, and was mostly offset by a similar change in actuarial liabilities included under “Claims, benefits, annuities and changes in insurance contract liabilities”.

Provision for credit losses

Comparison of the third quarters of 2022 and 2021

The provision for credit losses totalled $125 million, up $73 million compared to the same period in 2021. The provision for the third quarter of 2022 mainly reflects the impact of the worsening macroeconomic outlook during the quarter, as well as the increase in business loan portfolio outstandings and a slight increase in personal loan portfolio risk. The provision for the third quarter of 2022 also reflects net write-offs that have remained historically low. The provision for credit losses for the third quarter of 2021 primarily reflected the impact of borrowers’ improved credit quality, as well as historically low net write-offs.

- The credit loss provisioning rate was 0.20% for the third quarter of 2022, compared to 0.09% for the corresponding period of 2021. The higher rate is due to the fact that the provision for credit losses for the third quarter of 2022 was higher than for the corresponding quarter in 2021.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.44%, compared to 0.52% as at September 30, 2021.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 7 to 10.

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

Credit loss provisioning rate

	For the three-month periods ended			For the nine-month periods ended	
(in millions of dollars and as a percentage)	**September 30, 2022**	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Total provision for credit losses	**$ 125**	$ 66	$ 52	**$ 197**	$ 53
Provision for credit losses on securities	**1**	1	—	**2**	—
Provision for credit losses on loans and off-balance sheet items	**$ 124**	$ 65	$ 52	**$ 195**	$ 53
Average gross loans	**$ 245,618**	$ 238,705	$ 225,380	**$ 239,297**	$ 219,802
Average gross acceptances	**136**	112	150	**157**	196
Average gross loans and acceptances[(1)]	**$ 245,754**	$ 238,817	$ 225,530	**$ 239,454**	$ 219,998
Credit loss provisioning rate[(1)(2)]	**0.20 %**	0.11 %	0.09 %	**0.11 %**	0.03 %

(1) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
(2) Corresponds to annualized calculations taking into account the number of days in the period concerned.

Comparison of the first nine months of 2022 and 2021

The provision for credit losses totalled $197 million, up $144 million, compared to the same period in 2021. The provision for the first nine months of 2022 mainly reflects the increase in business loan portfolio outstandings and net write-offs that have remained historically low. The recently worsening macroeconomic outlook is reflected in the provision for the first nine months of 2022, but its effect was offset by the improved macroeconomic outlook at the beginning of 2022. The provision for credit losses for the first nine months of 2021 primarily reflected the impact of borrowers' improved credit quality and historically low net write-offs.

Desjardins Group has continued to present a quality loan portfolio in 2022.

- The credit loss provisioning rate was 0.11% for the first nine months of 2022, compared to 0.03% for the corresponding period of 2021. The increase in this rate is due to the fact that the provision for credit losses for the first nine months of 2022 was higher than for the corresponding period of 2021, which primarily reflected the impact of borrowers' improved credit quality and historically low net write-offs.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.44%, compared to 0.52% as at September 30, 2021.

Claims, benefits, annuities and changes in insurance contract liabilities

Comparison of the third quarters of 2022 and 2021

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $2,204 million, up $491 million, or 28.7%, compared to the corresponding quarter of 2021. This increase, which was partially offset by a similar change under "Investment income (loss)", was due to items from the following segments:

Wealth Management and Life and Health Insurance segment

- **Cost of claims was $1,067 million,** up $111 million, or 11.6%, mainly due to the following:
  - Increase of $68 million in actuarial liabilities, under "Insurance contract liabilities", as a result of:
    - Effect of the increase in the fair value of matched investments, presented under "Investment income (loss)".

    This increase was partially offset by:
    - Overall more favourable experience, basically in group insurance.
    - Provisions made during the comparative quarter of 2021 for group annuities related in particular to the addition of two major groups.
  - Increase in benefits related to business growth and the higher cost of drugs and health care.

Property and Casualty Insurance segment

- **Cost of claims of $1,145 million,** up $382 million, or 50.1%, as a result of:
  - Loss ratio of 78.5% vs. 51.9% for the comparative quarter of 2021.
    - Less favourable ratio of changes in prior year claims than in the comparative quarter of 2021, i.e., (0.4)% vs. (14.5)%, basically in automobile insurance, particularly because of recent inflationary pressure.
    - Higher current year loss ratio compared to the corresponding period of 2021, i.e., 74.4% vs. 62.4%, mainly in property insurance and automobile insurance, reflecting, in particular, the impact of inflation and the higher frequency of automobile insurance claims.
    - Higher loss ratio for catastrophes and major events than in the comparative quarter of 2021, i.e., 4.5% vs. 4.0%. The third quarter of 2022 was affected by two major events, namely heavy rainfall in Québec, and Hurricane Fiona in the Atlantic provinces and Québec, compared to one catastrophe, a hailstorm in Alberta, in the corresponding quarter of 2021.
  - Offset by the positive impact of the increase in the discount rates used to measure the provision for claims, which was greater than that in the third quarter of 2021. It should be mentioned that this positive impact on the cost of claims was partially offset by a change in the fair value of matched bonds, as presented under "Investment income (loss)".

Comparison of the first nine months of 2022 and 2021

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $1,716 million, down $1,982 million compared to the corresponding period of 2021. This decrease, which was partially offset by a similar change under “Investment income (loss)”, was due to items from the following segments:

Wealth Management and Life and Health Insurance segment

- **Cost of claims** down $2,739 million, essentially due to:
  - Decrease of $2,858 million in actuarial liabilities under “Insurance contract liabilities”, due to:
    - Effect of the decrease in the fair value of matched investments, presented under “Investment income (loss)”.
    - Overall more favourable experience, mainly in group insurance.
    - Positive effect of higher interest rates on policy liabilities.
    - Provisions made during the first nine months of 2021 for group annuities related, in particular, to the addition of two major groups.
    - Offset in part by revisions of actuarial assumptions related to the potential risk of default that had favourably affected the comparative period of 2021.
  - Offset by the increase in benefits related to business growth and the higher cost of drugs and health care.

Property and Casualty Insurance segment

- **Cost of claims of $2,905 million,** up $774 million, or 36.3%, as a result of:
  - Loss ratio of 74.7% vs. 51.3% for the corresponding period of 2021.
    - Higher current year loss ratio compared to the corresponding period, i.e., 73.8% vs. 61.9%, mainly in property insurance and automobile insurance, reflecting, among other things, the impact of increased road traffic, that had fallen significantly in the comparative period as a result of the pandemic, as well as the impact of inflation.
    - Ratio of changes in prior year claims less favourable than in the comparative period, i.e., (4.0)% vs. (11.9)%, mainly in automobile insurance, particularly because of recent inflationary pressure.
    - Higher loss ratio for catastrophes and major events than in the comparative period of 2021, i.e., 4.9% vs. 1.3%. The first nine months of 2022 were marked by one catastrophe, a rare weather phenomenon called a *derecho*, in Ontario and Québec in May 2022, and by four major events (windstorm, flooding, heavy rainfall and Hurricane Fiona), while the first nine months of 2021 were affected by one catastrophe, a hailstorm in Alberta.
  - Offset by the greater favourable impact of the increase in the discount rates used to measure the provision for claims compared to the first nine months of 2021. It should be mentioned that this favourable 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)”.

Non-interest expense and productivity index

Comparison of the third quarters of 2022 and 2021

- **Non-interest expense totalled $2,565 million,** up $277 million, or 12.1%, compared to the third quarter of 2021, primarily because of:
  - Accelerated investment for the continued implementation of strategic projects related, in particular, to security and the digital shift.
  - Higher personnel, IT and marketing expenses to support growth in operations and enhance the services offered to members and clients.
  - Higher expenses related to the rewards program due to the growth in payment volumes.

- **Productivity index at 78.3% for the third quarter of 2022,** compared to 66.8% for the corresponding period in 2021, particularly because of the larger amounts invested in strategic projects.

Comparison of the first nine months of 2022 and 2021

- **Non-interest expense totalled $7,805 million,** up $975 million, or 14.3%, compared to the first nine months of 2021, essentially because of:
  - Accelerated investment for the continued implementation of strategic projects related, in particular, to security and the digital shift.
  - Higher personnel, IT and marketing expenses to support growth in operations and enhance the services offered to members and clients.
  - Higher expenses related to the rewards program due to the growth in payment volumes.

- **Productivity index at 78.6% for the first nine months of 2022,** compared to 66.6% for the corresponding period in 2021, particularly because of the larger amounts invested in strategic projects.

Income taxes on surplus earnings

Comparison of the third quarters of 2022 and 2021

- **Income taxes on surplus earnings before member dividends of $109 million,** down $158 million compared to the third quarter of 2021.
  - Effective tax rate(1) of 18.6% for the quarter ended September 30, 2022, down from 24.7% for the corresponding period in 2021, due in particular to non-taxable investment income for the third quarter of 2022 that was higher than for the comparative period of 2021.

Comparison of the first nine months of 2022 and 2021

- **Income taxes on surplus earnings before member dividends of $450 million,** down $369 million compared to the corresponding period in 2021.
  - Effective tax rate(1) of 23.4% for the first nine months of 2022, compared to 24.3% for the corresponding period of 2021.

(1) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.

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, 2021 achievements and industry, can be found on pages 32 to 44 of Desjardins Group's 2021 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, risk and development capital, business ownership transfers and advisory services, and through its distribution network, life and health insurance and property and casualty insurance products.

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

To meet the constantly-changing 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 mobile teams, whether in person, by phone, online, via applications for mobile devices, or at ATMs.

Personal and Business Services – Segment results

	For the three-month periods ended			For the nine-month periods ended	
(in millions of dollars and as a percentage)	**September 30, 2022**	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Net interest income	**$ 1,468**	$ 1,391	$ 1,280	**$ 4,141**	$ 3,755
Other operating income[1]	**750**	751	680	**2,217**	2,001
Operating income[1]	**2,218**	2,142	1,960	**6,358**	5,756
Investment income (loss)[1]	**(6)**	58	61	**120**	235
Total income	**2,212**	2,200	2,021	**6,478**	5,991
Provision for credit losses	**124**	65	54	**195**	58
Non-interest expense	**1,672**	1,743	1,424	**5,047**	4,293
Income taxes on surplus earnings	**109**	102	142	**324**	428
Surplus earnings before member dividends	**307**	290	401	**912**	1,212
Member dividends, net of income tax recovery	**78**	80	66	**233**	198
Net surplus earnings for the period after member dividends	**$ 229**	$ 210	$ 335	**$ 679**	$ 1,014
Indicators					
Average gross loans and acceptances[2]	**$ 243,216**	$ 236,004	$ 222,261	**$ 236,654**	$ 215,865
Average deposits[2]	**216,880**	215,919	196,260	**211,812**	189,564
Credit loss provisioning rate[2]	**0.20 %**	0.11 %	0.10 %	**0.11 %**	0.04 %
Gross credit-impaired loans/gross loans and acceptances[2]	**0.44**	0.44	0.53	**0.44**	0.53

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.
(2) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.

Comparison of the third quarters of 2022 and 2021

- **Surplus earnings before member dividends of $307 million,** down $94 million, or 23.4%, compared to the same period in 2021, essentially due to the following:
  - Growth in non-interest expense, mainly as a result of accelerated investment in strategic projects related, in particular, to security and the digital shift, and a rise in spending on personnel to support growth in operations and enhance the services offered to members and clients.
  - Increase in the provision for credit losses due mainly to the worsening macroeconomic outlook during the third quarter of 2022.
  - Offset by an increase in net interest income and other operating income[1].

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

- **Operating income[(1)] of $2,218 million,** up $258 million, or 13.2%.

- **Net interest income of $1,468 million,** up $188 million, or 14.7%, as a result of:
  - Increase in the average return on loans due to the higher interest rate environment.
  - Growth in average residential mortgages and business loans outstanding.
  - Offset by an increase in the average cost of funds resulting in higher interest expense.

- **Other operating income[(1)] of $750 million,** up $70 million, or 10.3%, mainly due to growth in business volumes from payment activities at Desjardins Card Services.

- **Loss of $6 million under "Investment income (loss)"[(1)]**, compared to income of $61 million in the third quarter of 2021, essentially because of the decrease in activities related to derivative financial instrument.

- **Total income of $2,212 million,** up $191 million, or 9.5%.

- **Provision for credit losses of $124 million,** up $70 million, compared to the same period in 2021. The provision for the third quarter of 2022 mainly reflects the impact of the worsening macroeconomic outlook during the quarter, as well as the increase in business loan portfolio outstandings and a slight increase in personal loan portfolio risk. The provision for the third quarter of 2022 also reflects net write-offs that have remained historically low. The provision for credit losses for the third quarter of 2021 primarily reflected the impact of borrowers' improved credit quality, as well as historically low net write-offs.

- **Non-interest expense of $1,672 million,** up $248 million, or 17.4%, essentially due to:
  - Accelerated investment related, in particular, to security and the digital shift.
  - Rise in spending on personnel, IT and marketing in order to support growth in operations and enhance the services offered to members and clients, including those related to wealth management advisory services and in call centres.
  - Higher expenses related to the rewards program due to the growth in payment volumes.

Comparison of the first nine months of 2022 and 2021

- **Surplus earnings before member dividends of $912 million,** down $300 million, or 24.8%, compared to the first nine months of 2021, primarily due to:
  - Growth in non-interest expense, mainly as a result of accelerated investment in strategic projects related, in particular, to security and the digital shift, and a rise in spending on personnel to support growth in operations and enhance the services offered to members and clients.
  - Higher provision for credit losses in the first nine months of 2022, compared to the corresponding period in 2021, which reflected the impact of borrowers' improved credit quality.
  - Offset by an increase in net interest income and other operating income[(1)].

- **Operating income[(1)] of $6,358 million,** up $602 million, or 10.5%.

- **Net interest income of $4,141 million,** up $386 million, or 10.3%, as a result of:
  - Growth in average residential mortgages and business loans outstanding.
  - Increase in the average return on loans due to the higher interest rate environment.
  - Offset by an increase in the average cost of funds, resulting in higher interest expense.

- **Other operating income[(1)] of $2,217 million,** up $216 million, or 10.8%, chiefly due to growth in business volumes from payment activities at Desjardins Card Services.

- **Investment income[(1)] of $120 million,** down $115 million, or 48.9%, basically due to:
  - Decrease in activities related to derivative financial instruments.
  - Loss on disposal of securities in the first nine months of 2022, compared to gains for the comparative period of 2021.

- **Total income of $6,478 million,** up $487 million, or 8.1%.

- **Provision for credit losses of $195 million,** up $137 million, compared to the same period in 2021. The provision for the first nine months of 2022 mainly reflects the increase in business loan portfolio outstandings and net write-offs that have remained historically low. The recently worsening macroeconomic outlook is reflected in the provision for the first nine months of 2022, but its effect was offset by the improved macroeconomic outlook at the beginning of 2022. The provision for credit losses for the first nine months of 2021 primarily reflected the impact of borrowers' improved credit quality and historically low net write-offs.

- **Non-interest expense of $5,047 million,** up $754 million, or 17.6%, basically due to:
  - Accelerated investment related, in particular, to security and the digital shift.
  - Increase in spending on personnel, IT and marketing in order to support growth in operations and enhance the services offered to members and clients, including those related to wealth management advisory services and in call centres.
  - Higher expenses related to the rewards program due to the growth in payment volumes.

[(1)] For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

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 and protecting the assets of Desjardins Group members and clients. These offers are intended for individuals and businesses, while its group insurance and savings plans meet the needs of employees through their company, or individuals who are part of any other group.

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

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 fine-tuned so that they meet clients' changing requirements.

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

Wealth Management and Life and Health Insurance – Segment results

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2022	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Net interest income	**$ 2**	$ 2	$ —	**$ 4**	$ —
Net premiums	**1,307**	1,228	1,475	**3,793**	3,901
Other operating income[1]	**358**	370	381	**1,102**	1,104
Operating income[1]	**1,667**	1,600	1,856	**4,899**	5,005
Investment income (loss)[1]	**216**	(1,736)	(165)	**(3,481)**	(1,055)
Total income (loss)	**1,883**	(136)	1,691	**1,418**	3,950
Provision for credit losses	**1**	—	—	**1**	—
Claims, benefits, annuities and changes in insurance contract liabilities	**1,067**	(1,049)	956	**(1,151)**	1,588
Non-interest expense	**647**	664	611	**1,975**	1,792
Income taxes on surplus earnings	**13**	76	15	**128**	101
Net surplus earnings for the period	**$ 155**	$ 173	$ 109	**$ 465**	$ 469
Indicators					
Net sales of savings products[2]	**$ (26)**	$ 223	$ 2,083	**$ 2,341**	$ 6,912
Insurance sales[2]	**109**	101	97	**346**	420
Net premiums	**1,307**	1,228	1,475	**3,793**	3,901
Group insurance premiums	**906**	880	857	**2,660**	2,565
Individual insurance premiums	**241**	235	233	**714**	680
Annuity premiums	**160**	113	385	**419**	656
Segregated fund receipts[2]	**730**	1,149	709	**2,834**	3,450

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.
(2) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.

Comparison of the third quarters of 2022 and 2021

- **Net surplus earnings of $155 million,** up $46 million, or 42.2%, compared to the third quarter of 2021, mainly due to the following:
  - Overall more favourable experience than for the comparative quarter, essentially in group insurance.
  - Higher gains on disposal of securities compared to the third quarter of 2021.
  - Offset by an increase in non-interest expense, mainly due to a rise in spending on personnel in order to support growth in operations and enhance the services offered to members and clients, as well as to accelerated investment in strategic projects related, in particular, to security and the digital shift.

- **Operating income[1] of $1,667 million,** down $189 million, or 10.2%.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

- **Net premiums of $1,307 million,** down $168 million, or 11.4%, on account of the following:
  - Decrease of $225 million in annuity premiums mainly from group annuities related, in particular, to the addition of two major groups in the comparative quarter of 2021. This decrease was reflected by a similar change in actuarial liabilities included under "Claims, benefits, annuities and changes in insurance contract liabilities".
  - Offset by an increase of $49 million in group insurance premiums and of $8 million in individual insurance premiums.

- **Other operating income[1] of $358 million,** down $23 million, or 6.0%, mainly as a result of the decrease in assets under management, related particularly to the impact of financial market developments.

- **Investment income[1] of $216 million**, compared to a $165 million loss in the corresponding quarter. This change was due to the following:
  - Increase in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio mainly because of lower long-term market interest rates in the third quarter of 2022, compared to higher rates in the corresponding quarter.
    - It should be noted that this change in the fair value of bonds was offset by a rise in the cost of claims due to matching.
  - Gains on the disposal of securities were higher than those in third quarter 2021.

- **Total income stood at $1,883 million,** up $192 million, or 11.4%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $1,067 million,** up $111 million, or 11.6%, mainly due to the following:
  - Increase of $68 million in actuarial liabilities, under "Insurance contract liabilities", as a result of:
    - Effect of the increase in the fair value of matched investments, presented under "Investment income (loss)".

    This increase was partially offset by:
    - Overall more favourable experience, basically in group insurance.
    - Provisions made during the comparative quarter of 2021 for group annuities related in particular to the addition of two major groups.
  - Increase in benefits related to business growth and the higher cost of drugs and health care.

- **Non-interest expense of $647 million,** up $36 million, or 5.9%, primarily due to the following:
  - Rise in spending on personnel to enhance services for members and clients.
  - Accelerated investment for the continued implementation of Desjardins-wide strategic projects related, in particular, to security and the digital shift.

Comparison of the first nine months of 2022 and 2021

- **Net surplus earnings of $465 million,** down $4 million, or 0.9%, compared to the first nine months of 2021, mainly due to the following:
  - Increase in non-interest expense mainly as a result of accelerated investment in strategic projects as well as increased personnel costs.
  - Effect of revisions of actuarial assumptions related to the potential risk of default that favourably affected the first nine months of 2021.
  - Markets' negative impact on guaranteed investment funds, which had been positively affected by markets in the comparative period of 2021.

  This decrease was partly offset by:
  - Overall more favourable experience than for the comparative period of 2021, mainly in group insurance.
  - Positive effect of higher interest rates on policy liabilities.
  - Higher gains on the disposal of securities and real estate investments compared to the gains realized in the first nine months of 2021.

- **Operating income[1] of $4,899 million,** down $106 million, or 2.1%.

- **Net premiums of $3,793 million,** down $108 million, or 2.8%, mainly due to:
  - Decrease of $237 million in annuity premiums mainly from group annuities related, in particular, to the addition of two major groups in the first nine months of 2021. This decrease was reflected by a similar change in actuarial liabilities included under "Claims, benefits, annuities and changes in insurance contract liabilities".
  - Offset by an increase of $95 million in group insurance premiums and of $34 million in individual insurance premiums.

- **Other operating income[1] of $1,102 million,** comparable to the corresponding period of 2021.

- **Loss of $3,481 million presented under "Investment income (loss)"[1]** versus a loss of $1,055 million for the first nine months of 2021, primarily as a result of:
  - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio mainly because of a larger increase in long-term market interest rates compared to the first nine months of 2021.
    - It should be noted that this change in the fair value of bonds was offset by the lower cost of claims as a result of matching.
  - Offset by higher gains on the disposal of securities and real estate investments compared to the first nine months of 2021.

- **Total income of $1,418 million,** down $2,532 million, or 64.1%.

[1] For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities,** down $2,739 million, essentially due to:
  - Decrease of $2,858 million in actuarial liabilities under “Insurance contract liabilities”, due to:
    - Effect of the decrease in the fair value of matched investments, presented under “Investment income (loss)”.
    - Overall more favourable experience, mainly in group insurance.
    - Positive effect of higher interest rates on policy liabilities.
    - Provisions made during the first nine months of 2021 for group annuities related, in particular, to the addition of two major groups.
    - Offset in part by revisions of actuarial assumptions related to the potential risk of default that had favourably affected the comparative period of 2021.
  - Offset by the increase in benefits related to business growth and the higher cost of drugs and health care.

- **Non-interest expense of $1,975 million,** up $183 million, or 10.2%, mainly due to:
  - Accelerated investment for the continued implementation of Desjardins-wide strategic projects related, in particular, to security and the digital shift.
  - Rise in spending on personnel to enhance services for members and clients.

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

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

Property and Casualty Insurance – Segment results

	For the three-month periods ended			For the nine-month periods ended	
(in millions of dollars and as a percentage)	**September 30, 2022**	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Net premiums	**$ 1,524**	$ 1,486	$ 1,505	**$ 4,481**	$ 4,396
Other operating income (loss)(1)	**1**	(14)	(29)	**(21)**	(127)
Operating income(1)	**1,525**	1,472	1,476	**4,460**	4,269
Investment income (loss)(1)	**113**	(30)	40	**20**	79
Total income	**1,638**	1,442	1,516	**4,480**	4,348
Claims, benefits, annuities and changes in insurance contract liabilities	**1,145**	927	763	**2,905**	2,131
Non-interest expense	**385**	382	359	**1,140**	1,056
Income taxes on surplus earnings	**25**	29	105	**101**	294
Net surplus earnings for the period	**$ 83**	$ 104	$ 289	**$ 334**	$ 867
Of which:					
Group’s share	**$ 69**	$ 88	$ 255	**$ 284**	$ 764
Non-controlling interests’ share	**14**	16	34	**50**	103
Indicators					
Gross written premiums(2)	**$ 1,667**	$ 1,709	$ 1,660	**$ 4,695**	$ 4,631
Loss ratio(3)	**78.5 %**	73.8 %	51.9 %	**74.7 %**	51.3 %
Current year loss ratio(3)	**74.4**	70.2	62.4	**73.8**	61.9
Loss ratio related to catastrophes and major events(3)	**4.5**	9.1	4.0	**4.9**	1.3
Ratio of favourable changes in prior year claims(3)	**(0.4)**	(5.5)	(14.5)	**(4.0)**	(11.9)
Expense ratio(3)	**25.1**	25.5	23.7	**25.2**	23.8
Combined ratio(3)	**103.6**	99.3	75.6	**99.9**	75.1

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 7 to 10.
(2) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
(3) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 7 to 10.

Comparison of the third quarters of 2022 and 2021

- **Net surplus earnings of $83 million,** down $206 million, or 71.3%, compared to third quarter 2021, due to:
  - Higher loss ratio compared to the corresponding quarter, mainly in property insurance and automobile insurance. The third quarter of 2022 was affected, in particular, by the following:
    - Impact of inflation.
    - Higher frequency of claims compared to the corresponding quarter of 2021, particularly in automobile insurance.
    - Two major events, namely heavy rainfall in Québec, and Hurricane Fiona in the Atlantic provinces and Québec, compared to one catastrophe, a hailstorm in Alberta, in the third quarter of 2021.
  - Offset by an increase in investment income[(1)], excluding the change in the fair value of matched bonds.

- **Operating income[(1)] of $1,525 million,** up $49 million, or 3.3%.

- **Net premiums of $1,524 million,** up $19 million, or 1.3%, in particular as a result of business growth.

- **Other operating income[(1)] of $1 million,** compared to a $29 million loss for the comparative quarter, due to:
  - Change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.
  - Smaller increase than in the third quarter of 2021, in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, arising from favourable developments in claims taken over.

- **Investment income[(1)] of $113 million,** up $73 million, compared to the third quarter of 2021, mainly due to:
  - Higher net gains on common shares compared to the corresponding quarter.
  - Offset by net losses on disposal of fixed income securities compared to net gains in the third quarter of 2021.

- **Total income of $1,638 million,** up $122 million, or 8.0%.

- **Cost of claims of $1,145 million,** up $382 million, or 50.1%, as a result of:
  - Loss ratio of 78.5% vs. 51.9% for the comparative quarter of 2021.
    - Less favourable ratio of changes in prior year claims than in the comparative quarter of 2021, i.e., (0.4)% vs. (14.5)%, basically in automobile insurance, particularly because of recent inflationary pressure.
    - Higher current year loss ratio compared to the corresponding period of 2021, i.e., 74.4% vs. 62.4%, mainly in property insurance and automobile insurance, reflecting, in particular, the impact of inflation and the higher frequency of automobile insurance claims.
    - Higher loss ratio for catastrophes and major events than in the comparative quarter of 2021, i.e., 4.5% vs. 4.0%. The third quarter of 2022 was affected by two major events, namely heavy rainfall in Québec, and Hurricane Fiona in the Atlantic provinces and Québec, compared to one catastrophe, a hailstorm in Alberta, in the corresponding quarter of 2021.
  - Offset by the positive impact of the increase in the discount rates used to measure the provision for claims, which was greater than that in the third quarter of 2021. It should be mentioned that this positive impact on the cost of claims was partially offset by a change in the fair value of matched bonds, as presented under "Investment income (loss)".

- **Non-interest expense of $385 million,** up $26 million, or 7.2%, due in particular to accelerated investment for the continued implementation of Desjardins-wide strategic projects related, in particular, to security and the digital shift.

Comparison of the first nine months of 2022 and 2021

- **Net surplus earnings of $334 million,** down $533 million, or 61.5%, compared to the first nine months of 2021, due to:
  - Higher loss ratio than in the corresponding period, mainly in property insurance and automobile insurance given that the first nine months of 2022 were affected by the following, in particular:
    - Increase in road traffic, which had fallen considerably in the comparative period as a result of the pandemic.
    - Impact of inflation.
    - One catastrophe, a rare weather phenomenon called a *derecho*, and four major events (windstorm, flooding, heavy rainfall and Hurricane Fiona), compared to one catastrophe during the first nine months of 2021.
  - Offset by an increase in investment income[(1)], excluding the change in the fair value of matched bonds.

- **Operating income[(1)] of $4,460 million,** up $191 million, or 4.5%.

- **Net premiums of $4,481 million,** up $85 million, or 1.9%, due in particular to business growth.

- **Loss of $21 million, presented under "Other operating income (loss)"[(1)],** compared to a loss of $127 million for the first nine months of 2021, due to:
  - Change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.
  - Smaller increase than in the first nine months of 2021 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, arising from the favourable developments in claims taken over.

- **Investment income[(1)] of $20 million**, down $59 million, compared to the first nine months of 2021, primarily due to:
  - Larger decrease in the fair value of matched bonds than in the corresponding nine-month period of 2021, due to higher market interest rates in 2022 than in the corresponding nine-month period of 2021. It should be remembered that this change in the fair value of the bonds was offset by a decrease in the cost of claims because of a matching strategy.
  - Offset by net gains on common shares that were higher than in the first nine months of 2021.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

- **Total income of $4,480 million,** up $132 million, or 3.0%.

- **Cost of claims totalling $2,905 million,** up $774 million, or 36.3%, as a result of:
  - Loss ratio of 74.7% vs. 51.3% for the corresponding period of 2021.
    - Higher current year loss ratio compared to the corresponding period, i.e., 73.8% vs. 61.9%, mainly in property insurance and automobile insurance, reflecting, among other things, the impact of increased road traffic, that had fallen significantly in the comparative period as a result of the pandemic, as well as the impact of inflation.
    - Ratio of changes in prior year claims less favourable than in the comparative period, i.e., (4.0)% vs. (11.9)%, mainly in automobile insurance, particularly because of recent inflationary pressure.
    - Higher loss ratio for catastrophes and major events than in the comparative period of 2021, i.e., 4.9% vs. 1.3%. The first nine months of 2022 were marked by one catastrophe, a rare weather phenomenon called a *derecho*, in Ontario and Québec in May 2022, and by four major events (windstorm, flooding, heavy rainfall and Hurricane Fiona), while the first nine months of 2021 were affected by one catastrophe, a hailstorm in Alberta.
  - Offset by the greater favourable impact of the increase in the discount rates used to measure the provision for claims compared to the first nine months of 2021. It should be mentioned that this favourable 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)”.

- **Non-interest expense of $1,140 million,** up $84 million, or 8.0%, due to:
  - Accelerated investment for the continued implementation of Desjardins-wide strategic projects related, in particular, to security and the digital shift.
  - Higher advertising expenses compared to the first nine months of 2021.

Other category

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

Other category

	For the three-month periods ended			For the nine-month periods ended	
(in millions of dollars)	**September 30, 2022**	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Net interest income	**$ 179**	$ 203	$ 196	**$ 606**	$ 576
Net premiums	**(84)**	(81)	(75)	**(244)**	(220)
Other operating income (loss)[(1)]	**(210)**	(204)	(163)	**(602)**	(484)
Operating income (loss)[(1)]	**(115)**	(82)	(42)	**(240)**	(128)
Investment income (loss)[(1)]	**(137)**	(130)	(50)	**(494)**	(212)
Total income (loss)	**(252)**	(212)	(92)	**(734)**	(340)
Provision for (recovery of) credit losses	**—**	1	(2)	**1**	(5)
Claims, benefits, annuities and changes in insurance contract liabilities	**(8)**	(11)	(6)	**(38)**	(21)
Non-interest expense	**(139)**	(77)	(106)	**(357)**	(311)
Income taxes on surplus earnings	**(38)**	(35)	5	**(103)**	(4)
Net surplus earnings (deficit) for the period	**$ (67)**	$ (90)	$ 17	**$ (237)**	$ 1

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 7 to 10.

Comparison of the third quarters of 2022 and 2021

- **Net deficit of $67 million,** compared to net surplus earnings of $17 million for the third quarter of 2021.
  - The market rate fluctuations as well as changes in hedging positions had an overall unfavourable effect on net interest income and investment income[(1)].
  - Non-interest expense included investments for the continued implementation of Desjardins-wide strategic projects related, in particular, to security and the digital shift, thereby enhancing the member and client experience, improving productivity and ensuring the implementation of security best practices. It also included commitments made to the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 7 to 10.

Comparison of the first nine months of 2022 and 2021

- **Net deficit of $237 million** for the first nine months of 2022, compared to net surplus earnings of $1 million for the corresponding period of 2021.
  – The market rate fluctuations as well as changes in hedging positions had an overall unfavourable effect on net interest income and investment income[(1)].
  – Non-interest expense included investments for the continued implementation of Desjardins-wide strategic projects related, in particular, to security and the digital shift, thereby enhancing the member and client experience, improving productivity and ensuring the implementation of security best practices. It also included commitments made to the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions.

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

	2022			2021				2020
(in millions of dollars)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net interest income	**$ 1,649**	$ 1,596	$ 1,506	$ 1,455	$ 1,476	$ 1,452	$ 1,403	$ 1,455
Net premiums	**2,747**	2,633	2,650	3,201	2,905	2,587	2,585	2,626
Other operating income[(1)]								
Deposit and payment service charges	**115**	114	104	111	109	105	99	104
Lending fees and credit card service revenues	**276**	225	227	168	198	182	187	165
Brokerage and investment fund services	**235**	251	268	267	283	285	273	243
Management and custodial service fees	**182**	200	193	201	185	177	169	168
Foreign exchange income	**19**	27	31	29	34	28	30	21
Other	**72**	86	71	71	60	53	37	48
Operating income[(1)]	**5,295**	5,132	5,050	5,503	5,250	4,869	4,783	4,830
Investment income (loss)[(1)]								
Net investment income (loss)	**(38)**	(2,209)	(2,336)	956	(90)	1,055	(1,602)	646
Overlay approach adjustment for insurance operations financial assets	**224**	371	153	(88)	(24)	(146)	(146)	(112)
Investment income (loss)[(1)]	**186**	(1,838)	(2,183)	868	(114)	909	(1,748)	534
Total income	**5,481**	3,294	2,867	6,371	5,136	5,778	3,035	5,364
Provision for (recovery of) credit losses	**125**	66	6	16	52	(3)	4	169
Claims, benefits, annuities and changes in insurance contract liabilities	**2,204**	(133)	(355)	3,185	1,713	2,191	(206)	1,781
Non-interest expense	**2,565**	2,712	2,528	2,736	2,288	2,377	2,165	2,332
Income taxes on surplus earnings	**109**	172	169	41	267	278	274	206
Surplus earnings before member dividends	**478**	477	519	393	816	935	798	876
Member dividends, net of income tax recovery	**78**	80	75	86	66	66	66	70
Net surplus earnings for the period after member dividends	**$ 400**	$ 397	$ 444	$ 307	$ 750	$ 869	$ 732	$ 806
Of which:								
Group's share	**$ 386**	$ 381	$ 424	$ 267	$ 716	$ 830	$ 702	$ 763
Non-controlling interests' share	**14**	16	20	40	34	39	30	43

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

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, as well as by changes in the financial markets leading to significant fluctuations in quarterly results, compared to those normally recorded by Desjardins Group. For more information about quarterly trends, see pages 47 to 49 of the 2021 annual MD&A.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 10.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

Combined Balance Sheets

(in millions of dollars and as a percentage)	As at September 30, 2022		As at December 31, 2021	
Assets				
Cash and deposits with financial institutions	**$ 9,189**	**2.3 %**	$ 16,328	4.1 %
Securities	**87,035**	**21.3**	93,099	23.4
Securities borrowed or purchased under reverse repurchase agreements	**17,188**	**4.2**	12,019	3.0
Net loans and acceptances	**247,410**	**60.7**	230,779	58.2
Segregated fund net assets	**20,188**	**4.9**	22,804	5.7
Derivative financial instruments	**5,791**	**1.4**	5,828	1.5
Other assets	**21,270**	**5.2**	16,228	4.1
Total assets	**$ 408,071**	**100.0 %**	$ 397,085	100.0 %
Liabilities and equity				
Deposits	**$ 255,452**	**62.6 %**	$ 238,355	60.0 %
Commitments related to securities sold short	**13,882**	**3.4**	11,342	2.9
Commitments related to securities lent or sold under repurchase agreements	**25,714**	**6.3**	31,177	7.9
Derivative financial instruments	**6,372**	**1.6**	5,500	1.4
Insurance contract liabilities	**31,239**	**7.7**	34,762	8.8
Segregated fund net liabilities	**20,166**	**4.9**	22,796	5.7
Other liabilities	**20,012**	**4.9**	17,667	4.4
Subordinated notes	**2,920**	**0.7**	1,960	0.5
Equity	**32,314**	**7.9**	33,526	8.4
Total liabilities and equity	**$ 408,071**	**100.0 %**	$ 397,085	100.0 %

Assets

As at September 30, 2022, Desjardins Group's total assets stood at $408.1 billion, up $11.0 billion, or 2.8%, since December 31, 2021.

Desjardins Group's cash and deposits with financial institutions were down $7.1 billion, or 43.7%, and securities, including securities borrowed or purchased under reverse repurchase agreements, decreased by $0.9 billion, or 0.9%.

Desjardins Group's outstanding loan portfolio, including acceptances and net of the allowance for credit losses, increased by $16.6 billion, or 7.2%. This growth was due to residential mortgages as well as business and government loans.

Loans and acceptances

(in millions of dollars and as a percentage)	As at September 30, 2022		As at December 31, 2021	
Residential mortgages	**$ 158,169**	**63.7 %**	$ 149,695	64.6 %
Consumer, credit card and other personal loans	**24,647**	**9.9**	24,386	10.5
Business and government	**65,619**	**26.4**	57,668	24.9
	248,435	**100.0 %**	231,749	100.0 %
Allowance for credit losses	**(1,025)**		(970)	
Total loans and acceptances by borrower category	**$ 247,410**		$ 230,779	

Desjardins Group's residential mortgages have increased by $8.5 billion, or 5.7%, since December 31, 2021, as a result of sustained growth in housing activity, particularly in Québec. Outstanding business and government loans, including acceptances, were up $8.0 billion, or 13.8%. Consumer, credit card and other personal loans outstanding have grown by $0.3 billion, or 1.1%, since the end of 2021.

Information on the quality of Desjardins Group's credit portfolio can be found in the "Risk management" section, on pages 36 to 38 of this MD&A.

Segregated fund net assets were down $2.6 billion, or 11.5%, on account of the decrease in the fair value of the portfolio caused by financial market developments. This decrease was partly offset by a slight increase in contract holders.

Derivative financial instrument assets shrank by $37 million, or 0.6%.

Other assets increased by $5.0 billion, or 31.1%, mainly as a result of the increase in amounts receivable from clients, brokers and financial institutions and in net defined benefit plan assets.

Liabilities

Desjardins Group's total liabilities amounted to $375.8 billion as at September 30, 2022, up $12.2 billion, or 3.4%, since December 31, 2021.

Deposits

(in millions of dollars and as a percentage)	As at September 30, 2022		As at December 31, 2021	
Individuals	**$ 142,429**	**55.8 %**	$ 136,332	57.2 %
Business and government	**112,180**	**43.9**	101,644	42.6
Deposit-taking institutions	**843**	**0.3**	379	0.2
Total deposits	**$ 255,452**	**100.0 %**	$ 238,355	100.0 %

Outstanding deposits grew by $17.1 billion, or 7.2%. The increase in business and government deposits, which comprised 43.9% of Desjardins Group's total deposit portfolio, partly accounted for this growth. In fact, these outstanding deposits were up $10.5 billion, or 10.4%, particularly because of growth in business member deposits in the caisse network. Various securities issued on U.S., Canadian and European markets, which made it possible to support the growth of Desjardins Group's funding requirements, also contributed to this growth. Personal deposits outstanding, which accounted for 55.8% of the total deposit portfolio, increased by $6.1 billion, or 4.5%, primarily because of growth in member deposits in the caisse network. Deposits from deposit-taking institutions were up by $464 million.

Commitments related to securities sold short and lent or sold under repurchase agreements were down by $2.9 billion, or 6.9%, to reach a volume of $39.6 billion.

Derivative financial instrument liabilities were up $0.9 billion, or 15.9%, in particular because of the rise in interest rates and fluctuating exchange rates, offset in part by a decrease in stock index options as a result of the downturn in the financial markets.

Desjardins Group's insurance contract liabilities were down by $3.5 billion, or 10.1%, largely as a result of a change in actuarial liabilities arising from life and health insurance operations.

Segregated fund net liabilities were down by $2.6 billion, or 11.5%, due to the decrease in the fair value of the portfolio caused by financial market developments, offset in part by a slight increase in contract holders.

Other liabilities grew by $2.3 billion, or 13.3%, due mainly to the higher amounts payable to clients, brokers and financial institutions, partially offset by the decrease in net defined benefit plan liabilities.

Subordinated notes increased by $1.0 billion, or 49.0%, following an issue of $1.0 billion in Non-Viability Contingent Capital (NVCC)-eligible notes under the Canadian NVCC Subordinated Notes Program on August 23, 2022.

Equity

Equity has decreased by $1.2 billion, or 3.6%, since December 31, 2021 because of the $2.2 billion decline in other comprehensive income, offset partially by net surplus earnings after member dividends totalling $1.2 billion for the first nine months of 2022.

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

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members, clients and creditors, and regulators' expectations and requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group. Additional information on the Integrated Capital Management Framework can be found in Section 3.2, "Capital management", of Desjardins Group's 2021 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 view of the organization's strategic objectives and regulatory obligations. The Finance Executive Division is responsible for preparing, on an annual basis, a capitalization plan to forecast capital trends, devise strategies and recommend action plans for achieving capital objectives and targets.

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

Desjardins Group's regulatory capital ratios are calculated according to the base capital adequacy guideline applicable to financial services cooperatives (in French only) issued by the AMF. 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 regulations.

In this regard, it should be mentioned that the life and health insurance subsidiary under provincial jurisdiction is subject to the Capital Adequacy Requirements Guideline (CARLI) issued by the AMF. The property and casualty insurance subsidiaries under provincial jurisdiction must comply with the Guideline on Capital Adequacy Requirements issued by the AMF. The property and casualty insurance subsidiaries under federal jurisdiction must comply with OSFI's Minimum Capital Test guideline for federally regulated property and casualty insurance companies. The follow-up on developments in these guidelines is presented under "Changes in the regulatory environment" in this MD&A.

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 base capital adequacy guideline applicable to financial services cooperatives (in French only). 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. Since April 1, 2022, Desjardins Group has been required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the target criteria, or regulatory capital instruments to support its recapitalization in the event of a failure. See "Total Loss Absorbing Capacity (TLAC) requirements" on page 33 for more information.

Under the TLAC Guideline, Desjardins Group has been expected by the AMF to maintain a TLAC ratio of at least 21.5% of risk-weighted assets as well as a TLAC leverage ratio of at least 6.75% since April 1, 2022. The TLAC ratio is expressed as a percentage of regulatory capital and TLAC-eligible instruments (as set out in the TLAC Guideline) to risk-weighted assets. The TLAC leverage ratio is calculated by dividing the sum total of regulatory capital and TLAC-eligible instruments (as set out in the TLAC Guideline) by the exposure measure.

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

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs(1)(2)	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at September 30, 2022
Tier 1A capital(3)	> 4.5 %	2.5 %	> 7.0 %	1.0 %	> 8.0 %	**18.7 %**
Tier 1 capital(3)	> 6.0	2.5	> 8.5	1.0	> 9.5	**18.7**
Total capital(3)	> 8.0	2.5	> 10.5	1.0	> 11.5	**20.2**
Leverage ratio(4)	> 3.5	N/A	> 3.5	N/A	> 3.5	**7.5**

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

(2) 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.

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

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

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 2021 annual MD&A on page 55. This section also presents the measures issued by the AMF since March 31, 2020 aimed at minimizing the impact of the COVID-19 pandemic and thereby supporting Québec's financial system. The "Changes in the regulatory environment" section of this MD&A also presents additional details on regulation as it affects all Desjardins Group operations.

On September 8, 2022, the AMF published for consultation the draft *Ligne directrice sur les exigences de capital et de liquidités relatives aux expositions aux cryptoactifs* (Guideline on capital and liquidity requirements for cryptoasset exposures), applicable in particular to financial services cooperatives, as well as provincial life and health insurers and property and casualty insurers. This draft proposes adjusted capital and liquidity requirements based on a classification of cryptoassets that takes into account their risk profile while providing limits governing their exposure. This guideline is scheduled to come into effect on June 1, 2023. Persons interested in submitting their comments were invited to provide them by October 14, 2022.

On December 13, 2021, the AMF issued an updated base capital adequacy guideline applicable to financial services cooperatives (in French only), resulting from 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.

The updated capital adequacy guideline is expected to come into force on January 1, 2023. The changes aimed at completing the incorporation of the new Basel III provisions relating to the market risk framework, and enhancing the robustness and risk sensitivity of the standardized approaches for credit valuation adjustment (CVA) risk will be effective January 1, 2024.

Compliance with requirements

As at September 30, 2022, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 18.7%, 18.7% and 20.2%, respectively. The leverage ratio was 7.5%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

As at September 30, 2022, the Tier 1A capital ratio was down compared to December 31, 2021, mainly due to the increase in risk-weighted assets as a result of growth in operations relating to business loans and the mortgage portfolio and to the decrease in the value of the bond portfolio because of higher interest rates.

In addition, the TLAC ratio and the TLAC leverage ratio as at September 30, 2022 were 26.2% and 10.4%, respectively.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at September 30, 2022.

Regulatory capital

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

Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A(1)	Tier 1B(1)	
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • F capital shares • Eligible portion of general allowance(4)	• Non-controlling interests(2)	• General allowance • NVCC subordinated notes(3) • Eligible qualifying shares
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Net defined benefit plan assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance		
Deductions	• Mainly significant investments in financial entities(5)	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes • Subordinated financial instrument

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios for financial services cooperatives regulated by the AMF.
(2) The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(3) These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the base capital adequacy guideline applicable to financial services cooperatives. 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 issued 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 Section 3.2, "Capital management", in the 2021 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[1]

(in millions of dollars and as a percentage)	As at September 30, 2022	As at December 31, 2021
Capital		
Tier 1A capital	**$ 28,021**	$ 28,437
Tier 1 capital	**28,021**	28,437
Total capital	**30,288**	29,721
Risk-weighted assets		
Credit risk	**$ 131,678**	$ 117,168
Market risk	**3,255**	2,874
Operational risk	**15,105**	14,476
Total risk-weighted assets	**$ 150,038**	$ 134,518
Ratios and leverage ratio exposure		
Tier 1A capital ratio	**18.7 %**	21.1 %
Tier 1 capital ratio	**18.7**	21.1
Total capital ratio	**20.2**	22.1
Leverage[2]	**7.5**	8.5
Leverage ratio exposure[2]	**$ 371,407**	$ 336,136

(1) Calculated in accordance with the base capital adequacy guideline applicable to financial services cooperatives.
(2) As part of the temporary relief measures issued by the AMF since March 31, 2020, reserves with central banks and securities issued by sovereign borrowers that meet the eligibility criteria for high-quality liquid assets were excluded from the total exposure used when calculating the leverage ratio. Since January 1, 2022, eligible securities issued by sovereign borrowers have been reintegrated into the leverage ratio exposure measure, while reserves in central banks will remain excluded until further notice.

The Federation is able to issue Non-Viability Contingent Capital-eligible instruments on Canadian, U.S. and European markets. Following the implementation of this program, the Federation issued such securities for a total of $3.0 billion as at September 30, 2022, including $1.0 billion issued in the third quarter of 2022. Therefore, should there be a trigger event as defined in the base capital adequacy guideline applicable to financial services cooperatives, these notes would automatically and immediately be converted into Tier 1A capital of the Federation.

Change in regulatory capital
For the nine-month period ended

(in millions of dollars)	September 30, 2022
Tier 1A capital	
Balance at beginning of period	**$ 28,437**
Increase in reserves and undistributed surplus earnings[1]	**1,908**
Eligible accumulated other comprehensive income	**(2,934)**
Permanent shares and surplus shares subject to phase-out[2]	**(84)**
Deductions	**694**
Balance at end of period	**28,021**
Total Tier 1 capital[3]	**28,021**
Tier 2 capital	
Balance at beginning of period	**1,284**
Eligible instruments	**960**
General allowance	**23**
Balance at end of period	**2,267**
Total capital	**$ 30,288**

(1) Amount including the change in defined benefit pension plans.
(2) As these capital instruments no longer meet the eligibility criteria for capital tiers, they have been excluded from them since January 1, 2022.
(3) No Tier 1B capital instrument has been issued to date.

Total Loss Absorbing Capacity (TLAC) requirements

Since April 1, 2022, Desjardins Group has been required by the AMF to maintain a TLAC ratio based on risk-weighted assets as well as a TLAC leverage ratio at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.

For this purpose, Desjardins Group started issuing TLAC-eligible debt on October 1, 2019 in order to meet minimum requirements, for a total amount of $8.3 billion as at September 30, 2022, including $2.7 billion for 2022.

Total Loss Absorbing Capacity (TLAC) requirements

(in millions of dollars and as a percentage)	As at September 30, 2022
Total loss absorbing capacity (TLAC) available	$ 37,707
Risk-weighted assets	144,117
Leverage ratio exposure	364,399
TLAC ratio	26.2 %
TLAC leverage ratio	10.4

Risk-weighted assets (RWA)

Desjardins Group calculates RWA for credit risk, market risk and operational risk.

Credit risk

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

Market risk

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

Operational risk

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

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

RWA totalled $150.0 billion as at September 30, 2022, up $7.3 billion, compared to the previous quarter.

For credit risk, changes in RWA for the third quarter of 2022 are divided into two components: credit risk other than counterparty risk, and counterparty risk.
- In credit risk other than counterparty risk, the net increase of $6.0 billion in RWA was mainly the result of the following:
  - Growth in portfolio size, which caused a $2.2 billion increase in RWA.
  - Changes in the portfolio's quality, which led to a $2.0 billion increase in RWA.
  - Changes in methods and policies resulting in a $1.2 billion increase in RWA.
- In counterparty risk, a $1.0 billion increase in RWA was due to changes in portfolio size and quality.

In market risk, a $27 million increase in RWA was noted.

An increase of $170 million in RWA was noted in operational risk as a result of fluctuations in the income generated.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, guarantees and structured entities, including securitization. Additional information can be found in Section 3.3, "Off-balance sheet arrangements", of Desjardins Group's 2021 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 the securitization of Desjardins Group's loans.

Assets under management and under administration

As at September 30, 2022, Desjardins Group administered, for the account of its members and clients, assets worth $426.3 billion, for a decrease of $56.6 billion, or 11.7%, since December 31, 2021. The financial assets entrusted to Desjardins Group as wealth manager totalled $75.0 billion as at September 30, 2022, down $16.3 billion, or 17.8%, since December 31, 2021. The decrease in assets under management and under administration was due mainly to the decline in assets as a result of financial market developments.

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

RISK MANAGEMENT

RISK MANAGEMENT

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

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

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

In the first nine months of fiscal 2022, 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 103 of Desjardins Group's 2021 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 2021 annual MD&A, except for geopolitical risk such as as specified in the following paragraph.

The European economy is vulnerable because of soaring energy prices and the threat of shortages linked to the war in Ukraine. While oil prices and the cost of some foods and other commodities have dropped recently, the war in Ukraine is still a major source of uncertainty. We will also have to keep a close eye on the situation in China, whose zero COVID-19 policy, along with its resulting shutdowns, could once again disrupt global supply chains. The challenges that the Chinese real estate market is facing could also lead to a greater decrease in the demand for a certain number of commodities.

Desjardins Group is continuing to monitor the COVID-19 pandemic and its associated risks. 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. In order to mitigate this impact, Desjardins Group has increased the frequency of its risk management activities, which are set out in Section 4 "Risk management" of Desjardins Group's 2021 annual MD&A. For more information about the impact of the COVID-19 pandemic and the measures implemented by Desjardins Group, please see "COVID-19 pandemic" under Section 1.3 "Significant events" in Desjardins Group's 2021 annual MD&A, which presents certain factors that could add to the risks described above and those presented in Desjardins Group's 2021 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.

The current macroeconomic environment, characterized mainly by increased inflationary pressures, rapid interest rate hikes, major supply chain disruptions, labour shortages and rising geopolitical tensions, continues to cause uncertainty.

In the current inflationary environment with the Bank of Canada's continued restrictive monetary policy, Desjardins Group will support its vulnerable members and clients who are most affected by the rise in interest rates.

This situation also requires management to continue to make particularly complex judgements to estimate the loss allowance for expected credit losses. In order to take into account the relevant risk factors of this unprecedented macroeconomic environment that are not reflected in the models, management is continuing to apply expert credit judgements to assess the loss allowance for expected credit losses. Expert adjustments are then applied to certain credit risk measures and to some forward-looking information.

The credit portfolio remains well positioned despite economic uncertainties.

Quality of loan portfolio

As at September 30, 2022, in accordance with Note 6, "Loans and allowance for credit losses", to the Interim Combined Financial Statements, the loss allowance for expected credit losses on loans totalled $1,025 million, up $55 million compared to December 31, 2021. This increase was mainly due to the increase in outstandings since December 31, 2021, given that the impact of the improved macroeconomic outlook at the beginning of 2022 was offset by the effect of the worsening macroeconomic outlook in the third quarter of 2022. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 6, "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 0.44% for the first nine months of 2022, compared to 0.47% as at December 31, 2021. The allowance for credit losses on credit-impaired loans totalled $285 million as at September 30, 2022, resulting in a provisioning rate of 26.2% 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[1]

	As at September 30, 2022			As at December 31, 2021[2]		
(in millions of dollars)	**31 to 90 days**	**91 days or more**	**Total**	31 to 90 days	91 days or more	Total
Residential mortgages	**$ 119**	**$ 18**	**$ 137**	$ 95	$ 23	$ 118
Consumer, credit card and other personal loans	**146**	**38**	**184**	124	39	163
Business and government	**73**	**39**	**112**	20	40	60
	$ 338	**$ 95**	**$ 433**	$ 239	$ 102	$ 341

(1) Loans less than 31 days past due are not presented because, in general, they are not an indication that a borrower will not meet payment obligations.
(2) Data as at December 31, 2021 were restated to conform to the current period's presentation.

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

Gross credit-impaired loans by borrower category

	As at September 30, 2022					As at December 31, 2021	
	Gross carrying amount						
(in millions of dollars and as a percentage)	**Gross loans and acceptances**	**Gross credit-impaired loans[1]**		**Allowance for credit losses on credit-impaired loans**	**Net credit-impaired loans**	Gross credit-impaired loans	Net credit-impaired loans
Residential mortgages	**$ 158,169**	**$ 228**	**0.14 %**	**$ 23**	**$ 205**	$ 209	$ 189
Consumer, credit card and other personal loans	**24,647**	**163**	**0.66**	**80**	**83**	148	68
Business and government	**65,619**	**696**	**1.06**	**182**	**514**	731	552
Total	**$ 248,435**	**$ 1,087**	**0.44 %**	**$ 285**	**$ 802**	$ 1,088	$ 809

(1) For more information on the gross credit-impaired loans/gross loans and acceptances ratio, which is a supplementary financial measure, see the Glossary on pages 57 to 64.

Change in gross credit-impaired loans

	For the three-month periods ended			**For the nine-month periods ended**	
(in millions of dollars)	**September 30, 2022**	June 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Gross credit-impaired loans at the beginning of the period	**$ 1,058**	$ 1,072	$ 1,227	**$ 1,088**	$ 1,323
Gross loans that became credit-impaired since the last period	**545**	566	546	**1,736**	1,833
Loans returned to unimpaired status	**(463)**	(528)	(534)	**(1,583)**	(1,849)
Write-offs and recoveries	**(54)**	(52)	(47)	**(155)**	(161)
Other changes	**1**	—	(7)	**1**	39
Gross credit-impaired loans at the end of the period	**$ 1,087**	$ 1,058	$ 1,185	**$ 1,087**	$ 1,185

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

Residential mortgage portfolio(1)

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

(in millions of dollars and as a percentage)	As at September 30, 2022							
	Guaranteed or insured loans(3)		Uninsured loans(4)		Home equity lines of credit(5)		Total	
Québec	**$ 28,765**	**97.6 %**	**$ 87,754**	**95.2 %**	**$ 5,791**	**94.8 %**	**$ 122,310**	**95.8 %**
Ontario	**673**	**2.3**	**4,435**	**4.8**	**318**	**5.2**	**5,426**	**4.2**
Other(6)	**19**	**0.1**	**41**	**—**	**—**	**—**	**60**	**—**
All geographic areas	**$ 29,457**	**100.0 %**	**$ 92,230**	**100.0 %**	**$ 6,109**	**100.0 %**	**$ 127,796**	**100.0 %**

(in millions of dollars and as a percentage)	As at June 30, 2022							
	Guaranteed or insured loans(3)		Uninsured loans(4)		Home equity lines of credit(5)		Total	
Québec	$ 28,588	97.6 %	$ 85,908	95.3 %	$ 5,655	94.7 %	$ 120,151	95.8 %
Ontario	683	2.3	4,250	4.7	316	5.3	5,249	4.2
Other(6)	19	0.1	39	—	—	—	58	—
All geographic areas	$ 29,290	100.0 %	$ 90,197	100.0 %	$ 5,971	100.0 %	$ 125,458	100.0 %

(in millions of dollars and as a percentage)	As at September 30, 2021							
	Guaranteed or insured loans(3)		Uninsured loans(4)		Home equity lines of credit(5)		Total	
Québec	$ 27,971	97.3 %	$ 80,259	95.3 %	$ 5,376	94.7 %	$ 113,606	95.8 %
Ontario	747	2.6	3,937	4.7	301	5.3	4,985	4.2
Other(6)	22	0.1	35	—	1	—	58	—
All geographic areas	$ 28,740	100.0 %	$ 84,231	100.0 %	$ 5,678	100.0 %	$ 118,649	100.0 %

(1) Represents all loans secured by a property with up to four units. Residential mortgages on properties with up to four units held outside of the caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc. totalled $203 million as at September 30, 2022 ($179 million as at June 30, 2022 and $138 million as at September 30, 2021).
(2) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is instead subject to the Financial Services Regulatory Authority of Ontario (FSRA) rules.
(3) Term mortgages and amortized portion of home equity lines of credit for which Desjardins Group has a full or partial guarantee or insurance from a mortgage insurer (public or private) or a government.
(4) Conventional term mortgages, including the conventional amortized portion of home equity lines of credit and amortized consumer loans secured by a property with up to four units.
(5) Unamortized portion of home equity lines of credit and consumer lines of credit secured by a property with up to four units.
(6) Represents the geographic areas of Canada other than Québec and Ontario.

Average loan-to-value (LTV) ratio for uninsured residential mortgages granted during the quarter

Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.(1)

(average loan to value ratio, by geographic area)	As at September 30, 2022			As at June 30, 2022			As at September 30, 2021		
	Uninsured loans(2)	Home equity lines of credit and related loans(3)	Total uninsured	Uninsured loans(2)	Home equity lines of credit and related loans(3)	Total uninsured	Uninsured loans(2)	Home equity lines of credit and related loans(3)	Total uninsured
Québec	**64.6 %**	**66.1 %**	**65.7 %**	65.3 %	67.5 %	67.0 %	64.3 %	71.6 %	69.8 %
Ontario	**63.3**	**63.5**	**63.4**	66.5	66.7	66.6	67.3	68.2	67.8
Other(4)	**57.1**	**78.7**	**68.4**	79.3	68.5	76.3	71.5	79.9	75.4
All geographic areas	**64.4 %**	**66.0 %**	**65.6 %**	65.4 %	67.4 %	67.0 %	64.5 %	71.5 %	69.7 %

(1) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is subject instead to the FSRA rules.
(2) Conventional term mortgages and amortized consumer loans secured by a property with up to four units.
(3) Home equity lines of credit, including related amortized loans and consumer lines of credit secured by a property with up to four units.
(4) Represents the geographic areas of Canada other than Québec and Ontario.

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

Remaining amortization period for residential mortgages[1]

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

(in millions of dollars in gross loans and as a percentage of the total by remaining amortization category)	Total amortized loans					
	As at September 30, 2022		As at June 30, 2022		As at September 30, 2021	
0 to 10 years	**$ 3,652**	**3.0 %**	$ 3,672	3.1 %	$ 3,581	3.2 %
10 to 20 years	**23,274**	**19.1**	23,216	19.7	21,964	19.4
20 to 25 years	**83,217**	**68.5**	81,639	68.2	77,541	68.6
25 to 30 years	**10,351**	**8.5**	9,851	8.0	8,701	7.8
30 to 35 years	**910**	**0.7**	868	0.8	932	0.8
35 years or more	**283**	**0.2**	241	0.2	252	0.2
All amortization periods	**$ 121,687**	**100.0 %**	$ 119,487	100.0 %	$ 112,971	100.0 %

(1) The caisse network's variable-rate mortgages account for 29.3% as at September 30, 2022 (28.5% as at June 30, 2022 and 22.9% as at September 30, 2021).
(2) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is subject instead to the FSRA rules.

Counterparty and issuer risk

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

The Risk Management Executive Division sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. In addition, limits are set for certain financial instruments. The amounts are then allocated to different components based on their needs.

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.

International exposures

Desjardins Group credit risk exposures outside of Canada and the U.S. represented 1.0% of the total exposures as at September 30, 2022.

MARKET RISK

Market risk refers to the risk of potential loss resulting from changes in the fair value of financial instruments arising 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 boards 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 in the following pages.

Link between market risk and the Combined Balance Sheets

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

Link between market risk and the Combined Balance Sheets
As at September 30, 2022

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk		Not exposed to market risk	Principal risks associated with non-trading activities
		Trading activities(1)(2)	Non-trading activities(3)		
Assets					
Cash and deposits with financial institutions	$ 9,189	$ —	$ 9,189	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	35,402	11,409	23,993	—	Interest rate
Securities at fair value through other comprehensive income	51,581	—	51,581	—	Interest rate, FX, price
Securities at amortized cost	52	—	52	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	17,188	15,473	1,715	—	Interest rate
Net loans and acceptances	247,410	—	247,410	—	Interest rate
Segregated fund net assets	20,188	—	20,188	—	Interest rate, price
Derivative financial instruments	5,791	1,050	4,741	—	Interest rate, FX, price
Other assets	21,270	—	—	21,270	
Total assets	$ 408,071	$ 27,932	$ 358,869	$ 21,270	
Liabilities and equity					
Deposits	$ 255,452	$ —	$ 255,452	$ —	Interest rate
Commitments related to securities sold short	13,882	13,712	170	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	25,714	23,269	2,445	—	Interest rate
Derivative financial instruments	6,372	1,085	5,287	—	Interest rate, FX, price
Insurance contract liabilities	31,239	—	31,239	—	Interest rate
Segregated fund net liabilities	20,166	—	20,166	—	Interest rate, price
Other liabilities	20,012	—	694	19,318	Interest rate
Subordinated notes	2,920	—	2,920	—	Interest rate
Equity	32,314	—	—	32,314	
Total liabilities and equity	$ 408,071	$ 38,066	$ 318,373	$ 51,632	

See the next page for footnotes to this table.

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

As at December 31, 2021

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities(1)(2)	Exposed to market risk: Non-trading activities(3)	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 16,328	$ —	$ 16,328	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	39,772	11,276	28,496	—	Interest rate
Securities at fair value through other comprehensive income	53,286	—	53,286	—	Interest rate, FX, price
Securities at amortized cost	41	—	41	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	12,019	10,909	1,110	—	Interest rate
Net loans and acceptances	230,779	—	230,779	—	Interest rate
Segregated fund net assets	22,804	—	22,804	—	Interest rate, price
Derivative financial instruments	5,828	377	5,451	—	Interest rate, FX, price
Other assets	16,228	—	—	16,228	
Total assets	$ 397,085	$ 22,562	$ 358,295	$ 16,228	
Liabilities and equity					
Deposits	$ 238,355	$ —	$ 238,355	$ —	Interest rate
Commitments related to securities sold short	11,342	10,764	578	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	31,177	28,312	2,865	—	Interest rate
Derivative financial instruments	5,500	290	5,210	—	Interest rate, FX, price
Insurance contract liabilities	34,762	—	34,762	—	Interest rate
Segregated fund net liabilities	22,796	—	22,796	—	Interest rate, price
Other liabilities	17,667	—	1,048	16,619	Interest rate
Subordinated notes	1,960	—	1,960	—	Interest rate
Equity	33,526	—	—	33,526	
Total liabilities and equity	$ 397,085	$ 39,366	$ 307,574	$ 50,145	

(1) Trading activity positions for which the risk measure is VaR and SVaR.
(2) The amounts presented under trading activities take inter-company eliminations into account.
(3) Positions mainly related to non-trading banking activities and insurance activities.

Management of market risk related to trading activities – VaR

The market risk of trading portfolios is managed on a day-to-day basis under specific frameworks, which set out the risk factors that must be measured and the limit for each of these factors as well as the total. Tolerance limits are also provided for various stress testing. Compliance with these limits is monitored daily and a market risk dashboard is produced on a daily basis and reported to senior management. Any limit exceeded is immediately analyzed and the appropriate action is taken.

The main tool used to measure this risk is 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, which includes the financial crisis of 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 is stress testing.

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

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

Market risk measures for the trading portfolio

(in millions of dollars)	As at September 30, 2022	For the quarter ended September 30, 2022 Average	High	Low	June 30, 2022 As at June 30, 2022	June 30, 2022 Average	September 30, 2021 As at September 30, 2021	September 30, 2021 Average
Equities	**$ 0.6**	**$ 0.7**	**$ 0.8**	**$ 0.5**	$ 0.7	$ 0.6	$ 0.6	$ 0.3
Foreign exchange	**2.98**	**0.7**	**2.98**	**0.1**	0.3	0.7	0.2	0.4
Interest rate	**5.7**	**4.5**	**7.3**	**3.0**	4.2	4.1	3.0	3.4
Specific interest rate risk(1)	**4.1**	**2.4**	**4.9**	**1.0**	2.7	2.1	2.1	2.0
Diversification effect(2)	**(6.6)**	**(3.7)**	**N/A(3)**	**N/A(3)**	(3.8)	(3.3)	(2.8)	(2.6)
Aggregate VaR	**$ 6.8**	**$ 4.6**	**$ 7.6**	**$ 3.2**	$ 4.1	$ 4.2	$ 3.1	$ 3.5
Aggregate SVaR	**$ 23.6**	**$ 10.5**	**$ 23.6**	**$ 6.9**	$ 9.5	$ 9.7	$ 8.3	$ 11.0
Incremental risk charge (IRC)	**$ 67.6**	**$ 67.5**	**$ 76.5**	**$ 60.8**	$ 82.7	$ 73.3	$ 74.0	$ 83.8

(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 $4.6 million for the quarter ended September 30, 2022, up $0.4 million compared to the quarter ended June 30, 2022. The average of the aggregate SVaR was $10.5 million for the quarter ended September 30, 2022, up $0.8 million compared to the quarter ended June 30, 2022. The average of the incremental risk charge totalled $67.5 million, down $5.8 million compared to the previous quarter.

Aggregate VaR and aggregate SVaR are appropriate measures for a trading portfolio but they must be interpreted by taking into account certain limits, in particular the following ones:
- These measures do not allow future losses to be predicted if actual market fluctuations differ markedly from those used to do the calculations.
- These measures are used to determine the potential losses for a one-day holding period, and not the losses on positions that cannot be liquidated or hedged during this one-day period.
- These measures do not provide information on potential losses beyond the selected confidence level of 99%.

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

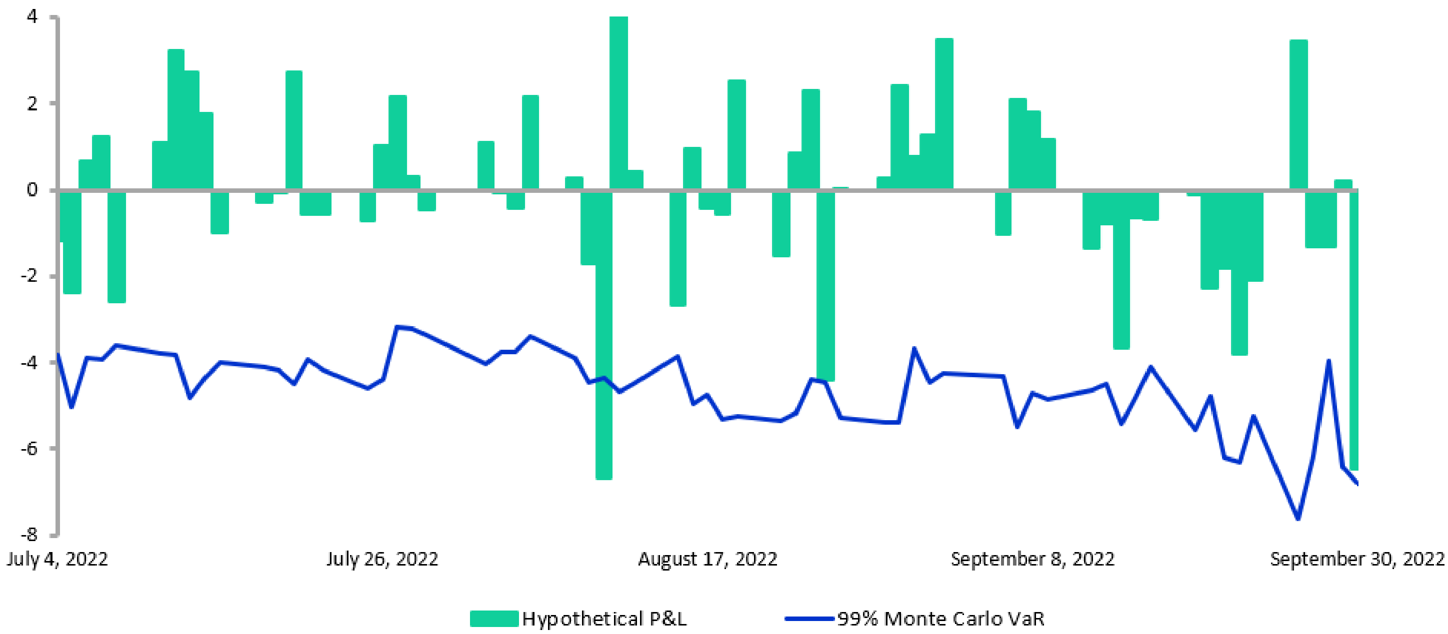
Back testing

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

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

The following graph shows changes in VaR for trading activities as well as the hypothetical P&L related to these activities. During the third quarter of 2022, one overage of hypothetical P&L was observed in relation to the VaR on August 10. This overage was mainly due to exposure to a rise in risky Canadian interest rates and Canadian swap rates (approximately 10 basis points on average for interest rate curves). No overage of actual P&L was observed in relation to the VaR for Desjardins Group.

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



Stress testing

Certain events that are considered highly unlikely and that may generate 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 fair value of positions held depending on various scenarios. Most stress-testing is predictive. For a given stress test, shocks are applied to certain risk factors (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 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:
- Trend in interest rate level and volatility.
- Changes in the shape of the yield curve.
- Member and client behaviour in their choice of products.
- Financial intermediation margin.
- 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 based on 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.

The table below presents the potential impact before income taxes, with regard to structural interest rate risk management associated with banking activities, of a sudden and sustained 100-basis-point increase or decrease in interest rates on net interest income and the economic value of equity for Desjardins Group, assuming a stable balance sheet and that no measures were taken by management to mitigate risk. The impact related to insurance activities is presented in Note 1 of this table.

Interest rate sensitivity (before income taxes)(1)

	As at September 30, 2022		As at June 30, 2022		As at September 30, 2021	
(in millions of dollars)	**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	**$ 111**	**$ (52)**	$ 89	$ 1	$ 3	$ (150)
Impact of a 100/25-basis-point decrease in interest rates(4)	**(104)**	**42**	(91)	3	(12)	30

(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 $84 million decrease in the economic value of equity before taxes as at September 30, 2022, and in a $113 million and $200 million decrease as at June 30, 2022 and September 30, 2021, respectively. A 100-basis-point decrease in interest rates would result in a $100 million increase in the economic value of equity before taxes as at September 30, 2022 and a $128 million increase as at June 30, 2022. A 25-basis-point decrease in interest rates would result in a $52 million increase in the economic value of equity as at September 30, 2021.

(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. In this current environment of low interest rates, the impact of a decrease in interest rates has been calculated using a decrease of 25 basis points as at September 30, 2021.

Foreign exchange risk management

Foreign exchange risk refers to potential loss resulting from fluctuations in foreign exchange rates.

Desjardins Group and its components are exposed to foreign exchange risk, particularly with respect to the U.S. dollar and the euro, arising from their intermediation activities with members and clients, and their financing and investment activities. Desjardins Group frameworks set foreign exchange risk exposure limits, which are monitored by the Risk Management Executive Division and by the insurance components for their respective operations. To ensure that this risk is properly controlled, Desjardins Group and its components also use, among other things, derivative financial instruments such as forward exchange contracts and currency swaps. Desjardins Group's residual exposure to this risk is low because it reduces its foreign exchange risk by using derivative financial instruments.

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 loans insured by the Canada Mortgage and Housing Corporation (CMHC) 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 produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF.

Liquidity risk measurement and monitoring

Desjardins Group determines its liquidity needs by reviewing its current operations and evaluating its future forecasts for balance sheet growth and institutional funding conditions. Various analyses are used to determine the actual liquidity levels of assets and the stability of liabilities based on observed behaviours or contractual maturities. Maintaining liquidity reserves of high-quality assets is required to offset potential cash outflows following a disruption in 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 (BCBS) in *Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring*. The scenarios make it possible to:
- Measure the extent of potential cash outflows in a crisis situation.
- Implement liquidity ratios and levels to be maintained across Desjardins Group.
- Assess the potential marginal cost of such events, depending on the type, severity and level of the crisis.

Liquid assets

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

Liquid assets[1]

As at September 30, 2022

(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	**$ 7,694**	**$ —**	**$ 7,694**	**$ 454**	**$ 7,240**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**51,604**	**17,380**	**68,984**	**38,022**	**30,962**
Other securities in Canada	**5,867**	**462**	**6,329**	**756**	**5,573**
Issued or guaranteed by foreign issuers	**557**	**19**	**576**	**33**	**543**
Loans					
Insured residential mortgage-backed securities	**9,016**	**—**	**9,016**	**3,114**	**5,902**
Total	**$ 74,738**	**$ 17,861**	**$ 92,599**	**$ 42,379**	**$ 50,220**

See the next page for the footnote to this table.

Liquid assets[1] (continued)
As at December 31, 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	$ 15,250	$ —	$ 15,250	$ 535	$ 14,715
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	54,112	11,780	65,892	39,947	25,945
Other securities in Canada	4,648	754	5,402	2,304	3,098
Issued or guaranteed by foreign issuers	505	1	506	7	499
Loans					
Insured residential mortgage-backed securities	7,213	—	7,213	2,839	4,374
Total	$ 81,728	$ 12,535	$ 94,263	$ 45,632	$ 48,631

(1) Excluding assets held by insurance subsidiaries.

Unencumbered liquid assets by entity[1]

(in millions of dollars)	As at September 30, 2022	As at December 31, 2021
Federation	**$ 25,776**	$ 30,934
Caisse network	**20,370**	15,638
Other entities	**4,074**	2,059
Total	**$ 50,220**	$ 48,631

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

Encumbered assets

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

Encumbered assets
As at September 30, 2022

				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	**$ 9,189**	**$ —**	**$ 9,189**	**$ —**	**$ 454**	**$ 7,240**	**$ 1,495**
Securities	**87,035**	**23,683**	**110,718**	**44,244**	**1,772**	**35,695**	**29,007**
Securities borrowed or purchased under reverse repurchase agreements	**17,188**	**—**	**17,188**	**—**	**—**	**—**	**17,188**
Net loans and acceptances	**247,410**	**—**	**247,410**	**26,186**	**—**	**66,219**	**155,005**
Segregated fund net assets	**20,188**	**—**	**20,188**	**—**	**—**	**—**	**20,188**
Other assets	**27,061**	**—**	**27,061**	**—**	**—**	**—**	**27,061**
Total	**$ 408,071**	**$ 23,683**	**$ 431,754**	**$ 70,430**	**$ 2,226**	**$ 109,154**	**$ 249,944**

See the next page for footnotes to this table.

Encumbered assets (continued)

As at December 31, 2021

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

(1) Assets that cannot be used for legal or other reasons.

(2) “Other” unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form. Some of these other assets could eventually be assigned to the central bank as collateral.

Liquidity coverage ratio

The liquidity coverage ratio (LCR) was developed by the BCBS to promote the short-term resilience of the liquidity risk profile of financial institutions, and incorporated into the Liquidity Adequacy Guideline issued by the AMF. The LCR is the ratio of a stock of unencumbered high-quality liquid assets (HQLA) to net cash outflows over the next 30 days in the event of an acute liquidity stress scenario.

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

Desjardins Group’s average LCR was 136% for the quarter ended September 30, 2022, compared to 135% for the previous quarter. The AMF stipulates that this ratio is not to be less than the minimum requirements of 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group’s Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group’s main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

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

Liquidity coverage ratio(1)

(in millions of dollars and as a percentage)	For the quarter ended September 30, 2022 Total non-weighted value(2) (average(4))	For the quarter ended September 30, 2022 Total weighted value(3) (average(4))	For the quarter ended June 30, 2022 Total weighted value(3) (average(4))
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 43,784**	$ 42,146
Cash outflows			
Retail deposits and small business deposits, including:	**$ 108,334**	**6,801**	7,048
Stable deposits	**57,601**	**1,728**	1,589
Less stable deposits	**50,733**	**5,073**	5,459
Unsecured wholesale funding, including:	**40,799**	**18,927**	17,447
Operational deposits (all counterparties) and deposits in cooperative bank networks	**13,868**	**3,308**	3,262
Non-operational deposits (all counterparties)	**19,106**	**7,794**	7,864
Unsecured debt	**7,825**	**7,825**	6,321
Secured wholesale funding	**N/A**	**84**	113
Additional requirements, including:	**16,875**	**4,055**	2,959
Outflows related to exposures on derivatives and other collateral required	**1,380**	**1,262**	853
Outflows related to funding loss on debt products	**752**	**752**	162
Credit and liquidity facilities	**14,743**	**2,041**	1,944
Other contractual funding liabilities	**3,866**	**2,317**	3,517
Other contingent funding liabilities	**89,081**	**2,254**	2,410
Total cash outflows	**N/A**	**$ 34,438**	$ 33,494
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 7,151**	**$ 523**	$ 626
Inflows related to completely effective exposures	**3,097**	**1,549**	1,566
Other cash inflows	**6**	**6**	14
Total cash inflows	**$ 10,254**	**$ 2,078**	$ 2,206

	Total adjusted value(5)	Total adjusted value(5)
Total high-quality liquid assets	**$ 43,784**	$ 42,146
Total net cash outflows	**32,360**	31,288
Liquidity coverage ratio	**136 %**	135 %

(1) Excluding the insurance subsidiaries.
(2) The non-weighted values of cash inflows and outflows represent unpaid balances either maturing or falling due and payable within 30 days.
(3) Weighted values are calculated after the "haircuts" prescribed for high-quality liquid assets and the rates prescribed for cash inflows and outflows have been applied.
(4) The ratio is presented based on the average daily data for the quarter.
(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 BCBS to promote the medium- and long-term resilience of the liquidity risk profile of financial institutions, and incorporated into the AMF's *Liquidity Adequacy Guideline*. The NSFR requires financial institutions to maintain a stable funding and capitalization profile in relation to the composition of their assets and off-balance sheet activities. This ratio 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). 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. According to the AMF's *Liquidity Adequacy Guideline*, this ratio should be equal to at least 100% on an on-going basis.

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

Net Stable Funding Ratio(1)

	As at September 30, 2022					As at June 30, 2022
	Unweighted value by residual maturity					
(in millions of dollars and as a percentage)	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value	Weighted value
Available Stable Funding (ASF) item						
Capital	$ 31,403	$ —	$ —	$ —	$ 31,403	$ 31,869
Regulatory capital	31,403	—	—	—	31,403	31,869
Other capital instruments	—	—	—	—	—	—
Retail deposits and deposits from small business customers	81,857	40,245	16,896	35,507	162,813	161,951
Stable deposits	48,941	6,882	5,486	10,673	68,917	70,240
Less stable deposits	32,916	33,363	11,410	24,834	93,896	91,711
Wholesale funding	26,310	43,449	4,443	19,599	35,803	32,036
Operational deposits	9,309	—	—	—	4,655	4,986
Other wholesale funding	17,001	43,449	4,443	19,599	31,148	27,050
Liabilities with matching interdependent assets	—	845	1,388	10,759	—	—
Other liabilities	24,801	10,341	6,139	—	—	—
NSFR derivative liabilities	N/A	—	6,139	—	N/A	N/A
All other liabilities and equity not included in the above categories	24,801	10,341	—	—	—	—
Total ASF	N/A	N/A	N/A	N/A	$ 230,019	$ 225,856
Required Stable Funding (RSF) item						
Total NSFR high-quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	$ 901	$ 939
Deposits held by other financial institutions for operational purposes	$ —	$ —	$ —	$ —	—	—
Performing loans and securities	19,709	45,159	20,912	168,654	163,438	159,395
Performing loans to financial institutions secured by Level 1 HQLA	—	16,679	—	—	834	733
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	—	1,327	140	725	928	836
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:	13,721	20,848	10,495	60,882	76,473	74,571
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	—	7,625	6,089	13,053	8,484	8,484
Performing residential mortgages, of which:	5,969	4,411	8,072	105,576	81,886	80,507
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	5,969	4,411	8,072	105,576	81,886	80,507
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	19	1,894	2,205	1,471	3,317	2,748
Assets with matching interdependent liabilities	—	845	1,388	10,759	—	—
Other assets(2)	—	—	26,739	—	15,125	16,172
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	—	338	—	287	377
NSFR derivative assets(2)	N/A	—	5,731	—	307	286
NSFR derivative liabilities before deduction of variation margin posted(2)	N/A	—	6,139	—	—	—
All other assets not included in the above categories	—	—	—	14,531	14,531	15,509
Off-balance sheet items	N/A	—	104,068	—	2,546	2,513
Total RSF	N/A	N/A	N/A	N/A	$ 182,010	$ 179,019
Net Stable Funding Ratio	N/A	N/A	N/A	N/A	126 %	126 %

(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 $255.5 billion as at September 30, 2022, up $17.1 billion since December 31, 2021. Additional information on deposits is presented in the "Balance sheet management" section.

Funding programs and strategies

As Desjardins Group's treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, and these strategies are regulated by policies. In the first nine months of 2022, 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 capital markets when conditions are favourable, and makes public and private issues of term notes on Canadian, U.S. and European markets, as required.

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

Main funding programs
As at September 30, 2022

	Maximum authorized amount
Medium-term notes (Canadian)(1)	**$10 billion**
Covered bonds (multi-currency)(1)	**$26 billion**
Short-term notes (European)	**€3 billion**
Short-term notes (U.S.)	**US$15 billion**
Medium-term and subordinated notes (multi-currency)(1)	**€7 billion**
NVCC subordinated notes (Canadian)(1)	**$5 billion**

(1) Sustainable bonds may be issued under these funding programs in compliance with the Desjardins Sustainable Bond Framework.

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

Remaining contractual term to maturity of wholesale funding

	As at September 30, 2022								As at December 31, 2021
(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total – Less than 1 year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	$ 1,943	$ 945	$ 40	$ 13	$ 2,941	$ —	$ —	$ 2,941	$ 2,414
Commercial paper	4,959	5,040	3,571	1,803	15,373	—	—	15,373	10,270
Medium-term notes	—	—	—	785	785	1,725	6,555	9,065	8,414
Mortgage loan securitization	—	506	338	1,392	2,236	1,904	8,802	12,942	12,431
Covered bonds	—	—	—	1,015	1,015	2,049	5,099	8,163	8,460
Subordinated notes	—	—	—	—	—	—	2,920	2,920	1,960
Total	$ 6,902	$ 6,491	$ 3,949	$ 5,008	$ 22,350	$ 5,678	$ 23,376	$ 51,404	$ 43,949
Including:									
Secured	$ —	$ 506	$ 338	$ 2,407	$ 3,251	$ 3,953	$ 16,821	$ 24,025	$ 22,851
Unsecured	6,902	5,985	3,611	2,601	19,099	1,725	6,555	27,379	21,098

Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation. Total wholesale funding increased by $7.5 billion compared to December 31, 2021, mainly due to the increase in issues of commercial paper and subordinated notes. Desjardins Group does not foresee any event, commitment or requirement that could have a major impact on its ability to raise funds through wholesale funding or its members' deposits.

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

Wholesale funding by currency

(in millions of dollars and as a percentage)	As at September 30, 2022		As at December 31, 2021	
Canadian dollars	**$ 22,631**	**44.0 %**	$ 22,767	51.8 %
U.S. dollars	**22,151**	**43.1**	14,167	32.2
Other	**6,622**	**12.9**	7,015	16.0
Total	**$ 51,404**	**100.0 %**	$ 43,949	100.0 %

Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $1.8 billion in the first nine months of 2022. During the same period, the Federation also made the following issues:

- On February 8, 2022, an issue totalling 750 million euros under its Legislative Covered Bond Program.
- On May 19, 2022, an issue totalling $1.0 billion, subject to the bail-in regime, under its Canadian Medium-term Note Program.
- On August 23, 2022, an issue totalling US$1,250 million, subject to the bail-in regime, under its Multi-currency Medium-term Note Program.
- On August 23, 2022, an issue of $1.0 billion in notes eligible as Non-Viability Contingent Capital under its Canadian NVCC Subordinated Notes Program.
- On August 31, 2022, an issue totalling 750 million euros under its Legislative Covered Bond Program.
- On October 14, 2022, an issue totalling US$1.0 billion under its Legislative Covered Bond Program.

Outstanding notes issued under the Federation's medium-term funding programs amounted to $30.2 billion as at September 30, 2022, compared to $29.3 billion as at December 31, 2021. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Combined Balance Sheets.

Overall, these transactions made it possible to adequately meet the liquidity needs of Desjardins Group, to diversify its sources of funding even better 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, are backed by Desjardins Group's financial strength.

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

In the third quarter of 2022, Standard & Poor's 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.

Credit ratings of securities issued and outstanding

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

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

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

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

The following table presents assets and liabilities recorded on the Combined Balance Sheets and off-balance sheet commitments at their carrying amount and classified according to their residual contractual maturities. The classification of maturities is an information source for liquidity and funding risk, but it differs from the analysis performed by Desjardins Group to determine the expected maturity of the items for liquidity risk management purposes. Several 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 many of these instruments will expire or be cancelled without giving rise to any cash outflows.

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

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

As at September 30, 2022

(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	$ 8,411	$ 778	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 9,189
Securities										
Securities at fair value through profit or loss[1]	238	495	974	993	1,112	2,254	5,633	18,395	5,308	35,402
Securities at fair value through other comprehensive income[1]	864	1,439	768	1,828	1,956	5,021	24,996	14,641	68	51,581
Securities at amortized cost	—	—	—	—	—	2	6	44	—	52
Securities borrowed or purchased under reverse repurchase agreements	15,066	1,538	584	—	—	—	—	—	—	17,188
Loans										
Residential mortgages[2]	2,513	3,204	5,504	6,951	6,724	20,721	96,846	8,564	7,142	158,169
Consumer, credit card and other personal loans[2]	68	109	184	211	257	1,223	5,021	8,071	9,503	24,647
Business and government[2]	16,771	6,224	5,046	5,693	4,604	5,634	11,788	2,313	7,409	65,482
Allowance for credit losses	—	—	—	—	—	—	—	—	(1,025)	(1,025)
Segregated fund net assets	—	—	—	—	—	—	—	—	20,188	20,188
Clients' liability under acceptances	135	2	—	—	—	—	—	—	—	137
Premiums receivable	215	71	15	2	—	—	—	—	2,726	3,029
Derivative financial instruments	720	517	666	676	265	1,166	1,521	260	—	5,791
Amounts receivable from clients, brokers and financial institutions	4,331	6	—	—	—	—	—	—	1,153	5,490
Reinsurance assets	29	52	64	56	54	127	263	985	—	1,630
Right-of-use assets	—	—	—	—	—	—	—	—	549	549
Investment property	—	—	—	—	—	—	—	—	914	914
Property, plant and equipment	—	—	—	—	—	—	—	—	1,538	1,538
Goodwill	—	—	—	—	—	—	—	—	158	158
Intangible assets	—	—	—	—	—	—	—	—	536	536
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,424	1,424
Net defined benefit plan assets	—	—	—	—	—	—	—	—	741	741
Deferred tax assets	—	—	—	—	—	—	—	—	1,438	1,438
Other assets	922	656	195	48	18	21	47	10	1,906	3,823
Total assets	$ 50,283	$ 15,091	$ 14,000	$ 16,458	$ 14,990	$ 36,169	$146,121	$ 53,283	$ 61,676	$ 408,071

See page 54 for footnotes.

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

As at September 30, 2022

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[3]	$ 6,165	$ 4,124	$ 4,499	$ 8,966	$ 6,873	$ 17,963	$ 16,197	$ 132	$ 77,510	$ 142,429
Business and government[3]	8,727	7,323	5,046	4,354	2,451	7,081	17,529	4,461	55,208	112,180
Deposit-taking institutions[3]	543	10	12	2	5	4	4	—	263	843
Acceptances	135	2	—	—	—	—	—	—	—	137
Commitments related to securities sold short[4]	244	512	321	195	280	1,165	4,320	6,837	8	13,882
Commitments related to securities lent or sold under repurchase agreements	25,714	—	—	—	—	—	—	—	—	25,714
Derivative financial instruments	367	472	330	690	272	1,621	2,053	567	—	6,372
Amounts payable to clients, brokers and financial institutions	4,305	7	—	—	—	—	—	—	6,154	10,466
Lease liabilities	6	12	18	18	18	70	185	296	9	632
Insurance contract liabilities	492	868	1,085	961	931	2,227	4,666	16,822	3,187	31,239
Segregated fund net liabilities	—	—	—	—	—	—	—	—	20,166	20,166
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	694	694
Deferred tax liabilities	—	—	—	—	—	—	—	—	298	298
Other liabilities	3,586	261	623	490	102	142	92	31	2,458	7,785
Subordinated notes	—	—	—	—	—	—	16	2,904	—	2,920
Total equity	—	—	—	—	—	—	—	—	32,314	32,314
Total liabilities and equity	**$ 50,284**	**$ 13,591**	**$ 11,934**	**$ 15,676**	**$ 10,932**	**$ 30,273**	**$ 45,062**	**$ 32,050**	**$ 198,269**	**$ 408,071**
Off-balance sheet commitments										
Credit commitments[5]	$ 983	$ 442	$ 190	$ 567	$ 668	$ 4,822	$ 10,526	$ 226	$ 102,478	$ 120,902
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	3,192	3,192
Documentary letters of credit	1	5	4	3	3	—	—	—	1	17
Guarantees and standby letters of credit	160	388	273	398	144	24	41	38	10	1,476

See page 54 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 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	$ 15,867	$ 461	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 16,328
Securities										
Securities at fair value through profit or loss(1)	60	591	1,196	319	1,105	1,726	5,933	22,649	6,193	39,772
Securities at fair value through other comprehensive income(1)	403	665	265	683	1,147	7,353	24,363	18,335	72	53,286
Securities at amortized cost	—	—	1	1	—	1	4	34	—	41
Securities borrowed or purchased under reverse repurchase agreements	10,859	1,103	57	—	—	—	—	—	—	12,019
Loans										
Residential mortgages(2)	2,688	3,460	6,964	6,040	7,046	20,561	86,855	9,318	6,763	149,695
Consumer, credit card and other personal loans(2)	61	89	186	253	308	1,375	5,450	7,730	8,934	24,386
Business and government(2)	12,516	5,665	5,399	4,880	5,341	4,735	10,774	2,527	5,563	57,400
Allowance for credit losses	—	—	—	—	—	—	—	—	(970)	(970)
Segregated fund net assets	—	—	—	—	—	—	—	—	22,804	22,804
Clients' liability under acceptances	233	35	—	—	—	—	—	—	—	268
Premiums receivable	169	64	14	2	—	—	—	—	2,590	2,839
Derivative financial instruments	238	206	421	204	381	1,879	2,207	292	—	5,828
Amounts receivable from clients, brokers and financial institutions	1,769	3	—	—	—	—	—	—	785	2,557
Reinsurance assets	27	48	58	50	47	124	255	973	—	1,582
Right-of-use assets	—	—	—	—	—	—	—	—	530	530
Investment property	—	—	—	—	—	—	—	—	926	926
Property, plant and equipment	—	—	—	—	—	—	—	—	1,531	1,531
Goodwill	—	—	—	—	—	—	—	—	157	157
Intangible assets	—	—	—	—	—	—	—	—	497	497
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,380	1,380
Net defined benefits plan assets(6)	—	—	—	—	—	—	—	—	62	62
Deferred tax assets	—	—	—	—	—	—	—	—	789	789
Other assets(6)	710	362	185	13	20	21	50	12	2,005	3,378
Total assets	$ 45,600	$ 12,752	$ 14,746	$ 12,445	$ 15,395	$ 37,775	$ 135,891	$ 61,870	$ 60,611	$ 397,085

See page 54 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 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)	$ 4,858	$ 4,425	$ 10,317	$ 4,962	$ 7,389	$ 14,429	$ 13,352	$ 390	$ 76,210	$ 136,332
Business and government(3)	7,622	8,001	2,366	3,411	1,597	6,334	15,431	3,823	53,059	101,644
Deposit-taking institutions(3)	20	1	1	3	2	5	4	—	343	379
Acceptances	233	35	—	—	—	—	—	—	—	268
Commitments related to securities sold short(4)	147	536	133	40	8	1,240	2,637	6,597	4	11,342
Commitments related to securities lent or sold under repurchase agreements	31,177	—	—	—	—	—	—	—	—	31,177
Derivative financial instruments	155	187	377	260	348	1,822	2,198	153	—	5,500
Amounts payable to clients, brokers and financial institutions	1,040	2	—	—	—	—	—	—	6,896	7,938
Lease liabilities	6	10	16	15	15	60	162	303	9	596
Insurance contract liabilities	462	807	1,036	911	856	2,219	4,681	20,728	3,062	34,762
Segregated fund net liabilities	—	—	—	—	—	—	—	—	22,796	22,796
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	1,048	1,048
Deferred tax liabilities	—	—	—	—	—	—	—	—	301	301
Other liabilities	2,933	1,013	677	57	52	149	109	29	2,497	7,516
Subordinated notes	—	—	—	—	—	—	—	1,960	—	1,960
Total equity	—	—	—	—	—	—	—	—	33,526	33,526
Total liabilities and equity	$ 48,653	$ 15,017	$ 14,923	$ 9,659	$ 10,267	$ 26,258	$ 38,574	$ 33,983	$ 199,751	$ 397,085
Off-balance sheet commitments										
Credit commitments(5)	$ 744	$ 81	$ 739	$ 1,002	$ 742	$ 2,596	$ 10,408	$ 126	$ 111,022	$ 127,460
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	2,382	2,382
Documentary letters of credit	7	2	6	1	2	—	—	—	—	18
Guarantees and standby letters of credit	219	224	337	303	200	25	34	41	17	1,400
Credit default swaps	—	—	—	—	—	—	645	—	—	645

(1) Equity securities are classified under “No stated maturity”.
(2) Amounts repayable on demand are classified under “No stated maturity”.
(3) Deposits payable on demand or 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. These are classified under “No stated maturity.”
(6) Data as at December 31, 2021 were reclassified to conform to the current period’s presentation.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the nine-month period ended September 30, 2022, 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 page 104 of Desjardins Group's 2021 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, 2021.

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, "Significant accounting policies", to Desjardins Group's Annual Combined Financial Statements on pages 136 to 155 of the 2021 Annual Report.

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 105 to 111 of the 2021 annual MD&A. There was no material change made to these accounting policies during the first nine months of 2022. However, the economic situation continues to result in sources of uncertainty affecting the judgments as well as the estimates and assumptions made by management in applying these accounting policies for the nine-month period ended September 30, 2022. 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 6, "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, 2021 are described in Note 2, "Significant accounting policies", to Desjardins Group's Annual Combined Financial Statements, on page 155 of the 2021 Annual Report. The IASB did not issue any new accounting standards or any new amendments to any existing standards during the nine-month period ended September 30, 2022 that would have a significant impact on Desjardins Group's financial statements.

Update – IFRS 17, "Insurance contracts"

The progress of the IFRS 17 implementation work allowed Desjardins Group to conclude on certain elections and requirements set out in the standard.

The life and health insurance subsidiary will apply the premium allocation approach to measure its group insurance contracts and certain other short-term insurance contracts. Individual segregated fund contracts and individual life insurance contracts with participation features will be measured using the variable fee approach. The general measurement model will be applied to all other long-term insurance contracts. At the date of transition, the requirements in IFRS 17 will be applied on a retrospective basis to short-term insurance contracts and the fair value approach will be applied to long-term insurance contracts.

The property and casualty insurance subsidiaries will apply the premium allocation approach to measure the liability for remaining coverage. At the date of transition, the requirements in IFRS 17 will be applied on a retrospective basis to all insurance contracts, except for claims assumed in a past acquisition, for which the modified retrospective approach will be used.

The requirements in IFRS 17 allow reassessing the designation or classification of financial assets related to insurance operations accounted for under IFRS 9 at the date of initial application of IFRS 17. Desjardins Group elected to not restate the comparative figures in its Combined Financial Statements to reflect changes in designation or classification for these financial assets that would be made as at January 1, 2023.

As part of its application, IFRS 17 allows certain choices. Desjardins Group will make the following choices:

- Amortize insurance acquisition cash flows for insurance contracts measured using the premium allocation approach over the duration of the related contracts.
- Apply the permitted accounting offset in the Statements of Income as part of using the strategy for mitigating financial risks related to segregated fund contracts.
- Recognize insurance finance income and insurance finance expenses solely in the Combined Statements of Income.
- Not discount the liability for remaining coverage for insurance contracts measured using the premium allocation approach that do not exceed one year.

Desjardins Group continues to assess the impact of adopting this standard, which will apply to annual periods beginning on January 1, 2023.

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.

CDO financial information

	As at September 30, 2022			As at December 31, 2021		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Balance Sheets**	**%**	CDO	Desjardins Group Combined Balance Sheets	%
Total assets	**$ 10,450**	**$ 408,071**	**2.6 %**	$ 9,864	$ 397,085	2.5 %
Total liabilities	**9,643**	**375,757**	**2.6**	9,047	363,559	2.5
Total equity	**807**	**32,314**	**2.5**	817	33,526	2.4

	For the three-month periods ended									**For the nine-month periods ended**					
	September 30, 2022			June 30, 2022			September 30, 2021			**September 30, 2022**			September 30, 2021		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Statements of Income**	**%**	CDO	Desjardins Group Combined Statements of Income	%	CDO	Desjardins Group Combined Statements of Income	%	**CDO**	**Desjardins Group Combined Statements of Income**	**%**	CDO	Desjardins Group Combined Statements of Income	%
Total income	**$ 56**	**$ 5,481**	**1.0 %**	$ 69	$ 3,294	2.1 %	$ 64	$ 5,136	1.2 %	**$ 227**	**$ 11,642**	**1.9 %**	$ 207	$ 13,949	1.5 %
Surplus earnings (deficit) before member dividends	**(51)**	**478**	**(10.7)**	22	477	4.6	30	816	3.7	**19**	**1,474**	**1.3**	102	2,549	4.0
Net surplus earnings (deficit) for the period after member dividends	**(53)**	**400**	**(13.3)**	19	397	4.8	29	750	3.9	**12**	**1,241**	**1.0**	97	2,351	4.1

Glossary

Acceptance

Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

Actuarial liabilities

Amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses.

Allowance for credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Amortized cost

For a financial asset or a financial liability, represents the historical cost at initial recognition, decreased or increased by amortization and any differences that made it fluctuate from initial recognition to maturity.

Annuity premium

Amount invested by a policyholder in order to receive annuity payments, immediately or after an accumulation period.

Assets under administration

Assets administered by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of such assets are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions.

Assets under management

Assets managed by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of assets under management include selecting investments and offering investment advice. Assets under management may also be administered by the financial institution. In such case, they are included in assets under administration.

Autorité des marchés financiers (AMF)

Organization whose mission is to enforce the laws governing the financial industry in Québec, particularly in the areas of insurance, securities, deposit-taking institutions and financial product and service distribution.

Average assets

Average of assets presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Average deposits

Average of deposits presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Average equity before non-controlling interests

Average of equity before non-controlling interests presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Average gross loans and acceptances

Average of loans, including clients' liability under acceptances, presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Average net loans and acceptances

Average of loans, including clients' liability under acceptances, net of the allowance for credit losses presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Basis point

Unit of measure equal to one one-hundredth of a percent (0.01%).

Bond

Certificate evidencing a debt under which the issuer promises to pay the holder a specified amount of interest for a specified period of time, and to repay the borrowing at maturity. Generally, assets are pledged as security for the borrowing, except in the case of government or corporate bonds. This term is often used to describe any debt security.

Capital ratios

Ratios determined by dividing regulatory capital by risk-weighted assets. These measures are defined in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF.

Capital share

Equity security offered to Desjardins caisse members.

Catastrophe and notable event

– Catastrophe

In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the cost is deemed significant since it reaches a minimum threshold, established annually Desjardins Group's management, for the reinsurance program retention.

- Natural catastrophes can take many forms and include, but are not limited to, hurricanes, tornados, windstorms, hailstorms, heavy rainfalls, ice storms, floods, extreme weather conditions and wildfires.
- Catastrophes other than natural catastrophes include, but are not limited to, terrorist acts, riots, explosions, crashes, train wrecks, large-scale cyber attacks.

– Notable event

In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the impact on the loss ratio and claims frequency is deemed significant by Desjardins Group's management.

Commitment

– Direct commitment

Any agreement entered into by a Desjardins Group component with a natural or legal person creating an on- or off-balance sheet exposure, either disbursed or non-disbursed, revocable or irrevocable, with or without condition, that may lead to losses for the component if the debtor is unable to meet its obligations.

– Indirect commitment

Any financial receivable creating a credit exposure that is acquired by a Desjardins Group component in connection with a purchase on the market or the delivery of a financial asset pledged as collateral by a client or a counterparty, whose value may change in particular as a result of the deterioration of the creditworthiness of the counterparty associated to this receivable or changes in market prices.

Countercyclical buffer

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

Counterparty and issuer risk

Credit risk related to different types of securities, derivative financial instruments and securities lending transactions.

Covered bond

Full recourse on-balance sheet bond issued by a financial institution and secured by assets, comprised mainly of mortgage loans, over which investors enjoy a priority claim in the event of an issuer's insolvency or bankruptcy. These assets are separated from the issuer's assets in the event of the issuer's insolvency or bankruptcy and belong to a bankruptcy remote structured entity that guarantees the bond.

Credit commitment

Unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit, whose primary purpose is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Credit instrument

Credit facility offered in the form of a loan or other financing vehicle recognized in the Combined Balance Sheets or in the form of an off-balance sheet product. Credit instruments include credit commitments, documentary letters of credit as well as guarantees and standby letters of credit.

Credit loss provisioning rate

Provision for credit losses on loans and off-balance sheet items expressed as a percentage of average gross loans and acceptances.

Credit risk

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

Credit valuation adjustment

Adjustment representing the market value of a potential loss on over-the-counter derivatives due to counterparty and issuer risk.

Defined benefit pension plan

Pension plan guaranteeing each participant a defined level of retirement income that is often based on a formula set by the plan in terms of the participant's salary and years of service.

Derivative financial instrument, or derivative

Financial contract whose value fluctuates based on an underlying asset, but that does not require holding or delivering the underlying asset itself. Derivatives are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and financial indexes.

Desjardins Group (Desjardins) component

Cooperative or subsidiary that is part of Desjardins Group.

Documentary letter of credit

Instrument issued for a member or a client that represents Desjardins Group's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. Desjardins Group is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

Economic capital

Amount of capital that an institution must maintain, in addition to anticipated losses, to ensure its solvency over a certain horizon and at a high confidence level.

Effective interest rate

Rate determined by discounting total future cash flows, including those related to commissions paid or received, premiums or discounts and transaction costs.

Effective tax rate

Income tax expense on surplus earnings expressed as a percentage of operating surplus earnings.

Environmental or social risk

Risk that the impact of an environmental or social event or issue in connection with Desjardins Group’s operations or its financing, investing or insurance activities could result in financial losses or damage Desjardins Group’s reputation.

Exposure at default (EAD)

Estimate of the amount of a given exposure at time of default. For balance sheet exposures, it corresponds to the balance as at observation time. For off-balance sheet exposures, it includes an estimate of additional draws that may be made between observation time and default.

Exposures related to residential mortgage loans

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

Fair value

Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date.

Fair value measurement

Measurement to determine the approximate value at which financial instruments could be traded in a current transaction between willing parties.

Foreign exchange risk

Risk corresponding to the potential loss arising from a change in exchange rates.

Forward contract

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are tailored and traded over the counter.

Forward exchange contract

Contractual commitment to sell or purchase a fixed amount of foreign currency on a specified future date and at a predetermined exchange rate.

Futures contract

Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are standardized and exchange-traded.

Gross credit-impaired loan

A financial asset is credit impaired when one or more events that have a detrimental impact on the future estimated cash flows of that financial asset have occurred. A financial asset is therefore considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant. The definition of default is associated with an instrument for which contractual payments are 90 days past due, or certain other criteria.

Gross credit-impaired loans/gross loans and acceptances

Gross credit-impaired loans expressed as a percentage to total gross loans and acceptances.

Gross premiums written

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

Group insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance. The premium is directly proportional to the number of insured persons and the coverage chosen by the policyholder.

Guarantee and standby letter of credit

Irrevocable commitment by a financial institution to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans.

Hedge fund

Investment fund offered to accredited investors. A hedge fund manager enjoys great latitude with respect to the investment strategies to be used, which may include selling short, leverage, program trading, swaps, arbitrage and derivatives.

Hedging

Transaction designed to reduce or offset Desjardins Group's exposure to one or more financial risks that involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

Incremental risk charge (IRC)

Additional capital charge related to default and migration risks of positions with issuer risk in trading portfolios.

Indemnification commitment related to securities lending

Commitment made to members and clients with whom Desjardins Group entered into securities lending agreements and intended to ensure that the fair value of the securities lent will be reimbursed if the borrower does not return the borrowed securities or if the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

Individual insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The cost of insurance portion of the premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance contract liabilities

Provision representing the amount of an insurance company's commitments toward all insureds and beneficiaries, established to guarantee the payment of benefits.

Insurance premium

Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance risk

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

Insurance sales

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to annualized gross new premiums under group and individual insurance policies.

Internal Models Method

Approach used to calculate, with internal models, risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on different risk measures, such as Value at Risk, stressed Value at Risk and the incremental risk charge (IRC).

Internal Ratings-Based Approach

Approach under which risk weighing is based on the type of counterparty (individuals, small or medium-sized business, large corporation, etc.) and risk-weighting factors determined using internal parameters: the borrower's probability of default, loss given default, applicable maturity and exposure at default.

Large loss

In property and casualty insurance, single claim having a significant cost.

Legal and regulatory risk

Risk associated with the non-compliance by Desjardins Group with obligations arising from the interpretation or application of a legislative or regulatory provision or a contractual commitment, which could have an impact on the conduct of its operations, its reputation, its strategies and its financial objectives.

Leverage ratio

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

Liquidity coverage ratio (LCR)

Ratio determined by dividing the stock of unencumbered HQLA by the amount of net cash outflows for the next 30 days assuming an acute liquidity stress scenario.

Liquidity risk

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

Loss given default (LGD)

Economic loss that may be incurred should the borrower default, expressed as a percentage of exposure at default.

Market risk

Risk of potential loss arising from changes in the fair value of financial instruments as a result of fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates, credit spreads and their volatility.

Master netting agreement

Standard agreement developed to reduce the credit risk of multiple derivative transactions by creating a legal right to set off the obligations of a counterparty in the event of default.

Matching

Process of adjusting asset, liability and off-balance sheet item maturities in order to reduce risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

Member dividend

As a cooperative financial group, Desjardins Group distributes to its members a portion of its surplus earnings for a given year, taking into account its financial capacity. This distribution, called member dividend, is paid by the caisses and tailored to each member based on the use they make of their cooperative's financial services.

Morbidity rate

Probability that a person of a given age will suffer an illness or disability. The accident/health insurance premium paid by a person belonging to a particular age group is based on this group's morbidity rate.

Mortality rate

Rate of death in a particular group of persons. The life insurance premium paid by a person belonging to a particular age group is based on this group's mortality rate.

Mortgage-backed security

Security created through the securitization of a pool of residential mortgage loans under the *National Housing Act*.

Net interest income

Difference between what a financial institution receives on assets such as loans and securities and what it pays out on liabilities such as deposits and subordinated bonds.

Net premiums

In property and casualty insurance, premiums earned for a given period, net of reinsurance premiums. In life and health insurance, comprise insurance premiums and annuity premiums, net of reinsurance premiums.

Net sales of savings products

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to sales of group and individual savings products manufactured and distributed by segment entities, and is comprised of on- or off-balance sheet deposits, less redemptions.

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

Notional amount
Reference amount used to calculate payments for instruments such as forward rate agreements and interest rate swaps. This amount is called "notional" because it does not change hands.

NVCC subordinated notes
Securities that meet the non-viability contingent capital (NVCC) requirements set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, in particular securities issued by the Federation with a clause providing for their automatic conversion into capital shares of the Federation upon the occurrence of a trigger event as defined in the guideline.

Off-balance sheet exposure
Includes guarantees, commitments, derivatives and other contractual agreements whose total notional amount may not be recognized on the balance sheet.

Office of the Superintendent of Financial Institutions (OSFI)
Organization whose mission is to enforce all laws governing the financial industry in Canada, particularly as concerns banks, insurance companies, trust companies, loan companies, cooperative credit associations, fraternal companies and private pension plans subject to federal oversight.

Operational risk
Risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses or failure to achieve objectives and takes into account the impact of failures on the achievement of the strategic objectives of the relevant component or Desjardins Group, as the case may be.

Option
Contractual agreement that grants the right, but not the obligation, to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

Other retail client exposures
In accordance with the regulatory capital framework, risk category that includes all loans granted to individuals except for exposures related to residential mortgage loans and qualifying revolving retail client exposures.

Pension plan
Contract under which participants receive retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made either by the employer alone or by both the employer and the participants.

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

Price risk
Risk of potential loss resulting from a change in the fair value of assets (shares, commodities, real estate properties, index-based assets) but not resulting from a change in interest or foreign exchange rates or in the credit quality of a counterparty.

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

Qualifying revolving retail client exposures
In accordance with the regulatory capital framework, risk category that includes credit card loans and unsecured credit margins granted to individuals.

Ratio of fringe benefits to total base compensation
Fringe benefits expressed as a percentage of salaries.

Regulatory capital
In accordance with the definition set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, the regulatory capital under Basel III comprises Tier 1A capital, Tier 1 capital and Tier 2 capital. The composition of these various tiers is presented in the "Capital management" section of the Management's Discussion and Analysis.

Regulatory funds
Funds needed to cover unexpected losses, calculated according to parameters and methods prescribed by regulatory authorities.

Reinstatement premium
Premium payable to restore the original reinsurance coverage limit that has been reduced by the occurrence of a catastrophe. Reinstatement premiums are recognized in net premiums.

Reinsurance treaty
Agreement whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the treaty, the original insurer remains fully liable to its policyholders for the insurance obligations.

Repurchase agreement
Agreement involving both the sale of securities for cash and the repurchase of these securities for value at a later date. This type of agreement represents a form of short-term financing.

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

Return on equity
Return on equity is equal to surplus earnings before member dividends, excluding the non-controlling interests’ share, expressed as a percentage of average equity before non-controlling interests.

Reverse repurchase agreement
Agreement involving both the purchase of securities for cash and the sale of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Risk-weighted assets
Assets adjusted based on a risk-weighting factor prescribed by regulations to reflect the level of risk associated with items presented in the Combined Balance Sheets. Some assets are not weighted, but rather deducted from capital. The calculation method is defined in the guidelines issued by the AMF. For more details, see the “Capital management” section of the Management’s Discussion and Analysis.

Scaling factor
Adjustment representing 6.0% of risk assets measured using the Internal Ratings-Based Approach, applied to credit exposures in compliance with section 1.3 of the AMF guideline on adequacy of capital base standards applicable to financial services cooperatives.

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

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

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

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

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

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

Standardized Approach

- Credit risk
  Default approach used to calculate risk-weighted assets. Under this method, the entity uses valuations performed by external credit assessment institutions recognized by the AMF to determine the risk-weighting factors related to the various exposure categories.
- Market risk
  Default approach used to calculate risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on predefined rules such as those on the size and nature of the financial instruments held.
- Operational risk
  Risk measurement approach used to assess the capital charge for operational risk. For this measurement, activities are divided into predefined business lines for a financial institution. The capital charge is calculated by multiplying each business line's gross income by a specific factor. The total capital charge represents the three-year average of the summation of the capital charges across each of the business lines in each year.

Strategic risk

Risk of loss of value attributable to the occurrence of external and internal events or the implementation of inadequate strategies that might prevent the relevant component or Desjardins Group from achieving its strategic objectives.

Stressed Value at Risk (VaR)

Value calculated in the same way as the Value at Risk, except for the historical data used, which are for a one-year stress period.

Structural interest rate risk

Risk related to the potential impact of interest rate fluctuations on net interest income and the economic value of equity.

Structured entity

Entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: restricted activities, a narrow and well-defined objective, insufficient equity to permit it to finance its activities without subordinated financial support, or financing in the form of multiple contractually linked instruments to investors.

Subordinated note

Unsecured note whose repayment in the event of liquidation is subordinated to the prior repayment of certain other creditors.

Subsidiary

Company controlled by the Federation.

Swap

Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

TLAC leverage ratio

Ratio determined by dividing the total loss absorbing capacity by the exposure measure. The exposure measure is independent from risk and includes:

- on-balance sheet exposures;
- securities financing transaction exposures;
- derivative exposures; and
- off-balance sheet items.

TLAC ratio

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

Total loss absorbing capacity – TLAC

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

Underwriting experience

In life and health insurance, the difference between actual results and actuarial assumptions used to determine premiums or actuarial liabilities, as applicable.

Unused exposure

Amount of credit authorizations offered in the form of margins or loans that is not yet used.

Used exposure

Amount of funds invested in or advanced to a member or client.

Value at Risk (VaR)

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

COMBINED FINANCIAL STATEMENTS

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Combined Balance Sheets

(unaudited)

(in millions of Canadian dollars)	Notes	As at September 30, 2022	As at December 31, 2021
ASSETS			
Cash and deposits with financial institutions		**$ 9,189**	$ 16,328
Securities			
Securities at fair value through profit or loss		**35,402**	39,772
Securities at fair value through other comprehensive income		**51,581**	53,286
Securities at amortized cost		**52**	41
		87,035	93,099
Securities borrowed or purchased under reverse repurchase agreements		**17,188**	12,019
Loans	6		
Residential mortgages		**158,169**	149,695
Consumer, credit card and other personal loans		**24,647**	24,386
Business and government		**65,482**	57,400
		248,298	231,481
Allowance for credit losses	6	**(1,025)**	(970)
		247,273	230,511
Segregated fund net assets		**20,188**	22,804
Other assets			
Clients' liability under acceptances		**137**	268
Premiums receivable		**3,029**	2,839
Derivative financial instruments		**5,791**	5,828
Amounts receivable from clients, brokers and financial institutions		**5,490**	2,557
Reinsurance assets		**1,630**	1,582
Right-of-use assets		**549**	530
Investment property		**914**	926
Property, plant and equipment		**1,538**	1,531
Goodwill		**158**	157
Intangible assets		**536**	497
Investments in companies accounted for using the equity method		**1,424**	1,380
Net defined benefits plan assets		**741**	62
Deferred tax assets		**1,438**	789
Other		**3,823**	3,378
		27,198	22,324
TOTAL ASSETS		**$ 408,071**	$ 397,085
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	7		
Individuals		**$ 142,429**	$ 136,332
Business and government		**112,180**	101,644
Deposit-taking institutions		**843**	379
		255,452	238,355
Other liabilities			
Acceptances		**137**	268
Commitments related to securities sold short		**13,882**	11,342
Commitments related to securities lent or sold under repurchase agreements		**25,714**	31,177
Derivative financial instruments		**6,372**	5,500
Amounts payable to clients, brokers and financial institutions		**10,466**	7,938
Lease liabilities		**632**	596
Insurance contract liabilities		**31,239**	34,762
Segregated fund net liabilities		**20,166**	22,796
Net defined benefit plan liabilities		**694**	1,048
Deferred tax liabilities		**298**	301
Other		**7,785**	7,516
		117,385	123,244
Subordinated notes	7	**2,920**	1,960
TOTAL LIABILITIES		**375,757**	363,559
EQUITY			
Capital stock		**4,844**	4,982
Undistributed surplus earnings		**8,249**	1,546
Accumulated other comprehensive income	8	**(2,172)**	765
Reserves		**20,545**	25,321
Equity – Group's share		**31,466**	32,614
Non-controlling interests		**848**	912
TOTAL EQUITY		**32,314**	33,526
TOTAL LIABILITIES AND EQUITY		**$ 408,071**	$ 397,085

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

Combined Statements of Income

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended September 30 2022	2021	For the nine-month periods ended September 30 2022	2021
INTEREST INCOME					
Loans		**$ 2,184**	$ 1,763	**$ 5,792**	$ 5,205
Securities		**320**	120	**668**	349
		2,504	1,883	**6,460**	5,554
INTEREST EXPENSE					
Deposits		**792**	374	**1,585**	1,143
Subordinated notes		**18**	18	**43**	47
Other		**45**	15	**81**	33
		855	407	**1,709**	1,223
NET INTEREST INCOME	10	**1,649**	1,476	**4,751**	4,331
NET PREMIUMS		**2,747**	2,905	**8,030**	8,077
OTHER INCOME					
Deposit and payment service charges		**115**	109	**333**	313
Lending fees and credit card service revenues		**276**	198	**728**	567
Brokerage and investment fund services		**235**	283	**754**	841
Management and custodial service fees		**182**	185	**575**	531
Net investment loss	10	**(38)**	(90)	**(4,583)**	(637)
Overlay approach adjustment for insurance operations financial assets		**224**	(24)	**748**	(316)
Foreign exchange income		**19**	34	**77**	92
Other		**72**	60	**229**	150
		1,085	755	**(1,139)**	1,541
TOTAL INCOME		**5,481**	5,136	**11,642**	13,949
PROVISION FOR CREDIT LOSSES	6	**125**	52	**197**	53
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**2,204**	1,713	**1,716**	3,698
NON-INTEREST EXPENSE					
Salaries and employee benefits		**1,199**	1,046	**3,741**	3,279
Professional fees		**290**	262	**908**	667
Technology		**248**	219	**713**	630
Commissions		**225**	225	**660**	643
Occupancy costs		**100**	96	**304**	300
Communications		**91**	76	**277**	208
Business and capital taxes		**111**	115	**354**	347
Other		**301**	249	**848**	756
		2,565	2,288	**7,805**	6,830
OPERATING SURPLUS EARNINGS		**587**	1,083	**1,924**	3,368
Income taxes on surplus earnings		**109**	267	**450**	819
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS		**478**	816	**1,474**	2,549
Member dividends		**106**	90	**317**	270
Tax recovery on member dividends		**(28)**	(24)	**(84)**	(72)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		**$ 400**	$ 750	**$ 1,241**	$ 2,351
of which:					
Group's share		**$ 386**	$ 716	**$ 1,191**	$ 2,248
Non-controlling interests' share		**14**	34	**50**	103

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

Combined Statements of Comprehensive Income

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended September 30 2022	2021	For the nine-month periods ended September 30 2022	2021
Net surplus earnings for the period after member dividends	**$ 400**	$ 750	**$ 1,241**	$ 2,351
Other comprehensive income, net of income taxes				
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan assets and liabilities	**(255)**	243	**731**	1,366
Share of associates and joint ventures accounted for using the equity method	**—**	1	**—**	7
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(1)**	(5)	**1**	(4)
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**4**	1	**10**	1
	(252)	240	**742**	1,370
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 losses	**(85)**	(43)	**(1,649)**	(322)
Reclassification of net (gains) losses to the Combined Statements of Income	**69**	1	**136**	(60)
	(16)	(42)	**(1,513)**	(382)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	**(72)**	31	**(373)**	317
Reclassification of net gains to the Combined Statements of Income	**(102)**	(10)	**(231)**	(76)
	(174)	21	**(604)**	241
Net change in cash flow hedges				
Net losses on derivative financial instruments designated as cash flow hedges	**(316)**	(67)	**(850)**	(178)
Reclassification to the Combined Statements of Income of net (gains) losses on derivative financial instruments designated as cash flow hedges	**2**	(8)	**(17)**	(34)
	(314)	(75)	**(867)**	(212)
Share of associates and joint ventures accounted for using the equity method	**(5)**	—	**(5)**	—
	(509)	(96)	**(2,989)**	(353)
Total other comprehensive income, net of income taxes	**(761)**	144	**(2,247)**	1,017
COMPREHENSIVE INCOME FOR THE PERIOD	**$ (361)**	$ 894	**$ (1,006)**	$ 3,368
of which:				
Group's share	**$ (361)**	$ 856	**$ (1,010)**	$ 3,234
Non-controlling interests' share	**—**	38	**4**	134

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.

(in millions of Canadian dollars)	For the three-month periods ended September 30 2022	2021	For the nine-month periods ended September 30 2022	2021
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	**$ (93)**	$ 87	**$ 262**	$ 488
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**—**	(1)	**1**	(1)
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**—**	—	**3**	—
	(93)	86	**266**	487
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 losses	**(32)**	(15)	**(583)**	(113)
Reclassification of net (gains) losses to the Combined Statements of Income	**26**	2	**50**	(19)
	(6)	(13)	**(533)**	(132)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	**(16)**	7	**(85)**	94
Reclassification of net gains to the Combined Statements of Income	**(34)**	(4)	**(59)**	(19)
	(50)	3	**(144)**	75
Net change in cash flow hedges				
Net losses on derivative financial instruments designated as cash flow hedges	**(114)**	(24)	**(307)**	(65)
Reclassification to the Combined Statements of Income of net (gains) losses on derivative financial instruments designated as cash flow hedges	**1**	(2)	**(6)**	(11)
	(113)	(26)	**(313)**	(76)
	(169)	(36)	**(990)**	(133)
Total income tax expense (recovery)	**$ (262)**	$ 50	**$ (724)**	$ 354

Combined Statements of Changes in Equity

(unaudited)

For the nine-month periods ended September 30

(in millions of Canadian dollars)	Capital stock	Undistributed surplus earnings	Accumulated other comprehensive income (Note 8)	Reserves: Stabilization reserve	Reserves: Reserve for future member dividends	Reserves: General and other reserves	Reserves: Total reserves	Equity – Group's share	Non-controlling interests	Total equity
BALANCE AS AT DECEMBER 31, 2021	**$ 4,982**	**$ 1,546**	**$ 765**	**$ 795**	**$ 1,212**	**$ 23,314**	**$ 25,321**	**$ 32,614**	**$ 912**	**$ 33,526**
Net surplus earnings for the period after member dividends	**—**	**1,191**	**—**	**—**	**—**	**—**	**—**	**1,191**	**50**	**1,241**
Other comprehensive income for the period	**—**	**736**	**(2,937)**	**—**	**—**	**—**	**—**	**(2,201)**	**(46)**	**(2,247)**
Comprehensive income for the period	**—**	**1,927**	**(2,937)**	**—**	**—**	**—**	**—**	**(1,010)**	**4**	**(1,006)**
Redemption of shares of capital stock	**(138)**	**—**	**—**	**—**	**—**	**—**	**—**	**(138)**	**—**	**(138)**
Transactions related to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(9)**	**(9)**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(59)**	**(59)**
Transfer from undistributed surplus earnings (to reserves)	**—**	**(2,571)**	**—**	**77**	**493**	**2,001**	**2,571**	**—**	**—**	**—**
Equity transactions[1]	**—**	**7,347**	**—**	**—**	**—**	**(7,347)**	**(7,347)**	**—**	**—**	**—**
BALANCE AS AT SEPTEMBER 30, 2022	**$ 4,844**	**$ 8,249**	**$ (2,172)**	**$ 872**	**$ 1,705**	**$ 17,968**	**$ 20,545**	**$ 31,466**	**$ 848**	**$ 32,314**
BALANCE AS AT DECEMBER 31, 2020	$ 5,021	$ 1,874	$ 1,302	$ 795	$ 1,159	$ 19,362	$ 21,316	$ 29,513	$ 750	$ 30,263
Net surplus earnings for the period after member dividends	—	2,248	—	—	—	—	—	2,248	103	2,351
Other comprehensive income for the period	—	1,353	(367)	—	—	—	—	986	31	1,017
Comprehensive income for the period	—	3,601	(367)	—	—	—	—	3,234	134	3,368
Redemption of shares of capital stock	(22)	—	—	—	—	—	—	(22)	—	(22)
Transactions related to non-controlling interests	—	—	—	—	—	—	—	—	9	9
Dividends	—	—	—	—	—	—	—	—	(19)	(19)
Transfer from undistributed surplus earnings (to reserves)	—	(2,834)	—	—	137	2,697	2,834	—	—	—
Other	—	4	—	—	—	—	—	4	—	4
BALANCE AS AT SEPTEMBER 30, 2021	$ 4,999	$ 2,645	$ 935	$ 795	$ 1,296	$ 22,059	$ 24,150	$ 32,729	$ 874	$ 33,603

(1) The increase in undistributed surplus earnings for the period results from equity transactions between Desjardins Group entities. Undistributed surplus earnings arising from such transactions will be included in the surplus earnings distribution plans for the next fiscal year. These transactions had no impact on Desjardins Group's equity as at September 30, 2022.

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

Combined Statements of Cash Flows

(unaudited)

(in millions of Canadian dollars)	For the nine-month periods ended September 30 2022	2021
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 1,924**	$ 3,368
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment and investment property, and amortization of intangible assets	**310**	280
Amortization of premiums and discounts	**266**	339
Net change in insurance contract liabilities	**(3,523)**	(981)
Provision for credit losses	**197**	53
Net realized (gains) losses on securities classified as at fair value through other comprehensive income	**98**	(65)
Net gains on disposal of property, plant and equipment, intangible assets and investment property	**(4)**	(2)
Overlay approach adjustment for insurance operations financial assets	**(748)**	316
Other	**(139)**	(54)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**4,370**	(2,025)
Securities borrowed or purchased under reverse repurchase agreements	**(5,169)**	(5,884)
Loans	**(16,959)**	(15,449)
Net derivative financial instruments	**1,473**	836
Net amounts receivable from and payable to clients, brokers and financial institutions	**(405)**	1,177
Deposits	**17,097**	14,441
Commitments related to securities sold short	**2,540**	211
Commitments related to securities lent or sold under repurchase agreements	**(5,463)**	6,420
Other	**429**	378
Payment of the contingent consideration	**(87)**	(104)
Income taxes paid on surplus earnings	**(699)**	(907)
Payment of member dividends	**(386)**	(333)
	(4,878)	2,015
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	**997**	999
Sale (purchase) of debt securities and subordinated notes from third parties on the market	**11**	(1)
Repayment of lease liabilities	**(73)**	(69)
Redemption of shares of capital stock	**(80)**	(22)
Remuneration on capital stock	**(208)**	(208)
Transactions related to non-controlling interests	**(9)**	9
Dividends paid	**(59)**	(19)
	579	689
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(27,426)**	(21,854)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**16,322**	16,483
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**8,630**	4,520
Acquisitions of property, plant and equipment, intangible assets and investment property	**(308)**	(256)
Proceeds from disposal of property, plant and equipment, intangible assets and investment property	**21**	15
Acquisitions of joint ventures and associates accounted for using the equity method	**(79)**	(93)
	(2,840)	(1,185)
Net increase (decrease) in cash and cash equivalents	**(7,139)**	1,519
Cash and cash equivalents at beginning of period	**16,328**	12,126
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 9,189**	$ 13,645
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 1,640**	$ 1,257
Interest received	**6,835**	6,198
Dividends received	**189**	163

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

NOTES TO THE CONDENSED INTERIM COMBINED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – BASIS OF PRESENTATION

Nature of operations

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

Combined Financial Statements

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

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

Statement of Compliance

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

These Interim Combined Financial Statements should be read in conjunction with the audited Annual Combined Financial Statements (the Annual Combined Financial Statements) for the year ended December 31, 2021, and the shaded areas of section 4.0, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Combined Financial Statements.

These Interim Combined Financial Statements were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on November 10, 2022.

Significant judgments, estimates and assumptions

The economic environment continues to give rise to sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Interim Combined Financial Statements. Desjardins Group closely monitors the development of the economic environment and its impact on significant judgments, estimates and assumptions, which are described in Note 1, "Basis of presentation", to the Annual Combined Financial Statements. For more information on significant judgments made to estimate the allowance for expected credit losses, see Note 6, "Loans and allowance for credit losses", to the Interim Combined Financial Statements.

Presentation and functional currency

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

All accounting policies were applied as described in Note 2, "Significant accounting policies", to the Annual Combined Financial Statements.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB, but not yet effective as at December 31, 2021, are described in Note 2, "Significant accounting policies", to the Annual Combined Financial Statements. During the nine-month period ended September 30, 2022, 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.

Update – IFRS 17, "Insurance Contracts"

The progress of the IFRS 17 implementation work allowed Desjardins Group to conclude on certain elections and requirements set out in the standard.

The life and health insurance subsidiary will apply the premium allocation approach to measure its group insurance contracts and certain other short-term insurance contracts. Individual segregated fund contracts and individual life insurance contracts with participation features will be measured using the variable fee approach. The general measurement model will be applied to all other long-term insurance contracts. At the date of transition, the requirements in IFRS 17 will be applied on a retrospective basis to short-term insurance contracts and the fair value approach will be applied to long-term insurance contracts.

The property and casualty insurance subsidiaries will apply the premium allocation approach to measure the liability for remaining coverage. At the date of transition, the requirements in IFRS 17 will be applied on a retrospective basis to all insurance contracts, except for claims assumed in a past acquisition, for which the modified retrospective approach will be used.

The requirements in IFRS 17 allow reassessing the designation or classification of financial assets related to insurance operations accounted for under IFRS 9 at the date of initial application of IFRS 17. Desjardins Group elected to not restate the comparative figures in its Combined Financial Statements to reflect changes in designation or classification for these financial assets that would be made as at January 1, 2023.

As part of its application, IFRS 17 allows certain choices. Desjardins Group will choose to:

- amortize insurance acquisition cash flows for insurance contracts measured using the premium allocation approach over the duration of the related contracts;
- apply the permitted accounting offset in the Statements of Income as part of using the strategy for mitigating financial risks related to segregated fund contracts;
- recognize insurance finance income and insurance finance expenses solely in the Combined Statements of Income;
- not discount the liability for remaining coverage for insurance contracts measured using the premium allocation approach that do not exceed one year.

Desjardins Group continues to assess the impact of adopting this standard, which will apply to annual periods beginning on January 1, 2023.

NOTE 3 – INTEREST RATE BENCHMARK REFORM

New developments

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), the administrator of the Canadian Dollar Offered Rate (CDOR), announced that it would cease publishing all tenors of CDOR after June 28, 2024. This announcement triggered the two-stage transition period recommended by the Canadian Alternative Reference Rate (CARR) Working Group in its December 2021 White Paper. By June 30, 2023, the end of the first stage of the transition plan, CDOR will have to be replaced by an alternative reference rate for new derivative products (except in certain specific circumstances) and for securities. By June 28, 2024, the end of the second stage of the transition plan, CDOR-based loan contracts will have to have transitioned to the alternative reference rate. On October 7, 2022, the CARR's working group announced its intention to begin the process of developing the Term Canadian Overnight Repo Rate Average (Term CORRA) stemming from the feedback received on a public consultation on the topic.

Hedging activities

Desjardins Group applies the relief measures arising from the first phase of the interest rate benchmark reform (IRBR) and resulting from the adoption of amendments to IFRS 9, IAS 39 and IFRS 7 that have been effective since January 1, 2020, which allow maintaining hedge accounting during the period of uncertainty preceding the replacement of current interest rate benchmarks by an alternative rate. The application of these relief measures is based on the presumption that current interest rate benchmarks designated in hedging relationships remain unchanged and the use of the exception to the requirement to cease hedge accounting when a hedging relationship does not meet the ranges established to determine the effectiveness of hedging relationships. The application of these relief measures will end at the earlier of: when the uncertainty arising from interest rate benchmark reform is no longer present; and when the hedging relationship is discontinued.

Progress and risks arising from the interest rate benchmark reform

The discontinuation of CDOR, including the impact on hedging relationships, will be managed by the Desjardins IRBR Working Group, whose mandate is to analyze all aspects of the reform, identify and mitigate the risks it poses, as well as coordinate and execute a transition plan.

The following table presents quantitative information about exposures for financial instruments and commitments subject to the reform that have yet to transition of the alternative rate and mature after June 28, 2024.

As at September 30, 2022	CDOR Maturing after June 28, 2024
Non-derivative financial assets(1)	$ 4,846
Non-derivative financial liabilities(2)	3,519
Derivative financial instruments(3)(4)	250,381
Loan commitments(5)	6,973

(1) Non-derivative assets include the gross carrying amount of loans and the carrying amount of securities.
(2) Non-derivative financial liabilities include the carrying amount of deposits, commitments related to securities sold short and subordinated notes.
(3) Derivative financial instruments include the notional amount of interest rate contracts, foreign exchange contracts and other derivative contracts.
(4) Includes $28,387 million of derivative financial instruments designated as part of fair value hedging relationships and $42,819 million of derivative financial instruments designated as part of cash flow hedging relationships.
(5) Includes loan commitments for which it is possible to draw amounts in several currencies.

NOTE 4 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at September 30, 2022	Classified as at fair value through profit or loss[(1)]	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income[(2)]	Designated as at fair value through other comprehensive income	Amortized cost[(2)]	Total
Financial assets						
Cash and deposits with financial institutions	$ 7	$ 356	$ 1,150	$ —	$ 7,676	$ 9,189
Securities	17,929	17,473	51,513	68	52	87,035
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	17,188	17,188
Loans	—	—	—	—	247,273	247,273
Other financial assets						
Clients' liability under acceptances	—	—	—	—	137	137
Derivative financial instruments[(3)]	5,791	—	—	—	—	5,791
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	5,490	5,490
Other	—	—	—	—	2,075	2,075
Total financial assets	**$ 23,727**	**$ 17,829**	**$ 52,663**	**$ 68**	**$ 279,891**	**$ 374,178**
Financial liabilities						
Deposits	$ —	$ 616	$ —	$ —	$ 254,836	$ 255,452
Other financial liabilities						
Acceptances	—	—	—	—	137	137
Commitments related to securities sold short	13,882	—	—	—	—	13,882
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	25,714	25,714
Derivative financial instruments[(3)]	6,372	—	—	—	—	6,372
Amounts payable to clients, brokers and financial institutions	—	—	—	—	10,466	10,466
Other	77	—	—	—	4,323	4,400
Subordinated notes	—	—	—	—	2,920	2,920
Total financial liabilities	**$ 20,331**	**$ 616**	**$ —**	**$ —**	**$ 298,396**	**$ 319,343**

(1) An amount of $3,713 million corresponds to financial assets designated for the overlay approach.

(2) As at September 30, 2022, 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 $8 million. Detailed information on the allowance for credit losses on loans is presented in Note 6, "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $109 million in assets and $1,219 million in liabilities.

NOTE 4 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2021	Classified as at fair value through profit or loss[1]	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income[2]	Designated as at fair value through other comprehensive income	Amortized cost[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ 1	$ 353	$ 735	$ —	$ 15,239	$ 16,328
Securities	18,890	20,882	53,214	72	41	93,099
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	12,019	12,019
Loans	—	—	—	—	230,511	230,511
Other financial assets						
Clients' liability under acceptances	—	—	—	—	268	268
Derivative financial instruments[3]	5,828	—	—	—	—	5,828
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	2,557	2,557
Other	—	—	—	—	1,895	1,895
Total financial assets	$ 24,719	$ 21,235	$ 53,949	$ 72	$ 262,530	$ 362,505
Financial liabilities						
Deposits	$ —	$ 351	$ —	$ —	$ 238,004	$ 238,355
Other financial liabilities						
Acceptances	—	—	—	—	268	268
Commitments related to securities sold short	11,342	—	—	—	—	11,342
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	31,177	31,177
Derivative financial instruments[3]	5,500	—	—	—	—	5,500
Amounts payable to clients, brokers and financial institutions	—	—	—	—	7,938	7,938
Other	147	—	—	—	3,660	3,807
Subordinated notes	—	—	—	—	1,960	1,960
Total financial liabilities	$ 16,989	$ 351	$ —	$ —	$ 283,007	$ 300,347

(1) An amount of $3,767 million corresponds to financial assets designated for the overlay approach.
(2) As at December 31, 2021, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $4 million. Detailed information on the allowance for credit losses on loans is presented in Note 6 "Loans and allowance for credit losses".
(3) Include derivative financial instruments designated as hedging instruments amounting to $126 million in assets and $105 million in liabilities.

During the nine-month period ended September 30, 2022 and the year ended December 31, 2021, there were no material reclassifications of financial instruments.

NOTE 5 – 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, “Significant accounting policies”, to the Annual Combined Financial Statements. No significant changes were made to our fair value valuation techniques during the quarter. Desjardins Group has implemented controls and procedures to ensure that financial instruments are appropriately and reliably measured.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at September 30, 2022		As at December 31, 2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Securities	**$ 52**	**$ 51**	$ 41	$ 41
Loans	**247,273**	**237,968**	230,511	229,566
Financial liabilities				
Deposits	**254,836**	**251,236**	238,004	238,465
Subordinated notes	**2,920**	**2,848**	1,960	2,009

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 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at September 30, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 9	$ 354	$ —	$ 363
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,720	—	—	7,720
Provincial governmental entities and municipal corporations in Canada	14,259	535	—	14,794
School or public corporations in Canada	12	74	—	86
Foreign public administrations	370	36	—	406
Other securities				
Financial institutions	—	1,722	8	1,730
Other issuers	1	4,801	517	5,319
Equity securities	3,425	98	1,824	5,347
	25,787	7,266	2,349	35,402
Derivative financial instruments				
Interest rate contracts	—	691	—	691
Foreign exchange contracts	—	1,724	—	1,724
Other contracts	—	3,376	—	3,376
	—	5,791	—	5,791
Total financial assets at fair value through profit or loss	25,796	13,411	2,349	41,556
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	3	1,147	—	1,150
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	6,980	6,084	—	13,064
Provincial governmental entities and municipal corporations in Canada	27,044	3,486	—	30,530
Foreign public administrations	23	—	—	23
Other securities				
Financial institutions	—	6,606	—	6,606
Other issuers	—	1,239	51	1,290
Equity securities	—	—	68	68
	34,047	17,415	119	51,581
Total financial assets at fair value through other comprehensive income	34,050	18,562	119	52,731
Financial instruments of segregated funds	6,488	13,114	571	20,173
Total financial assets	$ 66,334	$ 45,087	$ 3,039	$ 114,460
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 616	$ —	$ 616
Other liabilities				
Commitments related to securities sold short	13,045	837	—	13,882
Other	—	—	77	77
	13,045	1,453	77	14,575
Derivative financial instruments				
Interest rate contracts	—	1,422	—	1,422
Foreign exchange contracts	—	1,844	—	1,844
Other contracts	—	3,106	—	3,106
	—	6,372	—	6,372
Total financial liabilities	$ 13,045	$ 7,825	$ 77	$ 20,947

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ —	$ 354	$ —	$ 354
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	8,321	—	—	8,321
Provincial governmental entities and municipal corporations in Canada	16,944	684	—	17,628
School or public corporations in Canada	15	84	—	99
Foreign public administrations	567	—	—	567
Other securities				
Financial institutions	—	1,545	9	1,554
Other issuers	1	4,790	591	5,382
Equity securities	4,764	29	1,428	6,221
	30,612	7,132	2,028	39,772
Derivative financial instruments				
Interest rate contracts	—	950	—	950
Foreign exchange contracts	—	350	—	350
Other contracts	—	4,528	—	4,528
	—	5,828	—	5,828
Total financial assets at fair value through profit or loss	30,612	13,314	2,028	45,954
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	—	735	—	735
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,761	7,370	—	15,131
Provincial governmental entities and municipal corporations in Canada	28,131	3,642	—	31,773
School or public corporations in Canada	—	28	—	28
Foreign public administrations	16	—	—	16
Other securities				
Financial institutions	19	5,166	—	5,185
Other issuers	—	1,017	64	1,081
Equity securities	—	3	69	72
	35,927	17,226	133	53,286
Total financial assets at fair value through other comprehensive income	35,927	17,961	133	54,021
Financial instruments of segregated funds	7,685	14,760	360	22,805
Total financial assets	$ 74,224	$ 46,035	$ 2,521	$ 122,780
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 351	$ —	$ 351
Other liabilities				
Commitments related to securities sold short	10,617	725	—	11,342
Other	—	—	147	147
	10,617	1,076	147	11,840
Derivative financial instruments				
Interest rate contracts	—	594	—	594
Foreign exchange contracts	—	643	—	643
Other contracts	—	4,263	—	4,263
	—	5,500	—	5,500
Total financial liabilities	$ 10,617	$ 6,576	$ 147	$ 17,340

During the nine-month period ended September 30, 2022 and the year ended December 31, 2021, 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 5 – 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 the financial instruments categorized within Level 3 are appropriately and reliably measured. During the nine-month period ended September 30, 2022, no significant changes were made to key controls and procedures, valuation techniques, unobservable inputs and input value ranges used to determine fair value. 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 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

Changes in fair value of financial instruments categorized within Level 3

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

For the nine-month period ended September 30, 2022	Balance at beginning of period	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other securities							
Financial institutions							
Mortgage bonds	$ 9	$ —	$ (1)	$ —	$ —	$ —	$ 8
Other issuers							
Mortgage bonds	499	—	(34)	—	—	(51)	414
Other debt securities	92	—	2	—	21	(12)	103
Equity securities	1,428	9	109	—	388	(110)	1,824
Total financial assets at fair value through profit or loss	2,028	9	76	—	409	(173)	2,349
Financial assets at fair value through other comprehensive income							
Securities							
Other securities							
Other issuers							
Mortgage bonds	64	—	—	(2)	—	(11)	51
Equity securities	69	—	—	(1)	—	—	68
Total financial assets at fair value through other comprehensive income	133	—	—	(3)	—	(11)	119
Financial instruments of segregated funds	360	1	7	—	234	(31)	571
Total financial assets	$ 2,521	$ 10	$ 83	$ (3)	$ 643	$ (215)	$ 3,039
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	$ 147	$ —	$ 17	$ —	$ —	$ (87)	$ 77
Total financial liabilities	$ 147	$ —	$ 17	$ —	$ —	$ (87)	$ 77

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment loss", while realized gains or losses on financial liabilities "Classified as at fair value through profit or loss" are recognized under "Other income – Other" in the Combined Statements of Income.

(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment loss", while unrealized gains or losses on financial liabilities "Classified as at fair value through profit or loss" are recognized under "Other income – Other" in the Combined Statements of Income.

(3) Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized losses" on debt securities classified as 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 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

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

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

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under “Net investment loss”, while realized gains or losses on financial liabilities “Classified as at fair value through profit or loss” are recognized under “Other income – Other” in the Combined Statements of Income.

(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under “Net investment loss”, while unrealized gains or losses on financial liabilities “Classified at fair value through profit or loss” are recognized under “Other income – Other” in the Combined Statements of Income.

(3) Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized losses” on debt securities classified as 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 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which Desjardins Group estimates an allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. For more information on credit quality according to risk levels, see Table 35, “Probabilities of default of retail clients by risk level”, and Table 36, “Probabilities of default of businesses, financial institutions and sovereign borrowers by risk level”, in section 4.0, “Risk Management”, of the 2021 Annual Management’s Discussion and Analysis.

Loans

	Non-credit impaired		Credit-impaired	
As at September 30, 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 50,031	$ 12	$ —	$ 50,043
Very low	69,759	1,422	—	71,181
Low	29,024	2,867	—	31,891
Moderate	1,806	2,184	—	3,990
High	—	720	—	720
Default	—	116	228	344
Total gross residential mortgages	$ 150,620	$ 7,321	$ 228	$ 158,169
Allowance for credit losses	(59)	(41)	(23)	(123)
Total net residential mortgages	$ 150,561	$ 7,280	$ 205	$ 158,046
Consumer, credit card and other personal loans				
Excellent	$ 5,539	$ —	$ —	$ 5,539
Very low	6,586	13	—	6,599
Low	7,981	1,015	—	8,996
Moderate	1,279	743	—	2,022
High	10	1,251	—	1,261
Default	—	67	163	230
Total gross consumer, credit card and other personal loans	$ 21,395	$ 3,089	$ 163	$ 24,647
Allowance for credit losses	(154)	(287)	(80)	(521)
Total net consumer, credit card and other personal loans	$ 21,241	$ 2,802	$ 83	$ 24,126
Business and government loans(1)				
Acceptable risk				
Investment grade	$ 22,959	$ 352	$ —	$ 23,311
Other than investment grade	33,452	4,690	—	38,142
Under watch	1,503	1,877	—	3,380
Default	—	90	696	786
Total gross business and government loans	$ 57,914	$ 7,009	$ 696	$ 65,619
Allowance for credit losses	(113)	(86)	(182)	(381)
Total net business and government loans	$ 57,801	$ 6,923	$ 514	$ 65,238
Total gross loans and acceptations	$ 229,929	$ 17,419	$ 1,087	$ 248,435
Allowance for credit losses	(326)	(414)	(285)	(1,025)
Total net loans and acceptances	$ 229,603	$ 17,005	$ 802	$ 247,410

(1) Include clients’ liability under acceptances.

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

Loans *(continued)*

	Non-credit impaired		Credit-impaired	
As at December 31, 2021	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 50,281	$ 27	$ —	$ 50,308
Very low	65,459	2,391	—	67,850
Low	18,139	8,916	—	27,055
Moderate	1,200	2,285	—	3,485
High	5	652	—	657
Default	—	131	209	340
Total gross residential mortgages	$ 135,084	$ 14,402	$ 209	$ 149,695
Allowance for credit losses	(72)	(70)	(20)	(162)
Total net residential mortgages	$ 135,012	$ 14,332	$ 189	$ 149,533
Consumer, credit card and other personal loans				
Excellent	$ 5,731	$ —	$ —	$ 5,731
Very low	6,314	14	—	6,328
Low	7,609	1,268	—	8,877
Moderate	1,241	756	—	1,997
High	7	1,229	—	1,236
Default	—	69	148	217
Total gross consumer, credit card and other personal loans	$ 20,902	$ 3,336	$ 148	$ 24,386
Allowance for credit losses	(113)	(251)	(80)	(444)
Total net consumer, credit card and other personal loans	$ 20,789	$ 3,085	$ 68	$ 23,942
Business and government loans(1)				
Acceptable risk				
Investment grade	$ 20,307	$ 616	$ —	$ 20,923
Other than investment grade	27,475	4,747	—	32,222
Under watch	1,453	2,258	—	3,711
Default	—	81	731	812
Total gross business and government loans	$ 49,235	$ 7,702	$ 731	$ 57,668
Allowance for credit losses	(105)	(80)	(179)	(364)
Total net business and government loans	$ 49,130	$ 7,622	$ 552	$ 57,304
Total gross loans and acceptances	$ 205,221	$ 25,440	$ 1,088	$ 231,749
Allowance for credit losses	(290)	(401)	(279)	(970)
Total net loans and acceptances	$ 204,931	$ 25,039	$ 809	$ 230,779

(1) Include clients' liability under acceptances.

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

Off-balance sheet items[1]

As at September 30, 2022	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 46,266	$ —	$ —	$ 46,266
Very low	23,606	125	—	23,731
Low	7,837	888	—	8,725
Moderate	370	519	—	889
High	6	276	—	282
Default	—	—	46	46
Total	$ 78,085	$ 1,808	$ 46	$ 79,939
Allowance for credit losses	(35)	(9)	—	(44)
Total, net of allowance for credit losses	$ 78,050	$ 1,799	$ 46	$ 79,895
Business and government				
Acceptable risk				
Investment grade	$ 28,441	$ 95	$ —	$ 28,536
Other than investment grade	11,368	1,876	—	13,244
Under watch	293	268	—	561
Default	—	6	109	115
Total	$ 40,102	$ 2,245	$ 109	$ 42,456
Allowance for credit losses	(10)	(3)	—	(13)
Total, net of allowance for credit losses	$ 40,092	$ 2,242	$ 109	$ 42,443
Total off-balance sheet items	$ 118,187	$ 4,053	$ 155	$ 122,395
Allowance for credit losses	(45)	(12)	—	(57)
Total off-balance sheet items, net of allowance for credit losses	$ 118,142	$ 4,041	$ 155	$ 122,338

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

As at December 31, 2021	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 51,740	$ 1	$ —	$ 51,741
Very low	21,756	73	—	21,829
Low	6,395	2,336	—	8,731
Moderate	1,618	645	—	2,263
High	5	461	—	466
Default	—	2	50	52
Total	$ 81,514	$ 3,518	$ 50	$ 85,082
Allowance for credit losses	(46)	(17)	—	(63)
Total, net of allowance for credit losses	$ 81,468	$ 3,501	$ 50	$ 85,019
Business and government				
Acceptable risk				
Investment grade	$ 31,397	$ 120	$ —	$ 31,517
Other than investment grade	9,611	1,899	—	11,510
Under watch	198	448	—	646
Default	—	4	119	123
Total	$ 41,206	$ 2,471	$ 119	$ 43,796
Allowance for credit losses	(7)	(2)	—	(9)
Total, net of allowance for credit losses	$ 41,199	$ 2,469	$ 119	$ 43,787
Total off-balance sheet items	$ 122,720	$ 5,989	$ 169	$ 128,878
Allowance for credit losses	(53)	(19)	—	(72)
Total off-balance sheet items, net of allowance for credit losses	$ 122,667	$ 5,970	$ 169	$ 128,806

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

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES

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

	Non-credit impaired		Credit-impaired	Allowance for
For the nine-month period ended September 30, 2022	**Stage 1**	**Stage 2**	**Stage 3**	**credit losses**
Residential mortgages				
Balance at beginning of period	$ 73	$ 73	$ 20	$ 166
Provision for credit losses				
Transfers to[1]:				
Stage 1	56	(54)	(2)	—
Stage 2	(5)	9	(4)	—
Stage 3	—	(2)	2	—
Net remeasurement due to transfers[2]	(25)	11	6	(8)
Changes in risks, parameters and models[3]	(56)	7	—	(49)
New originations or acquisitions[4]	25	9	—	34
Derecognitions and maturities[5]	(9)	(11)	(5)	(25)
Net drawdowns (repayments)[6]	1	—	(1)	—
Other	—	—	4	4
	(13)	(31)	—	(44)
Write-offs and recoveries	—	—	3	3
Balance at end of period	$ 60	$ 42	$ 23	$ 125
Consumer, credit card and other personal loans				
Balance at beginning of period	$ 158	$ 265	$ 80	$ 503
Provision for credit losses				
Transfers to[1]:				
Stage 1	194	(187)	(7)	—
Stage 2	(46)	72	(26)	—
Stage 3	(1)	(27)	28	—
Net remeasurement due to transfers[2]	(25)	34	106	115
Changes in risks, parameters and models[3]	(106)	147	104	145
New originations or acquisitions[4]	51	37	—	88
Derecognitions and maturities[5]	(30)	(40)	(52)	(122)
Net drawdowns (repayments)[6]	(7)	(6)	(1)	(14)
	30	30	152	212
Write-offs and recoveries	—	—	(152)	(152)
Balance at end of period	$ 188	$ 295	$ 80	$ 563
Business and government				
Balance at beginning of period	$ 112	$ 82	$ 179	$ 373
Provision for credit losses				
Transfers to[1]:				
Stage 1	41	(39)	(2)	—
Stage 2	(18)	26	(8)	—
Stage 3	(1)	(3)	4	—
Net remeasurement due to transfers[2]	(6)	19	44	57
Changes in risks, parameters and models[3]	(69)	(2)	14	(57)
New originations or acquisitions[4]	77	17	—	94
Derecognitions and maturities[5]	(27)	(17)	(41)	(85)
Net drawdowns (repayments)[6]	14	6	(2)	18
	11	7	9	27
Write-offs and recoveries	—	—	(6)	(6)
Balance at end of period	$ 123	$ 89	$ 182	$ 394
Total balances at end of period	$ 371	$ 426	$ 285	$ 1,082
Composed of:				
Loans	$ 326	$ 414	$ 285	$ 1,025
Off-balance sheet items[7]	45	12	—	57

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.
(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) The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Combined Balance Sheets.

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Non-credit impaired		Credit-impaired	Allowance for
For the nine-month period ended September 30, 2021	Stage 1	Stage 2	Stage 3	credit losses
Residential mortgages				
Balance at beginning of period	$ 65	$ 102	$ 29	$ 196
Provision for credit losses				
Transfers to[1]:				
Stage 1	50	(45)	(5)	—
Stage 2	(10)	20	(10)	—
Stage 3	—	(3)	3	—
Net remeasurement due to transfers[2]	(12)	17	9	14
Changes in risks, parameters and models[3]	(49)	(2)	(1)	(52)
New originations or acquisitions[4]	44	17	—	61
Derecognitions and maturities[5]	(10)	(19)	(9)	(38)
Net drawdowns (repayments)[6]	1	(4)	1	(2)
	14	(19)	(12)	(17)
Write-offs and recoveries	—	—	2	2
Balance at end of period	$ 79	$ 83	$ 19	$ 181
Consumer, credit card and other personal loans				
Balance at beginning of period	$ 177	$ 306	$ 126	$ 609
Provision for credit losses				
Transfers to[1]:				
Stage 1	210	(197)	(13)	—
Stage 2	(45)	100	(55)	—
Stage 3	(1)	(25)	26	—
Net remeasurement due to transfers[2]	(32)	41	109	118
Changes in risks, parameters and models[3]	(161)	47	96	(18)
New originations or acquisitions[4]	59	38	—	97
Derecognitions and maturities[5]	(26)	(45)	(60)	(131)
Net drawdowns (repayments)[6]	(8)	(15)	(6)	(29)
	(4)	(56)	97	37
Write-offs and recoveries	—	—	(142)	(142)
Balance at end of period	$ 173	$ 250	$ 81	$ 504
Business and government				
Balance at beginning of period	$ 76	$ 128	$ 181	$ 385
Provision for credit losses				
Transfers to[1]:				
Stage 1	31	(30)	(1)	—
Stage 2	(12)	18	(6)	—
Stage 3	—	(7)	7	—
Net remeasurement due to transfers[2]	(4)	6	29	31
Changes in risks, parameters and models[3]	(52)	(21)	29	(44)
New originations or acquisitions[4]	71	27	—	98
Derecognitions and maturities[5]	(17)	(18)	(35)	(70)
Net drawdowns (repayments)[6]	11	2	5	18
	28	(23)	28	33
Write-offs and recoveries	—	—	(21)	(21)
Balance at end of period	$ 104	$ 105	$ 188	$ 397
Total balances at end of period	$ 356	$ 438	$ 288	$ 1,082
Composed of:				
Loans	$ 298	$ 421	$ 288	$ 1,007
Off-balance sheet items[7]	58	17	—	75

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.
(4) Represent the increase in the allowance for new originations or acquisitions during the 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) The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Combined Balance Sheets.

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS

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

The current macroeconomic environment, characterized by increased inflationary pressures, rapid interest rate hikes, significant supply chain disruptions, labour shortages and growing geopolitical tensions, among others, continues to give rise to uncertainty. Therefore, management has to continue making particularly complex judgments to estimate the allowance for credit losses in the current situation.

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

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

As at September 30, 2022	Base scenario – Next 12 months	Base scenario – Remaining forecast period	Upside scenario – Next 12 months	Upside scenario – Remaining forecast period	Downside scenario – Next 12 months	Downside scenario – Remaining forecast period
Macroeconomic variables(1)						
Gross domestic product (annualized change)	**0.4 %**	**1.5 %**	**1.5 %**	**2.2 %**	**(2.0) %**	**1.1 %**
Unemployment rate (average)	**5.0 %**	**4.6 %**	**3.9 %**	**3.2 %**	**6.3 %**	**7.1 %**
Consumer Price Index (annualized change)	**2.2 %**	**2.0 %**	**4.5 %**	**2.4 %**	**1.8 %**	**1.7 %**
Housing prices (annualized change)	**(11.4) %**	**1.5 %**	**(5.2) %**	**2.3 %**	**(26.9) %**	**(0.8) %**
Corporate credit spread(2) (average)	**175 bp**	**127 bp**	**126 bp**	**96 bp**	**253 bp**	**164 bp**
S&P/TSX stock index(2) (annualized change)	**(1.1) %**	**4.0 %**	**22.6 %**	**7.1 %**	**(15.3) %**	**5.2 %**

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

As at December 31, 2021	Base scenario – Next 12 months	Base scenario – Remaining forecast period	Upside scenario – Next 12 months	Upside scenario – Remaining forecast period	Downside scenario – Next 12 months	Downside scenario – Remaining forecast period
Macroeconomic variables(1)						
Gross domestic product (annualized change)	2.4 %	1.6 %	5.6 %	2.0 %	0.7 %	0.7 %
Unemployment rate (average)	4.9 %	4.4 %	4.2 %	3.2 %	5.8 %	5.9 %
Consumer Price Index (annualized change)	1.8 %	2.2 %	4.0 %	2.3 %	1.7 %	1.5 %
Housing prices (annualized change)	(5.0) %	0.1 %	8.2 %	1.6 %	(17.7) %	(1.7) %
Corporate credit spread(2) (average)	114 bp	115 bp	95 bp	90 bp	143 bp	149 bp
S&P/TSX stock index(2) (annualized change)	7.0 %	4.8 %	14.0 %	5.6 %	(11.6) %	1.6 %

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

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

The base scenario considers a mild recession, which seems increasingly hard to avoid. Due to inflation, central banks have picked up the pace of monetary tightening, which should soon lead to quarterly declines in real GDP in several economies, including Canada and Québec. Under this scenario, economic difficulties will push up the unemployment rate, and the housing sector will be particularly affected. In Québec, the decreases in real GDP should be concentrated in the first half of 2023. The Québec unemployment rate should increase back to approximately 5.5% and house prices should fall by approximately 17% compared to the spring 2022 peak. This scenario forecasts that if inflation goes back to 2% as expected in 2023, the Bank of Canada will then begin to reduce its policy interest rates in the fourth quarter of 2023 and will continue to do so in 2024. This would help accelerating economic growth after a more difficult year 2023. The unemployment rate should gradually converge to 4 %, in the medium term, in Québec.

In the downside scenario, economic growth would be more severely affected by the increase in interest rates. Central banks would announce additional interest rate hikes in the coming months to increase the probability of inflation returning to its target in a short-term horizon. Under that scenario, the discount rate would increase to 4.5% by the end of 2022 and the unemployment rate would increase more significantly, possibly to 8% in Québec. The downside scenario also assumes a more significant correction in house prices of approximately 35% on average. Interest rate decreases would be announced in the second quarter of 2023 as a result of greater economic difficulties than in the base scenario that would push down inflation more quickly.

The upside scenario essentially assumes that a stronger economic than in the base scenario, helped among others by a faster reduction in supply constraints. This would imply that the war in Ukraine would come to an end more quickly and the pandemic would no longer require major lockdowns that curtail production, especially in China, where the zero-COVID policy continues to be rigorously applied for the time being. In this scenario, the unemployment rate could decrease to 3% in the next few years. Inflation would still be high in the near term, but would mostly result from very strong demand instead of supply constraints, as it is the case in the downside and base scenario. This scenario forecasts that, in the medium term, policy interest rates would remain sufficiently high to avoid economic overheating and keep inflation close to the 2% target. High interest rates would limit the growth in house prices.

The development of the economic outlook after September 30, 2022 will be considered in estimating the allowance for expected credit losses in future periods.

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

Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at September 30, 2022	As at December 31, 2021
Under IFRS 9	**$ 797**	$ 763
Weighting of 100% assigned to the scenario:		
Base	**$ 721**	$ 650
Upside	**577**	610
Downside	**1,016**	1,156

Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at September 30, 2022	As at December 31, 2021
Under IFRS 9	**$ 797**	$ 763
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 724**	$ 675

NOTE 7 – DEPOSITS AND SUBORDINATED NOTES

DEPOSITS

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

The following table presents the breakdown of deposits.

	As at September 30, 2022				As at December 31, 2021			
	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	$ 71,935	$ 5,577	$ 64,917	$ 142,429	$ 70,756	$ 5,536	$ 60,040	$ 136,332
Business and government	54,660	536	56,984	112,180	52,563	524	48,557	101,644
Deposit-taking institutions	263	—	580	843	344	—	35	379
	$ 126,858	$ 6,113	$ 122,481	$ 255,452	$ 123,663	$ 6,060	$ 108,632	$ 238,355

SUBORDINATED NOTES

On August 23, 2022, the Federation issued subordinated notes eligible as Non-Viability Contingent Capital (NVCC) amounting to $1 billion. The notes bear interest at an annual fixed rate of 5.035% for the first five years and at an annual rate equal to daily compounded CORRA (Canadian Overnight Repo Rate Average) plus 2.29% until maturity on August 23, 2032. These notes are redeemable at the option of the issuer on or after August 23, 2027, subject to conditions and the prior approval of the regulatory authority.

NOTE 8 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at September 30, 2022		As at December 31, 2021	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains (losses) on debt securities classified as at fair value through other comprehensive income(1)	$ (1,263)	$ (17)	$ 234	$ (1)
Net unrealized gains (losses) related to the overlay approach adjustment for insurance operations financial assets	(120)	(3)	448	33
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(783)	—	84	—
Share of associates and joint ventures accounted for using the equity method	(6)	—	(1)	—
Accumulated other comprehensive income	$ (2,172)	$ (20)	$ 765	$ 32

(1) Take into account an allowance for credit losses of $8 million as at September 30, 2022 ($4 million as at December 31, 2021) on securities classified as at fair value through other comprehensive income.

NOTE 9 – CAPITAL MANAGEMENT

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

Desjardins Group's capital ratios are calculated according to the base capital adequacy guideline applicable to financial services cooperatives 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. These ratios include a 2.5% capital conversation buffer. In addition, Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3.5%.

Since April 1, 2022, Desjardins Group has to meet the requirements of the Total Loss Absorbing Capacity (TLAC) Guideline issued by the AMF. The TLAC ratio and TLAC leverage ratio are calculated in accordance with this guideline. The guideline applies to a resolution group deemed to be Desjardins Group excluding CDO. Desjardins Group is required to maintain a TLAC ratio of at least 21.5% and a TLAC leverage ratio of at least 6.75%.

As at September 30, 2022, Desjardins Group was in compliance with all the AMF capital regulatory requirements.

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

(in millions of dollars and as a percentage)	As at September 30, 2022	As at December 31, 2021
Capital		
Tier 1A capital	**$ 28,021**	$ 28,437
Tier 1 capital	**28,021**	28,437
Total capital	**30,288**	29,721
Risk-weighted assets		
Credit risk	**131,678**	117,168
Market risk	**3,255**	2,874
Operational risk	**15,105**	14,476
Total risk-weighted assets	**$ 150,038**	$ 134,518
Ratios and leverage ratio exposure		
Tier 1A capital	**18.7 %**	21.1 %
Tier 1 capital	**18.7**	21.1
Total capital	**20.2**	22.1
Leverage	**7.5**	8.5
Leverage ratio exposure	**$ 371,407**	$ 336,136
Available TLAC and TLAC ratios		
Available total loss absorbing capacity ("TLAC")	**$ 37,707**	N/A
TLAC ratio	**26.2 %**	N/A
TLAC leverage ratio	**10.4**	N/A

NOTE 10 – NET INTEREST INCOME AND NET INVESTMENT INCOME (LOSS)

NET INTEREST INCOME

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

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2022	2021	**2022**	2021
Interest income on financial assets				
At amortized cost	**$ 2,223**	$ 1,770	**$ 5,862**	$ 5,231
At fair value through other comprehensive income	**278**	110	**590**	311
At fair value through profit or loss	**3**	3	**8**	12
	2,504	1,883	**6,460**	5,554
Interest expense on financial liabilities				
At amortized cost	**851**	400	**1,696**	1,210
At fair value through profit or loss	**4**	7	**13**	13
	855	407	**1,709**	1,223
	$ 1,649	$ 1,476	**$ 4,751**	$ 4,331

NET INVESTMENT INCOME (LOSS)

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

For the three-month periods ended September 30	**2022**			2021		
	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	**$ (9)**	**$ (277)**	**$ (286)**	$ 101	$ (39)	$ 62
Designated as at fair value through profit or loss	**158**	**34**	**192**	129	(364)	(235)
Classified as at fair value through other comprehensive income	**41**	**(25)**	**16**	28	5	33
At amortized cost and other	**24**	**16**	**40**	42	8	50
	$ 214	**$ (252)**	**$ (38)**	$ 300	$ (390)	$ (90)

For the nine-month periods ended September 30	**2022**			2021		
	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	**$ 118**	**$ (1,304)**	**$ (1,186)**	$ 237	$ 323	$ 560
Designated as at fair value through profit or loss	**435**	**(3,965)**	**(3,530)**	384	(1,838)	(1,454)
Classified as at fair value through other comprehensive income	**107**	**(98)**	**9**	79	65	144
At amortized cost and other	**77**	**47**	**124**	102	11	113
	$ 737	**$ (5,320)**	**$ (4,583)**	$ 802	$ (1,439)	$ (637)

NOTE 11 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

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

For the three-month periods ended September 30	Personal and Business Services 2022	Personal and Business Services 2021	Wealth Management and Life and Health Insurance 2022	Wealth Management and Life and Health Insurance 2021	Property and Casualty Insurance 2022	Property and Casualty Insurance 2021	Other 2022	Other 2021	Combined 2022	Combined 2021
Net interest income	**$ 1,468**	$ 1,280	**$ 2**	$ —	**$ —**	$ —	**$ 179**	$ 196	**$ 1,649**	$ 1,476
Net premiums	**—**	—	**1,307**	1,475	**1,524**	1,505	**(84)**	(75)	**2,747**	2,905
Other income	**744**	741	**574**	216	**114**	11	**(347)**	(213)	**1,085**	755
Total income	**2,212**	2,021	**1,883**	1,691	**1,638**	1,516	**(252)**	(92)	**5,481**	5,136
Provision for credit losses	**124**	54	**1**	—	**—**	—	**—**	(2)	**125**	52
Claims, benefits, annuities and changes in insurance contract liabilities	**—**	—	**1,067**	956	**1,145**	763	**(8)**	(6)	**2,204**	1,713
Non-interest expense	**1,672**	1,424	**647**	611	**385**	359	**(139)**	(106)	**2,565**	2,288
Operating surplus earnings	**416**	543	**168**	124	**108**	394	**(105)**	22	**587**	1,083
Income taxes on surplus earnings	**109**	142	**13**	15	**25**	105	**(38)**	5	**109**	267
Surplus earnings before member dividends	**307**	401	**155**	109	**83**	289	**(67)**	17	**478**	816
Member dividends, net of income tax recovery	**78**	66	**—**	—	**—**	—	**—**	—	**78**	66
Net surplus earnings for the period after member dividends	**$ 229**	$ 335	**$ 155**	$ 109	**$ 83**	$ 289	**$ (67)**	$ 17	**$ 400**	$ 750
of which:										
Group's share	**$ 229**	$ 335	**$ 155**	$ 109	**$ 69**	$ 255	**$ (67)**	$ 17	**$ 386**	$ 716
Non-controlling interests' share	**—**	—	**—**	—	**14**	34	**—**	—	**14**	34

NOTE 11 – 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 nine-month periods ended September 30	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Net interest income	**$ 4,141**	$ 3,755	**$ 4**	$ —	**$ —**	$ —	**$ 606**	$ 576	**$ 4,751**	$ 4,331
Net premiums	**—**	—	**3,793**	3,901	**4,481**	4,396	**(244)**	(220)	**8,030**	8,077
Other income	**2,337**	2,236	**(2,379)**	49	**(1)**	(48)	**(1,096)**	(696)	**(1,139)**	1,541
Total income	**6,478**	5,991	**1,418**	3,950	**4,480**	4,348	**(734)**	(340)	**11,642**	13,949
Provision for credit losses	**195**	58	**1**	—	**—**	—	**1**	(5)	**197**	53
Claims, benefits, annuities and changes in insurance contract liabilities	**—**	—	**(1,151)**	1,588	**2,905**	2,131	**(38)**	(21)	**1,716**	3,698
Non-interest expense	**5,047**	4,293	**1,975**	1,792	**1,140**	1,056	**(357)**	(311)	**7,805**	6,830
Operating surplus earnings	**1,236**	1,640	**593**	570	**435**	1,161	**(340)**	(3)	**1,924**	3,368
Income taxes on surplus earnings	**324**	428	**128**	101	**101**	294	**(103)**	(4)	**450**	819
Surplus earnings before member dividends	**912**	1,212	**465**	469	**334**	867	**(237)**	1	**1,474**	2,549
Member dividends, net of income tax recovery	**233**	198	**—**	—	**—**	—	**—**	—	**233**	198
Net surplus earnings for the period after member dividends	**$ 679**	$ 1,014	**$ 465**	$ 469	**$ 334**	$ 867	**$ (237)**	$ 1	**$ 1,241**	$ 2,351
of which:										
Group's share	**$ 679**	$ 1,014	**$ 465**	$ 469	**$ 284**	$ 764	**$ (237)**	$ 1	**$ 1,191**	$ 2,248
Non-controlling interests' share	**—**	—	**—**	—	**50**	103	**—**	—	**50**	103

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at September 30, 2022	**$ 327,299**	**$ 51,444**	**$ 15,900**	**$ 13,428**	**$ 408,071**
As at December 31, 2021	$ 306,878	$ 56,891	$ 16,574	$ 16,742	$ 397,085

GENERAL INFORMATION

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