Fédération des caisses Desjardins du Québec

2020 Annual Report

Together for 120 years

Desjardins

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DESJARDINS GROUP ANNUAL REPORT
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This annual report was produced by the Human Resources and Communications Executive Division of Desjardins Group (Corporate Communications Division) and the Finance, Treasury and Administration Executive Division of Desjardins Group (Finance Division).

Message from management

Guy Cormier
President and CEO
Desjardins Group

Réal Bellemare
Senior Executive Vice-President
and Chief Operating Officer
Desjardins Group

Firmly focused on the future

In 2020, we celebrated a major milestone: 120 years of history since the first Desjardins caisse was founded by Alphonse and Dorimène Desjardins. The backdrop for this year—the COVID 19 pandemic—was unlike any other. It was a period of huge challenges, and we were there for our members and clients like never before. We continue to build a bright future for generations to come through dedication, connection and solidarity.

When the government asked financial institutions to support local business communities, we stepped up and created several assistance programs.

We opened the Desjardins Group Security Office in January to oversee best practices in information security and personal information protection, and we launched the Desjardins Fusion Centre, a security intelligence centre composed of experts in cybercrime, fraud and financial crime.

We also made some major acquisitions to expand our services, including the holding company Purplebricks Canada, a leader in the real estate market.

Results that reflect the trust of our members and clients

Thanks to our members' and clients' support, 2020 was a strong year. The Federation posted surplus earnings before dividends to member caisses of $1.0 billion. Operating income totalled $15.5 billion, up $369 million (2.4%) over 2019.

It should be noted that in 2019, there was a $309 million gain net of income taxes from the disposal of the Federation's entire merchant portfolio, which was housed under the Monetico brand.

Helping businesses bounce back

We developed initiatives to support the economic recovery and help businesses and community organizations reopen with confidence.

We supported communities with initiatives like the GoodSpark Fund, which we launched in 2016 to invest $250 million in communities in Quebec and Ontario by 2024. Many businesses also received assistance from the Momentum Fund to launch innovative solutions and support business continuity.

We also partnered with the La Ruche crowdfunding platform to launch the Pay It Forward program, where we matched donations and gift cards purchased from local businesses, and the Double Your Impact program, where we matched donations made online in lieu of traditional holiday fundraising drives. We contributed a total of $3.7 million to our communities through these programs.

Innovating and evolving

At the same time, we took steps to keep all our employees safe. There was a major shift in how we work, with over 80% of our 48,930 employees making the switch to working from home to keep meeting members' and clients' needs during the pandemic.

Climate action and sustainable development are at the heart of our decisions

At Desjardins, we're more committed than ever to climate action and a just energy transition.

We've invested over $1.21 billion[1] in renewable energy, and we're divesting from coal as the first financial institution in North America to join the Powering Past Coal Alliance.

Committed to enriching the lives of people and communities

We're starting 2021 more confident than ever, knowing we can count on the support of our directors, managers and employees to always do what's best for members and clients and to help the economy and our communities bounce back. Everyone at Desjardins is firmly committed to enriching the lives of our 7.5 million members and clients and their communities. We can't thank them enough!

Guy Cormier
President and CEO
Desjardins Group

Réal Bellemare
Senior Executive Vice-President
and Chief Operating Officer
Desjardins Group

[1] Together with the Desjardins Group Pension Plan.

Mission, goal and values

Desjardins Group's mission

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

- By continually developing an integrated cooperative network of secure and profitable financial services, owned and administered by our members, as well as a network of complementary financial organizations with competitive returns, controlled by our members
- By educating people, particularly members, officers[2] and employees, about democracy, economics, solidarity, and individual and collective responsibility

Goal

To be everyone's #1 choice

Values

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

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

Fédération des caisses Desjardins du Québec Management's Discussion and Analysis

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

The Management's Discussion and Analysis (MD&A) dated February 24, 2021, presents the analysis of the results of and main changes to the Federation's balance sheet for the year ended December 31, 2020, in comparison to previous fiscal years. The Federation reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Information on the Federation's controls and procedures is presented in Section 5.0, "Additional information", of this MD&A.

The MD&A should be read in conjunction with the Consolidated Financial Statements, including the Notes thereto, as at December 31, 2020.

Additional information about the Federation is available on the SEDAR website at www.sedar.com (under the *Fédération des caisses Desjardins du Québec* profile), where its Annual Information Form can also be found. More information is available on the Desjardins website at www.desjardins.com/ca/about-us/investor-relations. None of the information presented on these sites is incorporated by reference into this MD&A.

The Consolidated Financial Statements have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). The accounting policies used are identical to the ones used in 2019. For more information about the accounting policies used, see Note 2, "Basis of presentation and significant accounting policies", to the Consolidated 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 the Federation's Consolidated Financial Statements.

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

The Federation cautions readers against placing undue reliance on forward-looking statements since a number of factors, many of which are beyond the Federation's control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0, "Risk management", and under "COVID-19 pandemic" in Section 1.3, "Significant events", of this MD&A, and include in particular credit, market, liquidity, operational, insurance, strategic and reputation risk, as well as the risk related to pension plans, environmental or social risk, and legal and regulatory risk.

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

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

Although the Federation 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. The Federation cautions readers against placing undue reliance on these forward-looking statements when making decisions, given that actual results, conditions, actions or future events could differ significantly from the targets, expectations, estimates or intentions advanced in them, explicitly or implicitly. Readers who rely on these forward-looking statements must carefully consider these risk factors and other uncertainties and potential events, including the uncertainty inherent in forward-looking statements.

The significant economic assumptions underlying the forward-looking statements in this MD&A are described in Section 1.5, "Economic environment and outlook" of this MD&A. To develop our economic growth forecasts, in general and for the financial services sector, we mainly use historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies. Given the evolution of the COVID-19 pandemic and its impact on the global economy and financial market conditions, as well as on the business operations, financial results and financial position of the Federation, a larger share of uncertainty is associated with our economic assumptions compared with previous periods, since these assumptions are made based on uncertain future developments and considering the difficulty of predicting the extent of the pandemic's long-term effects.

Any forward-looking statements contained in this MD&A represent the views of management only as at the date hereof, and are presented for the purpose of assisting readers in understanding and interpreting the Federation's balance sheet as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives as considered as at the date hereof. These statements may not be appropriate for other purposes. The Federation 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 the Federation, except as required under applicable securities legislation.

NON-GAAP MEASURES

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

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

The average balance for these items is used to measure growth. It is equal to the average of the amounts presented in the Consolidated Financial Statements at the end of the previous five quarters, calculated starting from December 31.

Adjusted surplus earnings of the Federation before dividends to member caisses

The concept of adjusted surplus earnings is used to exclude specific items in order to present financial performance based on operating activities. These specific items, such as acquisitions and disposals, are unrelated to operations.

The Federation's surplus earnings before dividends to member caisses are adjusted to exclude the following specific items: the gain, net of income taxes, related to the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth, and the gain, net of income taxes, related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand to Global Payments, completed on December 31, 2019.

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

Table 1 – Adjusted surplus earnings of the Federation before dividends to member caisses

(in millions of dollars)	**2020**	2019	2018[1]
Presentation of surplus earnings before dividends to member caisses in the Consolidated Financial Statements	**$ 1,012**	$ 1,231	$ 1,350
Specific items, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	**-**	(309)	-
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**-**	-	(129)
Presentation of the adjusted surplus earnings before dividends to member caisses	**$ 1,012**	$ 922	$ 1,221

[1] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

Adjusted net surplus earnings – Personal and Business Services segment

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

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

Table 2 – Adjusted net surplus earnings – Personal and Business Services segment

(in millions of dollars)	**2020**	2019[1]	2018[1][2]
Presentation of net surplus earnings of the Personal and Business Services segment in the Consolidated Financial Statements	**$ 89**	$ 677	$ 329
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	**-**	(309)	-
Presentation of the adjusted net surplus earnings of the Personal and Business Services segment	**$ 89**	$ 368	$ 329

[1] Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
[2] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

Adjusted net surplus earnings – Wealth Management and Life and Health Insurance segment

The net surplus earnings of the Wealth Management and Life and Health Insurance segment are adjusted to exclude the following specific item: the gain, net of income taxes, related to the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth.

The following table presents a reconciliation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment as presented in the Consolidated Financial Statements, and the adjusted net surplus earnings as presented in the MD&A.

Table 3 – Adjusted net surplus earnings – Wealth Management and Life and Health Insurance segment

(in millions of dollars)	**2020**	2019[1]	2018[1][2]
Presentation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment in the Consolidated Financial Statements	**$ 609**	$ 697	$ 866
Specific item, net of income taxes			
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**-**	-	(129)
Presentation of the adjusted net surplus earnings of the Wealth Management and Life and Health Insurance segment	**$ 609**	$ 697	$ 737

[1] Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
[2] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

Gross credit-impaired loans/gross loans and acceptances

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

Table 34, "Gross credit-impaired loans by borrower category", of the MD&A provides more detailed information on this ratio.

Loss ratio – Expense ratio – Combined ratio

These ratios are used to measure and analyze the performance of the Property and Casualty Insurance segment's operations.

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.

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

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

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

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

Table 4 – Loss ratio – Expense ratio – Combined ratio

(in millions of dollars and as a percentage)	2020	2019[1]	2018[1]
Net premiums	**$ 5,484**	$ 4,988	$ 4,402
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 3,689**	$ 3,665	$ 3,209
Market yield adjustment (MYA)	**(257)**	(86)	45
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 3,432**	$ 3,579	$ 3,254
Loss ratio	**62.6%**	71.7%	73.9%
Non-interest expense	**$ 1,303**	$ 1,245	$ 1,119
Other expenses excluded from the expense ratio[2]	**(9)**	(10)	(10)
Operating expenses	**$ 1,294**	$ 1,235	$ 1,109
Expense ratio	**23.6%**	24.8%	25.2%
Combined ratio	**86.2%**	96.5%	99.1%

[1] Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
[2] Due mainly to investment management fees.

Return on equity and adjusted return on equity

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

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

Table 5 – Return on equity and adjusted return on equity

(in millions of dollars and as a percentage)	2020	2019	2018[1]
Surplus earnings before dividends to member caisses	**$ 1,012**	$ 1,231	$ 1,350
Non-controlling interests' share	**(84)**	(46)	(41)
Group's share	**$ 928**	$ 1,185	$ 1,309
Average equity before non-controlling interests' share	**$ 15,262**	$ 14,290	$ 15,210
Return on equity	**6.1%**	8.3%	8.6%
Adjusted return on equity[2]	**6.3%**	6.2%	7.8%

[1] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
[2] Takes into account the specific items presented under the "Adjusted surplus earnings of the Federation before dividends to member caisses" subsection in this section.

Income

Operating income

The concept of operating income is used to analyze financial results. This concept allows for better structuring of financial data and makes it easier to compare operating activities from one period to the next by excluding the volatility of results specific to investments, particularly regarding the extent of life and health insurance and P&C insurance operations, for which a very large proportion of investments are recognized at fair value through profit or loss. The analysis therefore breaks down the Federation'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 Treasury and Other Support to Desjardins Group Entities category, net premiums and other operating income such as assessments, service agreements, 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 Consolidated Financial Statements.

Investment income

Investment income comprises net investment income on securities classified and designated as being at fair value through profit or loss, net investment income on securities classified as being at fair value through other comprehensive income, and net investment income on securities measured at amortized cost and other investment income, which are included under "Net investment income" in the Consolidated 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 Consolidated 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 Consolidated Financial Statements.

Table 6 – Correspondence of total income between the MD&A and the Consolidated Financial Statements

(in millions of dollars)	**2020**	2019[1]	2018[1][2]
Presentation of income in the Consolidated Financial Statements			
Net interest income	**$ 1,628**	$ 1,500	$ 1,490
Net premiums	**10,028**	9,525	8,923
Other income			
Assessments	**394**	393	392
Service agreements	**818**	773	742
Lending fees and credit card service revenues	**634**	782	699
Brokerage and investment fund services	**954**	886	905
Management and custodial service fees	**648**	610	573
Net investment income[3]	**2,926**	2,970	176
Overlay approach adjustment for insurance operations financial assets	**(42)**	(192)	523
Foreign exchange income	**103**	70	92
Other	**258**	557	302
Total income	**$ 18,349**	$ 17,874	$ 14,817
Presentation of income in the MD&A			
Net interest income	**$ 1,628**	$ 1,500	$ 1,490
Net premiums	**10,028**	9,525	8,923
Other operating income			
Assessments	**394**	393	392
Service agreements	**818**	773	742
Lending fees and credit card service revenues	**634**	782	699
Brokerage and investment fund services	**954**	886	905
Management and custodial service fees	**648**	610	573
Foreign exchange income	**103**	70	92
Other	**258**	557	302
Operating income	**15,465**	15,096	14,118
Investment income			
Net investment income[3]	**2,926**	2,970	176
Overlay approach adjustment for insurance operations financial assets	**(42)**	(192)	523
Investment income	**2,884**	2,778	699
Total income	**$ 18,349**	$ 17,874	$ 14,817

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(3) The breakdown of this line item is presented in Note 25, "Net interest income and net investment income", to the Consolidated Financial Statements.

Credit loss provisioning rate

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

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

Table 7 – Credit loss provisioning rate

(in millions of dollars and as a percentage)	**2020**	2019	2018
Provision for credit losses	**$ 539**	$ 310	$ 288
Average gross loans	**60,843**	63,006	60,309
Average gross acceptances	**200**	212	105
Average gross loans and acceptances	**$ 61,043**	$ 63,218	$ 60,414
Credit loss provisioning rate	**0.88%**	0.49%	0.48%

REGULATORY ENVIRONMENT

Regulatory environment

The *Act respecting financial services cooperatives* and other applicable legislation

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

The *Act respecting financial service cooperatives* prescribes, among other things, the rules for organizing a network of financial services cooperatives and a financial group, and the rules for issuing capital shares and investment shares. The Act also includes a chapter concerning the *Groupe coopératif Desjardins* (the Cooperative Group), which comprises the Desjardins caisses in Québec, the Federation and the *Fonds de sécurité Desjardins,* and specifies the financial solidarity mechanisms within the Cooperative Group. The Act establishes the Federation's mission to look after Desjardins Group's risk management and see to the financial health of the Cooperative Group and its sustainability. To this end, the Federation and the *Fonds de sécurité Desjardins* have additional special powers of supervision and intervention regarding the protection of creditors, including depositors. As well, the Federation may, in accordance with its mission and when it considers that the financial position of the Cooperative Group so warrants, give written instructions to any caisse or order it to adopt and apply a recovery plan. For its part, the *Fonds de sécurité Desjardins* is required to ensure the distribution of capital and other assets among the components of the Cooperative Group so that each one can perform its obligations to its depositors and other creditors in full, correctly and without delay. It is required to intervene with a component of the Cooperative Group each time it appears necessary to do so in order to protect the component's creditors. The *Fonds de sécurité Desjardins* may, in such circumstances, order the sale of any part of the business of a caisse, order the amalgamation or dissolution of caisses or establish a legal entity to facilitate the liquidation of a caisse's bad assets. Furthermore, the *Fonds de sécurité Desjardins* mutualizes the cost of its interventions between the components belonging to the Cooperative Group. In addition, if it considers that its financial resources are inadequate to carry out its mission, it may set a special assessment and require any component of the Cooperative Group to pay it. The Act also provides that all the Québec caisses, the Federation and the *Fonds de sécurité Desjardins* may be amalgamated into a single legal entity to be wound up, as these entities cannot be wound up in any other manner.

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

Regulatory capital requirements

Desjardins Group, including the Federation, complies with the minimum regulatory capital requirements issued by the AMF, which reflect the provisions of the Basel III Accord. The Federation manages financial information in compliance with AMF *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*. The Federation's financial and corporate governance are discussed on page 83 of this MD&A and in the "Corporate governance" section of the Federation's 2020 Annual Report.

Domestic systemically important financial institution

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI), which subjects Desjardins Group to higher capital requirements and enhanced disclosure requirements, among other things, as instructed by the AMF. Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios. Also, based on the recommendations issued by the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board contained in the document "Enhancing the Risk Disclosures of Banks", Desjardins Group is incorporating these recommendations into its risk management disclosure framework. Desjardins Group also continues to adapt its disclosure to comply with the principles of risk data aggregation and risk reporting (RDARR), which will strengthen governance as well as risk data aggregation and risk reporting capabilities. Furthermore, Desjardins Group developed a living will, detailing the actions it will take to restore its financial position in the event of a crisis.

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

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

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

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

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

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

Furthermore, the AMF's *Guideline on total loss absorbing capacity* (the TLAC Guideline) applies to and establishes standards for Desjardins Group. Under the TLAC Guideline, beginning April 1, 2022, Desjardins Group will be required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the prescribed criteria or regulatory capital instruments to support its recapitalization in the event of a failure. Additional information can be found in Section 3.2, "Capital management", on page 49.

U.S. regulations

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

Changes in the regulatory environment

This section presents matters concerning changes in the regulatory environment that apply to Desjardins Group as a whole, including the Federation and its components.

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 on changes in regulatory capital is provided in Section 3.2, "Capital management".

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

The final version of the amendments to the PCMLTFA and its regulations, tabled in June 2018, was published by the Department of Finance Canada on July 10, 2019. Some of the amendments took effect upon official publication, certain others in June 2020 and the rest will take effect in June 2021. In February 2020, the Department of Finance Canada published new proposed regulatory changes, which were commented by Desjardins. The final publication of these recent regulatory changes on June 10, 2020 had to do in particular with ongoing monitoring of business relationships. Desjardins Group is continuing to analyze the various regulatory changes and will make the required adjustments, particularly the changes to be made to the systems for electronic funds transfers and large cash transaction reports.

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

On July 10, 2020, the Canada Revenue Agency (CRA) published the final version of the guidance documents for Parts XVIII (FATCA) and XIX (CRS) of the ITA. The amendments took effect on January 1, 2021, and provide some clarification on the requirements regarding reasonable measures to be taken and the penalties applicable for non-compliance. The necessary changes have been made to Desjardins Group processes and procedures and circulated internally to ensure that the new requirements are observed and to prevent any non-compliance or penalty.

Financial reforms in the U.S.

U.S. reform initiatives pertaining to financial regulation could affect non-U.S. financial institutions operating in the United States, including Desjardins Group. The deregulation bill of U.S. Congress and the American regulators has been set in motion, in particular with the enactment of a statute providing some relief concerning certain rules prescribed by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and continued with the finalizing of a second draft regulation aimed at simplifying the Volcker rule, whose original purpose was to prohibit banking entities from engaging in proprietary trading and to limit their investing in or sponsoring hedge funds and private equity funds. The final changes to the restrictions on the Volcker rule dated June 25, 2020 concerning investing in and sponsoring hedge funds and private equity funds took effect on October 1, 2020. These changes round out the other revisions to the Volcker rule that took effect on January 1, 2020. The final changes to the restrictions on the control framework pursuant to the *Bank Holding Company Act* took effect on September 30, 2020. Desjardins Group is continuing its work to confirm and document the extent of the relief resulting from these changes with respect to its operations.

Data confidentiality and security

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. In May 2019, the Government of Canada issued its Digital Charter, which provides 10 principles to guide the government's action in terms of information technology, big data and artificial intelligence. On June 16, 2020, the Québec *Ministère de la Justice* tabled Bill 64, *An Act to Modernize Legislative Provisions Respecting the Protection of Personal Information*. As anticipated, Bill 64 follows the broad outline of the European Union's *General Data Protection Regulation*, particularly as it concerns transparency, the duty to inform, consent, the right to data portability and the right to be forgotten. Public consultations were held at the end of September 2020. On November 17, 2020, the Government of Canada tabled Bill C-11, *An Act to enact the Consumer Privacy Protection Act and the Personal Information and Data Protection Tribunal Act and to make related and consequential amendments to other Acts.* The content of Bill C-11 is similar to that of Bill 64, with a few exceptions. Desjardins Group is continuing to analyze the bills to determine their impact on its operations.

Pillar 3 disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These Pillar 3 requirements aim to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group has issued a Pillar 3 Report since December 31, 2018 in order to comply with it. On January 1, 2020, the Pillar 3 financial disclosure requirements were included by the AMF in a separate document entitled *Pillar 3 Disclosure Requirements Guideline*, which features new requirements that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. During the first two quarters of 2020, the AMF announced relief measures intended to minimize the impact of COVID-19 on Québec's financial system. These measures included, in particular, postponing the effective date of the disclosures to first quarter 2023 and the adjustment of certain existing requirements in order to include additional information on regulatory capital. As at December 31, 2020, Desjardins Group met the requirements to submit disclosure of the table of systemic risk indicators. The table, which aims to present an assessment of Desjardins's relative size within the global financial system, will be issued annually starting with the disclosure for fourth quarter 2021.

Report on Ontario's auto insurance system

To improve the auto insurance system for Ontario drivers, the next phase of the government's plan for "Putting Drivers First: A Blueprint for Ontario's Auto Insurance System" was included in its November 2020 budget bill. These reforms included efforts to increase competition and innovation, improve fraud deterrence strategies and increase choice for consumers. The government has committed to another budget bill in March 2021. Desjardins anticipates that may be another opportunity for a large step forward to complete the government's blueprint by lowering system costs and increasing affordability for Ontario drivers. The Financial Services Regulatory Authority of Ontario (FSRA) has launched a Technical Advisory Committee for Transforming Auto Insurance Rate Regulation which will focus its efforts on improving Ontario's regulatory approach. Desjardins and other industry players are actively working with the government to ensure a better auto insurance system for Ontario drivers.

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

On June 25, 2020, the Canadian Securities Administrators (CSA) launched a consultation on the regulatory framework for the operations of self-regulatory organizations (SROs). The CSA is seeking input on whether the current SRO framework best serves the interests of Canadian investors and the investment industry, in light of the evolution of the financial services industry. Desjardins Group continues to monitor developments in this file and to analyze the potential impact on its operations.

Client focused reforms

In October 2019, the CSA adopted new obligations for brokerage firms and investment dealers, called the Client Focused Reforms. The new obligations have to do in particular with "know your client" and "know your product", the suitability of recommendations and dealing with conflicts of interest. The CSA also developed a new fundamental requirement for registrants, namely that clients' interests come first in terms of suitability of investments. Desjardins Group is continuing its analysis to determine the impact on its operations and to comply within the time limit provided. The Client Focused Reforms have been in effect since December 31, 2019 and their application is expected to extend over a period of two years. On April 16, 2020, the CSA issued an exemption providing an additional six months to comply with the conflict of interest provisions, namely until June 30, 2021. Due to the pandemic, many registrants are not able to implement the reforms since they are delaying redeployment of their staff to ensure key business functions continue to operate.

Interest rate benchmark reform

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. The objective is to improve benchmark indices by making sure they comply with robust international standards. The gradual withdrawal of certain interest rate benchmarks, expected to begin in 2021, will have an impact on transactions in over-the-counter derivative financial instruments, securities, loans and other variable-rate instruments. Desjardins Group has set up a program to ensure a smooth transition from benchmark interest rates to risk-free rates, and is closely monitoring the preparation of the schedule for withdrawing certain benchmark rates.

Guideline on Information and Communications Technology Risk Management

In February 2020, the AMF issued the final version of the Guideline on Information and Communications Technology Risk Management (ICT), applying, in particular, to insurers and financial services cooperatives. The financial institutions targeted by the guideline were expected to implement its expectations no later than in February 2021. An assessment of Desjardins Group's compliance with ICT was completed in January 2021. A status report on ICT implementation at Desjardins was submitted to the AMF at the end of February 2021.

1.0 Fédération des caisses Desjardins du Québec

1.1 Profile and structure

WHO WE ARE

The Federation is a cooperative entity which is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group and acts as a financial agent on Canadian and foreign financial markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services. The Federation's mission also includes risk management and capital management for Desjardins Group, and it ensures the financial soundness and sustainability of the Desjardins Cooperative Group (comprised of the Desjardins caisse network in Québec, the Federation and the *Fonds de sécurité Desjardins*), pursuant to the *Act respecting financial services cooperatives*. The Federation brought together 218 member caisses in Québec as at December 31, 2020 and the Caisse Desjardins Ontario Credit Union Inc. A number of its subsidiaries are active across Canada, and the Federation maintains a presence in the U.S. through Desjardins Bank, National Association. The Caisse Desjardins Ontario Credit Union Inc. is the product of a merger between the *Fédération des caisses populaires de l'Ontario Inc.* and its 11 member caisses populaires. The merger took effect on January 1, 2020.

The Federation enables the caisses and other Desjardins Group components to accelerate their development and better respond to the needs of their members and clients. The Federation's structure has been designed to take into account the needs of Desjardins Group's members and clients, as well as the markets in which it operates.

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.

WHAT MAKES US DIFFERENT

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

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

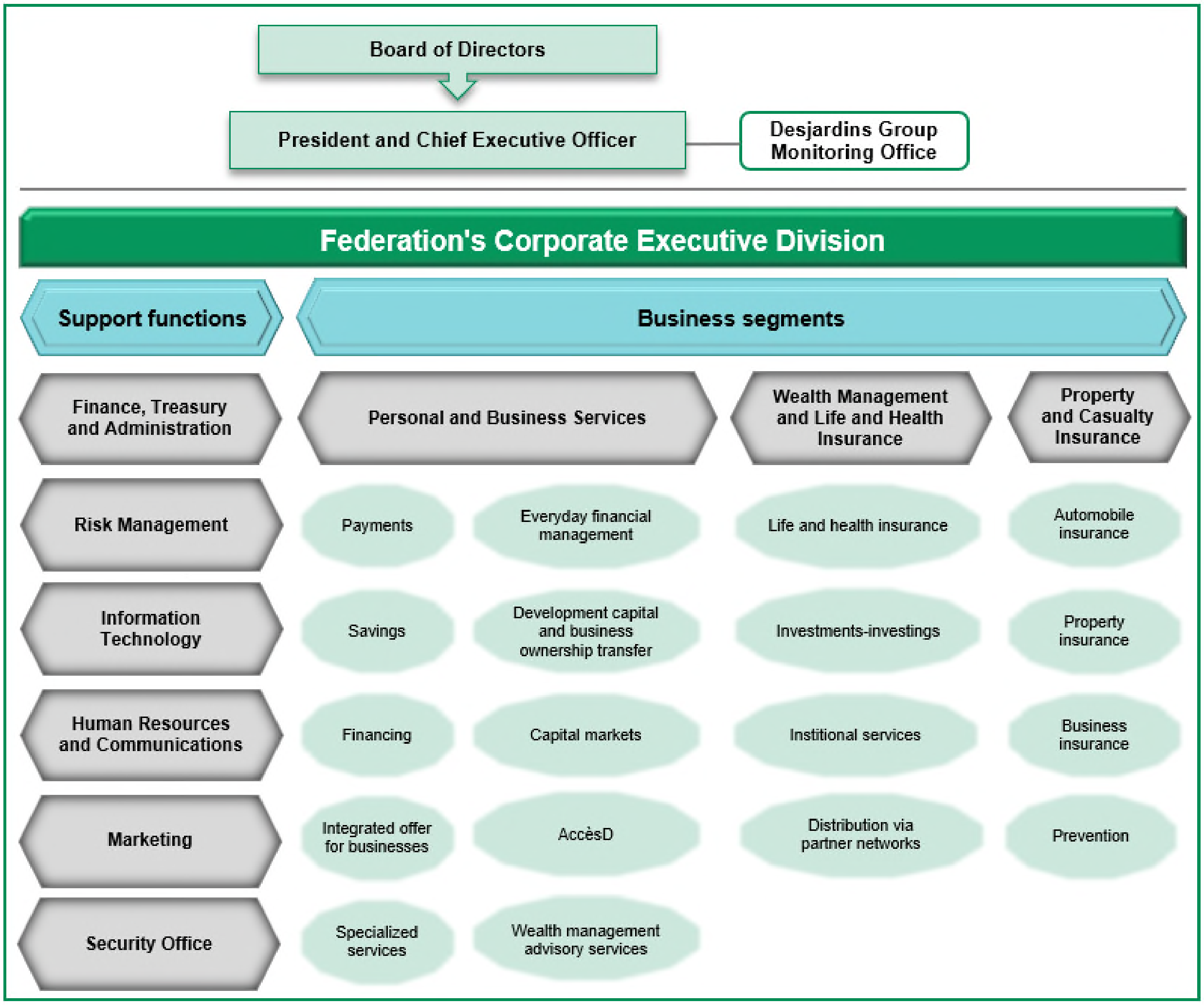
Desjardins Group's ambition is to be first in people's hearts. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best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

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

STRUCTURE OF THE FEDERATION

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

Additional information on the business segments, particularly their profile, operations, 2020 achievements and the industry in which they operate, may be found in Section 2.3, "Analysis of business segment results".



1.2 Financial highlights

Table 8 – Financial highlights
As at and for the years ended December 31

(in millions of dollars and as a percentage)	**2020**	2019[1]	2018[1][2]
Results			
Net interest income	**$ 1,628**	$ 1,500	$ 1,490
Net premiums	**10,028**	9,525	8,923
Other operating income[3]	**3,809**	4,071	3,705
Operating income[3]	**15,465**	15,096	14,118
Investment income[3]	**2,884**	2,778	699
Total income	**18,349**	17,874	14,817
Provision for credit losses	**539**	310	288
Claims, benefits, annuities and changes in insurance contract liabilities	**9,257**	9,149	6,576
Non-interest expense	**7,236**	6,972	6,395
Income taxes on surplus earnings	**305**	212	208
Surplus earnings before dividends to member caisses	**$ 1,012**	$ 1,231	$ 1,350
Adjusted surplus earnings before dividends to member caisses[3]	**$ 1,012**	$ 922	$ 1,221
Contribution to consolidated surplus earnings by business segment[4]			
Personal and Business Services	**$ 89**	$ 677	$ 329
Wealth Management and Life and Health Insurance	**609**	697	866
Property and Casualty Insurance	**622**	187	173
Treasury and Other Support to Desjardins Group Entities	**(308)**	(330)	(18)
	$ 1,012	$ 1,231	$ 1,350
Indicators			
Return on equity[3]	**6.1%**	8.3%	8.6%
Adjusted return on equity[3]	**6.3**	6.2	7.8
Credit loss provisioning rate[3]	**0.88**	0.49	0.48
Gross credit-impaired loans/gross loans and acceptances[3]	**0.74**	0.56	0.56
On-balance sheet and off-balance sheet			
Assets	**$ 195,072**	$ 164,413	$ 157,560
Net loans and acceptances	**55,997**	65,493	61,997
Deposits	**72,406**	58,972	58,057
Equity	**16,565**	15,512	14,553
Assets under administration	**458,177**	437,000	374,178
Assets under management[5]	**89,140**	77,018	66,359
Capital ratios and leverage ratio[6]			
Tier 1A capital ratio	**21.9%**	21.6%	17.3%
Tier 1 capital ratio	**21.9**	21.6	17.3
Total capital ratio	**22.6**	21.6	17.6
Leverage ratio	**8.5**	8.8	8.3

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(3) See "Non-GAAP measures".
(4) The breakdown by line item is presented in Note 30, "Segmented information", to the Consolidated Financial Statements.
(5) Assets under management may also be administered by the Federation. When this is the case, they are included in assets under administration.
(6) On September 16, 2020, the AMF issued a notice stating that the Federation's capital ratios had to be calculated on the basis of the exposure of all the entities comprising Desjardins Group. For more information, see Section 3.2, "Capital management", to this MD&A.

The Federation's 2020 highlights

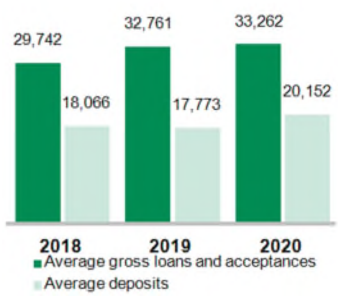
Surplus earnings before dividends	Net loans and acceptances outstanding	Assets under management	Tier 1A capital ratio	Total assets
$1,012 million -17.8%	$56.0 billion -14.5%	$89.1 billion +15.7%	21.9%	$195.1 billion +18.6%

- Surplus earnings before dividends to member caisses down $219 million, or 17.8%, compared to 2019.
- Increase of $90 million, or 9.7%, in adjusted surplus earnings[(1)] before dividends to member caisses, compared to 2019.
- Provision for credit losses up $229 million compared to 2019, mainly due to the significant deterioration in the economic outlook and the anticipated effects on credit quality as a result of the COVID-19 pandemic.
- Operating income[(1)] of $15,465 million, up 2.4% compared to 2019.
- Adjusted operating income[(1)] up $718 million, or 4.9%, compared to 2019.
- Growth of 18.6% in total assets in 2020, to reach $195.1 billion as at December 31, 2020.
- Total capital ratio of 22.6%, compared to 21.6% as at December 31, 2019.

2020 segment highlights

PERSONAL AND BUSINESS SERVICES

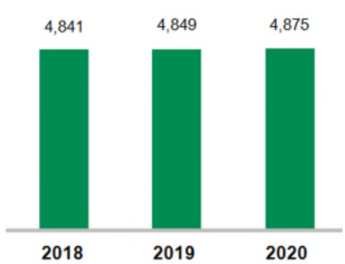
Average gross loans and acceptances and average deposits[(1)]
(in millions of dollars)



- No. 4 credit card issuer in Canada (based on 2019 outstandings).
- No. 5 in Canada for credit card purchase volume and active accounts (based on 2019 data).
- Decrease of 2.1% compared to 2019 in business volume related to credit card products, and auto and durables financing, as a result of the COVID-19 pandemic and the gradually phase-out of in-store Accord D financing.
- Net surplus earnings totalled $89 million, down $588 million compared to 2019.
- Adjusted surplus earnings[(1)] down $279 million, mainly due to the increase in the provision for credit losses and the decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic, partially offset by the solid performance of Desjardins Securities Inc.
- Growth of $1.3 billion, or 11.2%, in average business and government loans outstanding compared to 2019.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

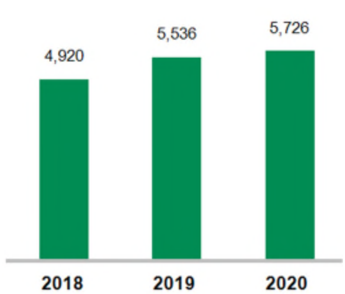
Gross written premiums
(in millions of dollars)



- No. 5 life and health insurer in Canada and No. 3 in Québec (based on gross written premiums in 2019).
- No. 1 in Canada and in Québec for market-linked guaranteed investments (based on 2019 assets under management).
- Excellent performance from its investment products, which received a total of 16 FundGrade A+ awards, the highest number since the awards began.
- Surpassed the $40 billion mark for Desjardins Fund assets, and $30 billion in assets for market-linked guaranteed investments.
- Net surplus earnings for the year of $609 million, down 12.6%, compared to 2019, chiefly on account of the effects of the COVID-19 pandemic on travel insurance costs and guaranteed investment funds as well as a higher level of expenses, all partially offset by higher gains on the disposal of securities and real estate investments compared to 2019.
- Gross written premiums of $4.9 billion, comparable to 2019.

PROPERTY AND CASUALTY INSURANCE

Gross written premiums
(in millions of dollars)



- Canada's No. 2 property and casualty insurer (based on gross direct premiums written in 2019). More specifically, No. 1 and No. 2 in Ontario and Québec, respectively, for personal lines.
- Gross written premiums of $5.7 billion, up $190 million, or 3.4%, compared to 2019.
- Refunds of $155 million on auto insurance premiums granted to members and clients as a relief measure to support them during the pandemic.
- Underwriting profits for a 28th consecutive year.
- Net surplus earnings of $622 million for the year, up $435 million compared to 2019, primarily because of higher net premiums and a lower current year loss ratio than in 2019, mainly as a result of changes in driving habits attributable to the COVID-19 pandemic.
- Improvement in the loss ratio[(1)] to 62.6% in 2020, compared to 71.7% in 2019.
- Improvement in the expense ratio[(1)] to 23.6% in 2020, compared to 24.8% in 2019.

[(1)] See "Non-GAAP measures".

1.3 Significant events

COVID-19 pandemic

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

In May 2020, Québec and Ontario, along with the rest of Canada, gradually started to ease restrictions, and the various stores and businesses were given permission to reopen to the public under certain conditions and in compliance with public health directives regarding physical distancing and hygiene measures. On October 1, 2020, a strong surge in the number of people testing positive for COVID-19 led the different governments to reintroduce some of the restrictions that had previously been lifted. The measures, varying in strictness from one province and one region to another, were intended to limit gatherings and activities in non-priority businesses. In Québec, for instance, the government made working from home mandatory for all workers, except those whose physical presence was necessary for the organization to carry on its operations; ordered the closing of non-priority businesses until early February 2021, with certain accommodations for remote sales; and imposed a curfew between 8:00 p.m. and 5:00 a.m. in certain regions since the beginning of January 2021. Desjardins continues to make the health and safety of its members and employees its top priority, and to favour online or remote service delivery. In December 2020, more than 80% of employees were working from home. Desjardins is closely monitoring the situation and continues to adjust to ensure service continuity during the COVID-19 pandemic.

Virtual special general meetings

In March 2020, in the context of COVID-19 and to comply with social distancing measures to limit the spread of the virus, Desjardins Group announced that it would postpone the caisse general meetings, usually held in April, which as a result delayed the payment of member dividends, for which a vote by members is necessary. To allow members to vote for their dividend payment, Desjardins held special general meetings of the caisses in virtual mode in August and September 2020, during which caisse members voted for their dividend payment. Dividend payments ended in November 2020.

Main measures for the benefit of members and clients

Desjardins deployed a number of measures to support its members and clients in the context of the COVID-19 pandemic. Many of the relief measures have been in place since March 16, 2020 for personal and business members and clients who might experience difficulty meeting their financial obligations because of the current situation. The solutions available to personal members and clients include payment relief for all their financing products and offering credit to members and clients needing quick access to cash, such as loans of last resort of up to $3,000 to personal members hit hard by COVID-19. In addition, Desjardins is temporarily granting an annual interest rate of 10.9% to personal members and clients who have Desjardins Visa and MasterCard credit cards and obtained a payment deferral on a Desjardins financing product. For business members and clients, needs are analyzed on a case-by-case basis, and special measures could be adopted to meet them, such as a temporary revision of financing or refinancing conditions for certain assets.

In addition, since the extended lockdown period and travel restrictions led to a significant reduction in automobile insurance claims, in 2020, Desjardins Group's property and casualty insurance subsidiaries granted more than 2.1 million eligible personal and business insureds a refund of between 25% to 40% of the amount of their monthly automobile insurance premium, based on the conditions in each market, for a total of $155 million. An increase in the insurance coverage limit was also granted for people working from home.

Since the situation remains precarious for many, Desjardins announced in January 2021 that it would be maintaining the main relief measures. For instance, the most hard-hit personal members and clients may continue to benefit from a payment deferral on their Desjardins financing products and a reduced interest rate on Desjardins credit cards, in addition to personalized support in returning to good financial health.

The following table presents Desjardins members' and clients' use of the main relief measures as at December 31, 2020.

Products			
Financing	**Number of requests**	**Total loans – relief granted**	**Loan balance as at December 31, 2020**
Residential mortgages and consumer loans	**161,295**	**$18.6 billion**	**$1.8 billion**
Credit card and other personal loans	**147,000**	**$1.5 billion**	**$0.1 billion**
Business loans	**33,900**	**$17.0 billion**	**$1.7 billion**
Insurance	**Number**	**Value of refund**	
Automobile insurance premium refund	**2,151,000**	**$155 million**	

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

- Canada Emergency Business Account (CEBA)

  Under this program, implemented in collaboration with Export Development Canada (EDC), Desjardins Group provides loans interest-free until December 31, 2022 (and at a rate of 5% thereafter), funded by the federal government, to small businesses and not-for-profits to help them cover their operating expenses during a time when their revenue has been temporarily reduced. Loans granted under this program are derecognized from Desjardins Group's Combined Balance Sheets as the program meets the criteria for transfer of cash flows and of substantially all the risks and rewards of ownership of the loans to the government. On October 26, 2020, eligibility was extended to allow sole proprietorships operating out of a personal banking account to take advantage of the program under the conditions established by the government. When the program was implemented, Desjardins Group granted loans of $40,000. Since December 4, 2020, following the government's expansion of the program, Desjardins has granted loans of $60,000 to eligible members and clients who have applied and have not yet participated in the program, or additional loans of $20,000 to members and clients who initially received a $40,000 loan. As at December 31, 2020, approximately 120,300 loans totalling $4.1 billion had been granted to Desjardins Group members and clients since the start of the CEBA program. As at December 31, 2020, the amount outstanding was $3.6 billion. Members and clients can take advantage of this program until March 31, 2021.

- Business Development Bank of Canada (BDC) Co-Lending Program

  Under this program, set up through the Business Credit Availability Program (BCAP), Desjardins Group grants term loans for which the maximum amount is calculated based on sales, with conditions tailored to the business' needs. BDC and Desjardins Group entered into a joint facility under which BDC automatically acquires an 80% participation in term loans granted to eligible Desjardins Group members and clients. The maximum loan amount is $6.25 million ($18.75 million per borrower group) and a moratorium on principal payments of up to 12 months is permitted. The participation in loans funded by BDC is derecognized from Desjardins Group's Combined Balance Sheets as the program meets the criteria for transfer of substantially all the risks and rewards of ownership of the loans to the government. As at December 31, 2020, 166 loans totalling $105 million had been granted to Desjardins Group members and clients since the start of this co-lending program. Members and clients can take advantage of this program until June 30, 2021.

- BDC mid-market financing program

  Under this program, commercial loans of $12.5 million to $60 million are granted to medium-sized companies (annual revenue in excess of $100 million) that have been particularly impacted by the COVID-19 pandemic and whose credit requirements exceed what is already available under the BCAP and other measures. The loans will be granted by the BDC (90%), in close collaboration with the business' senior lender or lending syndicate (10%), to cover operational liquidity needs and support business continuity. Interest will be capitalized for the first 12 months and no principal payments are required until the 48 month maturity. No loans have been granted by Desjardins since the program was launched in July 2020. Members and clients can take advantage of this program until June 30, 2021.

- BDC Highly Affected Sectors Credit Availability Program (HASCAP) Guarantee

  Under the HASCAP, the BDC provides a guarantee for 100% of a financial institution's residual loss for term loans to businesses in sectors highly affected by the pandemic. The loans are for amounts ranging from $25,000 to $1 million (up to a maximum of $6.25 million for an enterprise operating several business sites, as this expression is defined under the program). The mandatory rate applicable is 4% (including a 1% guarantee fee payable to BDC), an initial moratorium on principal is permitted and loan amortization may not exceed 10 years. This program was implemented in mid-February 2021. Members and clients can take advantage of this program until June 30, 2021.

- Loan guarantees for small- and medium-sized enterprises (EDC)

  Under the BCAP, EDC also offers a guarantee of up to 80% of the financial institution's residual loss for new operating lines of credit and new term loans of up to $6.25 million for small and medium-sized enterprises (SMEs). Desjardins favours granting term loans, with a moratorium on principal of up to 12 months and a maximum amortization of 60 months. Guarantee fees are payable by the borrower to EDC. As at December 31, 2020, 138 loans totalling $85 million had been granted to Desjardins Group's members and clients since the start of this program. Members and clients can take advantage of this program until June 30, 2021.

- Mid-market guarantee program (EDC)

  Under the BCAP, EDC also offers a guarantee of up to 75% of the residual loss of the lender or lending syndicate for new operating lines of credit and new term loans of between C$12.5 million (US$8.75 million) and C$80 million (US$56 million) for medium-sized businesses (annual revenue of between $50 million and $300 million). This program is intended for medium-sized businesses and large corporations with financing at the Federation. No loans have been granted by Desjardins since the program was launched. Members and clients can take advantage of this program until June 30, 2021.

- Concerted temporary action program for businesses (PACTE) with Investissement Québec

  Investissement Québec (IQ) offers a guarantee of up to 70% of the financial institution's residual loss for new operating lines of credit and new term loans (minimum $71,500) for funding needs over a period of up to 12 months, for businesses operating in Québec, including cooperatives and other social economy enterprises with commercial operations. Desjardins favours granting term loans, with a moratorium on principal of up to 12 months and a recommended amortization of 36 months, but a possible maximum of 60 months. Guarantee fees are payable by the borrower to IQ. In addition, IQ offers a similar guarantee for eligible tourist establishments and attractions of up to 90% of the financial institution's residual net loss for new operating lines of credit and new term loans (no minimum or maximum) for funding requirements limited to a maximum period of 18 months, with a moratorium on principal and/or interest for up to 24 months. As at December 31, 2020, 195 loans totalling $73 million had been granted to Desjardins Group members and clients since the start of the PACTE program.

Capital and liquidity measures

In view of the COVID-19 pandemic, the AMF introduced a series of measures to support Québec's financial system, including adjustments to capital requirements related to the COVID-19 pandemic, regulatory and administrative relief in respect of certain provisions of the *Deposit Institutions and Deposit Protection Act*, and additional information regarding the consultation and supervisory processes. For details on the measures put in place by Desjardins Group in this regard, please see Section 3.2, "Capital management", of this MD&A.

In addition, the Canadian government set up programs for extraordinary liquidity facilities to facilitate access to funding for financial institutions. Additional information on the federal government programs used by Desjardins Group may be found under "Sources of funding" in Section 4.2, "Risk management", of this MD&A.

These additional funding sources allow Desjardins Group, including the Federation, to maintain adequate liquidity levels to deal with impacts related to the pandemic. Furthermore, Desjardins Group complies with Basel III rules and maintains very good capitalization. As at December 31, 2020, Desjardins Group's Tier 1A and total capital ratios were 21.9% and 22.6%, respectively, compared to 21.6% as at December 31, 2019.

Social measures and reopening of the economy

We should remember that as of March 2020, Desjardins Group had announced a number of hygiene and protection measures to help limit the spread of COVID-19 and its effects. These included in particular reducing the number of service outlets open to members and clients, increasing the contactless payment limit for credit and debit cards at Desjardins payment terminals, reducing physical access hours at Desjardins caisses, introducing assistance measures for young clients (psychological and legal assistance by telephone), improving support for members aged 70 and over, making donations to community organizations meeting basic needs and donating protective masks to the Québec government. Furthermore, in January 2021, Desjardins announced that the *Fondation Desjardins* would offer bursaries in 2021 for career reorientation and returning to school as a result of COVID-19, a new category of bursaries in addition to the existing ones, to emphasize the importance of staying in school and community involvement, for a total of $2 million.

By the end of December 2020, almost 590 service centres in Québec and Ontario were open to properly serve members and clients while complying with public health measures to limit the spread of COVID-19.

While Canada is experiencing a second wave of COVID-19, Desjardins continues to promote remote service delivery and recommends virtual meetings with members and clients. Where this is not possible, Desjardins has implemented hygiene rules and physical distancing while following the guidelines for wearing a face mask in enclosed public spaces. Members and clients continue to have access to Desjardins ATMs, telephone services as well as its *AccèsD* Internet, telephone and mobile services. In addition to workplace hygiene and protection rules, Desjardins has introduced maintenance, cleaning and disinfection measures as well as certain access restrictions to limit movement at its corporate sites.

As at December 31, more than 40,000 employees were still working from home. Those who continue to travel physically to the workplace are those who work in service outlets, but also those for whom their function, nature of the tasks, equipment used or business continuity requirements do not permit telework. A rigorous procedure and preventive measures make it possible to manage the number of people on the sites and ensure a safe work environment. It should be noted that information security rules in a telework context are the same as when employees are physically in the workplace and that they remain subject to the various codes of conduct and ethics.

To contribute to the reopening of the Québec and Ontario economies, Desjardins has put forward a number of initiatives to encourage innovation and entrepreneurship and thereby help out businesses and community organizations. These initiatives include, in particular, the creation of the $150 million GoodSpark Fund and the $10 million Momentum Fund, as well as a partnership with Google and Bonjour Startup Montréal to hold an innovation competition.

- GoodSpark Fund

  The GoodSpark Fund has been given an additional budget of $150 million, bringing the total to $250 million for initiatives extending into 2024. It seeks in particular to stimulate regional, social and economic activity in order to back projects that support community priorities, such as education, the environment, employment and entrepreneurship. For 2020, commitments of $42 million involving 124 projects were made under the GoodSpark Fund. Since 2017, Desjardins Group has made commitments totalling $123 million involving 530 projects.

- Momentum Fund

  The Momentum Fund's aim is to help businesses accelerate growth and create quality jobs—two key drivers in regional economic development. Over the next two years, its $10 million budget will provide funding equal to 25% of project costs, up to a maximum of $10,000. Businesses can apply under a wide range of categories, including digital transformation, ergonomics and social distancing, psychological support, business model transformation, innovation, business succession, international market development, and investment in talent and energy-efficient equipment. In 2020, 570 businesses received support from the Momentum Fund, for a total disbursement of $3.5 million.

- The < Post > COVID Challenge

  Close to 400 contestants submitted projects under the < Post > COVID Challenge, a virtual competition extended over four weeks and whose mission is to find innovative solutions to societal issues resulting from COVID-19 in Québec. Organized by Bonjour Startup Montréal, Desjardins (through *Coopérathon*) and Google Canada, in cooperation with a number of other stakeholders in the startup ecosystem, the < Post > COVID Challenge selected three promising challenges, submitted by individuals and startups. These winning projects will continue to be developed with support from experienced entrepreneurs and experts from multiple domains. As a prerequisite, each project had to address a real need in a sector that has been particularly affected by the crisis, i.e. health care, education or employment. A winning project was selected for each sector.

Impact of the pandemic

As mentioned in Section 1.5, "Economic environment and outlook", of this MD&A, the spread of COVID-19 has had a disruptive impact on the countries and Canadian provinces where the Federation operates, and on the global economy in general, while triggering higher volatility and a decline on financial markets. Should the COVID-19 pandemic be prolonged or should subsequent waves of the pandemic occur, or should other diseases appear with similar effects, the adverse impact on the global economy could be exacerbated and lead to even sharper declines on capital markets. The Federation's operations largely consist of granting loans or providing financial services and insurance products to governments, public and parapublic institutions, individuals and medium-sized businesses and large corporations. The impact of the COVID-19 pandemic on such borrowers and clients could have a significant negative impact on the Federation's financial results, operations, financial position or liquidities. The COVID-19 pandemic could also lead to disruptions among the Federation's main suppliers of goods and services and result in the increased unavailability of personnel, which would have an adverse impact on the quality and continuity of customer services and on the Federation's reputation. Consequently, the impact of the COVID-19 pandemic could have a negative effect on the Federation's operations, operating results, profitability, reputation and financial position for an undetermined, considerable period of time. The Federation is continuing to monitor developments in the COVID-19 pandemic and the potential detrimental effects on its operations. The pandemic's repercussions on the economy, markets and the Federation's operations and financial position depend on highly uncertain future developments that are difficult to foresee given the uncertainty about the magnitude, gravity and duration of the pandemic, the size of the current second wave in Québec and the rest of Canada, as well as the possibility of subsequent waves that could prolong the closure of certain sectors of the economy, or result in additional closures or a tightening of confinement measures by government authorities.

The COVID-19 pandemic has led to, or could lead to, an increase in some of the risks described in Section 4.0, "Risk management", of this MD&A, including credit, market and liquidity risks, operational risk and insurance risk. We could also be faced with an increased risk of litigation with our members and clients, and of regulatory and government supervision because of the effects of the COVID-19 pandemic on market and economic conditions, and the measures taken by government authorities to counter them. The COVID-19 pandemic and its associated risks are the main situation being monitored by Desjardins Group. Desjardins is closely following developments in these risks to ensure the sustainability of its operations in a crisis situation. For details about the impact of the pandemic on risks, see Section 4.0, "Risk management", of this MD&A.

On March 2, 2020, Desjardins Group released its financial objectives and outlook for 2020 in its annual MD&A for the year ended December 31, 2019, which did not take into account the potential impact of the disruptions related to the COVID-19 pandemic. Given the risk and uncertainty created by COVID-19 for the local, national and global economy, as well as for its members and clients and its operations, Desjardins Group withdrew its financial objectives and outlook for 2020 published in Section 1.4, "Strategic orientations and financial objectives", of its 2019 annual MD&A. For details on the results achieved in 2020 as well as a presentation of the key indicators for 2021, see Section 1.4, "Strategic orientations and financial objectives", of the Desjardins Group annual 2020 MD&A.

The Federation's financial results for 2020 were affected by the COVID-19 pandemic. The significant deterioration in the economic outlook and the anticipated effects on credit quality led to an increase in the provision for credit losses of $229 million. In addition, the larger current and expected volume of claim applications for trip cancellations resulted in higher payouts for travel insurance benefits of $43 million. Refunds of $155 million on automobile insurance premiums granted to members and clients in the second quarter as a relief measure to support them during this pandemic period were offset by lower auto insurance claims for the current year as a result of changes in driving habits attributable to the COVID-19 pandemic.

Privacy breach

On June 20, 2019, Desjardins Group announced that the personal information of 2.9 million members had been shared with individuals outside the organization (the "privacy breach"). The ill-intentioned employee who caused the situation was quickly identified and then fired. Following this, on November 1, 2019, Desjardins announced that it had been informed by the Sûreté du Québec that the privacy breach affected the data of all its members. On December 10, 2019, Desjardins Group's internal review and analysis revealed that the ex-employee responsible for the breach also had access to personal information on credit cardholders and clients with in-store financing (former and existing). In total, the ex-employee responsible for the breach had had access to the personal information of 9.7 million members and clients (former and existing). However, as far as Desjardins knows, the personal information of 4.2 million existing members of caisses was sent outside the organization. There is nothing to confirm that the personal information of any other members and clients was sent outside the organization.

Desjardins Group was not the victim of a cyberattack and its computer systems were in no way breached. In light of the situation, additional measures were applied by Desjardins Group to protect the personal and financial information of all its members and clients, including Desjardins Identity Protection, offered at Desjardins's expense to all members and clients, and the Equifax credit monitoring service, to existing Desjardins members and clients, as well as former members and clients who had credit cards or in-store financing products.

As soon as the situation came to light in May 2019, Desjardins stepped up its efforts to create one of the most secure environments of any financial institution. It also stepped up the pace of implementing the additional privacy protection measure initiatives that were already underway, including:

- Creation of the Desjardins Group Security Office (DSO) in December 2019, bringing together nearly 900 experts in cyber security, fraud prevention, personal information protection, anti-money laundering and financial crime, from teams across four executive divisions. One of the DSO's mandates is to keep implementing best practices in information security and privacy protection.
- Appointment of a Chief Data Officer, Desjardins Group, to oversee information security, data security and data warehousing best practices.
- Acceleration of the work to review data retention timeframes based on the applicable regulations.
- Development of new custom data monitoring in partnership with local businesses.
- Development of a restricted analysis environment that governs, limits and monitors data use and extraction.
- Enhancement of the data protection program, including implementation of a data loss prevention solution.
- Review of policies and guidelines concerning the security and use of confidential data to reflect best practices.
- Creation of a security intelligence centre at the beginning of 2021, providing the organization with fast and efficient protection, for the benefit of its members and clients. Its focus will primarily be on prevention, detection and incident management. Integrated with the DSO, it brings together four types of expertise, namely cyber security, fraud prevention, personal information protection, anti-money laundering and financial crime. It will take action whenever specialists from at least two of these fields are required. Its implementation, in which artificial intelligence features prominently, meets the increasing need for data analysis to prevent and detect incidents related to security and financial crime.

Further to Desjardins Group's statement concerning the privacy breach to the *Commission d'accès à l'information du Québec* (CAI) in accordance with the *Act respecting the protection of personal information in the private sector* (Québec privacy protection legislation) and to the Office of the Privacy Commissioner of Canada (OPC) under the federal *Personal Information Protection and Electronic Documents Act* (PIPEDA), the CAI and the OPC launched a joint inquiry into personal information protection policies and procedures at Desjardins Group. At the same time, the AMF intensified its monitoring of the Federation's compliance with the requirement of the *Act respecting financial services cooperatives* to adhere to sound and prudent management practices ensuring good governance in order to properly manage risks related to a privacy breach.

On June 9, 2020, Desjardins Group submitted plans to the CAI, the OPC and the AMF in order to implement enhanced specific practices for sound management and governance as well as proper management of risks related to data security and privacy protection.

On December 14, 2020, the CAI published the results of its inquiry into the privacy breach, in which it found that the Federation had violated certain provisions of the Québec privacy legislation by failing to take the necessary measures to ensure the protection and security of the personal information of previous and existing members and clients or the necessary measures to limit or terminate use of inactive files containing personal information. The CAI also issued an order directing the Federation to submit a progress report on the plans to it every six months until their complete implementation by the end of 2021, as well as on the measures concerning data retention to be completed by June 2022, and to retain the services of an independent audit firm approved by the CAI to assess by December 14, 2022 all measures taken by the Federation to ensure the protection of the personal information of previous and existing members and clients. The same day, the OPC published a report in which it found, with regard to the privacy breach, that the Federation had violated analogous provisions of the PIPEDA and made recommendations similar to the measures specified in the order from the CAI. The AMF also handed down an order on December 14, 2020 in which it found, with regard to the privacy breach, that the Federation had failed to meet its obligation to apply sound and prudent management practices ensuring, in particular, good governance and compliance with the laws governing its operations. The AMF also identified significant deficiencies in each of the three lines of defence at Desjardins Group, namely operational management, oversight functions and internal audit. The AMF's order requires the Federation to, among other things, implement all the measures provided in the plans within the prescribed time limits, and no later than June 30, 2022. The AMF's order also requires the Federation to retain the services of an independent expert who will report directly to the AMF. The AMF will determine the scope of the expert's engagement, which will include monitoring the operationalization of the governance mechanisms and controls put in place and certification that Desjardins Group has met the expectations set out in the AMF guidelines and best practices in the industry. The AMF also emphasized that its order did not call into question Desjardins's solvency, in terms of its capital base, liquidity or profitability. None of the regulatory orders imposes penalties or sanctions on Desjardins Group.

Also on December 14, 2020, following the reports and orders from the regulatory authorities, the credit rating agencies DBRS and Fitch maintained the ratings of Desjardins Group instruments, while Moody's affirmed the ratings. To justify their actions, the agencies referred to the substantial resources that Desjardins had dedicated to information security controls, fraud prevention and enhanced governance. Furthermore, the evaluation of Desjardins's ratings by the rating agency Standard & Poor's remained unchanged. In addition, on January 13, 2021, the rating agency Fitch affirmed the ratings of Desjardins Group instruments and upgraded its outlook from negative to stable. This change in outlook reflects Fitch's belief that Desjardins has a solid asset base and a strong presence in Québec as a market leader in savings, residential mortgages, wealth management and insurance.

Acquisition of DuProprio and Purplebricks Canada

On July 15, 2020, the Federation, through 9420-7404 Québec inc., acquired the Canadian real estate operations of Purplebricks Group plc for an aggregate amount of $62 million. The holding company 9420-7404 Québec inc. mainly operates two brands, DuProprio and Purplebricks Canada. The operations acquired include more than 500 employees, with over 300 in Québec and some 200 across Ontario, Manitoba and Alberta.

Changes to merchant financing activities

As announced on October 31, 2019, the Federation has been gradually phasing out in-store Accord D financing since May 1, 2020. These activities were presented in the Personal and Business Services segment.

Purchase of a home mortgage portfolio

On February 1, 2020, the Federation acquired a portfolio of quality home mortgages from *La Capitale*, for a total consideration of $474 million. This acquisition consolidates Desjardins Group's leadership position in Québec's residential mortgage market.

1.4 Financial outlook for 2021

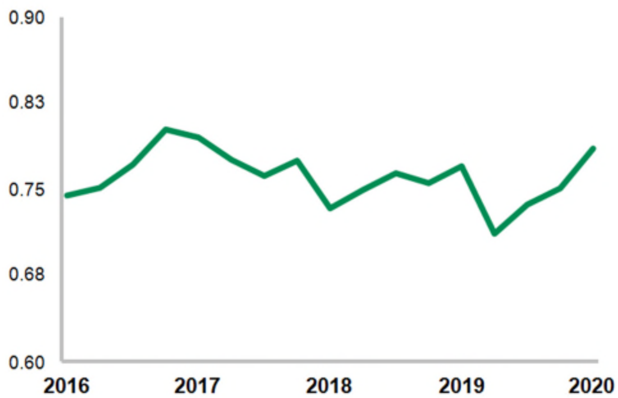
The Federation develops orientations and financial targets in support of Desjardins Group's ambitions. The Federation's actions and achievements are designed to help further the overall financial objectives of Desjardins Group. The financial outlook presented below therefore relates to Desjardins Group's strategic framework.

FINANCIAL OUTLOOK FOR DESJARDINS GROUP

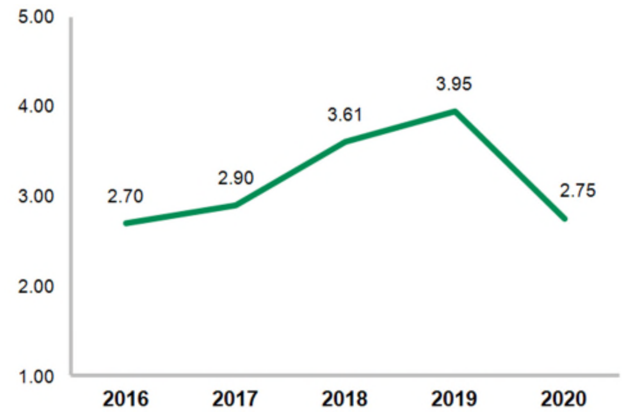
Desjardins Group's objective is to continue 2021 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry as well as good profitability, despite the effects of the pandemic. For 2021, in spite of the new lockdown measures that will temporarily curb activity in the first quarter, the economy will bounce back compared to 2020, when Canada's real GDP was down by 5.6%. Stiff competition in the banking sector will place sustained pressure on net interest income. North American key interest rates should remain stable and low for several years. The abundance of liquidity and low interest rates could continue to support the value of financial assets as a whole. Rigorous cost control and strict capital management will enable Desjardins Group to make significant investments for the benefit of members and communities in order to adopt innovative concepts to enhance service delivery and ensure information security, including privacy protection, with the constant aim of being first in people's hearts and making it even easier to do business with Desjardins.

1.5 Economic environment and outlook

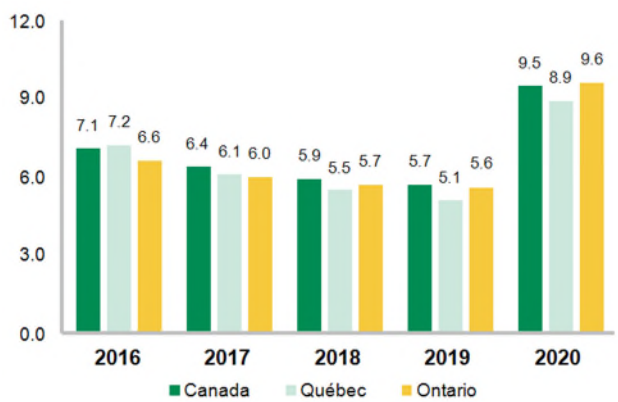
Changes in the Canadian dollar vs. the U.S. dollar (at quarter end)
(in U.S. dollars / Canadian dollars)



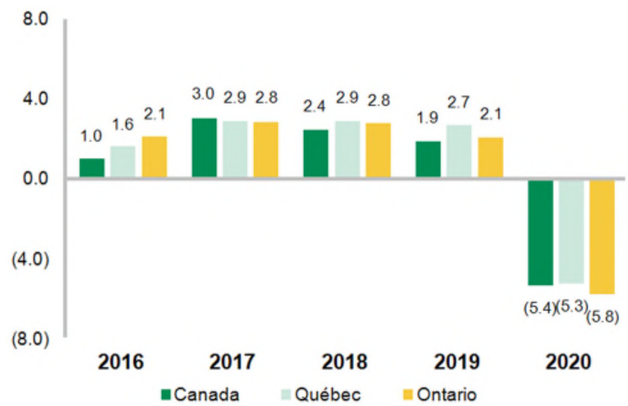
Changes in the prime rate (annual average)
(as a percentage)



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



Annual growth in GDP
(as a percentage)



Global economy

The global economy was hard hit by the COVID-19 pandemic in 2020. The year began on a generally positive note in the first months, but the situation worsened in China starting in February and followed by most other countries in March. The drop in tourism, the temporary closure of several services, and then the necessary health and lockdown measures, either suggested or imposed by the public authorities of several countries, caused significant declines in real GDP in the first and second quarters. This confirmed a global recession. Most economies recovered in the late spring and summer as the most restrictive lockdown measures were eased, but a second wave of COVID-19 in the fall led to the implementation of new health restrictions. For 2020, real GDP is estimated to have declined by 6.8% in the eurozone, including a 5.3% setback in Germany and an 8.3% drop in France. In the United Kingdom, the decline is estimated at 9.9%. Although China was the first to be affected by COVID-19, it was also one of the few countries to register economic growth, posting an annual gain of 2.3%.

Much like the world's governments, the central banks have reacted vigorously to limit the negative consequences of the pandemic. The U.S. Federal Reserve (the Fed) and the Bank of Canada lowered their key interest rates by 150 basis points in March, bringing them close to zero. They also implemented new programs, including massive injections of liquidity, to ensure the smooth functioning of the financial markets and avoid a credit crunch. These actions by the central banks drove federal bond rates down and helped stock markets rally quickly after a brutal correction in the late winter of 2020. In the final analysis, 2020 proved to be a good year for investors despite the economic downturn.

After the plunge in 2020, global real GDP is expected to grow fairly well in 2021. If the vaccination campaign goes well and the pandemic subsides in 2021, global real GDP is expected to grow by 5.5% following a 4.1% drop in 2020. This economic rebound will owe much to a broad-based low interest rate environment and the numerous assistance measures implemented by governments to support household incomes and limit the damage to businesses. However, much depends on how the COVID-19 situation develops, and there could be even stronger growth if the vaccines are distributed rapidly. Abundant liquidity and low interest rates may continue to support the value of financial assets.

United States

The trade truce between China and the United States in early 2020 seemed to bode well. However, the spread of COVID-19 beginning in March brought an end to the longest economic cycle in U.S. history. The implementation of health and lockdown measures, mostly by the states and local governments, led to the complete loss of more than 22 million jobs in March and April 2020. On an annualized basis, real GDP fell 5.1% in the first quarter and 31.4% in the second quarter, representing the worst results since quarterly data began being published in 1947. The U.S. economy began to improve in May as the main health and lockdown measures were eased, but also due to federal government support through the *CARES Act* and the extraordinary monetary policy implemented by the Fed. Real GDP jumped 33.4% in the third quarter, and the economy recovered just over half of the jobs that were lost in the late winter of 2020. Since the U.S. implemented fewer new severe health measures, unlike many other advanced countries, its economy did not suffer unduly from the subsequent waves of COVID-19 in the early summer and fall. Real GDP increased by 4.0% (at an annualized rate) in the last quarter of 2020.

The U.S. economy is expected to grow fairly rapidly in 2021, returning to a more normal level of activity after the problems of 2020. A new US$935 billion relief package adopted at the very end of 2020 will support the economy. The easing of trade tensions and the Biden administration's implementation of other fiscal measures to stimulate the economy should also support growth, as should the policy stance adopted by the Fed. The new administration's protectionist intentions and changes in its relations with China will also need to be monitored. Real GDP is projected to grow by 4.7% in 2021 (annual rate) after contracting 3.5% in 2020.

Canada

As elsewhere in the world, the Canadian economy was severely affected by the COVID-19 pandemic in 2020. The health measures implemented across the country in the spring of 2020 resulted in historic real GDP declines in the first and second quarters of 2020. However, the federal government introduced several support measures for individuals and businesses. These measures, and in particular the government's support for household income, have made a big difference in how the situation developed. Beginning in May, the strong financial position of households allowed them to participate fully in the Canadian economy's recovery. Not only did retail trade quickly recover the lost ground, but the housing market has demonstrated great vitality since the spring lockdown. As a result, the reopening of the economy led to an exceptional rebound in real GDP in the third quarter. Beginning in the fourth quarter, the economy moved into the recovery phase, characterized by weaker output growth. In addition, new restrictive measures were introduced in several regions of the country in the fourth quarter to curb the spread of a second wave of COVID-19. In the end, Canadian real GDP declined 5.4% in 2020.

The recovery phase of the Canadian economy is expected to continue into 2021. Of course, how the pandemic develops is still likely to be the source of some economic uncertainties, including a temporary decline in real GDP in the first quarter. That said, the vaccination campaign has begun and should not only support the country's economic recovery, starting in the spring, but also reduce uncertainties. However, the pandemic will have impacts that will be felt in some sectors well after 2021. But for 2021 as a whole, Canadian real GDP is projected to grow 4.9%.

Québec

Québec also experienced an unprecedented drop in real GDP in 2020. The first wave of the pandemic, which led to the closure of all non-essential activities in the spring, caused an abrupt deterioration in economic indicators. Last year, the unemployment rate rose from 4.5% in February to peak at 17.6% in April, retail sales collapsed, and exports were down. Real GDP plunged by almost 10% in March and about 15% in April, only to rebound sharply in May with the gradual reopening of facilities and businesses. Real GDP continued to recover over the summer, so the recovery is well underway. Some economic indicators, including retail sales and existing home sales, have already exceeded the levels reached in February 2020. Financial support from the federal government made a difference for Québec households whose incomes have, overall, risen sharply since the spring of 2020.

However, the second wave of the pandemic has already brought some turmoil. The closure of certain types of businesses in regions that have been on high alert since October has caused job losses in the affected sectors. The measures taken to control the growth in COVID-19 cases slowed economic recovery in the last quarter of 2020. Another decline in real GDP is expected in early 2021, but it will be less dramatic than in the spring of 2020 because the restrictions are less severe, particularly in the manufacturing and construction sectors. After a roller-coaster year and an approximately 5% decline in real GDP in 2020, 2021 begins on a difficult footing. The progress made in the vaccination campaign allows us to be more optimistic about the economic recovery that will follow, but some sectors that will have been severely affected by the closures will have difficulty recovering.

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

2.0 Review of financial results

2.1 Impact of significant transaction

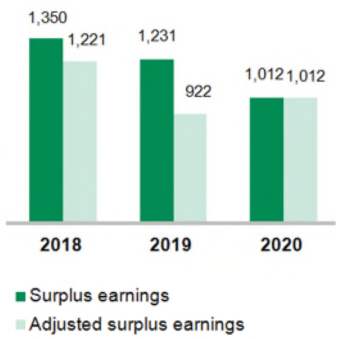
CHANGES RELATED TO MERCHANT PAYMENT AND FINANCING ACTIVITIES IN 2019

On December 31, 2019, the Federation completed the sale to Global Payments of the entire portfolio of merchants receiving services from the Federation under the Monetico brand, and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. As announced on October 31, 2019, the Federation has been gradually phasing out in-store Accord D financing since May 1, 2020. These activities were presented in the Personal and Business Services segment.

A $309 million gain, net of income taxes, related to the sale of the merchant portfolio was recognized in the Consolidated Statements of Income for the year ended December 31, 2019.

2.2 Analysis of 2020 results

Surplus earnings before dividends to member caisses
(in millions of dollars)



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

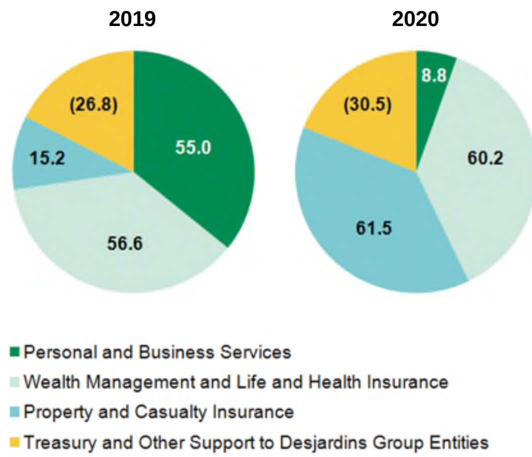


Table 9 – Financial results and indicators
For the years ended December 31

(in millions of dollars and as a percentage)	**2020**	2019[1]	2018[1][2]
Results			
Net interest income	**$ 1,628**	$ 1,500	$ 1,490
Net premiums	**10,028**	9,525	8,923
Other operating income[3]	**3,809**	4,071	3,705
Operating income[3]	**15,465**	15,096	14,118
Investment income[3]	**2,884**	2,778	699
Total income	**18,349**	17,874	14,817
Provision for credit losses	**539**	310	288
Claims, benefits, annuities and changes in insurance contract liabilities	**9,257**	9,149	6,576
Non-interest expense	**7,236**	6,972	6,395
Income taxes on surplus earnings	**305**	212	208
Surplus earnings before dividends to member caisses	**$ 1,012**	$ 1,231	$ 1,350
Adjusted surplus earnings before dividends to member caisses[3]	**$ 1,012**	$ 922	$ 1,221
Contribution to consolidated surplus earnings by business segment[4]			
Personal and Business Services	**$ 89**	$ 677	$ 329
Wealth Management and Life and Health Insurance	**609**	697	866
Property and Casualty Insurance	**622**	187	173
Treasury and Other Support to Desjardins Group Entities	**(308)**	(330)	(18)
	$ 1,012	$ 1,231	$ 1,350
Indicators			
Return on equity[3]	**6.1%**	8.3%	8.6%
Adjusted return on equity[3]	**6.3**	6.2	7.8
Credit loss provisioning rate[3]	**0.88**	0.49	0.48

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(3) See "Non-GAAP measures".
(4) The breakdown by line item is presented in Note 30, "Segmented information", to the Consolidated Financial Statements.

2020 SURPLUS EARNINGS

For 2020, the Federation reported surplus earnings before dividends to member caisses of $1,012 million, a decrease of $219 million, or 17.8%, compared to 2019. Surplus earnings adjusted for the specific item, namely the gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand (the gain related to Monetico) recognized in 2019, were up $90 million, or 9.8%. This increase was mainly due to strong performance by the Property and Casualty Insurance segment and Desjardins Securities Inc. Furthermore, the COVID-19 pandemic largely explains the $229 million increase in the provision for credit losses, primarily due to a significant deterioration in the economic outlook and the expected impacts on credit quality, and a $43 million increase in costs related to travel insurance.

Contribution of business segments to surplus earnings

- Personal and Business Services: **Surplus earnings of $89 million**, down $588 million, and net surplus earnings adjusted for the specific item down $279 million compared to 2019. This decrease is essentially the result of the following:
  - Increase in the provision for credit losses due mainly to the significant deterioration in the economic outlook and the anticipated effects on credit quality as a result of the COVID-19 pandemic.
  - Increase in investments, particularly related to the digital shift and security.
  - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.

  This decrease was partially offset by the following items:
  - Higher trading income.
  - Growth in income from new capital market issues.
- Wealth Management and Life and Health Insurance: **Surplus earnings of $609 million,** down $88 million, or 12.6%, mainly because of the following items, partially due to the COVID-19 pandemic:
  - Increase in the current and expected volume of claim applications for trip cancellations, leading to an increase of $43 million in payouts for travel insurance benefits.
  - Higher level of expenses than in 2019, particularly administration expenses to improve services to caisse members and clients.
  - The markets' negative impact on guaranteed investment funds.
  - Less favourable effects than in 2019 from changes in actuarial assumptions in the normal course of business.
  - Offset by higher gains on the disposal of securities and real estate investments than in 2019.
- Property and Casualty Insurance: **Surplus earnings of $622 million,** up $435 million compared to 2019, due to the following:
  - Increase in net premiums, mitigated by the refunds of $155 million on automobile insurance premiums granted to members and clients as a relief measure to support them during the pandemic.
  - Lower current year loss ratio compared to 2019, due to the following items:
    - Lower loss experience in auto insurance, in particular because of changes in driving habits due to the COVID-19 pandemic.
    - Lower loss experience, in particular because of more favorable weather conditions.

- **Return on equity was 6.1%**, compared to 8.3% for 2019.
- **Adjusted return on equity was 6.3%**, compared to 6.2% for 2019.

OPERATING INCOME

Table 10 – Operating income

For the years ended December 31

(in millions of dollars)	**2020**	2019[(1)]	2018[(1)(2)]
Net interest income	**$ 1,628**	$ 1,500	$ 1,490
Net premiums	**10,028**	9,525	8,923
Other operating income[(3)] (see Table 11)	**3,809**	4,071	3,705
Total operating income[(3)]	**$ 15,465**	$ 15,096	$ 14,118

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.

(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

(3) See "Non-GAAP measures".

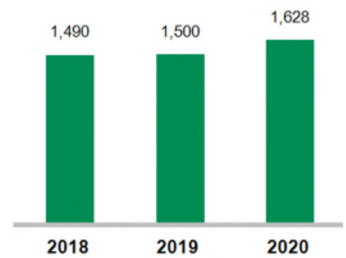
Operating income totalled $15,465 million, up $369 million, or 2.4%, compared to 2019. Excluding the $349 million gain before income taxes related to Monetico recognized in 2019, operating income would have been up $718 million, or 4.9%, compared to 2019.

Net interest income

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

- **Net interest income of $1,628 million**, up $128 million, or 8.5%, due mainly to growth in average loans outstanding to medium-sized businesses and large corporations, and higher interest income from the securities portfolio related to treasury activities. This increase was partially offset by a decrease in average consumer and credit card loans outstanding related to the decline in purchases as well as the prevention and relief measures and lower interest rates on certain credit cards introduced to support caisse members and clients during the COVID-19 pandemic.

Net interest income
(in millions of dollars)



Net premiums

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums, rose by $503 million, or 5.3%, to total $10,028 million as at December 31, 2020.

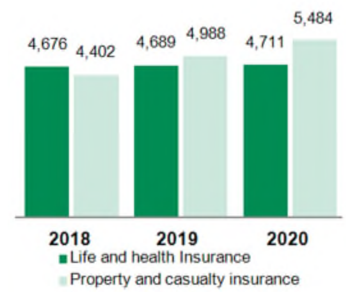
Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $4,711 million,** up $22 million, or 0.5%, due to the following:
  - Group insurance premiums up $35 million, and individual insurance premiums up $8 million.
  - Offset by a $21 million decrease mainly in individual annuity premiums.

Property and Casualty Insurance segment

- **Net premiums of $5,484 million,** up $496 million, or 9.9%, as a result of the following:
  - Growth in the average premium due to rate increases, reflecting the current trend in the Canadian property and casualty insurance industry.
  - End of the cession of premiums for new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm).
  - Offset by the refunds of $155 million on automobile insurance premiums granted to members and clients as a relief measure to support them during the pandemic.

Net premiums[(1)]
(in millions of dollars)



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

Other operating income

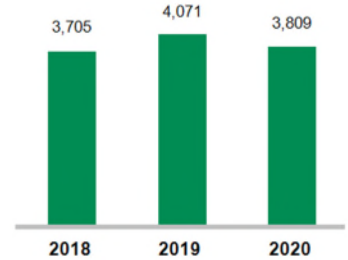
Table 11 – Other operating income
For the years ended December 31

(in millions of dollars)	**2020**	2019[(1)]	2018[(1)(2)]
Assessments	**$ 394**	$ 393	$ 392
Service agreements	**818**	773	742
Lending fees and credit card service revenues	**634**	782	699
Brokerage and investment fund services	**954**	886	905
Management and custodial service fees	**648**	610	573
Foreign exchange income	**103**	70	92
Other	**258**	557	302
Total other operating income[(3)]	**$ 3,809**	$ 4,071	$ 3,705

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(3) See "Non-GAAP measures".

Other operating income stood at $3,809 million, for a decrease of $262 million, or 6.4%, compared to the previous year. Excluding the $349 million gain before income taxes related to Monetico recognized in 2019, other operating income would have been up $87 million, or 2.3%, compared to 2019.

Other operating income(1)
(in millions of dollars)



(1) See "Non-GAAP measures".

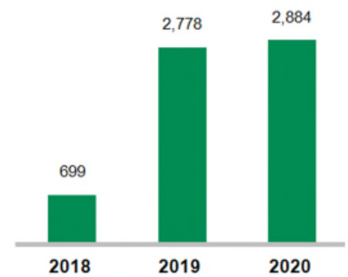
- Income from assessments and service agreements of $1,212 million, up $46 million, or 3.9%, as a result of growth in income from the caisses as a result of activities to enhance the service offer for caisse members and clients, including offers related to wealth management advisory services, *AccèsD* services, the online business centre and the shared services centre.
- Lending fees and credit card service revenues of $634 million, down $148 million, or 18.9%, due to the following:
  - Decrease in income following the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
  - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.
- Income from brokerage and investment fund services of $954 million, up $68 million, or 7.7%. This increase was due to the following items:
  - Increase in income from assets under management.
  - Growth in income from new capital market issues.
  - Higher income from securities brokerage activities.
- Management and custodial service fees of $648 million, up $38 million, or 6.2%, because of the increase in fees related to growth in assets under management.
- Foreign exchange income and other operating income of $361 million, down $266 million, or 42.4%. This decrease was due to the following items:
  - Gain related to Monetico in 2019.
  - Change in investment funds that benefited groups having signed agreements under The Personal banner.
  - Offset by the smaller increase than in 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.

INVESTMENT INCOME

Investment income totalled $2,884 million, an increase of $106 million, or 3.8%, compared to the previous year, essentially due to the following items:
- Higher gains on the disposal of securities and real estate investments than in 2019.
- Larger increase than in 2019 in the fair value of matched bonds in the Property and Casualty Insurance segment, chiefly because of a larger decrease in market interest rates in 2020 than in 2019. It should be remembered that this increase in bond value was partially offset by an increase in the cost of claims due to a matching strategy.

This increase was partially offset by the following items:
- Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to interest rate variations partly as a result of the COVID-19 pandemic.
  - Decrease partially offset by the reduction in actuarial liabilities included in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Decrease in the fair value of derivative financial instruments due in particular to financial market volatility and credit spreads during 2020 as a result of the COVID-19 pandemic.

Investment income(1)
(in millions of dollars)



(1) See "Non-GAAP measures".

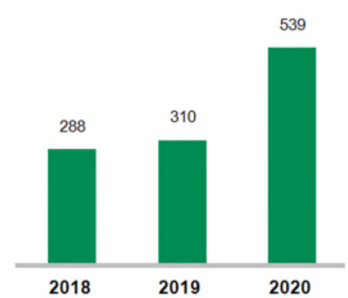
TOTAL INCOME

Total income, comprising net interest income, net premiums, other operating income and investment income, amounted to $18,349 million, an increase of $475 million, or 2.7%, compared to 2019. Excluding the $349 million gain before income taxes related to Monetico recognized in 2019, total income would have been up $824 million, or 4.7%, compared to 2019.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $539 million, up $229 million. This increase was mainly the result of the following items:
- The significant deterioration in the economic outlook as a result of the COVID-19 pandemic, particularly the unemployment rate and the GDP growth rate, and the anticipated effects on credit quality. For additional information on the main sources of uncertainty related to the pandemic that required management to make important judgments to estimate the loss allowance for expected credit losses, see Note 7, "Loans and allowance for credit losses" to the Consolidated Financial Statements.
- The increase in the provision related to credit-impaired loans in business loan portfolios.
- In 2019, refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards ended up reducing the provision for credit losses. This positive impact was mitigated, however, by a migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.

Provision for credit losses
(in millions of dollars)

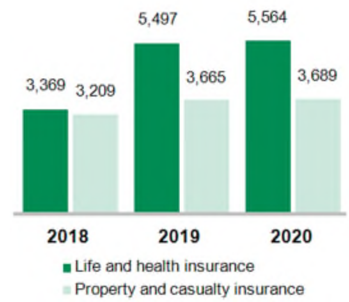


The Federation continued to present a quality loan portfolio in 2020.
- The credit loss provisioning rate was 0.88% for 2020, up compared to 0.49% in 2019 due to the significant increase in the provision for credit losses as a result of the COVID-19 pandemic, as explained earlier.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.74% as at December 31, 2020, compared to 0.56% a year earlier.

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $9,257 million, up $108 million, or 1.2%, compared to 2019.

Claims, benefits, annuities and changes in insurance contract liabilities[1]
(in millions of dollars)



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

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $5,564 million,** up $67 million, or 1.2%. This change was basically the result of the following:
  - Increase in provisions for dividends and experience refunds mainly as a result of the favourable experience in group insurance due to the decrease in claim applications related to the COVID-19 pandemic.
  - Higher payouts for benefits essentially as a result of the larger number of travel insurance claim applications related to the COVID-19 pandemic.
  - Offset by a decrease of $65 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, partially offset by the less favourable effects than in 2019 of changes in actuarial assumptions in the normal course of business.

Property and Casualty Insurance segment

- **Cost of claims of $3,689 million,** up $24 million, or 0.7%, due to the following:
  - Growth in business, which led to a higher cost of claims.
  - Effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Unfavourable impact of a larger decrease in the discount rates used to measure the provision for claims compared to 2019. It should be mentioned that this increase in the cost of claims was partially offset by an increase in matched bonds.
  - Loss ratio of 62.6% for 2020, compared to 71.7% in 2019: this lower ratio helped to mitigate the increase in the cost of claims.
    - Lower current year loss ratio compared to 2019: namely 65.4% vs. 79.9%, due to the following items:
      - Lower loss experience in automobile insurance related to changes in driving habits, as mentioned earlier.
      - Lower loss experience, in particular because of more favorable weather conditions.
    - Offset by less positive developments in the loss ratio for prior-year claims than in 2019: (5.3)% vs. (10.5)%.

NON-INTEREST EXPENSE

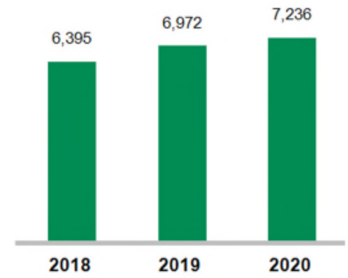
Table 12 – Non-interest expense
For the years ended December 31

(in millions of dollars)	2020	2019[1]	2018[1][2]
Remuneration and other payments	**$ 669**	$ 660	$ 563
Salaries and fringe benefits			
Salaries	**2,109**	1,964	1,862
Fringe benefits	**553**	479	377
	2,662	2,443	2,239
Premises, equipment and furniture, including depreciation	**636**	556	496
Service agreements and outsourcing	**260**	359	341
Communications	**223**	221	219
Other	**2,786**	2,733	2,537
Total non-interest expense	**$ 7,236**	$ 6,972	$ 6,395

[1] Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
[2] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

Non-interest expense totalled $7,236 million for 2020, up $264 million, or 3.8%, compared to 2019. This increase was basically the result of:
- Higher salaries and fringe benefits due to growth in operations and indexing, as well as the increase in pension expense.
- Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, privacy protection, security and improving business processes.
- Offset by contraction in certain costs related to the COVID-19 pandemic situation.

Non-interest expense
(in millions of dollars)



- **Remuneration and other payments of $669 million**, up $9 million, or 1.4%, due to the increase in payments to member caisses as a result of growth in caisse network sales of various Desjardins products.

- **Salaries and fringe benefits of $2,662 million,** up $219 million, or 9.0%, compared to 2019, mainly because of higher salaries due to growth in operations and indexing, as well as the increase in pension expense.
  - This expense item represented 36.8% of total non-interest expense, slightly higher than the 35.0% recorded in 2019.
  - The ratio of fringe benefits to total base compensation was 26.2% in 2020, up compared to 24.4% in 2019, mainly because of the increase in pension expense.

- **Expenses related to premises, equipment and furniture (including depreciation) of $636 million,** up $80 million, or 14.4%, compared to 2019 due mainly to the increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, privacy protection, security and improving business processes.

- **Service agreements and outsourcing of $260 million,** down $99 million, or 27.6%, compared to 2019 on account of the reduction in expenses following the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.

- **Communication expenses of $223 million,** comparable to 2019.

- **Other expenses of $2,786 million,** up $53 million, or 1.9%, compared to 2019, essentially because of the following:
  - Increase in investments, particularly related to the digital shift and security.
  - Effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations in the Property and Casualty Insurance segment.
  - Reduction, in first quarter 2019, of investment portfolio provisions.
  - Offset by contraction in certain costs related to the COVID-19 pandemic situation.

INCOME TAXES AND INDIRECT TAXES

The Federation is a cooperative financial group, and is considered a private and independent company for tax purposes, unlike the vast majority of other Canadian financial institutions, which are large public corporations. The Federation's entities that are not financial services cooperatives are subject to the large corporation tax regime.

- **Income taxes on surplus earnings before dividends to member caisses of $305 million**, up $93 million compared to 2019.
  - Effective tax rate of 23.2% for the year ended December 31, 2020, compared to 14.7% for 2019.
  - If the specific item is excluded, the effective tax rate would have been 23.2% for 2020, compared to 15.7% for 2019. The increase is mainly because of the transfer to the caisses in 2020 of the tax deduction for the non-taxable portion of the gain related to Monetico.

Note 27, "Income taxes on surplus earnings", to the Consolidated Financial Statements presents, among other things, a reconciliation of the statutory tax rate and the effective tax rate, expressed in dollars.

Indirect taxes consist of property and business taxes, payroll and social security taxes, the goods and services tax, and sales taxes. Indirect taxes are included in non-interest expense. For 2020, the Federation's entities paid $1,210 million in indirect taxes, compared to $1,197 million in 2019.

2.3 Analysis of business segment results

The Federation's financial reporting is organized by business segments, which are defined based on the needs of Desjardins Group's members and clients, the markets in which it operates, and on its internal management structure. The Federation'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 Treasury and Other Support to Desjardins Group Entities category. This section presents an analysis of results for each of these segments. During the first quarter of 2020, certain changes were made to the business segments to reflect management's decisions concerning the way each segment is managed, as mentioned in the section on each one.

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

2.3.1 Personal and Business Services

PROFILE

Personal and Business Services is central to Desjardins Group's operations. This segment is responsible for finetuning a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives offered through the Desjardins caisse network, Desjardins Business centres, Signature Service centres and specialized teams. This is what makes Desjardins Group a leader in financial services in Québec and a player on the financial services scene in Ontario as well.

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

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

To meet the constantly changing needs of caisse members and clients, the Federation supports the caisse network and its service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through the implementation and management of complementary access methods by phone, online, via applications for mobile devices, and at ATMs.

The operations of Desjardins Securities Inc. and Desjardins Investment Management Inc., such as securities brokerage and private management activities, formerly reported in the Wealth Management and Life and Health Insurance segment, have been fully included in the Personal and Business Services segment since the first quarter of 2020, while the operations of Desjardins Trust Inc., such as custodial and trust services, formerly reported in the Personal and Business Services segment, have been fully included in the in the Wealth Management and Life and Health Insurance segment since the first quarter of 2020. Data for 2019 have been reclassified to conform to these changes.

On December 31, 2019, the Federation completed the sale to Global Payments of the entire portfolio of merchants receiving services from the Federation under the Monetico brand and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. Thus, as announced on October 31, 2019, the Federation has been gradually phasing out in-store Accord D financing since May 1, 2020.

SERVICES

- **Everyday financial management:**
  - Routine transaction services and term savings, as well as specialty services, such as foreign exchange and funds transfers. These services are increasingly available on the Web and mobile devices.
- **Integrated business offer:**
  - Customized solutions to support businesses of all sizes in their expansion plans, whether on Québec, Canadian or international markets.
- **Financing:**
  - **Residential mortgages,** for the purchase of land, new or existing homes and for renovations;
  - **Consumer loans**, such as loans for the purchase of automobiles and durable goods, personal lines of credit, student loans and Accord D financing solutions;
  - **Commercial credit,** which makes it possible to offer financing in the commercial and industrial, agricultural and agri-food, and public and institutional sectors, as well as for commercial and multi-residential real estate.
- **Payment:**
  - Debit, credit and prepaid card payment services for individuals and businesses, merchant payment acceptance services, electronic payment services and both domestic and international funds transfers.
- ***AccèsD*:**
  - Desjardins Group products and services are available at anytime, anywhere in the world, by phone, online and via applications for mobile devices.
- **Wealth management advisory services:**
  - **Online brokerage:** High-performance tools that enable caisse members and clients to trade and invest independently. Whether they are beginners or seasoned investors, the tools offer a rich and unique experience that will help them grow their portfolios.
  - **Signature Service:** A turnkey service to help high net worth clients move from saving to investing. It guides members with complex requirements in building their wealth.
  - **Private wealth management:** An integrated service that takes charge of wealthy members and their families, down to the last detail. It meets sophisticated requirements by providing members with a trustworthy team they can count on.
  - **Securities:** Customized service that enables high net worth and wealthy members and clients a way to be involved in their financial decisions. It provides members and clients with a personalized offer for growing their wealth.
- **Capital markets:**
  - Meeting the financing needs of Canadian corporations, institutions and cooperatives, and providing advisory services for mergers and acquisitions, as well as intermediation and execution services on the stock and fixed income securities markets;
  - Carried out by seasoned sales and trading teams who are supported by a research team that is renowned in the industry for its excellence.
- **Development capital:**
  - Facilitating investment, both directly and through funds, in small and medium-sized enterprises (SMEs) and cooperatives in every region of Québec;
  - Desjardins Capital Management Inc., which manages *Capital régional et coopératif Desjardins*, supports the growth of businesses, especially in business ownership transfers;
  - With the backing of a team of specialists operating throughout Québec, this segment helps to develop and maintain the highest calibre of entrepreneurship in Québec by providing entrepreneurs with assistance at every stage of their company's growth.

- **Specialized services:**
  - International services, factoring, banking and cash management services, Desjardins employer solutions (payroll and human resources management, as well as group retirement savings), specialized financing for institutional clients, the franchise sector, health care and professional firms.

2020 ACHIEVEMENTS

- From the start of the COVID-19 pandemic, **a number of support measures** have been offered to caisse members and clients. In addition to those already mentioned under "COVID-19 pandemic" in Section 1.3, "Significant events", here are other measures taken in the Personal and Business Services segment:
  - Reimbursement of fees exceeding the package limit for personal chequing accounts.
  - Maintaining of no service charges for students who have reached the age limit of 26.
  - Focus on our relief measures for seniors: priority waiting line, donation to *Info Aidant*, support for adoption of digital tools, highlighting the "In Charge of Your Life and Your Property" program.
- Desjardins was one of the three North American financial institutions recognized by the **United Nations Environment Programme – Finance Initiative (UNEP FI),** and the UNEP FI paid tribute to Desjardins for its leadership in managing the pandemic situation.
- **A new, simplified range of cards,** along with a redesigned program of benefits and rewards, was launched in October 2020.
- Deployment of a Web tool for obtaining a **property appraisal report (digital or digitized)** with a short turnaround time and at a low cost for members, and a preliminary analysis tool for prequalification of rental property files of all types.
- Deployment of business continuity mechanisms for our caisse members and clients, such as **remote signature** and **electronic document transmission**.
- **Recipient of the 2020 GRAAL award for the project "*Octroi Cinq Jours*":** the project simplifies the credit granting process, providing a rapid response and disbursement for caisse members. The new process is aimed at SMEs and residential and commercial rental properties.
- **Online financing solution**: An automated process, from financing application to disbursement, designed to be used in self-service mode by business members.
- ***Catalogue 100 % membres***: featuring more than 800 businesses to discover: restaurants, spas, outfitters, campgrounds, hotels, activities and more.
- **Fundica x Desjardins**: a free, high-performance search tool for entrepreneur members and non-members to find government funding from among 250 assistance programs for businesses. Easy to use, the site can help businesses find grants, tax credits and loan guarantees that best suit their needs in relation to their projects and the entrepreneur's needs, while increasing the visibility of the organizations offering the programs.
- Continuation of the **"Tous engagés pour la jeunesse"** youth-centred program that conveys our commitment to young people. More than $50 million is invested annually to support youth and put them in the spotlight.
- The Personal and Business Services segment is continuing its digital shift with the following:
  - **Functionalities added to *AccèsD Particuliers* on the Web and mobile devices to give caisse members and clients greater freedom:**
    - Enhanced client experience for credit cards: suspend and activate a credit card, list of billed transactions.
    - A "My security" section to facilitate access to functionalities such as password management, secret questions and trusted devices.
    - Same-day cancellation of a payment by credit card.
    - "My First Home" is a tool that offers Desjardins caisse members a way to obtain mortgage financing and insurance 100% digitally that will be gradually available on *AccèsD*.
    - Digital mortgage renewal: available for a large number of eligible loans, allows eligible caisse members to renew their mortgage online 120 days before the term expiry date.
    - Simplified experience for high interest savings accounts (RRSP, TFSA, non-registered). A member can now open a TFSA on the mobile app.
    - New "Make an investment" gateway from the *AccèsD* Overview page to provide members with information and guide them to the investment that best meets their needs.
  - **Functionalities added to *AccèsD Affaires*:**
    - Sending of Interac transfers now available for more than 230,000 businesses in Québec.
    - Alerts are sent for timely notification of insufficient funds or transactions to be signed.
    - Deployment of new cheque imaging interface for *AccèsD Affaires* and *AccèsD* caisse members and clients.
- **Nilson Report 2020**: Desjardins stood out from the top 10 Canadian issuers (based on 2019 data), with the strongest growth in purchase volume (15.0%), number of active accounts (6.2%) and number of cards (5.4%).
- **Bond Survey 2020** on loyalty programs in Canada: the Odyssey World Elite MasterCard card ranked 1st among travel cards in the Elite category for a second consecutive year, far ahead of its nearest rival.
- **Canadian government recognition**: Desjardins received official thanks in the form of a letter to the President and CEO, Desjardins Group, from the Honourable Anita Anand, federal Minister of Public Services and Procurement, for our cooperation in **setting up direct deposit** in conjunction with the Canada Revenue Agency.

INDUSTRY

- **Canadian market**
  - In 2020, the Canadian financial industry comprised some 88 domestic and foreign banking institutions, as well as 452 savings and loan cooperatives, almost half of which belonged to Desjardins Group.
  - In the banking services industry, on-balance sheet and off-balance sheet personal savings outstanding was estimated at $5,123 billion as at December 31, 2020, for a year-over-year increase of 9.8%, compared to an 11.5% increase a year earlier. This slight slowing is due to difficulties in the Canadian stock market index (the Toronto Stock Exchange's S&P/TSX posted a weak increase of 2.4% versus a gain of 16.3% for the New York Stock Exchange's S&P 500) related to the COVID-19 pandemic, which had a negative impact on the value of off-balance sheet savings products, such as investment funds and securities in custody with securities brokers.
  - Outstanding volume of loans to individuals estimated at $2,356 billion as at December 31, 2020, a year-over-year increase of 3.5%, compared to an increase of 4.1% at year-end 2019.
  - Business financing outstanding estimated at $1,030 billion as at December 31, 2020, a year-over-year increase of 5.8%, in spite of difficulties related to the pandemic, compared to an increase of 7.6% as at December 31, 2019.

- **Québec market**
  - On-balance sheet and off-balance sheet personal savings outstanding estimated at $976 billion as at December 31, 2020, a year-over-year increase of 10.7%, compared to 12.2% growth at year-end 2019 due to the same factors as mentioned for personal savings in the Canadian market.
  - Outstanding volume of loans to individuals estimated at $417 billion as at the same date, for a year-over-year increase of 3.3%, compared to a 5.1% increase recorded a year earlier.
  - Business financing outstanding estimated at $204 billion as at December 31, 2020, for a year-over-year increase of 4.7%, compared to a 9.4% upsurge observed at year-end 2019.

- **Competition in Québec for financial services**
  - The major industry players are focusing primarily on client experience, access to services and proactive advice.
  - The fight for market share is therefore very fierce, since all players are adopting strategies aimed at intensifying business relations with their clients and getting to know them better.

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

2021 STRATEGIES AND PRIORITIES

The 2021 strategies and priorities of the Personal and Business Services segment are incorporated into Desjardins Group's strategic priorities and are aimed at helping Desjardins to achieve its ambition of being first in people's hearts, by working in the best interests of members and clients. The Personal and Business Services segment intends to enhance its leadership position in financing, savings and, through its distribution network and life and health and P&C insurance products. Additional information can be found in Section 1.4, "Strategic orientations and financial objectives", of this MD&A.

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

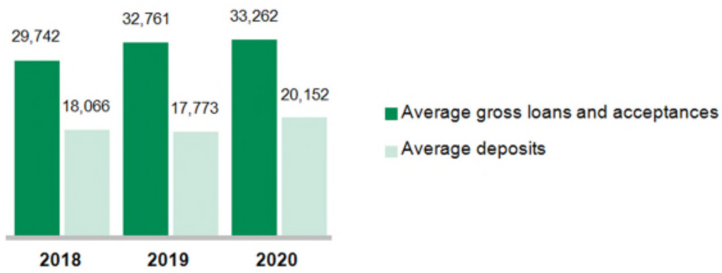
ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

Table 13 – Personal and Business Services – Segment results
For the years ended December 31

(in millions of dollars and as a percentage)	2020	2019(1)	2018(1)(2)
Net interest income	**$ 1,195**	$ 1,235	$ 1,140
Other operating income(3)	**2,096**	2,476	1,969
Operating income(3)	**3,291**	3,711	3,109
Investment income(3)	**70**	11	48
Total income	**3,361**	3,722	3,157
Provision for credit losses	**537**	308	288
Non-interest expense	**2,704**	2,566	2,426
Income taxes on surplus earnings	**31**	171	114
Net surplus earnings for the year	**$ 89**	$ 677	$ 329
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	**-**	(309)	-
Adjusted net surplus earnings for the year(3)	**$ 89**	$ 368	$ 329
Indicators			
Average gross loans and acceptances(3)	**$ 33,262**	$ 32,761	$ 29,742
Average deposits(3)	**20,152**	17,773	18,066
Credit loss provisioning rate(3)	**1.61%**	0.94%	0.97%
Gross credit-impaired loans/gross loans and acceptances ratio(3)	**1.34**	1.08	1.08

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(3) See "Non-GAAP measures".

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



COMPARISON OF 2020 AND 2019 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings of $89 million**, down $588 million, and adjusted net surplus earnings down $279 million, essentially due to the following:
  - Increase in the provision for credit losses due mainly to the significant deterioration in the economic outlook and the anticipated effects on credit quality as a result of the COVID-19 pandemic.
  - Increase in investments, particularly related to the digital shift and security.
  - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.

  This decrease was partially offset by the following items:
  - Higher trading income.
  - Growth in income from new capital market issues.

- **Operating income of $3,291 million**, down $420 million, or 11.3%.
  - Decrease of $40 million in net interest income particularly as a result of a decrease in average consumer and credit card loans outstanding related to the decline in purchases as well as the prevention and relief measures and lower interest rates on certain credit cards introduced to support caisse members and clients during the COVID-19 pandemic. This decrease was mitigated by an increase in average loans outstanding to medium-sized businesses and large corporations.
  - Other operating income of $2,096 million, down $380 million, or 15.3%, mainly due to the following:
    - $349 million gain before income taxes in 2019 related to Monetico.
    - Decrease in income related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
    - Decrease in business volumes from payment and financing activities at Desjardins Card Services as a result of the COVID-19 pandemic.

    This decrease was partially offset by the following:
    - Growth in income from new capital market issues.
    - Higher income from securities brokerage activities.

- **Investment income of $70 million**, up $59 million, basically as a result of the higher trading income.

- **Total income of $3,361 million**, down $361 million, or 9.7%.

- **Provision for credit losses of $537 million**, up $229 million compared to 2019, essentially because of the following:
  - The significant deterioration in the economic outlook as a result of the COVID-19 pandemic, particularly the unemployment rate and the GDP growth rate, and the anticipated effects on credit quality. For additional information on the main sources of uncertainty related to the pandemic that required management to make important judgments to estimate the loss allowance for expected credit losses, see Note 7, "Loans and allowance for credit losses" to the Consolidated Financial Statements.
  - The increase in the provision related to credit-impaired loans in business loan portfolios.
  - In 2019, refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards ended up reducing the provision for credit losses. This positive impact was mitigated, however, by a migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.

- **Non-interest expense of $2,704 million**, up $138 million, or 5.4%, essentially due to:
  - Business growth, especially growth in activities to enhance the service offer to caisse members and clients, including offers related to wealth management advisory services, *AccèsD* services, the online business centre and the shared services centre.
  - Increase in investments, particularly related to the digital shift and security.

  This increase was partially offset by the following:
  - Reduction in expenses following the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
  - Contraction in certain costs related to the COVID-19 pandemic situation.

2.3.2 Wealth Management and Life and Health Insurance

PROFILE

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

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

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

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

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

The operations of Desjardins Securities Inc. and Desjardins Investment Management Inc., such as securities brokerage and private management activities, formerly reported in the Wealth Management and Life and Health Insurance segment, have been fully included in the Personal and Business Services segment since the first quarter of 2020, while the operations of Desjardins Trust Inc., such as custodial and trust services, formerly reported in the Personal and Business Services segment, have been fully included in the Wealth Management and Life and Health Insurance segment since the first quarter of 2020. Data for 2019 have been reclassified to conform to these changes.

SERVICES

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

Wealth Management

- **Investments-investings:**
  - Includes various investment solutions for individuals and businesses, as well as group retirement savings service proposals for company employees or members of any other group.
  - The wide array of investment solutions offered, which includes market-linked guaranteed investments (MLGI), mutual funds, guaranteed investment funds, notes and exchange traded funds (ETF) with a number of responsible investment products, allow individuals and businesses to find the one best suited to their needs, whether for preparing for retirement, planning a trip or any other financial goal.
- **Institutional services:**
  - Services for institutional clients, namely pension funds, foundations, investment funds and insurers.
  - Asset management: Investment solutions are proposed by a group of investment experts to institutional clients in order to obtain competitive returns and an attractive risk-return trade-off for them.
  - Trust services: Services related to the custody and administration of securities on North American and international markets and fiduciary services for businesses.

Distribution

- **Desjardins Financial Security Life Assurance Company partner networks:**
  - Provide diversified access to a line of individual insurance products and to investment solutions through representatives who operate under the SFL banner in Québec, and as part of the Desjardins Financial Security Independent Network outside Québec.

2020 ACHIEVEMENTS

Supporting our members and clients: Our priority!
In the context of COVID-19, the segment offered advice and introduced relief measures so that members and clients, both individuals and businesses, could continue to look after their well-being and that of their families while staying on course with their financial objectives and their budget.

- Sending of **proactive communications** to more than 140,000 members and clients with loss of employment insurance.
- Introduction of **relief measures,** such as delaying insurance premiums for individuals and extending prescription medication renewals, reducing premiums for dental care and offering to maintain group insurance coverage in the event of layoff as well as a partial refund of premium for the holders of annual travel insurance.
- Access to a wide selection of **support services** for insureds, as well as psychological assistance or access to nurses to answer health-related questions.
- An enhanced **financial education offering** for members, clients and advisers to provide help in the current context: access to new video clips, pertinent interactive webinars and articles on market volatility and managing a budget.
- Deployment of business continuity mechanisms for our members and clients, such as **remote signature** and **electronic document transmission**.

Life and Health Insurance

- Enhanced **credit insurance** offering and support designed to meet the changing coverage needs of members and clients.
- Simplified and digital **travel insurance** processes to expedite the processing of claims and tailor the offer to the special circumstances.
- Access to mental healthcare made easy for **group insurance** members through Internet-based cognitive behavioural therapy (iCBT), which is now included in several types of coverage. This psychotherapy treatment is the most studied and clinically proven treatment for mental health disorders such as depression, anxiety and insomnia.
- Launch of the **Healthy Weight program** in group insurance: A unique market approach that goes straight to the source, tackling several factors at a time to help employees manage their weight in a realistic and sustainable way.
- Release of the first Desjardins Insurance report on **Principles for Sustainable Insurance** (PSI).

Wealth Management

- **SocieTerra Funds and Portfolios** now 100% oil production- and pipeline-free: This demonstrates Desjardins Group's continued leadership in the move toward a low-carbon economy.
- **Commitment to diversity**: Signing of the United Nations Women's Empowerment Principles and introduced a mutual fund focusing on companies with a clear and quantifiable commitment to greater female representation.
- Prestigious Structured Products **Best House, Canada Award** bestowed on Desjardins by Americas Structured Products & Derivatives Awards, based on not only quantitative factors but also the quality of the line and customer appreciation.
- Continuation of support strategies in **Group Retirement Savings** to maintain Desjardins's leadership in financial education, including better preparation for retirement.
- **Asset Management Service Offering** expanded to include a growing number of external institutional investors from coast to coast, providing these client bases with its expertise, particularly in Responsible Investing (RI).

INDUSTRY

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

- **Canadian market:**
  - Wealth Management: At the end of 2019, financial assets of close to $5,000 billion were held by Canadian households in various savings and investment products. Assets were up 12.0% in 2019, growing annually at 6.9% on a compound basis over the past 10 years. Stock markets experienced high volatility in 2020.
  - Life and Health Insurance: Premium income totalled $122 billion in life and health insurance and in annuities in 2019, growing an average 4.1% per annum over the last five years. More than 29 million Canadians are financially protected, and $103 billion in benefits were paid out in 2019. The persisting low interest rate environment and the COVID-19 crisis had a significant impact on the industry in 2020, particularly on product offerings and investment strategies.

- **Competition in Canada:**
  - Wealth Management: A division of all major banking groups, life and health insurance companies and investment funds. Competition is fierce, and players try to outdo one another in terms of ingenuity in order to win over clients and build their loyalty.
  - Life and Health Insurance: Based on 2019 statistics, there are more than 160 insurers doing business in Canada. Five insurers account for 77.4% of the market. Desjardins Financial Security Life Assurance Company ranks fifth in Canada, with gross written premiums of $4.8 billion in 2019.

- **Developments and expectations of members and clients:**
  - Members' and clients' expectations are constantly changing. They want easy, fast, holistic, digital, customized offers of products and services that are highly cost-efficient and focused on advisory services, education, protection, prevention and well-being. The industry is increasingly adjusting and positioning itself to meet these expectations.

2021 STRATEGIES AND PRIORITIES

The 2021 strategies and priorities of the Wealth Management and Life and Health Insurance segment form part of Desjardins Group's strategic priorities that aim to help Desjardins Group to achieve its ambition of being first in people's hearts. Just like the other Desjardins Group business segments, the Wealth Management and Life and Health Insurance segment works in the interests of its members and clients. For more information, please refer to Section 1.4, "Strategic orientations and financial objectives", of this MD&A.

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

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

Table 14 – Wealth Management and Life and Health Insurance – Segment results
For the years ended December 31

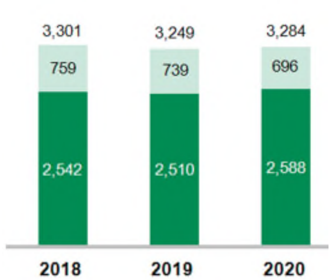
(in millions of dollars)	2020	2019[1]	2018[1][2]
Net interest income	**$ 8**	$ 9	$ 9
Net premiums	**4,711**	4,689	4,676
Other operating income[3]	**1,286**	1,256	1,346
Operating income[3]	**6,005**	5,954	6,031
Investment income[3]	**2,404**	2,434	385
Total income	**8,409**	8,388	6,416
Provision for (recovery of) credit losses	**-**	1	(1)
Claims, benefits, annuities and changes in insurance contract liabilities	**5,564**	5,497	3,369
Non-interest expense	**2,100**	2,052	1,969
Income taxes on surplus earnings	**136**	141	213
Net surplus earnings for the year	**$ 609**	$ 697	$ 866
Specific item, net of income taxes			
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	**-**	-	(129)
Adjusted net surplus earnings for the year[3]	**$ 609**	$ 697	$ 737
Indicators			
Net sales of savings products	**$ 3,704**	$ 5,826	$ 5,607
Insurance sales	**396**	467	342
Group insurance premiums	**3,284**	3,249	3,301
Individual insurance premiums	**901**	893	872
Annuity premiums	**526**	547	503
Receipts related to segregated funds	**2,368**	3,557	2,026

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(3) See "Non-GAAP measures".

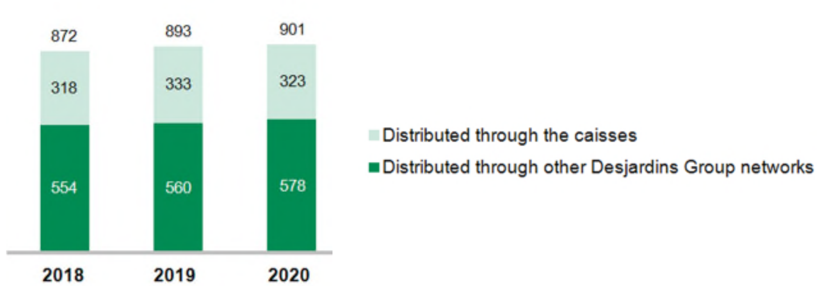
Table 15 – Expenses attributable to policyholders
For the years ended December 31

(in millions of dollars)	2020	2019	2018
Insurance and annuity benefits	**$ 3,158**	$ 3,138	$ 3,126
Change in actuarial liabilities	**2,222**	2,287	111
Policyholder dividends, experience refunds and other	**184**	72	132
Total	**$ 5,564**	$ 5,497	$ 3,369

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



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



COMPARISON OF 2020 AND 2019 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $609 million,** down $88 million, or 12.6%, mainly on account of the following items, partially due to the COVID-19 pandemic:
  - Increase in the current and expected volume of claim applications for trip cancellations, leading to an increase of $43 million in payouts for travel insurance benefits.
  - Higher level of expenses than in 2019, particularly administration expenses to improve services to caisse members and clients.
  - The markets' negative impact on guaranteed investment funds.
  - Less favourable effects than in 2019 of changes in actuarial assumptions in the normal course of business.
  - Offset by higher gains on the disposal of securities and real estate investments compared to 2019.

- **Operating income of $6,005 million,** up $51 million, or 0.9%.

- **Net premiums of $4,711 million,** up $22 million, or 0.5%, due to the following:
  - Increase of $35 million from group insurance and of $8 million from individual insurance.
  - Offset by a decrease of $21 million mainly in individual annuities.

- **Other operating income of $1,286 million,** up $30 million, or 2.4%, due mainly to higher income from assets under management.

- **Investment income of $2,404 million,** down $30 million, or 1.2%, primarily due to:
  - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to interest rate variations partly as a result of the COVID-19 pandemic.
    - Decrease partially offset by the reduction in actuarial liabilities included in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Offset by higher gains on the disposal of securities and real estate investments compared to 2019.

- **Total income of $8,409 million,** up $21 million, or 0.3%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $5,564 million**, up $67 million, or 1.2%, basically due to:
  - Increase in provisions for dividends and experience refunds mainly as a result of the favourable experience in group insurance due to the decrease in claim applications related to the COVID-19 pandemic.
  - Higher payouts for benefits essentially as a result of the larger number of travel insurance claim applications related to the COVID-19 pandemic.
  - Offset by a decrease of $65 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, mitigated by the less favourable effects than in 2019 of changes in actuarial assumptions in the normal course of business.

- **Non-interest expense of $2,100 million,** up $48 million, or 2.3%, mainly because of:
  - Higher administration expenses to improve services to caisse members and clients.
  - Decrease in investment portfolio provisions in first quarter 2019.
  - Higher expenses for assets under management.

2.3.3 Property and Casualty Insurance

PROFILE

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

Desjardins General Insurance Group Inc., which has more than 3,000,000 clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner.

SERVICES

- **Automobile insurance,** including motorcycle and recreational vehicle insurance:
  - Offers insurance coverage tailored to clients' specific needs and their vehicle features;
  - Also includes the necessary coverage to obtain financial compensation for bodily injury in provinces where such coverage is not provided by a public plan.
- **Property insurance:**
  - Offers owners and tenants insurance coverage to protect their physical property, with all-risk insurance coverage and optional coverages for primary and secondary residences.

- **Business insurance:**
  - Covers the insurance requirements for commercial vehicles, commercial property and public liability for businesses;
  - Service is provided to the following sectors, among others: service firms, retailers and wholesalers, garages, self-employed workers, general or specialized contractors, restaurants, offices, health care professionals, commercial buildings, condominiums and apartment buildings.
- **Prevention:**
  - Provides advisory services as well as loss prevention services to members and clients to help them protect their assets and guard against disaster.

2020 ACHIEVEMENTS

- Continued modernizing and enhancing of the member and client experience:
  - **Improvement of the member and client experience**, in particular by announcing a number of relief measures related to the COVID-19 pandemic for members and clients, including in particular refunds of $155 million on auto insurance premiums to more than 2.1 million insureds.
  - Continuation of the **digital transformation**, in particular by:
    - Implementing the **Online Claim** solution for the exclusive agent network.
    - Sending personalized messages to members and clients to encourage them to **Go Paper-Free**.
    - Enhancing its **mobile offer** in a number of ways:
      - Introducing the follow-up feature for home insurance claims in the Desjardins Insurance Mobile app.
      - Continuing to focus on prevention with Ajusto (telematics program providing personalized feedback on driving), Alert (program to prevent damage caused by water or the risk of freezing in home insurance by using a detector placed close to a potential source of leaks), and Radar (functionality providing severe weather warnings so steps can be taken to prevent certain damage to a client's home, auto or other property).
- Continuation of the **program to modernize IT systems** with the new Client solution, providing recognition and omnichannel reception of the member and client by setting up a single client file.
- Release of Desjardins Insurance's first report on the **Principles for Sustainable Insurance** (PSI).
- Now ranked the **second largest P&C insurer in Canada** and still the **second largest in Québec**, based on gross direct premiums written in 2019.

INDUSTRY

- **Canadian market:**
  - The P&C insurance industry offers insurance coverage for motor vehicles, personal and commercial property, and public liability.
  - A mature market, with an average annual premium growth rate of 6.1% over the past five years.
  - In 2019, direct premiums written on the Canadian market totalled $58.9 billion, up 11.1%, particularly as a result of high rates on the Canadian P&C insurance market.
  - Individual insurance accounts for 61.8% of the market, and business insurance, for 38.2%.

- **State of the industry in 2020:**
  - The measures imposed to fight the COVID-19 pandemic helped change driving habits, resulting in a decline in the frequency of auto insurance claims.
  - The average cost of claims continues to increase significantly for the entire auto insurance industry in Canada, particularly due to the cost of repairs for new technologies in motor vehicles.
    - The Desjardins Group P&C Insurance segment is being proactive with regard to these challenges and continues to implement its action plan to better control business profitability.
  - Winter 2020 was affected by the start of the COVID-19 pandemic. Insurance operations were impacted during the lockdown, especially because of the reduction in travel and car accidents. A number of insurers announced relief measures (premium reductions, easy payment options, capped rate increases and coverage extensions) in order to support their clients during the pandemic.
  - The spring and summer months in 2020 were affected by the hailstorm and flooding in Alberta, which cost insurers nearly $2 billion according to the Insurance Bureau of Canada. Approximately 100,000 insurance claims were filed as a result of these events, and two-thirds of the claims concerned the June 2020 hailstorm in Calgary.
    - The Desjardins Group P&C Insurance segment experienced an exceptional situation following the hailstorm episode on June 13, 2020 in Calgary. In fact, more than 8,400 claims were filed. The claims team reacted proactively to this industry event.

- **Industry trends:**
  - Insurers' proposals are being increasingly developed through digital channels.
  - The Canadian market continues to develop quickly, as it has in recent years, driven by technological innovations, changes in expectations and consumer behaviour as well as the advent of new business models. Insurers are starting to position themselves in response to new trends such as InsurTech or the sharing economy.
  - The impact of climate change is a major factor affecting the P&C insurance industry.
  - The Desjardins Group P&C Insurance segment is proactive vis-à-vis these new trends by, for instance, modernizing IT systems and working to speed up the digital shift.

2021 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's 2021 strategies and priorities fall within the scope of Desjardins Group's strategic priorities, and aim to help Desjardins Group attain its goal of being number one in people's hearts. For more information, please refer to Section 1.4, "Strategic orientations and financial objectives", of this MD&A.

To achieve these priorities, various initiatives will be deployed in order to offer members and clients the best possible experience and to provide them with products and services that are in their best interests and tailored to their needs.

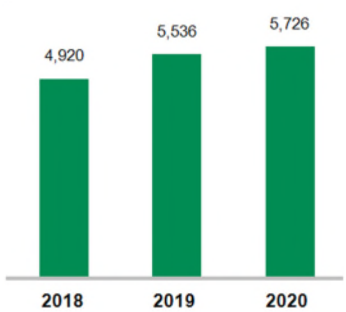
ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

Table 16 – Property and Casualty Insurance – Segment results
For the years ended December 31

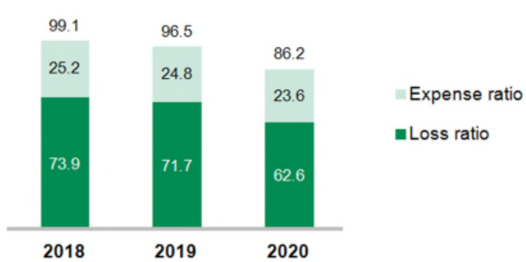
(in millions of dollars and as a percentage)	2020	2019[1]	2018[1]
Net premiums	**$ 5,484**	$ 4,988	$ 4,402
Other operating income (loss)[2]	**(160)**	(172)	(196)
Operating income[2]	**5,324**	4,816	4,206
Investment income[2]	**497**	341	336
Total income	**5,821**	5,157	4,542
Claims, benefits, annuities and changes in insurance contract liabilities	**3,689**	3,665	3,209
Non-interest expense	**1,303**	1,245	1,119
Income taxes on surplus earnings	**207**	60	41
Net surplus earnings for the year	**$ 622**	$ 187	$ 173
Of which:			
Group's share	**$ 538**	$ 141	$ 132
Non-controlling interests' share	**84**	46	41
Indicators			
Gross written premiums	**$ 5,726**	$ 5,536	$ 4,920
Loss ratio[2]	**62.6%**	71.7%	73.9%
Current year loss ratio[2]	**65.4**	79.9	80.7
Loss ratio related to catastrophes and major events[2]	**2.5**	2.3	3.1
Ratio of favourable changes in prior year claims[2]	**(5.3)**	(10.5)	(9.9)
Expense ratio[2]	**23.6**	24.8	25.2
Combined ratio[2]	**86.2**	96.5	99.1

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
(2) See "Non-GAAP measures".

Gross written premiums
(in millions of dollars)



Combined ratio
(as a percentage of net premiums)



COMPARISON OF 2020 AND 2019 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $622 million,** up $435 million compared to 2019, due to the following:
  - Increase in net premiums, mitigated by refunds of $155 million on auto insurance premiums granted to members and clients as a relief measure to support them during the pandemic.
  - Lower current year loss ratio compared to 2019, due to the following items:
    - Lower loss experience in auto insurance, in particular because of changes in driving habits due to the COVID-19 pandemic.
    - Lower loss experience, in particular because of more favorable weather conditions.

- **Operating income of $5,324 million,** up $508 million, or 10.5%.

- **Net premiums of $5,484 million,** up $496 million, or 9.9%, as a result of:
  - Growth in the average premium due to rate increases, reflecting the current trend in the Canadian P&C insurance market.
  - End of the cession of premiums on new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Offset by refunds of $155 million on auto insurance premiums granted to members and clients as a relief measure to support them during the pandemic.

- **Loss of $160 million, presented under Other operating income (loss),** down $12 million, due to the following:
  - Smaller increase than in 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, and arising from the favourable developments in claims taken over.
  - Offset by the change in investment funds that benefited groups having signed agreements under The Personal banner.

- **Investment income of $497 million,** up $156 million, or 45.7%, essentially from the higher increase in the fair value of matched bonds compared to 2019, mainly on account of lower market interest rates in 2020 than those recorded in 2019. It should be mentioned that this increase in bond value was partly offset by an increase in the cost of claims because of a matching strategy.

- **Total income of $5,821 million,** up $664 million, or 12.9%.

- **Cost of claims totalling $3,689 million,** up $24 million, or 0.7%, as a result of the following:
  - Business growth, which led to a higher cost of claims.
  - Effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Unfavourable impact of lower discount rates used to measure the provision for claims was greater than in 2019. It should be mentioned that this increase in the cost of claims was partially offset by an increase in matched bonds.
  - Loss ratio of 62.6% for 2020, compared to 71.7% in 2019: This lower ratio helped to mitigate the increase in the cost of claims.
    - Lower current year loss ratio compared to 2019: namely 65.4% vs. 79.9%, due to the following items:
      - Lower loss experience in auto insurance related to changes in driving habits, as mentioned earlier.
      - Lower loss experience, in particular because of more favorable weather conditions.
    - Offset by less positive developments in the loss ratio for prior-year claims than in 2019: (5.3)% vs. (10.5)%.

- **Non-interest expense of $1,303 million,** up $58 million, or 4.7%, due to the effect of the reinsurance treaty mentioned earlier on the costs covered by it.

2.3.4 Treasury and Other Support to Desjardins Group Entities category

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

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

Table 17 – Treasury and Other Support to Desjardins Group Entities
For the years ended December 31

(in millions of dollars)	**2020**	2019[1]	2018[1][2]
Net interest income	**$ 425**	$ 256	$ 341
Net premiums	**(167)**	(152)	(155)
Other operating income[3]	**587**	511	586
Operating income[3]	**845**	615	772
Investment income (loss)[3]	**(87)**	(8)	(70)
Total income	**758**	607	702
Provision for credit losses	**2**	1	1
Claims, benefits, annuities and changes in insurance contract liabilities	**4**	(13)	(2)
Non-interest expense	**1,129**	1,109	881
Income taxes on surplus earnings	**(69)**	(160)	(160)
Deficit before dividends to member caisses	**(308)**	(330)	(18)
Dividends to member caisses, net of tax recovery	**83**	84	51
Net deficit for the year after dividends to member caisses	**$ (391)**	$ (414)	$ (69)

(1) Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(3) See "Non-GAAP measures".

COMPARISON OF 2020 AND 2019 – CONTRIBUTION BY TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES TO SURPLUS EARNINGS

- **Deficit of $308 million before dividends to member caisses,** compared to a deficit of $330 million in 2019. This change was due to the following:
  - Changes in hedging positions for matching activities had an overall negative effect on surplus earnings, partially offset by treasury activities, and market rate fluctuations, which had an overall favourable effect on surplus earnings.
  - Higher income tax expense in 2020 as a result of the transfer to the caisses of the tax deduction for the non-taxable portion of the gain related to Monetico.
  - Non-interest expense includes investments related to the continued implementation of Desjardins-wide strategic projects, in particular. for creating innovative technology platforms, privacy protection, security and improving business processes, thereby enhancing the member and client experience, improving productivity and ensuring the implementation of best practices in security. Other activities also include commitments made with regard to the GoodSpark Fund, which seeks to provides social and economic support to the regions, as well as payments under the Desjardins Member Advantages program.
  - Decrease in investment portfolio provisions in first quarter 2019.

2.4 Analysis of fourth quarter results and quarterly trends

Table 18 – Results for the previous eight quarters

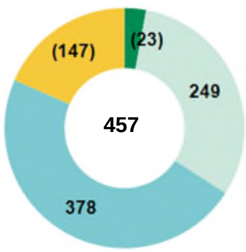
(unaudited, in millions of dollars and as a percentage)	**2020**				2019			
	Q4	Q3[1]	Q2[1]	Q1[1]	Q4[1]	Q3[1]	Q2[1]	Q1[1]
Net interest income	**$ 408**	$ 428	$ 390	$ 402	$ 389	$ 395	$ 360	$ 356
Net premiums	**2,653**	2,561	2,263	2,551	2,556	2,354	2,270	2,345
Other operating income[2]								
Assessments	**99**	98	96	101	98	99	98	98
Service agreements	**212**	205	202	199	198	190	199	186
Lending fees and credit card service revenues	**170**	130	135	199	195	192	185	210
Brokerage and investment fund services	**243**	235	235	241	226	223	223	214
Management and custodial service fees	**177**	160	154	157	162	155	147	146
Foreign exchange income	**23**	21	15	44	19	18	19	14
Other	**81**	40	75	62	407	34	34	82
Operating income[2]	**4,066**	3,878	3,565	3,956	4,250	3,660	3,535	3,651
Investment income (loss)[2]								
Net investment income (loss)	**609**	286	2,655	(624)	(45)	584	1,001	1,430
Overlay approach adjustment for insurance operations financial assets	**(112)**	(143)	(299)	512	(22)	(13)	10	(167)
Investment income (loss)[2]	**497**	143	2,356	(112)	(67)	571	1,011	1,263
Total income	**4,563**	4,021	5,921	3,844	4,183	4,231	4,546	4,914
Provision for (recovery of) credit losses	**152**	80	108	199	103	129	(6)	84
Claims, benefits, annuities and changes in insurance contract liabilities	**1,786**	1,780	3,612	2,079	1,420	2,256	2,354	3,119
Non-interest expense	**2,033**	1,696	1,778	1,729	1,867	1,615	1,826	1,664
Income taxes on surplus earnings	**135**	116	167	(113)	145	20	56	(9)
Surplus earnings (deficit) before dividends to member caisses	**457**	349	256	(50)	648	211	316	56
Dividends to member caisses, net of tax recovery	**83**	-	-	-	84	-	-	-
Net surplus earnings (deficit) for the period after dividends to member caisses	**$ 374**	$ 349	$ 256	$ (50)	$ 564	$ 211	$ 316	$ 56
Of which:								
Group's share	**$ 331**	$ 328	$ 249	$ (63)	$ 544	$ 200	$ 298	$ 59
Non-controlling interests' share	**43**	21	7	13	20	11	18	(3)
Contribution to consolidated surplus earnings by business segment								
Personal and Business Services	**$ (23)**	$ 76	$ 69	$ (33)	$ 372	$ 78	$ 142	$ 85
Wealth Management and Life and Health Insurance	**249**	140	261	(41)	285	100	179	133
Property and Casualty Insurance	**378**	155	16	73	111	34	123	(81)
Treasury and Other Support to Desjardins Group Entities	**(147)**	(22)	(90)	(49)	(120)	(1)	(128)	(81)
	$ 457	$ 349	$ 256	$ (50)	$ 648	$ 211	$ 316	$ 56
Total assets	**$ 195,072**	$ 195,936	$ 190,905	$ 177,578	$ 164,413	$ 165,894	$ 164,252	$ 162,449
Indicators								
Return on equity[2]	**10.5%**	8.6%	6.6%	(1.7)%	17.0%	5.5%	8.4%	1.7%
Tier 1A capital ratio[3]	**21.9**	21.4	21.8	22.2	21.6	17.9	17.7	18.1
Total capital ratio[3]	**22.6**	22.1	22.4	22.2	21.6	18.1	17.8	18.3

(1) Data have been reclassified to conform to the current year's presentation.
(2) See "Non-GAAP measures".
(3) On September 16, 2020, the AMF issued a notice stating that the Federation's capital ratios had to be calculated on the basis of the exposure of all the entities comprising Desjardins Group. Comparative data have been restated to conform to the presentation required by this change. For more information, please refer to Section 3.2, "Capital management", of this MD&A.

FOURTH QUARTER CONSOLIDATED RESULTS

For the fourth quarter of 2020, the Federation posted surplus earnings before dividends to member caisses of $457 million, down $191 million, or 29.5%, compared to the same period in 2019. Surplus earnings adjusted[1] for the specific item, namely, the gain related to Monetico recognized in fourth quarter 2019, were up $118 million, or 34.8%.

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



2019 surplus earnings before dividends to member caisses[(*)]
(in millions of dollars)

[(*)] Data for 2019 were reclassified to conform to the current year's presentation.

Contribution of business segments to surplus earnings:

- Personal and Business Services: **Deficit of $23 million,** compared to surplus earnings of $372 million for the same period in 2019, essentially as a result of:
  - Gain of $309 million, net of income taxes, related to Monetico in the fourth quarter of 2019.
  - Increase in the provision for credit losses due mainly to the impact of the economic outlook and the anticipated effects on credit quality as a result of the COVID-19 pandemic.
  - Increase in investments, particularly in the digital shift and security.
- Wealth Management and Life and Health Insurance: **Surplus earnings of $249 million,** down $36 million, or 12.6%, compared to the corresponding quarter in 2019, primarily due to:
  - Less favourable effects than in 2019 of changes in actuarial assumptions in the normal course of business.
  - Higher level of expenses than in 2019, in particular administration expenses to enhance services to caisse members and clients.
- Property and Casualty Insurance: **Surplus earnings of $378 million,** up $267 million compared to the fourth quarter of 2019, mainly due to:
  - Increase in net premiums.
  - Decrease in cost of claims due to the following items:
    - Lower loss experience in auto insurance, in particular because of changes in driving habits due to the COVID-19 pandemic.
    - Lower loss experience, in particular because of more favorable weather conditions.
  - Offset by lower favourable developments in prior-year claims.

- **Return on equity of 10.5%,** compared to 17.0% for the fourth quarter of 2019.
- **Adjusted return on equity of 10.8%,** compared to 8.8% for the fourth quarter of 2019, mainly due to higher surplus earnings, as explained earlier.

- **Operating income of $4,066 million,** down $184 million, or 4.3%.

- **Net interest income of $408 million,** up $19 million, or 4.9%, primarily as a result of higher interest income from the securities portfolio related to treasury activities.

- **Net premiums of $2,653 million,** up $97 million, or 3.8%.
  - **Wealth Management and Life and Health Insurance:** Net insurance and annuity premiums of $1,240 million, down $52 million, or 4.0%, compared to the same period in 2019, as a result of:
    - Decrease of $83 million in group annuities.
    - Offset by an increase of $29 million in group insurance premiums.

  - **Property and Casualty Insurance:** Net premiums of $1,456 million, up $153 million, or 11.7%, compared to the same period in 2019, due to:
    - Growth in the average premium.
    - End of the cession of premiums on new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.

[1] See "Non-GAAP measures".

- **Other operating income of $1,005 million,** down $300 million, or 23.0%, mainly due to:
  - Gain related to Monetico in the fourth quarter of 2019.
  - Decrease in income following the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
  - Lower business volumes from payment and financing activities at Desjardins Card Services during the COVID-19 pandemic.

  This decrease was partially offset by:
  - Smaller increase than in fourth quarter 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.
  - Higher income from assets under management.
  - Income from DuProprio and Purplebricks Canada operations.

- **Investment income of $497 million,** compared to losses of $67 million in the fourth quarter of 2019, as a result of:
  - Increase mainly due to the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations.
    - Difference mostly due to changes in the fair value of the bond portfolio primarily as a result of fluctuating interest rates.
    - Increase partially offset by the change in actuarial liabilities that in turn led to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Higher gains on disposal of securities compared to 2019.
  - Lower decrease in the fair value of matched bonds in the Property and Casualty Insurance segment compared to the corresponding quarter of 2019, mainly due to a lower increase in market interest rates during the fourth quarter of 2020 than in the same quarter of 2019. It should be mentioned that this increase in bond value was partially offset by an increase in the cost of claims due to a matching strategy.
  - Offset by a decrease in the fair value of derivative financial instruments.

- **Total income of $4,563 million,** up $380 million, or 9.1%.

- **Provision for credit losses of $152 million,** up $49 million, or 47.6%, compared to the same period in 2019. This increase was chiefly due to the impact of the economic outlook and the anticipated effects on credit quality because of the COVID-19 pandemic, with the effect on the provision being more significant than the effect of the migration of exposures to higher risk ratings in the personal loan portfolio for credit cards that occurred in fourth quarter 2019.

  The Federation continued to have a quality loan portfolio in 2020.
  - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.74%, compared to 0.56% as at December 31, 2019.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $1,786 million, up** $366 million, or 25.8%.
  - **Wealth Management and Life and Health Insurance segment:** Cost of claims totalling $1,048 million, up $460 million, or 78.2%, compared to the same period in 2019, essentially as a result of:
    - Increase of $407 million in actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of an increase in the fair value of matched investments and less favourable effects than in 2019 of changes in actuarial assumptions in the normal course of business.
    - Increase in provisions for dividends and experience refunds.

  - **Property and Casualty Insurance segment:** Cost of claims totalling $741 million, down $93 million, or 11.2%, due to the following:
    - Loss ratio of 50.8% for the fourth quarter of 2020, compared to 65.9% for the corresponding quarter of 2019.
      - Lower loss ratio for the current year than for the corresponding period in 2019, namely 53.5% vs. 76.3%, essentially as a result of:
        - Lower loss experience in auto insurance, in particular because of changes in driving habits due to the COVID-19 pandemic.
        - Lower loss experience, in particular because of more favourable weather conditions.
      - Lower loss ratio related to catastrophes and major events compared to the corresponding quarter of 2019: 1.5% vs. 4.3% because there had been one catastrophe in fourth quarter 2019, while there had been two major events in the fourth quarter of 2020.
      - Offset by lower favourable developments in the loss ratio for prior-year claims compared to the same quarter in 2019: (4.2)% vs. (14.7)%.

    This lower cost of claims was partially offset by:
    - Business growth leading to an increase in the cost of claims.
    - Effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
    - Unfavourable impact of the lower discount rates used to measure the provision for claims was greater than that for the corresponding period in 2019.

- **Non-interest expense of $2,033 million,** up $166 million, or 8.9%, compared to the fourth quarter of 2019, due to:
  - Increase in salaries and fringe benefits related to growth in operations and indexing, as well as a higher pension expense.
  - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, privacy protection, security and improving business processes.
  - Effect of reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, leading to higher expenses for the Property and Casualty Insurance segment.

  This increase was partially offset by the following items:
  - Contraction in certain costs related to the COVID-19 pandemic situation.
  - Expenses reduced as a result of the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.

- **Income taxes on surplus earnings before dividends to member caisses of $135 million,** down $10 million compared to the corresponding period in 2019.
  - Effective tax rate of 22.8% for the fourth quarter of 2020, up from 18.3% for the corresponding period in 2019.
  - If the gain before income taxes related to Monetico in fourth quarter 2019 is excluded, the effective tax rate would have been 22.8% for the fourth quarter of 2020, compared to 23.6% for the corresponding quarter of 2019.

QUARTERLY TRENDS

Quarterly income, expenses and surplus earnings before dividends to member caisses are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the financial markets. In this regard, the 2020 quarters were affected by the public health crisis related to the COVID-19 pandemic, leading to significant fluctuations in quarterly results, compared to those normally recognized by the Federation. The results of the Federation's most recent eight quarters were therefore affected by developments in the global, U.S., Canadian and Québec economies, with an expected decline of 5.4% and 5.3%, respectively, in Canadian and Québec real GDP in 2020 mainly related to the COVID-19 pandemic, compared to growth of 1.9% and 2.7%, respectively, in 2019. Lastly, the past eight quarters were affected by a decrease in March 2020 of 150 basis points in the Canadian key interest rate in order to limit the negative consequences of the pandemic. Moreover, changes in actuarial assumptions as well as loss experience and weather conditions may also cause significant variations from quarter to quarter. In 2020, one catastrophe and three major events were recorded, compared to one catastrophe and nine major events of smaller magnitude in 2019.

Consolidated surplus earnings

- The COVID-19 pandemic financially affected the quarterly results of 2020. This included an increase in the provision for credit losses, due mainly to the significant deterioration in the economic outlook and the anticipated effects on credit quality, as well as higher payouts for travel insurance benefits.
- The results were affected by a more favourable loss experience in auto insurance since the second quarter of 2020, in particular as a result of the changes in driving habits because of the COVID-19 pandemic.
- Refunds of $155 million on auto insurance premiums were granted to members and clients in the second quarter of 2020 as a relief measure to support them during the pandemic period.
- Expenses to cover the costs incurred and the establishment of a provision related to the implementation of Desjardins Identity Protection were recognized for $70 million in the second quarter of 2019, and for $38 million in the fourth quarter of 2019.
- Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, privacy protection, security and improving business processes.
- Gain related to Monetico recognized in the fourth quarter of 2019.

Consolidated results

- **Operating income – Upward trend for 2020 quarters, compared to 2019 quarters.**
  - Growth in the average premium during the past eight quarters due to rate increases reflects the current trend in the Canadian property and casualty insurance market.
  - Refunds of $155 million on auto insurance premiums granted to members and clients in second quarter 2020 as a relief measure to support them during the pandemic.
  - Growth in income from securities brokerage activities and new capital market issues.
  - Decrease in business volumes from payment and financing activities at Desjardins Card Services during the COVID-19 pandemic.
  - Gain related to Monetico recognized in fourth quarter 2019.

- **Investment income – Fluctuations mainly a result of market volatility leading to changes in the fair value of assets backing liabilities related to life and health insurance operations.** On account of a matching strategy, these fluctuations were offset by a change in provisions, the effect of which was reflected in expenses related to claims, benefits, annuities and changes in insurance contract liabilities.

- **Provision for credit losses – Quarterly fluctuations.**
  - The significant deterioration in the economic outlook as a result of the COVID-19 pandemic, particularly the unemployment rate and the GDP growth rate, and the anticipated effects on credit quality led to large increases in the loss allowance for expected credit losses, mainly in the first and second quarters of 2020.
  - Increase in the provision for credit-impaired loans in business loan portfolios for the 2020 quarters.
  - Migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.
  - Refining the methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards led to a favourable impact in the second quarter of 2019.
  - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, slightly up for the 2020 quarters compared to the 2019 quarters. The Federation has continued to have a quality loan portfolio.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
  - Growth in business leading to an increase in the cost of claims.
  - Expenses mainly affected by a change in the fair value of investments associated with life and health insurance activities and property and casualty insurance activities.
  - In connection with the COVID-19 pandemic, impact on the cost of claims in the provision and travel insurance claims based on recorded and expected volumes, affecting the claims experience of group insurance and direct insurance in 2020.
  - Expenses affected by the change in P&C Insurance segment loss ratios:
    - The second quarter of 2020 and the fourth quarter of 2019 were affected respectively by one catastrophe.
    - Fiscal 2020 was affected by three major events compared to nine in 2019.
    - Lower loss experience in auto insurance since the second quarter of 2020, in particular because of changes in driving habits as a result of the COVID-19 pandemic.

- **Non-interest expense – Up slightly when 2020 and 2019 quarters are compared, except for the second quarter of 2020.**
  - Increase in salaries and fringe benefits related to growth in operations and indexing, as well as an increase in the pension expense.
  - Business growth leading to an increase in expenses, and effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations for the Property and Casualty Insurance segment.
  - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular, for creating innovative technology platforms, privacy protection, security and improving business processes.
  - Reduction in expenses in 2020 following the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
  - Contraction in certain costs related to the COVID-19 pandemic.
  - Expenses to cover costs incurred and the establishment of a provision related to the implementation of Desjardins Identity Protection were recognized for $70 million in the second quarter of 2019, and for $38 million in the fourth quarter of 2019.
  - Reduction in investment portfolio provisions in the first quarter of 2019.

Surplus earnings from business segments

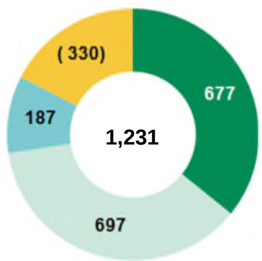
- **Surplus earnings before dividends to caisse members in the Personal and Business Services segment fluctuating over the previous eight quarters.**
  - Increase in the provision for credit losses in the first, second and fourth quarters of 2020, mainly due to the significant deterioration in the economic outlook and the expected effects on credit quality because of the COVID-19 pandemic.
  - Decrease in business volumes since second quarter 2020 from payment and financing activities at Desjardins Card Services during the COVID-19 pandemic.
  - Increase in income from trading activities since second quarter 2020 and in fourth quarter 2019.
  - Growth in income from new capital market issues in 2020.
  - Gain related to Monetico recognized in fourth quarter 2019.
  - Higher expenses related to business growth, especially activities to enhance the service offer to caisse members and clients, including offers related to wealth management advisory service activities, *AccèsD* services, the online business centre and the shared services centre.
  - Increase in investments in 2020, particularly in the digital shift and security.
  - Offset by a decrease in expenses in 2020 following the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand and contraction of certain costs related to the COVID-19 pandemic.

- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the previous eight quarters.**
  - In connection with the COVID-19 pandemic, impact on results for the provision and travel insurance claims based on the recorded and expected volumes, affecting the claims experience of group insurance and direct insurance in 2020.
  - Higher gains on the disposal of securities and real estate investments in 2020, mainly in the first quarter.
  - Negative impact of markets and credit spreads on guaranteed investment funds for the first quarter of 2020, in spite of improvement in the results for the last three quarters of 2020.
  - Higher income from assets under management during 2020 and 2019 related to the COVID-19 pandemic.
  - Higher surplus earnings in fourth quarters of 2020 and 2019, mostly due to the favourable effect of changes in actuarial assumptions in the normal course of business.
  - Higher level of expenses in 2020 compared to 2019 quarters.

- **Net surplus earnings of the Property and Casualty Insurance segment fluctuating over the past eight quarters.**
  - Growth in net premiums over the past eight quarters mitigated by refunds of $155 million on auto insurance premiums granted in the second quarter of 2020 to members and clients as a relief measure to support them during the pandemic.
  - Impact of catastrophes:
    - The second quarter of 2020 was affected by one catastrophe, namely a hailstorm in Alberta.
    - The fourth quarter of 2019 was affected by one catastrophe, namely major wind events and water damage, essentially in Québec.
  - Impact of loss experience for the current year:
    - Changes in driving habits because of the COVID-19 pandemic have helped to reduce the number of claims filed since second quarter 2020.
    - Harsh weather conditions in first quarter 2019 helped to increase the frequency of claims for 2019.
  - Impact of investment income:
    - Positive impact in fourth quarter 2020.
    - Negative impact in first quarter 2020.
    - Positive impact in fourth quarter 2019.

2.5 Comparison of 2019 and 2018

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



2018 surplus earnings before dividends to member caisses(*)
(in millions of dollars)

(*) Data for 2019 and 2018 were reclassified to conform to the current year's presentation.

For 2019, the Federation posted surplus earnings before dividends to caisse members of $1,231 million, compared to $1,350 million for 2018. Surplus earnings adjusted[1] for specific items totalled $922 million in 2019, down $299 million compared to 2018. Return on equity was 8.3% compared to 8.6% in 2018, while adjusted return on equity was 6.2%, compared to 7.8% in 2018.

Segment results

- **Personal and Business Services: Net surplus earnings of $677 million in 2019,** up $348 million, and net adjusted surplus earnings up $39 million compared to 2018, essentially due to the following:
  - Decrease in expenses as a result of the winding-up of Zag Bank's operations.
  - Growth in payment and financing activities.

  This increase was offset by the following:
  - Profit related to the restructuring of Interac Corp. recognized in first quarter 2018.
  - Higher provision for credit losses.
- **Wealth Management and Life and Health Insurance: Net surplus earnings of $697 million in 2019,** down $169 million, and net adjusted surplus earnings down $40 million compared to 2018, essentially due to the following:
  - Smaller gains on disposal of securities and real estate investments and lower interest margins compared to 2018.
  - Higher level of expenses than in 2018.
  - Offset by favourable effects of changes in actuarial assumptions in the normal course of business.
- **Property and Casualty Insurance: Net surplus earnings of $187 million in 2019,** up $14 million compared to 2018, due to.
  - Lower loss ratio mainly as a result of the smaller impact of catastrophes and major events and of the lower loss experience for 2019 compared to 2018.
  - Offset by lower dividend income than in 2018.

Consolidated results

- **Operating income of $15,096 million in 2019,** up $978 million compared to 2018.
  - Net interest income of $1,500 million in 2019, an increase of $10 million compared to 2018, mainly on account of growth in the entire portfolio of loans and acceptances outstanding.
  - Net premiums up $602 million in 2019.
    - Wealth Management and Life and Health Insurance: Net insurance and annuity premiums up $13 million in 2019, due to the following:
      - Increase of $44 million in premiums from annuities, and of $21 million from individual insurance.
      - Offset by a decrease of $52 million in group insurance premiums.
    - Property and Casualty Insurance: Net premiums up $586 million, because of:
      - Growth in the average premium due to higher rates, reflecting the trend in the Canadian property and casualty insurance industry.
      - Larger number of policies issued as a result of growth in all market segments and regions.
  - Other operating income of $4,071 million, up $366 million in 2019, essentially due to the following:
    - Gain of $349 million, before income taxes, related to Monetico, recognized in 2019.
    - Business volume growth in payment and financing activities.
    - Increase in income from assets under management.
    - Higher income from the caisses as a result of activities to enhance the service offer for caisse members and clients, including offers related to *AccèsD* services, the online business centre and the shared services centre.
    - Income from the interest held in Aviso Wealth.

    This increase was partly offset by the following:
    - Gain of $132 million before income taxes on the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., recognized in 2018.
    - Decrease in income following the transaction involving Qtrade Canada Inc.

[1] See "Non-GAAP measures".

- **Investment income of $2,778 million in 2019**, up $2,079 million compared to 2018, due to the following:
  - Increase mainly due to the fluctuating fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly attributable to the fluctuations in the fair value of the bond portfolio mainly caused by lower interest rates.
    - Increase largely offset by the change in actuarial liabilities that in turn led to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Increase in the fair value of matched bonds in the Property and Casualty Insurance segment, compared to a decrease in fair value in 2018, primarily because market interest rates fell in 2019 whereas they rose in 2018. It should be remembered that this increase in bond value was offset by a similar increase in the cost of claims owing to a matching strategy.
  - Increase in trading income.

  This increase was partly offset by:
  - Overall, lower net gains on disposal of securities and real estate investments compared to 2018.
  - Lower dividend income than in 2018, particularly because of income reinvested in 2018 that included prior-year adjustments.

- **Provision for credit losses of $310 million in 2019,** up $22 million compared to 2018, mainly as a result of:
  - Migration of exposures to higher risk ratings in the personal loan portfolio for credit cards in the third and fourth quarters of 2019.
  - Offset by the refinement of methodology for assessment of the risk parameters for non credit-impaired loans related to the lifespan of revolving exposures such as credit cards in second quarter 2019.

  Despite this increase, the Federation continued to have a quality loan portfolio in 2019:
  - The credit loss provisioning rate was 0.49% in 2019, compared to 0.48% in 2018.
  - The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56%, unchanged from December 31, 2018.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $9,149 million,** up $2,573 million in 2019.
  - Wealth Management and Life and Health Insurance segment: expenses up $2,128 million in 2019 because of an increase of $2,176 million in the actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of an increase in the fair value of matched investments as well as the favourable effect of changes in actuarial assumptions in the normal course of business.
  - Property and Casualty Insurance segment: expenses up $456 million in 2019 as a result of:
    - Business growth, which led to a higher cost of claims.
    - Unfavourable impact of lower discount rates used to measure the provision for claims, offset by a similar increase in matched bonds, whereas higher discount rates had a favourable impact in 2018.
    - However, the loss ratio for 2019 was 71.7%, compared to 73.9% in 2018.
      - Lower loss ratio related to catastrophes and major events than in 2018, namely 2.3% vs. 3.1% because there had been three catastrophes in 2018, compared to only one in 2019.
      - Lower current year loss ratio in 2019 than in 2018: 79.9% vs. 80.7%, particularly in property insurance.
      - More positive developments in the loss ratio for prior-year claims than in 2018: (10.5)% vs. (9.9)%, essentially for automobile insurance claims.

- **Non-interest expense totalling $6,972 million,** up $577 million in 2019, essentially as a result of:
  - Higher salaries due to indexing and growth in operations.
  - Expenses of $108 million to cover the costs incurred and the establishment of a provision related to the implementation of Desjardins Identity Protection.

  This increase was also the result of the following items from 2018:
  - Favourable impact of the change in the post-retirement benefit plan made in 2018.
  - Reduction in investment portfolio provisions in 2018.

- **Income taxes on surplus earnings before dividends to member caisses of $212 million,** up $4 million compared to 2018.
  - Effective tax rate of 14.7% for the year ended December 31, 2019, up compared to 13.4% for 2018.
  - If the specific items were excluded, the effective tax rate would have been 15.7% for 2019, compared to 14.4% for 2018.

3.0 Balance sheet review

3.1 Balance sheet management

Table 19 – Consolidated Balance Sheets
As at December 31

(in millions of dollars and as a percentage)	2020		2019		2018[(1)]	
Assets						
Cash and deposits with financial institutions	**$ 11,513**	**5.9%**	$ 3,084	1.9%	$ 2,738	1.7%
Securities	**75,348**	**38.6**	49,433	30.1	49,666	31.5
Securities borrowed or purchased under reverse repurchase agreements	**11,592**	**5.9**	11,352	6.9	14,086	8.9
Net loans and acceptances	**55,997**	**28.7**	65,493	39.8	61,997	39.3
Segregated fund net assets	**19,093**	**9.8**	17,026	10.4	13,234	8.4
Derivative financial instruments	**6,975**	**3.6**	4,795	2.9	4,376	2.8
Other assets	**14,554**	**7.5**	13,230	8.0	11,463	7.4
Total assets	**$ 195,072**	**100.0%**	$ 164,413	100.0%	$ 157,560	100.0%
Liabilities and equity						
Deposits	**$ 72,406**	**37.1%**	$ 58,972	35.9%	$ 58,057	36.8%
Commitments related to securities sold short	**9,353**	**4.8**	10,615	6.5	10,829	6.9
Commitments related to securities lent or sold under repurchase agreements	**19,152**	**9.8**	10,562	6.4	16,233	10.3
Derivative financial instruments	**6,753**	**3.5**	4,827	2.9	3,332	2.1
Insurance contract liabilities	**34,871**	**17.9**	31,637	19.2	28,764	18.3
Segregated fund net liabilities	**19,089**	**9.8**	17,002	10.3	13,212	8.4
Other liabilities	**15,390**	**7.8**	13,888	8.5	11,202	7.1
Subordinated notes	**1,493**	**0.8**	1,398	0.9	1,378	0.9
Equity	**16,565**	**8.5**	15,512	9.4	14,553	9.2
Total liabilities and equity	**$ 195,072**	**100.0%**	$ 164,413	100.0%	$ 157,560	100.0%

(1) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

ASSETS

As at December 31, 2020, the Federation's total assets stood at $195.1 billion, up by $30.7 billion, or 18.6%, over the year. This growth was due to an increase in securities, including those borrowed or purchased under reverse repurchase agreements, as well as in cash and deposits with financial institutions, which were up by $26.2 billion and $8.4 billion, respectively. Net loans and acceptances were down $9.5 billion.

The increase in the Federation's cash and deposits with financial institutions resulted in particular from the liquidities obtained under the funding initiatives deployed by the Canadian government, through the Bank of Canada and the CMHC, intended to support the Canadian banking system during the COVID-19 pandemic. Securities, including those borrowed or purchased under reverse repurchase agreements, were up on account of growth in market activities, for a total volume of $86.9 billion.

The Federation's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, decreased by $9.5 billion, or 14.5%.

Table 20 – Loans and acceptances
As at December 31

(in millions of dollars and as a percentage)	2020		2019		2018	
Residential mortgages	**$ 3,440**	**6.1%**	$ 4,183	6.3%	$ 4,626	7.4%
Consumer, credit card and other personal loans	**19,091**	**33.7**	20,567	31.2	19,710	31.5
Business and government	**34,105**	**60.2**	41,207	62.5	38,152	61.1
	56,636	**100.0%**	65,957	100.0%	62,488	100.0%
Allowance for credit losses	**(639)**		(464)		(491)	
Total loans and acceptances by borrower category	**$ 55,997**		$ 65,493		$ 61,997	

Business and government loans, including acceptances, decreased by $7.1 billion, or 17.2%, mainly because of the decline in loans to member caisses. Consumer, credit card and other personal loans outstanding were down $1.5 billion, or 7.2%, since the end of 2019, basically as a result of the reduction in credit card outstandings due in particular to the decline in purchases during the COVID-19 pandemic. Residential mortgages outstanding decreased by $743 million, or 17.8%. It should be mentioned that on February 1, 2020, the Federation, acquired a portfolio of quality mortgages from *La Capitale*, for a total consideration of $474 million.

Information on the quality of the Federation's loan portfolio is presented in Section 4.2, "Risk management", on pages 67 to 69 of this MD&A.

Segregated fund net assets were up $2.1 billion, or 12.1%, essentially due to the change in the fair value of segregated funds.

Derivative financial instrument assets grew by $2.2 billion, or 45.5%, particularly because of the decline in interest rates and the fluctuating exchange rates.

Other assets increased by $1.3 billion, or 10.0%.

LIABILITIES

The Federation's total liabilities amounted to $178.5 billion as at December 31, 2020, up $29.6 billion, or 19.9%, since December 31, 2019, largely due to a $13.4 billion increase in deposits and a $7.3 billion increase in commitments related to securities sold short and commitments lent or sold under repurchase agreements.

Outstanding deposits were up by $13.4 billion, or 22.8%. The increase in deposits from deposit-taking institutions, which accounted for 20.6% of the Federation's total deposit portfolio as at the same date, was largely responsible for this growth. In fact, outstanding deposits grew by $8.6 billion, mainly as a result of larger deposits from caisse members. Business and government deposits outstanding, which accounted for 73.4% of its total deposit portfolio as at the same date, increased by $4.2 billion, or 8.7%. Various securities, including covered bonds, issued on U.S., Canadian and European markets, which made it possible to support the growth of the Federation's funding requirements, also contributed to this increase. Individuals' savings grew by $616 million, or 16.6%.

Table 21 – Deposits
As at December 31

(in millions of dollars and as a percentage)	2020		2019		2018	
Individuals	**$ 4,331**	**6.0%**	$ 3,715	6.3%	$ 4,105	7.1%
Business and government	**53,169**	**73.4**	48,924	83.0	47,398	81.6
Deposit-taking institutions	**14,906**	**20.6**	6,333	10.7	6,554	11.3
Total deposits	**$ 72,406**	**100.0%**	$ 58,972	100.0%	$ 58,057	100.0%

Commitments related to securities sold short and lent or sold under repurchase agreements increased by $7.3 billion, or 34.6%, to reach a volume of $28.5 billion.

Derivative financial instrument liabilities grew by $1.9 billion, or 39.9%, notably because of lower interest rates and fluctuating exchange rates.

The Federation's insurance contract liabilities increased by $3.2 billion, or 10.2%, largely due to the actuarial liabilities related to life and health insurance operations, and to the provisions for claims and adjustment expenses related to P&C insurance operations.

Segregated fund net liabilities were up by $2.1 billion, or 12.3%, essentially due to the change in the fair value of segregated funds.

Other liabilities grew by $1.5 billion, or 10.8%, due to the increase in amounts payable to clients, brokers and financial institutions.

EQUITY

Equity was up $1.1 billion, or 6.8%, since December 31, 2019. Net surplus earnings after dividends to member caisses, totalling $0.9 billion, accounted for this growth.

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

Table 22 – Information about dividends to member caisses, remuneration and dividends
For the years ended December 31

(in millions of dollars)	2020	2019	2018
Dividends to member caisses	**$ 113**	$ 115	$ 70
Remuneration on F capital shares	**209**	207	388
Remuneration on G capital shares	**41**	60	120
Remuneration on INV capital shares	**-**	1	7
Remuneration on FIN-5A capital shares	**-**	-	1,847
Dividends	**25**	35	36
	$ 388	$ 418	$ 2,468

Note 22, "Capital stock", to the Consolidated Financial Statements provides additional information about the Federation's capital stock.

3.2 Capital management

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

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

The financial industry is placing more emphasis on sound capitalization of its operations. Now more than ever, rating agencies and the market favour the best-capitalized institutions. These factors argue in favour of a general increase in the level and quality of capital issued by financial institutions. This is also reflected in the enhanced requirements under Basel III implemented on January 1, 2013.

Desjardins Group's Integrated Capital Management Framework

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

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

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

Regulatory framework and internal policies

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

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

The Federation's capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets and are calculated according to the AMF's guideline on adequacy of capital base standards for financial services cooperatives (the guideline). This guideline takes into account the global regulatory framework for more resilient banks and banking systems (Basel III) issued by the Bank for International Settlements.

The revision of the *Act respecting financial services cooperatives* in 2018 formalized procedures such that entities could not be liquidated individually but only with the other Desjardins Cooperative Group entities. Depositors and creditors are henceforth protected by the entire capital of the Desjardins Cooperative Group. To reflect this situation, the AMF issued, on September 16, 2020, a notice stating that the capital ratios of the Federation had to be calculated based on the exposure of all the entities that form Desjardins Group. The comparative data have been restated so that their presentation conforms with this change.

The minimum Tier 1A capital ratio that the Federation must maintain is 8%. In addition, the Tier 1 and total capital ratios must be above 9.5% and 11.5%, respectively. The minimum requirement for the leverage ratio is 3.5%. It is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk that includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) off-balance sheet items.

This capital takes into consideration investments made in the Federation's subsidiaries. Some of these subsidiaries are subject to separate requirements regarding regulatory capital, liquidity and financing, which are set by regulatory authorities governing banks, insurers and securities, in particular. The Federation oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulation.

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

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

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

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

Adjustments to capital requirements related to the COVID-19 pandemic

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

- Inclusion in Tier 1A capital of a portion of the loss allowance for expected credit losses that would otherwise have been included in Tier 2 capital. This adjustment of Tier 1A capital will be measured dynamically each quarter as the increase in the Stage 1 and Stage 2 allowances compared to the baseline amount. The baseline amount is the amount of the Stage 1 and Stage 2 allowances for the quarter ended December 31, 2019. This increased amount is adjusted for tax effects and subject to a scaling factor that decreases over time. The factor is set at 70% for fiscal 2020, 50% for 2021 and 25% for 2022. Since the amounts attributable to portfolios treated using the Internal Ratings-Based Approach show a deficit in expected losses during the transition, they will not be eligible for this treatment. For more information about the Stage 1 and Stage 2 allowances, see Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.
- Temporary reduction of the stressed Value-at-Risk multiplier under market risk from 3 to 1.
- Temporary exclusion of reserves with central banks and securities issued by sovereign borrowers that meet the eligibility criteria for high-quality liquid assets in the total exposure used when calculating the leverage ratio, until December 31, 2021.
- Furthermore, loans for which a moratorium has been granted on payment of principal or interest were treated as performing loans for regulatory purposes if they were not in default at the time the moratorium took effect. No change was required in the weighting and the probability of default associated with such loans covered by a moratorium. This temporary measure was applicable for a maximum period of six months, i.e., from March 31, 2020 to September 30, 2020, and was not renewed.

Since loan exposures covered by the new Canada Emergency Business Account (CEBA) are funded by the Government of Canada, they are excluded from capital ratios and the leverage ratio.

Under the Québec concerted temporary action program for businesses (PACTE) and the Export Guarantee Programs of Export Development Canada, the guaranteed portion of a loan is treated as an exposure of the Québec or Canadian government and the remaining portion not covered by the guarantee must be considered a borrower exposure. The total amount of the loan is included for the purpose of calculating the leverage ratio.

As for the Business Development Bank of Canada's Co-Lending Program, the AMF expects that, under the Standardized Approach for credit risk, the portion of the loan granted by the financial institution concerned is subject to the risk weighting applicable to the borrower, whereas under the Internal Ratings-Based Approach, it is considered a borrower exposure. For the purpose of calculating the capital ratios and the leverage ratio, the portion of the loan granted to the borrower by the financial institution concerned is included in the exposure measure.

Regulatory developments

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

On March 27, 2020, the BCBS announced the postponement of the international implementation calendar for the Basel III reforms released in December 2017. In line with this extension, the AMF announced on March 31, 2020, that it was postponing the implementation date of these reforms to the first quarter of 2023. This postponement included the revisions to the Standardized Approach and the Internal Ratings-Based Approach for credit risk, the operational risk framework, the leverage ratio framework, and the introduction of a more risk-sensitive capital floor.

Implementation of the revisions to the BCBS market risk framework, namely the fundamental review of the trading book, issued in January 2019, was postponed until January 2024. As a result, the implementation date of the revised credit valuation adjustment risk framework has also been postponed until January 2024.

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

Compliance with requirements

As at December 31, 2020, the Tier 1A, Tier 1 and total capital ratios, calculated in accordance with Basel III requirements, were 21.9%, 21.9% and 22.6%, respectively. The leverage ratio was 8.5%.

As at December 31, 2020, the Tier 1A capital ratio was up 35 basis points compared to December 31, 2019, due to growth in reserves and undistributed surplus earnings as well as eligible accumulated other comprehensive income, partially offset by growth in risk-weighted assets.

The Federation and its subsidiaries, which are subject to minimum regulatory requirements with respect to capitalization, were in compliance with said requirements as at December 31, 2020.

Regulatory capital

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

Table 23 – 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 • Federation capital shares • Caisse permanent shares and surplus shares subject to phase-out • Eligible portion of general allowance[4]	• Non-controlling interests[2]	• General allowance • Senior notes subject to phase-out • NVCC subordinated notes[3] • Eligible qualifying shares
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance		
Deductions	• Mainly significant investments in financial entities[5]	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes • Subordinated financial instrument

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios, for financial services cooperatives regulated by the AMF.
(2) The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(3) These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the guideline. To be eligible, the notes must include a clause requiring the full and permanent conversion into a Tier 1A capital instrument at the point of non-viability.
(4) On March 31, 2020, the AMF published transitional provisions stipulating that a portion of the general allowance initially included in Tier 2 capital could be included in Tier 1A capital. For more information, see "Adjustments to capital requirements related to the COVID-19 pandemic" in this section.
(5) Represent the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from this capital. The net non-deducted balance will be subject to risk-weighting at a rate of 250%.

Table 24 – Regulatory capital
As at December 31

(in millions of dollars and as a percentage)	2020	2019
Tier 1A capital		
Federation's capital shares[1]	**$ 4,889**	$ 4,889
Permanent shares and surplus shares subject to phase-out	**125**	238
Reserves and undistributed surplus earnings	**23,132**	21,222
Eligible accumulated other comprehensive income	**1,308**	223
Deductions[2]	**(3,137)**	(2,023)
Total Tier 1A capital	**26,317**	24,549
Total Tier 1 capital[3]	**26,317**	24,549
Tier 2 capital		
Eligible instruments[4]	**1,023**	25
Senior notes subject to phase-out	**495**	687
General allowance	**105**	77
Deductions	**(826)**	(789)
Total Tier 2 capital	**797**	-
Total regulatory capital (Tiers 1 and 2)	**$ 27,114**	$ 24,549
Ratios and leverage ratio exposure		
Tier 1A capital ratio	**21.9%**	21.6%
Tier 1 capital ratio	**21.9**	21.6
Total capital ratio	**22.6**	21.6
Leverage ratio	**8.5**	8.8
Leverage ratio exposure	**$ 307,925**	$ 280,322

(1) Including capital shares held in the Trust Fund of the Federation.
(2) Deductions from Tier 1A are comprised of regulatory adjustments ($1,215 million, $739 million in 2019), significant investments ($1,784 million, $1,253 million in 2019) and elements that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers ($138 million, $31 million in 2019).
(3) No Tier 1B capital instrument has been issued to date.
(4) Corresponds to eligible qualifying shares and NVCC subordinated notes.

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

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

The Federation is able to issue NVCC instruments on Canadian, U.S. and European markets, and carried out an issue of $1.0 billion of such securities on May 26, 2020.

On December 17, 2020, the Board of Directors approved the distribution to member caisses of $41 million of net income in respect of G capital shares. Also on December 17, 2020, the Board of Directors approved an interest payment to holders of F capital shares of $209 million.

Table 25 – Change in regulatory capital
For the years ended December 31

(in millions of dollars)	2020	2019
Tier 1A capital		
Balance at beginning of year	**$ 24,549**	$ 22,412
Increase in reserves and undistributed surplus earnings(1)	**1,910**	1,667
Eligible accumulated other comprehensive income	**1,085**	236
Federation's capital shares(2)	**-**	105
Permanent shares and surplus shares subject to phase-out	**(113)**	(294)
Deductions	**(1,114)**	423
Balance at end of year	**26,317**	24,549
Total Tier 1 capital(3)	**26,317**	24,549
Tier 2 capital		
Balance at beginning of year	**-**	426
Eligible instruments	**998**	-
Senior notes subject to phase-out	**(192)**	(157)
General allowance	**28**	(300)
Deductions	**(37)**	31
Balance at end of year	**797**	-
Total capital	**$ 27,114**	$ 24,549

(1) Amount including the change in defined benefit pension plan liabilities.
(2) Amount net of issuance expenses.
(3) No Tier 1B capital instrument has been issued to date.

Risk-weighted assets (RWA)

The Federation calculates risk-weighted assets for credit risk, market risk and operational risk.

Credit risk

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

Market risk

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

Operational risk

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

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

As indicated in the following table, risk-weighted assets totalled $120.1 billion as at December 31, 2020. Of this amount, $103.6 billion was for credit risk, $2.6 billion for market risk, $13.7 billion for operational risk, and $0.2 billion for the RWA floor adjustment. As at December 31, 2019, risk-weighted assets stood at $113.9 billion.

Table 26 – Risk-weighted assets

	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2020				Total as at December 31, 2019
(in millions of dollars and as a percentage)	Exposure (1)	Risk-weighted assets	Exposure (1)	Risk-weighted assets	Exposure (1)	Risk-weighted assets	Capital requirement (2)	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	$ 76,474	$ 7,393	$ 9,793	$ -	$ 86,267	$ 7,393	$ 591	8.6%	$ 4,233
Financial institutions	4,157	1,451	9,945	1,995	14,102	3,446	276	24.4	2,195
Businesses	62,473	28,383	10,157	9,449	72,630	37,832	3,026	52.1	35,930
Securitizations	-	-	8	97	8	97	8	1,250.0	151
Equities	-	-	263	365	263	365	29	138.5	325
SMEs similar to other retail client exposures	9,801	4,897	215	160	10,016	5,057	405	50.5	5,132
Mortgages	96,848	12,125	422	148	97,270	12,273	982	12.6	9,295
Other retail client exposures (excluding SMEs)	11,434	5,251	1,360	1,021	12,794	6,272	502	49.0	6,443
Qualifying revolving retail client exposures	32,359	8,569	-	-	32,359	8,569	685	26.5	9,436
Subtotal - Credit risk other than counterparty risk	293,546	68,069	32,163	13,235	325,709	81,304	6,504	25.0	73,140
Counterparty risk									
Sovereign borrowers	6	-	-	-	6	-	-	-	1
Financial institutions	2,958	1,353	239	48	3,197	1,401	112	43.8	1,752
Businesses	-	-	34	15	34	15	1	44.7	7
Trading portfolio	1,406	454	633	554	2,039	1,008	81	49.5	788
Credit valuation adjustment (CVA) charge	-	-	-	-	-	1,854	148	-	1,612
Additional requirements for banking and trading portfolio	-	-	-	-	482	20	2	-	23
Subtotal - Counterparty risk	4,370	1,807	906	617	5,758	4,298	344	74.6	4,183
Other assets(3)	-	-	-	-	19,267	13,864	1,109	71.9	13,743
Scaling factor(4)	-	4,192	-	-	-	4,192	336	-	3,733
Total credit risk	297,916	74,068	33,069	13,852	350,734	103,658	8,293	29.6	94,799
Market risk									
Value at Risk (VaR)	-	798	-	-	-	798	64	-	406
Stressed Value at Risk (SVaR)	-	578	-	-	-	578	46	-	1,394
Incremental risk charge (IRC)(5)	-	708	-	-	-	708	57	-	819
Other(6)	-	87	-	390	-	477	38	-	476
Total market risk(7)	-	2,171	-	390	-	2,561	205	-	3,095
Operational risk	-	-	-	13,705	-	13,705	1,096	-	13,021
Total risk-weighted assets before the RWA floor	297,916	76,239	33,069	27,947	350,734	119,924	9,594	-	110,915
RWA floor adjustment(8)	-	-	-	-	-	177	14	-	2,946
Total risk-weighted assets	$ 297,916	$ 76,239	$ 33,069	$ 27,947	$ 350,734	$ 120,101	$ 9,608	-%	$ 113,861

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

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

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

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

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

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

(7) Since first quarter 2020, the SVaR multiplier has been reduced in market risk calculation pursuant to the relief measures introduced by the AMF in response to the COVID-19 pandemic.

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

3.3 Off-balance sheet arrangements

In the normal course of operations, the Federation enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of caisse members and clients, credit instruments, guarantees, participation in government loan programs and structured entities, including securitization.

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

As at December 31, 2020, the Federation administered, for the account of caisse members and clients, assets totalling $458.2 billion, for an annual increase of $21.2 billion, or 4.8%. Financial assets placed with the Federation as wealth manager amounted to $89.1 billion at the close of 2020, representing an increase of $12.1 billion, or 15.7% on an annual basis. The increase in assets under management and under administration is due mainly to new management mandates as well as growth in investment fund assets on account of volatility on financial markets in 2020.

Assets under management and under administration by the Federation 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 the Federation, but to caisse members and its clients and, as a result, they are not recognized on the Consolidated Balance Sheets. The Wealth Management segment is primarily responsible for the activities related to assets under management and under administration.

Table 27 – Assets under management and under administration
As at December 31

(in millions of dollars)	**2020**	2019[1]	2018[1]
Assets under management			
Institutions and individuals	**$ 20,298**	$ 17,325	$ 13,902
Investment funds	**68,842**	59,693	52,457
Total assets under management	**$ 89,140**	$ 77,018	$ 66,359
Assets under administration			
Individual and institutional trust and custodial services	**$ 335,610**	$ 335,009	$ 280,998
Investment funds	**122,567**	101,991	93,180
Total assets under administration	**$ 458,177**	$ 437,000	$ 374,178

[1] Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.

CREDIT INSTRUMENTS

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

Note 28, "Commitments, guarantees and contingent liabilities", to the Federation's Consolidated Financial Statements provides more detailed information about these credit instruments.

GUARANTEES

The Federation also enters into various guarantee and indemnification agreements with its clients in the normal course of operations. These agreements remain off-balance sheet arrangements and include guarantees, standby letters of credit and credit default swaps. Note 28, "Commitments, guarantees and contingent liabilities", to the Consolidated Financial Statements provides information about these off-balance sheet arrangements.

GOVERNMENT LOAN PROGRAMS

During the year, the Federation took part in various programs launched under the Canadian government's COVID-19 Economic Response Plan, in particular the Canada Emergency Business Account (CEBA) to provide loans funded by the federal government. Loans granted under this program are derecognized from the Federation's Consolidated Balance Sheets as the program meets the derecognition criteria. Additional information on the program is found under "COVID-19 pandemic" in Section 1.3, "Significant events", of this MD&A as well as Note 8, "Derecognition of financial assets", to the Consolidated Financial Statements.

STRUCTURED ENTITIES

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

Securitization of the Federation's financial assets

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

3.4 Additional information related to certain risk exposures

The tables below provide more details about more complex financial instruments that carry a higher risk.

Table 28 – Asset-backed securities
As at December 31

(in millions of dollars)	**2020**		2019	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities[1]	**$ 97**	**$ 97**	$ 135	$ 135

[1] None of the securities held is directly backed by subprime residential mortgage loans. These securities are presented under "Securities at fair value through profit or loss" and "Securities at fair value through other comprehensive income" on the Consolidated Balance Sheets.

Table 29 – Leveraged finance loans and subprime loans
As at December 31

(in millions of dollars)	**2020**	2019
Leveraged finance loans[1]	**$ 325**	$ 370
Alt-A mortgage loans[2]	**12**	15
Subprime residential mortgage loans[3]	**3**	4

[1] Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
[2] Alt-A mortgages are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.
[3] These loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

4.0 Risk management

The shaded areas and tables marked with an asterisk (*) in this section contain information about credit, market and liquidity risks in accordance with IFRS 7, "Financial Instruments: Disclosures". They also contain an analysis of how the Federation assesses its risks as well as a description of its risk management objectives, policies and methods. IFRS 7 provides that risk disclosures may be included in the MD&A. Consequently, the shaded areas and tables marked with an asterisk (*) contain audited information and are an integral part of the Consolidated Financial Statements, as explained in Note 29, "Financial instrument risk management", to the Consolidated Financial Statements.

4.1 Risk factors that could impact future results

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

Principal emerging risks

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

Principal emerging risks	Description
COVID-19 pandemic	The COVID-19 pandemic and its associated risks are the main situation being monitored by Desjardins Group. Many actions have been taken by Desjardins Group to address this issue, and active monitoring of the effects and evolution of the COVID-19 pandemic is still in place. The COVID-19 pandemic has had and will continue to have an impact on the risks to which Desjardins Group is exposed in the normal course of its business presented in Section 4.2, "Risk management", as well as on its main emerging and other risks presented below. Desjardins is closely monitoring the evolution of these risks in order to ensure the sustainability of its operations in a crisis environment. For more details on the impact of the COVID-19 pandemic and the measures put in place by Desjardins Group, please refer to "COVID-19 pandemic" in Section 1.3, "Significant events", of this MD&A.
Climate change	Climate change risk is defined as an entity's vulnerability to the negative effects of climate change, which could lead to financial losses. It includes both: • physical risk factors resulting from climate change that may be due to extreme events (acute) or longer term changes (chronic); • transition risk factors resulting from the transition to an economy with low greenhouse gas (GHG) emissions. These can be regulatory, legal, technology, market or reputational factors.
Government, corporate and household indebtedness	Despite a slight improvement since the spring of 2020, excessive household debt remains a major concern, especially considering the vitality of the housing market in the past few months. This has recently been compounded by concerns about the rapid increase in government debt (due to recovery plans) and corporate debt. Developments in interest rates after the COVID-19 pandemic will therefore be decisive in this regard. This poses a medium- to long-term risk in the event of a new labour market shock or an unexpected rise in interest rates. In particular, it could lead to a decline in the housing market, which has experienced solid growth in recent years, despite tighter mortgage granting rules. Nonetheless, Desjardins remains proactive in assisting members and clients who could be affected in the event of such a situation. Desjardins has sound practices in granting and managing mortgage financing, including a stress test involving interest rates for mortgage financing, which should allow it to circumvent this risk.
Technological developments	Innovative technologies are being increasingly taken into consideration and adopted by financial institutions. These innovative technologies represent a crucial vector for transforming business processes and models. Use of these technologies exposes financial institutions to other risks relating to cyber threats, system stability, the modernizing of infrastructure, complex environments, systems interdependence, and digital transformation. The public health crisis related to the COVID-19 pandemic has also accelerated the digital shift in order to meet members' and clients' growing needs to access banking transactions remotely. Regulatory authorities' expectations and the regulatory environment will be increasingly demanding, and financial sector requirements will continue to grow in terms of managing technology risk. The growing presence of FinTech and InsurTech, which offer simple, innovative technology solutions that meet the expectations of members and clients, puts more pressure on traditional financial institutions to adapt. Desjardins Group has been no exception and remains active in managing this operational and strategic risk, among others, by investing in technology and by reviewing and diversifying its products, services and distribution channels to meet the needs of its members and clients.
Regulatory developments	The financial services industry is one of the most tightly monitored and regulated, and industry regulation has been expanding for many years now. This trend is in response to a number of socio-economic phenomena such as the development of new, increasingly complex financial products, ongoing volatility in the securities market, financial fraud, the fight against money laundering and terrorist financing, the fight against tax evasion, compliance with economic sanctions and the protection of personal information. In response to the COVID-19 pandemic, several regulatory adjustments have been proposed by regulatory authorities, notably to provide relief for financial institutions. Desjardins Group is monitoring these adjustments to ensure that its operations are compliant. Although Desjardins Group actively monitors and manages regulatory risk, changes in regulation, its complexity and its uncertainty could have an impact on the performance of its operations, its reputation, its strategies and its financial objectives. As an independent supervisory function, the Office of the Chief Compliance Officer, Desjardins Group promotes a proactive approach to compliance by fully integrating it into the organization's regular operations. Maintaining an effective compliance management framework mobilizes significant amounts of technical, human and financial resources.
Interest rate developments	The U.S. Federal Reserve and the Bank of Canada continue to signal that they will maintain highly accommodative financial conditions to accelerate the economic recovery, thereby eliminating any bets on a continued surge in bond rates, especially in the very short term. The major central banks are expected to continue their asset purchases for several more quarters and to keep their key interest rates at their lowest levels until 2023. Moderate hikes in bond rates are still expected later in 2021, especially for longer maturities, as economic conditions improve. This rate environment puts pressure on financial intermediation margins, where interest income falls or competition increases, particularly for deposits.
Geopolitical uncertainties	The evolution of the COVID-19 pandemic is still the main uncertainty affecting the economic and financial outlook. As for other risks, the global economy will be more vulnerable to new shocks as it emerges from the pandemic. The social and geopolitical climate could also deteriorate with new terrorist attacks, armed conflicts or cyber-attacks. In the U.S., the alarming rise in extreme right-wing groups may create uncertainty. Lastly, a latent risk concerning climate change could lead to a shock to the global economy.

Other risk factors that could impact future results

Risk factors	Description
General economic and business conditions in regions in which Desjardins Group operates	General economic and business conditions in the regions in which Desjardins Group operates may significantly affect its income and surplus earnings. These conditions include short- and long-term interest rates, inflation, debt securities market fluctuations, foreign exchange rates, financial market volatility, tighter liquidity conditions in certain markets, the level of indebtedness, the strength of the economy, consumer spending and saving habits, and the volume of business conducted by Desjardins Group in a given region.
Security breaches	Risks related to cyber threats have been on the rise for a number of years. Both the aggregation of new services for members and clients and the exposure of online services are becoming increasingly complex and gradually extending to more and more areas and products. Increased monitoring of Desjardins Group's employees and infrastructures, including that of applications involving confidential data, has been set up in order to better meet the performance needs of teleworking and to mitigate the risks associated with service interruptions, information security and reputation. In addition, the perpetrators of cyber threats are using increasingly sophisticated methods and strategies for criminal purposes. Consequently, Desjardins Group has been investing for many years in technology to strengthen its cyber defence capabilities in order to detect security incidents as quickly as possible; in its processes, by optimizing such processes to respond efficiently to incidents; and in its employees, by attracting and training them in order to continue developing its defence methods. The creation of the Desjardins Group Security Office in January 2020 has reinforced the protection of members' and clients' assets, including their personal information. The Office now brings together the organization's cross-sector strategic security operations, including fraud management, optimal resource allocation and security investments.
Monetary policies	The monetary policies of the Bank of Canada and the U.S. Federal Reserve (the Fed), as well as interventions in capital markets, have an impact on Desjardins Group's income. The general level of interest rates may impact Desjardins Group's profitability because interest rate fluctuations affect the spread between interest paid on deposits and interest earned on loans, thereby affecting Desjardins Group's net interest income. Furthermore, considering the current level of indebtedness of Canadian households, higher interest rates could have an adverse effect on consumers' ability to service their debt, leading to an increased risk of loan losses for financial institutions. Desjardins Group has no control over changes in monetary policies or capital market conditions, and it therefore cannot forecast or anticipate them systematically.
Critical accounting estimates and accounting standards	The Consolidated Financial Statements are prepared in accordance with the IFRS. The accounting policies used by the Federation determine how it reports its financial position and results of operations, and management may be required to make estimates or rely on assumptions about matters that are inherently uncertain. Any change in these estimates and assumptions, as well as in accounting standards and policies, may have a significant impact on the Federation's financial position and results of operations. Significant accounting policies and future accounting changes are described in Note 2, "Basis of presentation and significant accounting policies", to the Consolidated Financial Statements.
New products and services to maintain or increase market share	Strong competitive pressures from Canadian financial institutions and the emergence of new competitors have led Desjardins Group to develop new products and services at a faster pace to maintain or increase its attractiveness as a financial institution with its clients. Developing these new products and services could require large investments by Desjardins or involve risks not identified at the time of their development. Desjardins cannot be certain that the new products and services it offers will result in the anticipated financial benefits.
Geographic concentration	Although the Federation is diversified through its insurance operations, its banking operations are heavily concentrated in Québec. As at December 31, 2020, its loans to Québec member caisses and clients therefore accounted for 79.2% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results largely depend on economic conditions in Québec. Any deterioration in these conditions could adversely impact: • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; • the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes. Nevertheless, its financial or strategic objectives could fail to be met because of unexpected factors such as delays in the approval of transactions by regulators or their imposing of additional conditions, the inability to apply the strategic plan in its original form, difficulties in integrating or retaining clients, an increase in regulatory costs, unexpected expenses, or changes in the economic and competitive environment. As a result, synergies, higher income, cost savings, increased market share and other expected benefits may not materialize or may be delayed, thereby impacting Desjardins Group's future surplus earnings.
Credit ratings	The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. These ratings may be revised or withdrawn at any time by the agencies. In addition, a significant downgrade to various ratings could raise Desjardins Group's cost of funding, reduce its access to financial markets, and increase additional obligations required by its counterparties.

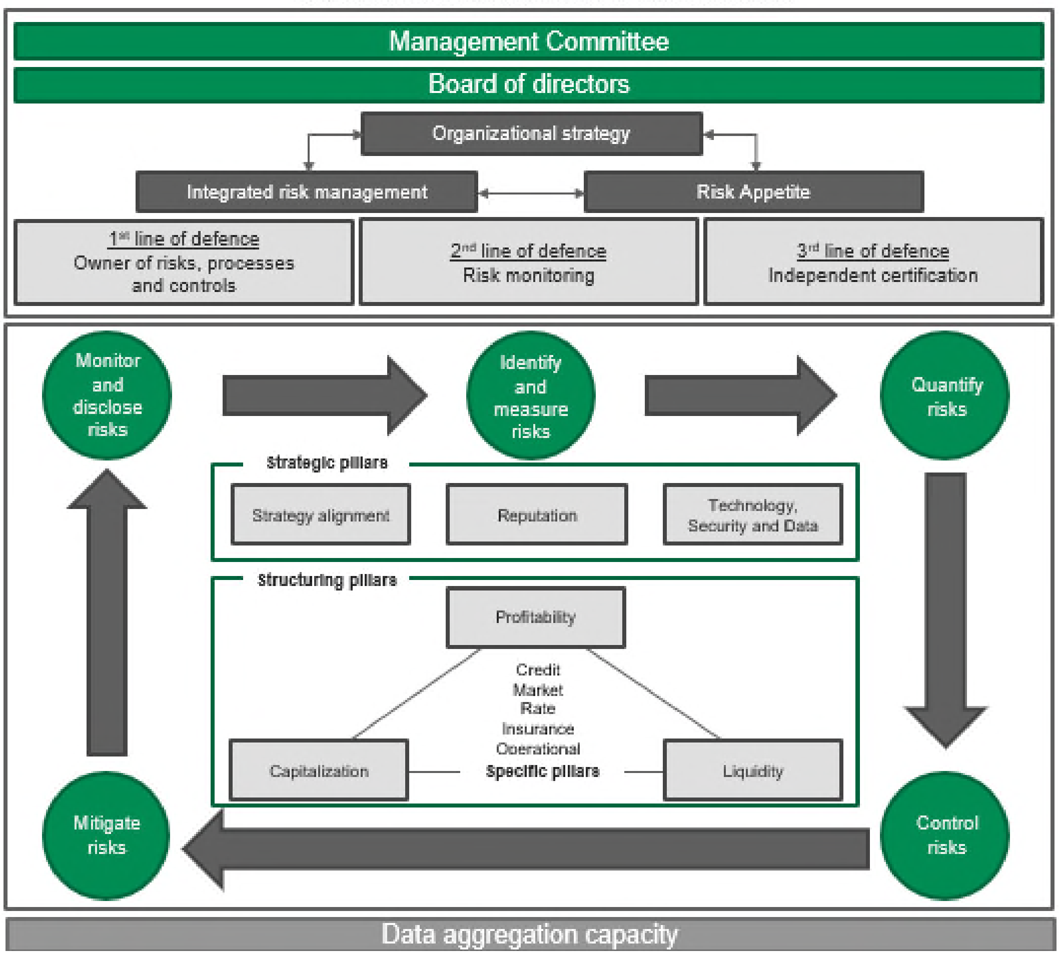
Risk factors	Description
Other factors	Other factors that may have an impact on Desjardins Group's future results include changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact, on operations, of international conflicts, public health crises, such as pandemics and epidemics or any other similar disease affecting the local, national or global economy, as well as Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment. Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

4.2 Risk management

Integrated Risk Management Framework

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

INTEGRATED RISK MANAGEMENT FRAMEWORK



RISK IDENTIFICATION

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

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

Credit	Market	Liquidity	Operational	Insurance	Strategic	Reputation	Pension plan	Environmental or social	Legal and regulatory

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

RISK MEASUREMENT

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

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

Desjardins-wide integrated stress testing

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

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

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

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

During Desjardins-wide stress testing in 2020, the scenarios developed separately considered the possibility of a global debt crisis, a long crisis due to the COVID-19 pandemic involving the discovery of a vaccine and an accelerated deglobalization of the world economy. The results obtained from the assessment of these scenarios show that Desjardins Group's current capitalization levels would be enough to withstand the economic deterioration considered and that its capital ratios would still exceed regulatory limits and its own risk appetite limits.

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

In addition to the crisis scenarios studied during its integrated financial planning, Desjardins Group carries out regulatory stress testing based on AMF prescribed assumptions and according to the frequency set by the AMF, generally every two years.

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

Governance and model validation

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

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

RISK DISCLOSURE

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

RISK APPETITE

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

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

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

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

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

PROACTIVE RISK MANAGEMENT APPROACH

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

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

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

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

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

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

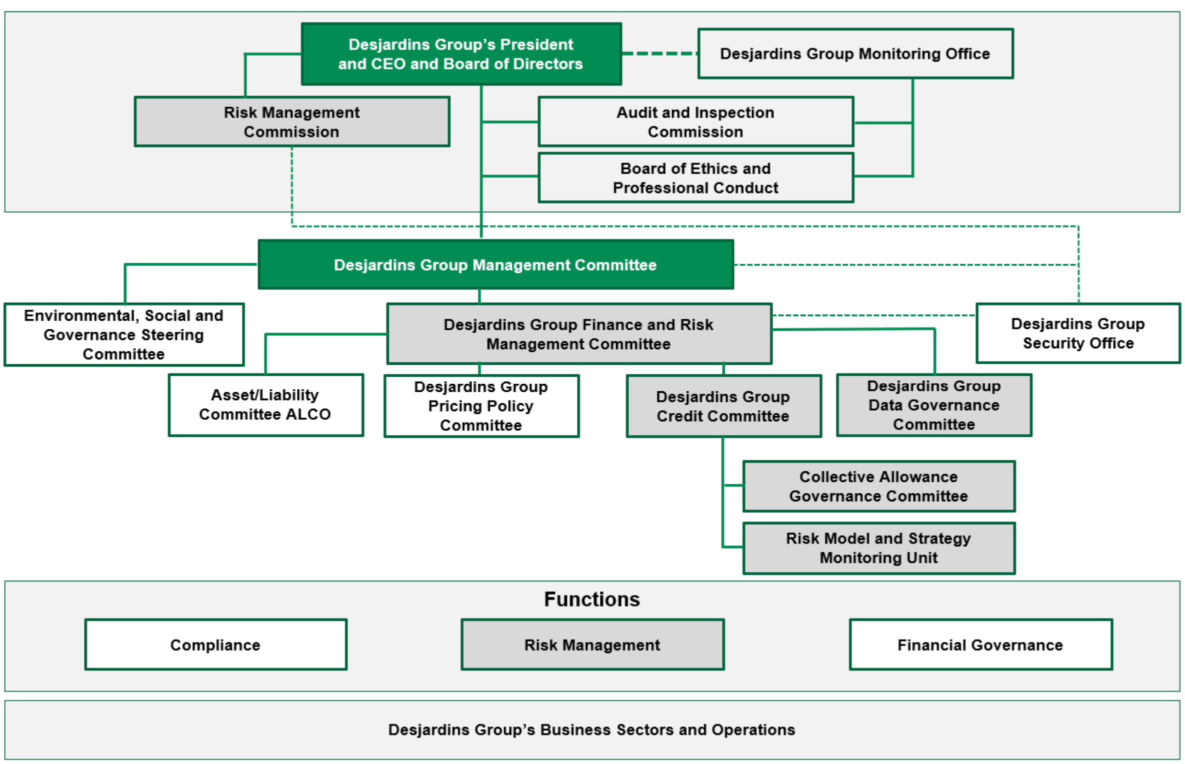
Compensation in relation to risk management

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

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

RISK MANAGEMENT GOVERNANCE

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



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

The Board is supported in this regard by the Risk Management Commission, the Audit and Inspection Commission, the Board of Ethics and Professional Conduct and the Desjardins Group Management Committee. Further information about these bodies is found in the Corporate Governance section of the Federation's 2020 Annual Report.

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

The Management Committee relies on the Desjardins Group Finance and Risk Management Committee and on the Environmental, Social and Governance Steering Committee in performing its duties.

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

This committee is supported by the Desjardins Group Credit Committee and the Desjardins Group Data Governance Committee:
- The **Desjardins Group Credit Committee** approves large credit commitments by considering the analysis of ESG factors, and monitors activities related to assessing and quantifying credit risk. In its monitoring role, the committee is supported by the risk model and strategy monitoring unit and by the collective allowance governance committee.
- The **Desjardins Group Data Governance Committee** monitors data quality and compliance with regulatory requirements related to data within the scope of Desjardins Group data governance.

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

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

In addition, on January 23, 2020, Desjardins Group commissioned the Desjardins Group Security Office with the appointment of a Chief Security Officer reporting to the Senior Executive Vice-President of the Federation. The Security Office coordinates organizational initiatives and institutes cross-sector security strategies in order to continue to reinforce its practices aimed at protecting Desjardins members and clients, their assets and their personal information. It reports to the Desjardins Group Finance and Risk Management Committee, the Desjardins Group Management Committee and the Risk Management Commission.

Operations management approach based on the Three Lines of Defence model

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

THREE LINES OF DEFENCE MODEL	
First line	
Owner of risks, processes and controls	• Identifies, assesses, controls and mitigates process-related risks while respecting risk appetite. • Designs, implements and maintains effective internal controls and shows that risks are being managed. • Produces its risk profile and reports on management of its risks. • Identifies potential conflict of interest situations and remedies them by adequate segregation of tasks.
Second line	
Framework and monitoring	• Supports the first line in design and implementation of risk management procedures and reviews its work. • Establishes the risk management framework, particularly risk appetite. • Identifies methodologies and analyzes risks (present and emerging). • Monitors compliance with risk frameworks and exposures. • Reports on significant risks to the Management Committee and the Board of Directors.
Third line	
Independent certification	• Gives an independent and objective opinion on the effectiveness of governance, risk management and internal controls. • Provides objective certification to the Management Committee and the Board of Directors as to the overall effectiveness of governance, risk management and internal controls.

1st Line of Defence

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

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

2nd Line of Defence

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

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

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

3rd Line of Defence

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

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

Basel capital accord

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

The Basel III framework is essentially based on three pillars:
- the first pillar sets out the requirements for risk-weighted regulatory capital;
- the second pillar deals with the supervisory review process;
- the third pillar stipulates financial disclosure requirements.

Credit risk

- In compliance with the guideline on adequacy of capital base standards, which was adapted to reflect the provisions of Basel III, Desjardins Group uses the Internal Ratings-Based Approach for credit risk.
- Since March 2009, the Internal Ratings-Based Approach has been used for the retail loan portfolios − Personal.
- Since December 2019, the Internal Ratings-Based Approach has been used for most exposures in the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures.
- The Standardized Approach is used to assess the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are not significant in terms of amount and perceived risk profile.

Market risk

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

Operational risk

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

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

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

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

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

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 Consolidated Balance Sheets.

The Federation is exposed to credit risk first through its direct personal, business and government loans, which accounted for 28.5% of assets on the Consolidated Balance Sheets as at December 31, 2020, compared to 39.6% at the end of 2019. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as securities transactions.

During the COVID-19 pandemic, Desjardins Group has introduced several relief measures to support its members and clients and to mitigate the impact of this crisis. Government authorities have also implemented a number of programs to stabilize the situation and support the economy. Even though future repercussions are still uncertain, the credit portfolio is closely monitored to take more or less long-term implications into account.

CREDIT RISK MANAGEMENT

Desjardins Group upholds its goal of providing efficient service to all its members and clients. To this end, it has developed distribution channels specialized by product and customer base. The various units and components making up these channels are considered centres of expertise and are accountable for their performance in their respective markets, including credit risk management. In this regard, they have specific frameworks to support them, powers of approval, and the corresponding management and monitoring tools. To provide assistance in this area to these units and components, Desjardins Group has set up centralized structures and procedures to ensure that its Integrated Risk Management Framework allows for effective management that remains sound and prudent.

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

Framework

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

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

Assessment of regulatory capital

The AMF has authorized two credit risk assessment approaches to be included in calculating regulatory capital, namely the Standardized Approach and the Internal Ratings-Based Approach. Calculations of risk-weighted assets (RWA) are used to measure the Federation's credit risk, as well as market risk and operational risk. The Federation has adopted the Internal Ratings-Based Approach for credit risk. In order to apply this method, the Federation had to make internal estimates to calculate the probability of default (PD), loss given default (LGD) and exposure at default (EAD). It uses the Standardized Approach to measure the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are less significant in terms of amount and perceived risk profile.

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

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

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

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

Differences between the parameters used for accounting and regulatory capital purposes

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

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

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

As at December 31, 2020, the EAD was $363.6 billion before using CRM techniques and $331.0 billion after using CRM techniques.

Desjardins Group uses the Internal-Ratings Based approach for 87.2% of exposure at default. Thus 12.8% of EAD is for the moment measured using the Standardized Approach. Desjardins Group periodically reviews portfolios to which the Standardized Approach is applied to determine whether the Advanced Internal Ratings-Based Approach should be used.

Credit granting

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

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

Retail loans

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

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

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

Table 30 – Probabilities of default of retail clients by risk level*

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

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

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

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

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

More specifically for PD, such back testing takes the form of various statistical tests to assess the following criteria:
- model's discriminating power;
- calibration of the model;
- stability of model results.

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

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

Loans to businesses, sovereign borrowers and financial institutions

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

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

Table 31 – Probabilities of default of businesses, financial institutions and sovereign borrowers by risk level*

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

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

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

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

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

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

Other segments

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

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

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

Credit risk mitigation

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

For some portfolios, programs offered by various organizations, in particular Canada Mortgage and Housing Corporation (CMHC) and *La Financière agricole du Québec*, are used in addition to customary collateral. As at December 31, 2020, guaranteed or insured loans represented 7.4% of the Federation's total gross loans, compared to 7.7% at the end of 2019. As a result of these additional measures, the residual credit risk is minimal for loan portfolios with such collateral. In order for enhanced credit offered by a guarantor to be considered a credit risk mitigation technique, the guarantor must meet certain specific criteria to allow this.

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

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

During the year ended December 31, 2020, some practices and procedures, as well as the control environment, were reviewed for the purpose of enhancing the management and monitoring of the risks associated with taking, inspecting and realizing on the collateral held. The quality of assets held as collateral did not change significantly.

Loan debt relief

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

File monitoring and management of higher risk files

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

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

Default situations

Identification of default

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

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

These criteria are applicable to all clients.

Deferred payments granted under COVID-19 pandemic relief measures did not change the number of days past due on financings, which remained the same as at the time of deferral.

Impact of default

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

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

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

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

Removing default

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

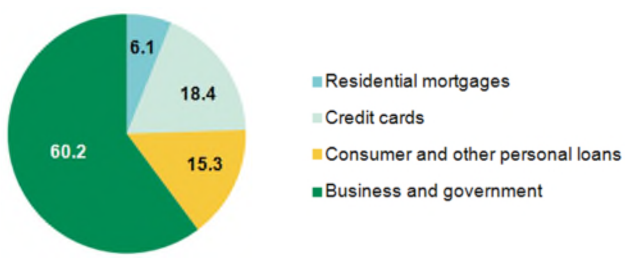
Monitoring of portfolio and reporting

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

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

The following chart presents the distribution of loans and acceptances by borrower category.

Breakdown of loans and acceptances
As at December 31, 2020
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2020, the main sectors of the business loan portfolio were finance and insurance, manufacturing and real estate, which accounted for 78.1% of the business loan portfolio amounting to $32.2 billion. The main industries are the same as they were as at December 31, 2019.

Table 32 – Loans by borrower category and by industry
As at December 31

(in millions of dollars)	2020		2019		2018	
	Gross loans	**Gross credit-impaired loans**	Gross loans	Gross credit-impaired loans	Gross loans	Gross credit-impaired loans
Residential mortgages	**$ 3,440**	**$ 8**	$ 4,183	$ 8	$ 4,626	$ 10
Consumer, credit card and other personal loans	**19,091**	**187**	20,567	249	19,710	200
Public bodies[(1)]	**1,623**	**-**	1,866	-	1,446	-
Business						
Agriculture	**224**	**3**	199	15	189	15
Mining, oil and gas	**330**	**42**	315	-	275	-
Utilities	**686**	**-**	641	-	660	-
Construction	**1,892**	**87**	1,503	84	1,114	118
Manufacturing	**2,289**	**53**	2,280	2	1,922	2
Wholesale trade	**552**	**-**	697	-	501	-
Retail trade	**436**	**31**	360	-	322	-
Transportation	**502**	**7**	610	8	563	-
Information industry	**162**	**-**	232	-	359	-
Finance and insurance	**20,554**	**-**	28,459	-	26,243	-
Real estate	**2,286**	**2**	1,921	2	1,662	-
Professional services	**279**	**-**	352	-	234	-
Management of companies	**182**	**-**	160	-	237	-
Administrative services	**-**	**-**	41	-	30	-
Education	**9**	**-**	99	-	42	-
Health care	**257**	**-**	355	-	207	-
Arts and entertainment	**111**	**-**	128	-	134	-
Accommodation	**144**	**-**	93	-	50	-
Other services	**284**	**1**	305	3	305	-
Other businesses	**975**	**-**	211	-	1,497	3
Total business loans	**$ 32,154**	**$ 226**	$ 38,961	$ 114	$ 36,546	$ 138
Total loans	**$ 56,308**	**$ 421**	$ 65,577	$ 371	$ 62,328	$ 348

(1) Including loans to governments.

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

Table 33 – Gross loans past due but not credit-impaired

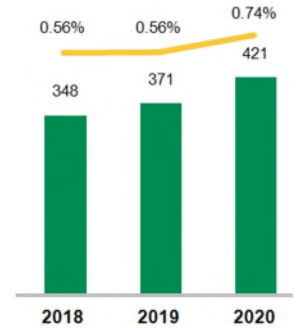
As at December 31, 2020	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 13**	**$ 1**	**$ -**	**$ -**	**$ 14**
Consumer, credit card and other personal loans	**497**	**97**	**45**	**46**	**685**
Business and government	**1**	**-**	**-**	**-**	**1**
	$ 511	**$ 98**	**$ 45**	**$ 46**	**$ 700**

As at December 31, 2019	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 27	$ 3	$ 1	$ 2	$ 33
Consumer, credit card and other personal loans	718	156	75	-	949
Business and government	2	-	-	-	2
	$ 747	$ 159	$ 76	$ 2	$ 984

According to Note 7, "Loans and allowance for credit losses" to the Consolidated Financial Statements, the allowance for credit losses as at December 31, 2020 stood at $639 million, up $175 million compared to December 31, 2019. This increase in the allowance for credit losses in 2020 was essentially due to the significant deterioration in the economic outlook as a result of the COVID-19 pandemic, particularly the unemployment rate, the GDP growth rate, the anticipated effects on credit quality as well as the higher loss allowance for expected credit losses in business loan portfolios. For more information on the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 2, "Basis of presentation and significant accounting policies", and Note 7, "Loans and allowance for credit losses", to the Consolidated Financial Statements.

Gross credit-impaired loans outstanding are the loans included in Stage 3 of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.74% as at December 31, 2020, contrary to 0.56% as at December 31, 2019. The allowance for credit losses on credit-impaired loans totalled $187 million as at December 31, 2020, for a provisioning rate on credit-impaired loans of 44.4%.

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



The following tables present the Federation's gross credit-impaired loans by borrower category and the change in the gross credit-impaired loan balance.

Table 34 – Gross credit-impaired loans by borrower category
As at December 31

(in millions of dollars and as a percentage)	2020					2019		2018	
	Gross carrying amount								
	Gross loans and acceptances	Gross credit-impaired loans		Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans
Residential mortgages	**$ 3,440**	**$ 8**	**0.23%**	**$ 4**	**$ 4**	$ 8	$ 4	$ 10	$ 5
Consumer, credit card and other personal loans	**19,091**	**187**	**0.98**	**108**	**79**	249	119	200	90
Business and government	**34,105**	**226**	**0.66**	**75**	**151**	114	94	138	132
Total	**$ 56,636**	**$ 421**	**0.74%**	**$ 187**	**$ 234**	$ 371	$ 217	$ 348	$ 227

Table 35 – Change in gross credit-impaired loans
As at December 31

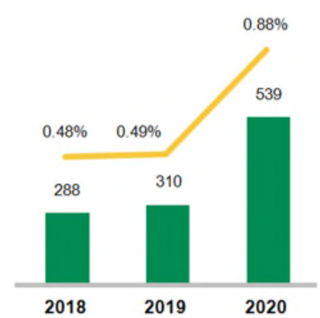
(in millions of dollars)	2020	2019	2018
Gross credit-impaired loans at the beginning of the year	**$ 371**	$ 348	$ 209
Gross loans that became credit-impaired during the year	**1,192**	1,365	777
Loans returned to unimpaired status	**(758)**	(1,033)	(306)
Write-offs and recoveries	**(336)**	(340)	(286)
Other changes	**(48)**	31	(46)
Gross credit-impaired loans at the end of the year	**$ 421**	$ 371	$ 348

Provision for credit losses

The Federation's provision for credit losses totalled $539 million for 2020, up $229 million compared to 2019, mainly as a result of the significant deterioration in the economic outlook and the anticipated effects on credit quality due to the COVID-19 pandemic. The credit loss provisioning rate was 0.88% at the end of 2020, compared to a ratio of 0.49% recorded as at December 31, 2019.

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

Provision for credit losses and credit loss provisioning rate
(in millions of dollars and as a percentage)



Counterparty and issuer risk

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

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

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

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

Desjardins Group uses derivative financial instruments primarily for asset and liability management purposes. Derivative financial instruments are contracts whose value is based on an underlying asset, such as interest rates, exchange rates or financial indices. The vast majority of Desjardins Group's derivative financial instruments are traded over the counter with a counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, and currency, interest rate and stock index options. Other instruments are exchange-traded contracts, consisting mainly of futures and swaps traded through a clearing house. They are standard contracts executed on established stock exchanges or well-capitalized clearing houses for which the counterparty risk is very low. The proportion of contracts via clearing houses increased considerably in 2020 because existing and forthcoming regulations are definitely in favour of clearing.

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

Desjardins Group also limits its risk by doing business with counterparties that have a high credit rating. Note 20, "Derivative financial instruments and hedging activities", to the Consolidated Financial Statements presents derivative financial instruments by credit risk rating and type of counterparty. Based on replacement cost, this note indicates that substantially all of the Federation's counterparties have credit ratings ranging from AAA to A-.

Securities lending transactions are regulated by Investment Industry Regulatory Organization of Canada participation agreements. Desjardins Group also uses netting agreements with its counterparties to mitigate its credit risk exposure and requires a percentage of collateralization (a pledge) on these transactions. Furthermore, some of these transactions are settled through a clearing house.

Desjardins Group accepts from its counterparties only financial collateral that complies with the eligibility criteria set out in its policies. These criteria allow for the timely realization of collateral, if necessary, in the event of default. The types of collateral received and pledged by Desjardins Group are mainly cash and government securities.

Additional information about credit risk is presented in Note 5, "Offsetting financial assets and liabilities", Note 20, "Derivative financial instruments and hedging activities", and Note 28, "Commitments, guarantees and contingent liabilities", to the Consolidated Financial Statements.

Market risk

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

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

GOVERNANCE

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

MANAGEMENT OF MARKET RISK RELATED TO TRADING ACTIVITIES – VALUE AT RISK

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

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

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

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

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

Table 36 – Market risk measures for the trading portfolio*

(in millions of dollars)	**As at December 31, 2020**	**For the year ended December 31, 2020**			As at December 31, 2019	For the year ended December 31, 2019		
		Average	**High**	**Low**		Average	High	Low
Equities	**$ 0.9**	**$ 1.6**	**$ 3.7**	**$ 0.2**	$ 0.5	$ 1.4	$ 3.3	$ 0.5
Foreign exchange	**0.6**	**0.9**	**2.7**	**0.1**	0.2	0.6	2.0	-
Interest rate	**3.7**	**4.5**	**7.7**	**2.1**	4.2	3.7	7.2	1.6
Specific interest rate risk(1)	**3.2**	**3.2**	**7.7**	**0.8**	1.8	5.5	8.2	0.9
Diversification effect(2)	**(4.2)**	**(5.0)**	**N/A(3)**	**N/A(3)**	(2.5)	(7.2)	N/A(3)	N/A(3)
Aggregate VaR	**$ 4.2**	**$ 5.2**	**$ 8.1**	**$ 2.1**	$ 4.2	$ 4.0	$ 7.4	$ 2.1
Aggregate SVaR	**$ 7.6**	**$ 15.2**	**$ 28.9**	**$ 6.6**	$ 9.7	$ 16.2	$ 42.6	$ 7.4
Incremental risk charge (IRC)	**$ 56.6**	**$ 52.2**	**$ 86.8**	**$ 24.2**	$ 30.9	$ 76.4	$ 114.3	$ 26.3

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

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

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

The average of the trading portfolio's aggregate VaR was $5.2 million for 2020, up $1.2 million compared to 2019. As for the average of the aggregate SVaR, it was $15.2 million for 2020, down $1.0 million compared to 2019. The average of the incremental risk charge was $52.2 million, down $24.2 million compared to 2019.

It should be noted that the increase in Desjardins Group's average aggregate VaR in 2020 is due in particular to market data significantly affected by the COVID-19 pandemic. In fact, extreme volatility in the first quarter of 2020 is reflected in historical data. Since the VaR model uses one-year historical data, the data observed have had an impact on VaR levels.

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

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

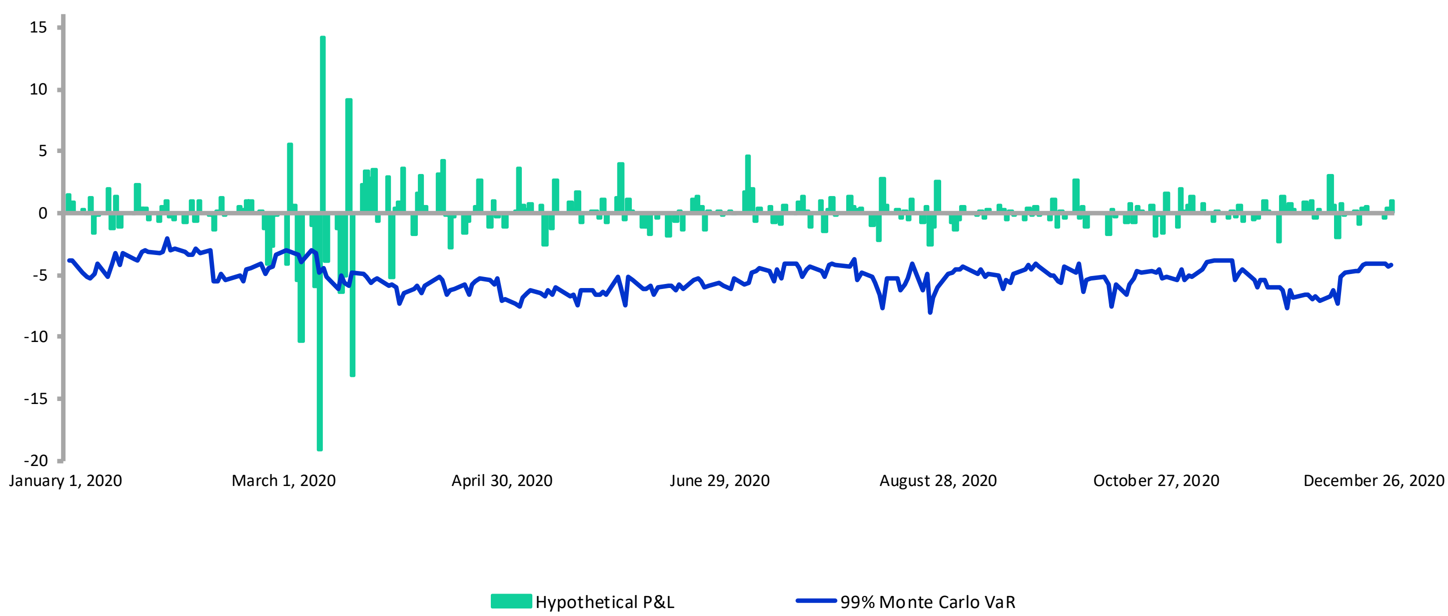
Back testing

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

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

The following chart presents changes in VaR for trading activities as well as hypothetical P&L related to these activities for 2020. During fiscal 2020, four actual P&L overages compared to VaR and seven hypothetical P&L overages were observed for Desjardins Group during March. These overages were due to drastic movements on financial markets during the first quarter of 2020, in reaction to the COVID-19 pandemic. Despite the hypothetical P&L overages, the performance of the model is deemed adequate.

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



Stress testing

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

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

STRUCTURAL INTEREST RATE RISK MANAGEMENT

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

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

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

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

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

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

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

Table 37 – Interest rate sensitivity (before income taxes)[(1)*]
As at December 31

(in millions of dollars)	**2020**		2019	
	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	**$ (78)**	**$ (132)**	$ (40)	$ (17)
Impact of a 25-basis-point decrease in interest rates (100-basis-point decrease as at December 31, 2019)[(4)]	**20**	**24**	38	14

(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 $165 million decrease in the economic value of equity before taxes as at December 31, 2020, and a $215 million decrease as at December 31, 2019. A 25-basis-point decrease in interest rates would result in an increase of $49 million in the economic value of equity before taxes as at December 31, 2020, and a 100-basis-point decrease in interest rates would result in a $228 million increase in the economic value of equity before taxes as at December 31, 2019. Additional information is provided in the "Interest rate risk management" section of Note 16, "Insurance contract liabilities", to the Consolidated Financial Statements.
(2) Represents the interest rate sensitivity of net interest income for the next 12 months.
(3) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.
(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates. In addition, given the current low-interest-rate environment, the impact of a decrease in interest rates has been calculated using a decrease of 25 basis points as at December 31, 2020, compared to 100 basis points as at December 31, 2019.

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

PRICE RISK MANAGEMENT

In its non-trading activities, Desjardins Group is exposed to price risk, related mainly to components that operate in insurance and their investment portfolios. *Price risk is the risk of potential loss resulting from a change in the market value of assets (shares, commodities, real estate properties, index-based assets) but not resulting from a change in interest rates or foreign exchange rates, or in the credit quality of a counterparty.*

Management of price risk related to real estate activities

The insurance components may be exposed to changes in the real estate market through the properties they own, whose market value may fluctuate. They manage this risk using policies that set out diversification limits such as geographic limits and limits for real estate property categories. Each real estate investment is subject to an annual professional appraisal to determine its market value in accordance with the standards prescribed by regulatory authorities.

Management of price risk related to stock markets

The insurance components may also be exposed to price risk related to stock markets, particularly through the equity securities and derivative financial instruments they hold as well as the minimum guarantees provided under segregated fund contracts, whose value is affected by market fluctuations. They manage this risk using the different limits set in policies and a hedging program to mitigate the effect of market volatility. For additional information, see Note 16, "Insurance contract liabilities", to the Consolidated Financial Statements.

Liquidity risk

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

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

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

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

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

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF. It should be noted that since January 2020, Desjardins Group has adopted the NSFR regulatory requirements, and Desjardins Group's NSFR was above the minimum regulatory threshold as at December 31, 2020.

In the context of the COVID-19 pandemic, the Government of Canada set up programs in 2020 for extraordinary liquidity facilities to facilitate access to funding for financial institutions. Additional information on the federal government programs may be found under "Sources of funding" in this section. Desjardins Group used these programs to maintain adequate liquidity to deal with this unprecedented situation. Desjardins Group's average LCR was 157.5% for the quarter ended December 31, 2020, compared to 157.1% for the previous quarter. The average ratio for the fourth quarter remained very high following the use of the aforesaid programs and increased deposits. The AMF stipulates that this ratio is not to be less than the minimum requirements of 100% in the absence of stressed conditions. However, in order to promote the smooth circulation of liquidity during the COVID-19 pandemic crisis, the AMF could exceptionally accept lower levels than the minimum requirements on an ad hoc basis. Desjardins Group does not expect its regulatory ratio to decline below the regulatory limit. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

Liquidity risk indicators

The purpose of monitoring liquidity indicators daily is to quickly identify a lack of liquidity, whether potential or real, within Desjardins Group and on financial markets. Warning levels subject to an escalation process are established for each of these indicators. If one or more indicators trigger a warning level, the Desjardins Group Finance and Risk Management Committee is immediately alerted. This committee would also act as a crisis committee should the contingency plan be put into action.

This plan lists the sources of liquidity available in exceptional situations. In addition, it lays down the decision-making and information process. The aim of the plan is to allow quick and effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in financial markets or economic conditions. Furthermore, in the event of a crisis extensive enough to question Desjardins Group's creditworthiness, a living will has been prepared to enable the crisis committee to draw on a broader range of liquidity sources to deal with the situation.

SOURCES OF FINANCING

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which the Federation's liquidity position depends. The solid base of deposits from member caisses combined with wholesale funding, diversified in terms of the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. For more information about contractual maturities, please refer to the "Residual contractual maturities of on-balance sheet items and off-balance sheet commitments" table in Note 29, "Financial instrument risk management" to the Consolidated Financial Statements. The deposits of member caisses are reported on the Consolidated Balance Sheets under "Deposits — Deposit-taking institutions" and accounted for 8.2% of the total consolidated liabilities as at December 31, 2020, compared to 3.9% a year earlier, Total deposits, including wholesale funding, presented on the Consolidated Balance Sheets amounted to $72.4 billion as at December 31, 2020, up $13.4 billion since December 31, 2019. Additional information on deposits is found in Section 3.1, "Balance sheet management", of this MD&A.

Financing 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, which strategies are regulated by policies. In 2020, the Federation maintained a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional financing and the contribution of the caisse network. Short-term wholesale financing is used to finance very liquid assets while long-term wholesale financing is mainly used to finance less liquid assets and to support reserves of liquid assets.

In order to secure long-term financing 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 financing, it diversifies its sources from institutional markets. It has therefore resorted 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:

Table 38 – Main financing programs

Financing program	Maximum authorized amount
Medium-term notes (Canadian)	**$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)	**€7 billion**
NVCC subordinated notes (Canadian)	**$3 billion**

(1) The maximum authorized amount under the covered bond program was increased from $14 billion to $26 billion following the increase in the prudential limit for covered bond issues by the AMF on March 31, 2020. This temporary easing is granted for at least a year and could be extended beyond that, if necessary.

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

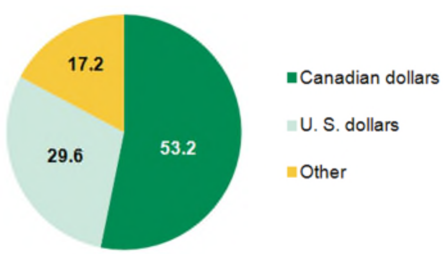
Table 39 – Remaining contractual term to maturity of wholesale funding
As at December 31

(in millions of dollars)	2020								2019
	Less than 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Total – Less than one year**	**1 to 2 years**	**Over 2 years**	**Total**	Total
Bearer discount notes	**$ 2,574**	**$ 1,232**	**$ 14**	**$ 13**	**$ 3,833**	**$ -**	**$ -**	**$ 3,833**	$ 2,250
Commercial paper	**7,195**	**3,411**	**898**	**172**	**11,676**	**-**	**-**	**11,676**	13,058
Medium-term notes	**-**	**-**	**-**	**1,554**	**1,554**	**1,828**	**3,064**	**6,446**	11,171
Mortgage securitization	**-**	**242**	**352**	**682**	**1,276**	**1,742**	**9,104**	**12,122**	10,423
Covered bonds	**-**	**681**	**3,184**	**-**	**3,865**	**1,271**	**4,843**	**9,979**	5,655
Subordinated notes	**-**	**-**	**-**	**-**	**-**	**-**	**1,493**	**1,493**	1,398
Total	**$ 9,769**	**$ 5,566**	**$ 4,448**	**$ 2,421**	**$ 22,204**	**$ 4,841**	**$ 18,504**	**$ 45,549**	$ 43,955
Including:									
Secured	**$ -**	**$ 923**	**$ 3,536**	**$ 682**	**$ 5,141**	**$ 3,013**	**$ 15,440**	**$ 23,594**	$ 17,476
Unsecured	**9,769**	**4,643**	**912**	**1,739**	**17,063**	**1,828**	**3,064**	**21,955**	26,479

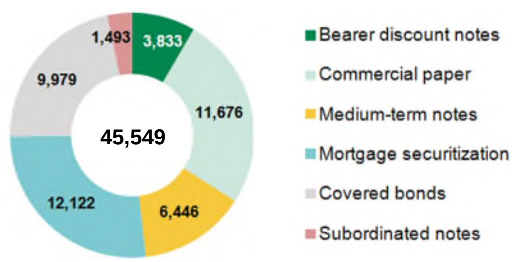
The Federation's total wholesale funding presented in the preceding table was carried out by the Federation, except for the portion of subordinated notes, which was issued by Desjardins Capital Inc. Total wholesale funding was up $1.6 billion compared to December 31, 2019, mainly because of an increase in covered bonds and mortgage loan securitization partially offset by a decrease in medium-term notes. The Federation does not foresee any event, commitment or requirement that could have a major impact on its ability to mobilize funds through wholesale funding or its member caisses' deposits.

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

Wholesale funding by currency
As at December 31, 2020
(as a percentage)



Wholesale funding by category
As at December 31, 2020
(in millions of dollars)



Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $2.5 billion for the year. During the same period, the Federation also made one issue for a total of US$1.0 billion, subject to the bail-in regime, under its multicurrency medium-term notes program. On May 26, 2020, the Federation issued notes qualifying as Non-Viability Contingent Capital (NVCC) for $1.0 billion under its Canadian NVCC Subordinated Notes Program. In addition, on September 24, 2020, the Federation floated an issue of 500 million euros under its legislative covered bond program. On October 7, 2020, the Federation made a new issue of US$750 million under its legislative covered bond program. Lastly, it should be pointed out that on January 21, 2021, the Federation launched a new issue for $1.0 billion, subject to the bail-in regime, under its Canadian medium-term note program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $28.5 billion as at December 31, 2020, compared to $27.2 billion as at December 31, 2019. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Consolidated Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled $0.5 billion as at December 31, 2020, compared to $1.4 billion as at December 31, 2019.

During the COVID-19 pandemic, the Government of Canada, through the Bank of Canada and CMHC, has rolled out various funding initiatives with the aim of supporting the Canadian financial system by preserving a source of business financing. Like the Canadian banks, Desjardins Group made use of these programs for $10.6 billion as at December 31, 2020. These additional sources of funding allow Desjardins Group to maintain adequate liquidity levels to deal with the impacts related to this pandemic.

Among other things, under the Insured Mortgage Purchase Program (IMPP) implemented by CMHC, the Federation sold NHA mortgage-backed securities for $0.5 billion to CMHC. Under this program, the Government of Canada may purchase up to $150 billion of NHA-insured mortgage pools from financial institutions through CMHC. Furthermore, on March 30, 2020, the Federation launched an issue of own-name covered bonds (self-held) in the amount of $2.5 billion, in order to participate in the Bank of Canada's Term Repos program. The total amount of these covered bonds was pledged as collateral to the Bank of Canada under the program on March 31, with settlement on April 2, 2020.

On April 14, 2020, the Federation also issued own-name covered bonds (self-held) in the amount of $1.5 billion, for purposes of participating in the Bank of Canada's Term Repos program. The total amount of these covered bonds was pledged as collateral to the Bank of Canada under the said program on April 15 and 20, 2020.

On April 23, 2020, just like the Canadian banks, Desjardins Group also had access to the Standing Term Liquidity Facility that the Bank of Canada set up to support the liquidity of the financial system. Under the terms of this facility, eligible financial institutions can borrow from the Bank by giving as collateral a large pool of securities. In this way, they are better able to finance new loans.

These initiatives are included in the Federation's total participation in the Bank of Canada's and CMHC's initiatives for $10.6 billion.

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

CREDIT 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 primarily on a combined basis and recognize its capitalization, its consistent financial performance, its significant market shares in Québec and the quality of its assets. Consequently, the credit ratings of the Federation, a reporting issuer, and of Desjardins Capital Inc., a venture issuer, are backed by Desjardins Group's financial strength.

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

Highlights of rating agencies concerning Desjardins Group's instruments during 2020 and in January 2021:

- On April 3, 2020, as a result of disruptions in economic activity and financial markets during the COVID-19 pandemic, Fitch revised the outlook assigned to the ratings of Desjardins Group and of the major Canadian banks from stable to negative. Furthermore, in relation to the announcement on February 28, 2020, concerning the update of its methodology for the banking and non-banking industry, Fitch announced that it was upgrading the rating for existing senior debt (excluded from the bail-in regime applicable to Desjardins Group) from AA- to AA, affirming the senior debt rating (subject to the internal recapitalization (bail-in) regime applicable to Desjardins Group) at AA- and downgrading the rating from A+ to A for the NVCC (Non-Viability Contingent Capital) subordinated notes. In addition, Fitch also downgraded the rating for Desjardins Capital's senior debt from A+ to A.
- On June 9, 2020, Moody's upgraded the outlook for Desjardins Group from negative to stable. This change reflects Moody's assessment that Desjardins Group reduced its reliance on wholesale funding but it is also due to Desjardins's geographic footprint in the province of Québec, where consumers have, on average, lower levels of indebtedness compared to those of other Canadian provinces, as well as Desjardins's minimal exposure to the energy sector in Canada. As a result, Moody's believes that the Desjardins loan portfolio is less vulnerable to the COVID-19 pandemic in comparison to the Canadian banks' portfolio.
- Following the publication of the report of the Office of the Privacy Commissioner of Canada on December 14, 2020, and the orders of the *Commission d'accès à l'information du Québec* and the AMF, the credit rating agencies DBRS and Fitch maintained their ratings for Desjardins Group instruments, while Moody's affirmed its ratings. To justify their actions, the agencies referred to the substantial resources that Desjardins had dedicated to information security controls, fraud prevention and enhanced governance. In addition, Standard & Poor's ratings for Desjardins Group and Desjardins Capital remained unchanged.
- On January 13, 2021, Fitch affirmed ratings for Desjardins Group's instruments and revised its outlook to stable from negative. This change in outlook reflects Fitch's view that Desjardins Group has solid assets but also a strong presence in Québec, with market-leading positions in savings, residential mortgages, wealth management and insurance.

A list of the various credit ratings assigned to the instruments of the Federation and Desjardins Capital Inc. are found in the following table.

Table 40 – Credit ratings of securities issued and outstanding

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

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

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

Operational risk

Operational risk is the risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses, failure to achieve objectives or a negative impact on reputation.

Operational risk is inherent to all of Desjardins Group's activities, including management and control practices in other risk areas (credit, market, liquidity, etc.) as well as activities carried out by a third party. This risk may lead to losses mainly resulting from theft, fraud, damage to tangible assets, non-compliance with legislation or regulations, systems failures, unauthorized access to computer systems, cyber threats, or problems or errors in process management. To maintain this risk at an acceptable level, an operational risk management framework has been developed and deployed throughout the organization. The framework includes the usual practices for sound management of operations and is based on the three lines of defence model, clearly defining the roles and responsibilities in risk and operations management.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

The purpose of the operational risk management framework is to identify, measure, mitigate and monitor operational risk as well as make interventions and disclosures for operational risk in accordance with operational risk appetite and the frameworks adopted by the Board of Directors. It is supported by guidelines setting out operational risk management foundations. At the same time, the operational risk management framework connects with the other areas of risk.

The operational risk management framework is reviewed annually to ensure its adequacy and its relevance based on Desjardins Group's risk profile and developments in industry practices.

GOVERNANCE

Risk management governance emphasizes accountability and effective risk oversight. Operational risk is governed by frameworks, which are reviewed periodically to ensure consistency with the Integrated Risk Management Framework approved by the Board of Directors.

Reporting is done on a regular basis to the committees that provide risk management oversight so that their members can assess Desjardins Group's operational risk exposure.

INFORMATION TECHNOLOGY AND SECURITY RISK

An information technology (IT) risk refers to the risk related to the inability to maintain (management/performance) and/or to modernize infrastructure, applications or technology data bases. A security risk is the risk of theft, loss, leak or disclosure of confidential information/data (loss of confidentiality) through an intentional or unintentional act (internal threat, error, negligence or omission), including cyber-attacks.

Technology is a crucial element in the development and maintenance of Desjardins Group's operations. A failure or disruption of IT systems may have a serious impact on our members and clients, as well as on our operations. The COVID-19 situation only reinforces the need to accelerate the digital shift to meet our clients' and members' growing needs and to ensure information security. These two risks are at the very core of risk management activities. Modernization programs to ensure that disruptions to our critical assets and environments are prevented or contained and that preventive and reactive security controls are added to address internal and external threats make up our core and ongoing activities. In order to effectively monitor these risks, scenario analysis, analysis of major changes and monitoring of operational events are examples of activities allowing the identification of these risks and their management within the organization. Governance that follows industry best practices is implemented to monitor and contain these risks at set acceptable tolerance levels. The creation of the Desjardins Group Security Office in January 2020 has reinforced the protection of members' and clients' assets, including their personal information. The Office now brings together the organization's cross-sector strategic security operations, including fraud management, optimal resource allocation and security investments.

THIRD PARTY RISK

A third party risk refers to the risk of loss or incidents as a result of outsourcing, including reliance on the third parties involved. A third party is an entity with which the organization does business, including suppliers and their subcontractors, trade partners, affiliates, brokers, distributors, resellers and agents.

Desjardins Group has set up a third party risk management program to properly manage all risks arising from these business relationships. This program allows these risks to be monitored proactively: Governance and oversight mechanisms are put in place to continuously ensure that their performance is aligned with the needs of the organization.

BUSINESS CONTINUITY RISK

Business continuity risk refers to the risk of incidents resulting from a dysfunction in information systems, networks and telecommunication, or from business interruptions.

Business incident analysis can identify the organization's priority activities, based on an assessment of interruption events, considering operational, reputation, regulatory and financial aspects. Considering the changing nature of any organization and the implied impact on its level of preparation, an update is necessary at least every year, or whenever there is a significant change, by adding change management and continuous improvement principles. The business continuity approach ensures that continuity solutions are identified, implemented and validated to maintain an acceptable and approved service level, considering the priority activities and the continuity requirements needed according to the major consequences recognized. Exercises are planned at regular intervals to check the relevance and performance of the identified solutions in addition to ensuring that personnel are prepared.

Approaches to identifying, measuring and monitoring operational risk

With respect to the operational risk management framework, the following table illustrates the tools and methods used to identify, measure and monitor operational risk.

	Description
Risk and control identification and measurement	A standard inventory of operational risks to which Desjardins Group is exposed has been prepared and is used as the basis for determining the most significant operational risks and evaluating the effectiveness of the mitigation measures in place to reduce them. The risk and control assessments, carried out on a periodic basis, can be related to projects, products, systems, processes and activities, as well as to strategic initiatives and important new products. Consideration of various internal and external factors (losses, audit findings, etc.) is an integral part of these assessments. When the results indicate operational risk exposures that exceed the established tolerance level, action plans are prepared to reduce exposure to an acceptable level.
Collection and analysis of internal and external events	The collection of internal event data is carried out to list and quantify events according to predetermined levels. Internal events are indexed in a database. Through analysis, causes are better understood, trends are determined, and corrective measures are taken when necessary. The main trends identified through analysis of internal events are reported to the various committees on a regular basis. In addition, external operational risk events in the industry are monitored to detect potential or emerging risks and enhance risk management at Desjardins Group, if need be. Contingent liabilities, including the impact of litigation, are presented in Note 28, "Commitments, guarantees and contingent liabilities", to the Consolidated Financial Statements.
Risk indicators	To monitor their risk profile and track developments in it, the business segments and support functions establish operational risk indicators to help them proactively monitor any increase in their exposure to the most significant risks and act accordingly when the tolerance level is reached.
Scenario analysis	Scenario analysis consists of assessing events that could lead to a major operational risk, but have little likelihood of occurring (e.g. earthquake). The analysis makes it possible to identify vulnerabilities to such "extreme risks" within the organization in order to apply the required mitigation measures.
Specialized risk assessment programs	Complementing the operational risk management framework are certain programs that are the responsibility of specialized groups. These programs regulate specific risks and track them using their oversight process. They are as follows: • Financial disclosure risk management; • Technology risk management; • Business continuity risk management; • Third party risk management; • Risk management related to fraud; • Regulatory risk management; • Risk management related to governance and data quality.
Risk-sharing insurance programs	Desjardins Group has developed insurance programs to give itself additional protection against material operational losses. These programs offer protection based on the business segment's needs, the institution's risk tolerance, as well as emerging risks on the market.
Calculation of capital exposed to operational risk	Since second quarter 2017, Desjardins Group has used the Standardized Approach to calculate its operational risk in the form of regulatory capital exposed to operational risk.

Insurance risk

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

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

Insurance risk for the life and health insurance subsidiaries is composed of the following elements:
- Mortality risk: Financial consequence resulting from amounts payable on life insurance products that differ from the projections, due to mortality;
- Longevity risk: Financial consequence resulting from amounts payable on annuity contracts that differ from the projections, due to the survival of annuitants;
- Morbidity/disability risk: Financial consequence resulting from amounts payable on health insurance products that differ from the projections, due to the state of health of insureds;
- Policyholder behaviour risk: Financial consequence resulting from life or health policyholder or annuitant behaviour in keeping a policy or contract in force or exercising any clauses specified in policies or contracts;
- Expense risk: Financial consequence resulting from the administrative expenses incurred to service life or health insurance products or annuity contracts that differ from the projections.

Property and casualty insurance risk is composed of the following elements:
- Underwriting risk: Financial consequence resulting from an increase in the frequency or severity of losses (e.g., fire, theft, water damage, vandalism) covered by the insurance products offered, which mainly cover physical damage to property, bodily injury as well as liability of insureds (civil, legal, etc.);
- Catastrophe risk: Financial consequence resulting from an increase in the frequency or severity of catastrophes covered by insurance policies;
- Reserve risk: Financial consequence resulting from inadequate provisions or actuarial reserves.

Identifying, assessing and mitigating the risks associated with new insurance products and changes made to existing ones are part of a thorough product approval process. All risks at the insurance subsidiaries, including insurance risk, are managed in accordance with their Integrated Risk Management Policy, in line with Desjardins Group's Integrated Risk Management Framework. The process of logging risks under this policy makes it possible to identify all risks likely to affect the subsidiary concerned that should be the subject of governance and a framework, as well as to maintain a register of all such risks and assess them using the appropriate method.

The subsidiaries are responsible for the risk they generate, including insurance risk. Each one has its own specific governance structure. Insurance risk is governed by several policies that clearly set out the roles and responsibilities of the different parties concerned so that they can comply with the various regulatory guidelines. The subsidiaries also have a robust infrastructure that includes the appropriate tools for ensuring the availability, integrity, completeness and aggregation of all the data necessary for sound insurance risk management.

Insurance risk arises from potential errors in projections concerning the many factors used to set premiums, including future returns on investments, underwriting experience in terms of loss experience, mortality and morbidity, and administrative expenses. These projections are essentially based on actuarial assumptions that must be consistent with the standards of practice in effect in Canada. The insurance subsidiaries also adopt strict pricing standards and policies and perform spot checks to compare their projections with actual results. Insurance product design and pricing are reviewed on a regular basis. Some product pricing may be adjusted depending on the accuracy of projections.

In addition, the subsidiaries limit their losses through reinsurance treaties that vary based on the nature of the operations. The property and casualty insurance subsidiaries also have additional protection with respect to large-scale catastrophic events.

To reduce reinsurance risk, the insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. Such reinsurance treaties do not release the subsidiaries from their obligations toward their policyholders but do mitigate the risks to which they are exposed.

The subsidiaries comply with the standards for sound management practices established by the regulatory bodies that govern them and test their financial soundness using unfavourable scenarios and measure the effect of such scenarios on their capitalization ratio. These tests include stress testing, including the standardized acute stress scenarios required from time to time by regulators, as well as an examination of financial soundness. Test results showed that capital was adequate in each case.

In the context of COVID-19, changes in mortality experience or disability claims experience, in particular, are being monitored by the life and health insurance subsidiaries. In property and casualty insurance, the uncertainty related to premium growth versus claims, the possible increase in fraud, and the potential for corporate liability claims are being monitored. Additional margins are included in reserves for claims and unearned premiums.

Each insurance sector subsidiary provides independent reports and assessments of its exposure to different risks to its Board of Directors as well as to the appropriate levels at Desjardins Group. They report in particular on changes in material risks and the effectiveness of the procedures in place to mitigate them, the results of risk analyses, and the main assumptions and findings from the stress testing.

The activities specific to the insurance subsidiaries expose them, in addition to insurance risk, to other types of risk, notably the risks identified in Note 16, "Insurance contract liabilities", to the Consolidated Financial Statements, as well as other risk factors identified in Section 4.1, "Risk factors that could impact future results".

Strategic risk

Strategic risk refers to the risk of loss attributable to an inability to adapt to a changing environment because of failure to act, an inappropriate strategic choice or the inability to effectively implement strategies.

It is first up to senior management and the Board of Directors to address, define and monitor developments in the strategic orientations of Desjardins Group according to its risk appetite and the consultation processes specific to Desjardins. Events that could compromise the achievement of Desjardins Group's strategic objectives are systematically and periodically monitored by the board of directors and senior management. Business segments and support functions identify and periodically assess events and risks that could prevent the achievement of strategic objectives, and report thereon to the appropriate bodies.

Organizational development plans are assessed in light of the organization's risk appetite framework to ensure that such initiatives are in line with the organization's strategic plan. Furthermore, this plan is updated annually to take market developments into account, in particular major trends in the industry and action taken by competitors.

Reputation risk

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

A reputation is of critical importance, and reputation risk cannot be managed separately from other risks. Therefore, managing reputation risk in all its business segments is a constant concern for Desjardins Group. In this regard, Desjardins Group seeks to ensure that all employees are constantly aware of the potential repercussions of their actions on Desjardins's reputation and image. Desjardins Group considers it essential to foster a proactive approach to risk management in which integrity and ethical conduct are fundamental values.

Desjardins Group has defined a management framework, and roles and responsibilities with regard to reputation risk. This framework is in addition to various processes already in place to identify, measure and govern this risk, such as the previously mentioned operational risk management initiatives, the regulatory compliance program, ethical requirements, and reputation risk assessment as part of new initiatives and the introduction of new products. All these aspects aim to promote sound reputation risk management. In addition, the President and Chief Executive Officer of Desjardins Group is the main person responsible for the culture change process. The aim of this process is to effect a profound change in behaviour in order to always work in the best interests of members and clients. This process will also help manage reputation risks.

Pension plan risk

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

The organization's main pension plan is the Desjardins Group Pension Plan (DGPP). The Federation, through its Board of Directors, is the sponsor of the DGPP and, as such, acts as the representative for all Desjardins Group employers. The Desjardins Group Retirement Committee, which is composed of members designated by the Board of Directors of the Federation, active members and a group made up of non-active members and beneficiaries, is the administrator of the DGPP and the sole and exclusive trustee for the pension fund. It is responsible for managing pension fund assets and administering the benefits promised by the plan. It sees to it that the DGPP By-law is applied and ensures compliance with the legislation and regulations in force. In particular, it must see to the sound governance of the plan. In this regard, it has developed policies and an internal by-law as required under the *Supplemental Pension Plans Act*.

In order to properly manage DGPP risks, the Desjardins Group Retirement Committee has delegated certain powers and responsibilities to its Investment Management Committee. In particular, the Investment Management Committee is tasked with reviewing the investment policy and recommending any amendments in this regard to the Desjardins Group Retirement Committee, as well as with adopting any special investment framework. It ensures that such frameworks are adhered to. Every year, it recommends an asset allocation strategy, adopts the resulting investment plan and monitors it. It also analyzes investment opportunities that are submitted to it, as well as the associated risks. The Investment Management Committee annually reviews the content and accuracy of the DGPP risk log and recommends any amendments, where applicable, to the Desjardins Group Retirement Committee, ensuring that risks are effectively managed and controlled. In addition, a risk management dashboard for the DGPP, made up of risk indicators identified in the profile, is updated quarterly.

The COVID-19 crisis has had little impact on the financial position of the pension plans.

Environmental or social risk

Environmental or social risk results from an environmental event or social issue during Desjardins Group's operations or its financing, investment or insurance activities, which could lead to financial loss or harm its reputation.

Regarding environmental risk, potential financial losses could be related to an internal risk, namely a risk generated by an entity and having a negative impact on the environment, or an external risk, namely an event caused by the environment and having a detrimental effect on the entity. Climate change is included under environmental or social risk and defined in Section 4.1, "Risk factors that could impact future results".

In addition, business relations with entities whose operations could involve Environmental, Social or Governance (ESG) issues could lead to reputation risk.

In order to mitigate environmental or social risk, and to uphold its commitment to contribute to the development of a sustainable and responsible economy, Desjardins Group has incorporated ESG factors into its business decision-making processes. Tools and reference materials are being developed to support business sectors. The Environmental, Social and Governance steering committee recommends ESG orientations and promotes a cohesive approach within the organization.

In addition, Desjardins Group is a signatory to several United Nations international frameworks for integrating ESG criteria into its business model: the Principles for Responsible Investment (since 2009), the Principles for Sustainable Insurance (2019), and the Principles for Responsible Banking (2019).

Since sustainable development is a priority for it, Desjardins Group has developed a sustainable development policy for all its operations, incorporating orientations for the development of a sustainable and responsible economy as part of the strategic alignment of its risk appetite framework.

Furthermore, Desjardins Group maintains its leadership in sustainable development through a number of integrated initiatives in its Strategic Plan and its performance management, particularly by setting targets for reducing its carbon footprint and gradually integrating these targets into its performance objectives. It is also continuing the innovative development of products and services, focused on sustainable development, for its members and clients. All these initiatives may be consulted in its annual social and cooperative responsibility report based on Global Reporting Initiative (GRI) guidelines. This report is not incorporated by reference in this MD&A.

In addition, recognizing the major impact of climate change on the environment, society and the economy, Desjardins Group periodically updates its analysis of climate change risk and reports thereon to senior management. Its strategy and management of these risks are also disclosed in the CDP (formerly the Carbon Disclosure Project) questionnaire as well as in a specific climate change report based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and forming an integral part of the annual social and cooperative responsibility report.

Legal and regulatory risk

Legal and regulatory risk refers to the risk associated with Desjardins Group's non-compliance with the obligations arising from the interpretation or application of legislative and regulatory provisions or contractual commitments, which could affect its operations, reputation, strategies and financial objectives.

Legal and regulatory risk entails, *inter alia*, effectively preventing and handling possible disputes and claims that may lead in particular to judgments or decisions by a court of law or regulatory body that could result in orders to pay damages, financial penalties or sanctions. Moreover, the legal and regulatory environment is evolving quickly and could increase Desjardins Group's exposure to new types of litigation. In addition, some lawsuits against Desjardins Group may be very complex and be based on legal theories that are new or have never been verified. The outcome of such lawsuits may be difficult to predict or estimate until the proceedings have reached an advanced stage, which may take several years. Class action lawsuits or multi-party litigation may feature an additional risk of judgments with substantial monetary, non-monetary or punitive damages. Plaintiffs who bring a class action or other lawsuit sometimes claim very large amounts and it is impossible to determine Desjardins Group's liability, if any, for some time. Legal liability or an important regulatory measure could have an adverse effect on the current activities of Desjardins Group, its results of operations and its financial position, in addition to damaging its reputation. Even if Desjardins Group won its court case or was no longer the subject of measures imposed by regulatory bodies, these situations could harm its reputation and have an adverse impact on its financial position, due in particular to the costs associated with such proceedings, and its brand image.

The financial services industry is one of the most strictly regulated and monitored sectors. In recent years, the regulations governing the industry have expanded significantly in response to numerous socio-economic phenomena such as the development of new, increasingly complex financial products, the continuing volatility in the securities industry, financial fraud, the fight against money laundering and terrorist financing, and the fight against tax evasion, to mention but a few. In addition to federal (Canada and the U.S.) and provincial government requirements, the regulatory environment also includes organizations such as the AMF, the Canadian Securities Administrators, the OSFI, the Financial Transactions and Reports Analysis Centre of Canada, the Mutual Fund Dealers Association of Canada, and the Investment Industry Regulatory Organization of Canada. Complying with important legislative and regulatory provisions, such as those for the protection of personal information, laws and regulations governing insurance, the *Foreign Account Tax Compliance Act*, the Standard for Automatic Exchange of Financial Account Information in Tax Matters, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the Basel accords, requires considerable technical, human and financial resources and also affects the way Desjardins Group manages its current operations and implements its business strategies.

As an independent supervisory function, the Office of the Chief Compliance Officer of Desjardins Group fosters a proactive approach to compliance by fully integrating compliance into the organization's current operations. It is responsible for developing, updating and maintaining the compliance management framework, which is based on the identification and monitoring of regulatory obligations and the functional units subject to them. Regulatory developments and their impact on operations are therefore monitored and evaluated on an ongoing basis by the compliance function in cooperation with the Office of the Chief Legal Officer, and strategies are implemented as required to mitigate them. The compliance function provides support to managers in charge of business segments and support functions so that they can effectively manage their risks, by developing an appropriate framework and documentation, acting in an advisory capacity, setting up training programs and conducting periodic inspections of operations. The Desjardins Group Monitoring Office provides an independent assessment of the effectiveness of the compliance management framework. Lastly, Desjardins Group has set up a formal reporting process related to compliance for its senior management and various decision-making bodies. In addition, to maintain its reputation for integrity as well as the confidence of its members and clients, the market and the general public, Desjardins Group has developed a code of professional conduct applicable to all its officers and employees and to all its components. This overall management of compliance provides reasonable assurance that Desjardins Group's operations are carried out in compliance with applicable regulations. Despite all these efforts, Desjardins Group may not be able to predict the exact impact of regulatory developments and appropriately implement strategies to respond. It could then sustain an adverse impact on its financial performance, its operations and its reputation. For further information, refer to the "Regulatory environment" section of this MD&A.

5.0 Additional information

5.1 Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the CSA guidance in National Instrument 52-109, the President and CEO as well as the Executive Vice-President, Finance, Treasury and Administration and Chief Financial Officer (CFO) caused to be designed disclosure controls and procedures (DCPs). These controls and procedures are designed to provide reasonable assurance that the information presented in annual, interim or other reports filed or transmitted under securities legislation is recorded, processed, summarized and reported within the time periods prescribed by such legislation. These controls and procedures are also designed to warrant that such information is assembled and disclosed to the Federation's management, including its signing officers, in accordance with what is appropriate to make timely decisions regarding disclosure.

As at December 31, 2020, the Federation's management, in collaboration with the President and CEO, and the CFO, assessed the design and effectiveness of its DCPs. Based on the results of this assessment, the President and CEO, and the CFO concluded that the DCPs were adequately designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Federation's management caused an adequate internal control over financial reporting process to be designed and has maintained it. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes in accordance with IFRS. Internal control over financial reporting (ICFR) includes, in particular, those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Consolidated Financial Statements in accordance with IFRS, and that cash receipts and payments are being made only in accordance with authorizations of management and the directors;
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets that could have a significant impact on the Annual Consolidated Financial Statements or Interim Financial Reports.

Because of its inherent limitations, ICFR may not prevent or detect all misstatements on a timely basis. Management's assessment of the controls provides only reasonable, not absolute, assurance that all the problems related to control which could give rise to material misstatements have been detected.

The Federation's management, in collaboration with the President and CEO, and the CFO, have assessed the design and effectiveness of ICFR. This assessment was performed in accordance with the 2013 Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for financial controls and in accordance with the Control Objectives for Information and Related Technologies (COBIT) framework for IT general controls.

Based on the results of the assessment, the President and CEO, and the CFO, concluded that as at December 31, 2020, ICFR was adequately designed and effective.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2020, the Federation did not make any changes to its policies, procedures and other processes with regard to internal control that had materially affected, or may materially affect, ICFR.

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the Federation's 2020 Annual Report.

5.2 Related party disclosures

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

The Federation and its subsidiaries carry out transactions with related parties, primarily member caisses. Services provided to the member caisses include various technical, administrative and financial services, for which income, such as assessments and fees, are collected. At the same time, the member caisses receive remuneration from the Federation on products and services such as credit cards, payroll services and investment fund and financial engineering services. The Federation also acts as treasurer, thereby allowing the member caisses to borrow or lend liquidities. Member caisses and the Federation also enter into swap contracts.

Through Desjardins Investments Inc., the Federation receives management fees as manager for Desjardins Funds in exchange for the following services: accounting, record keeping, custody of securities, portfolio management and transfer agent services. Through Desjardins Trust Inc., the Federation also receives fees as fund depositary. Finally, it receives management income from pension plans and interest expense paid to the Desjardins Group Pension Plan.

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

The Federation's key management personnel are the members of its Board of Directors and its Management Committee. They are responsible for the planning, management and control of the Federation's operations, and have the authority to perform their duties.

The Federation has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's-length transactions and in compliance with the legislative framework for its various components.

Additional information about related party transactions is presented in Note 31, "Related party disclosures", to the Consolidated Financial Statements.

5.3 Critical accounting policies and estimates

A description of the accounting policies used by the Federation is essential to understanding the Consolidated Financial Statements as at December 31, 2020. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Consolidated Financial Statements. Some of these policies are of particular importance in presenting the Federation's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

The COVID-19 pandemic created new sources of uncertainty having an impact on judgments as well as estimates and assumptions made by management in preparing the Consolidated Financial Statements. This particularly affects the impairment of securities designated for the overlay approach, the loss allowance for expected credit losses, financial asset derecognition and insurance contract liabilities. The Federation continues to closely monitor developments in the pandemic and its impact on judgments, and critical accounting estimates and assumptions:

- Securities designated for the overlay approach were examined at the reporting date to determine whether there was any objective evidence that they were impaired, and the Federation did not record any impairment losses.
- For more information about significant judgments made to estimate the loss allowance for expected credit losses, see Note 7, "Loans and allowance for credit losses", to the Consolidated Financial Statements.
- The participations in the Canada Emergency Business Account (CEBA) were assessed to determine whether the criteria for financial asset derecognition were met. For more information, see Note 8, "Derecognition of financial assets", to the Consolidated Financial Statements.
- Assumptions used to calculate insurance contract liabilities take into account economic uncertainties related to the COVID-19 pandemic.

STRUCTURED ENTITIES

A structured entity is consolidated when it is controlled by the Federation. Management must make significant judgments when it assesses the various elements and all related facts and circumstances as a whole to determine whether control exists, especially in the case of structured entities.

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

Additional information about structured entities is presented in Note 13, "Interests in other entities", to the Consolidated Financial Statements.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of financial instruments is determined using a three-level hierarchy, reflecting the importance of the inputs used for the measurements. Level 1 denotes measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities, while level 2 designates valuation techniques based primarily on observable market data. Level 3 concerns valuation techniques not based primarily on observable market data.

There is little subjectivity in the determination of the fair value of financial instruments, especially securities and commitments related to securities sold short, obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques rely on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is used in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

Loans

The fair value of performing loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date, and takes estimated prepayments into account, adjusted to take into account credit losses on the loan portfolio. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by the Federation, which result in a favourable or unfavourable difference compared to their carrying amount.

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, the Federation adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the Federation's creditworthiness, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 20, "Derivative financial instruments and hedging activities" describes the type of derivative financial instruments held by the Federation.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements", "Clients' liability under acceptances", "Amounts receivable from clients, brokers and financial institutions", some items included in "Other assets – Other", "Acceptances", "Commitments related to securities lent or sold under repurchase agreements", "Amounts payable to clients, brokers and financial institutions" and some items included in "Other liabilities – Other".

Additional information on the fair value of financial instruments is presented in Note 4, "Fair value of financial instruments", to the Consolidated Financial Statements. Note 2, "Basis of presentation and significant accounting policies", provides information on the classification and measurement of financial assets and financial liabilities.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized from the Consolidated Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but the Federation has the obligation to pay them to a third party under certain conditions, or when the Federation transfers the contractual rights to receive the cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by the Federation, such asset is not derecognized from the Consolidated Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, the Federation derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, the Federation continues to recognize the asset in the Consolidated Balance Sheets to the extent of its continuing involvement in said asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Consolidated Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates the Federation's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

Additional information about the derecognition of financial assets is presented in Note 8, "Derecognition of financial assets", to the Consolidated Financial Statements.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, the Federation bases its assessment on the change in default risk over the expected life of the financial instrument, which requires significant judgment.

To this end, the Federation compares the PD of the financial instrument at the reporting date with its PD at the date of initial recognition. In addition, it considers reasonable and supportable information indicating a significant increase in credit risk since initial recognition, including qualitative information and information about future economic conditions to the extent that it affects the assessment of the instrument's PD. The criteria used to determine a significant increase in credit risk vary depending on the groups of financial instruments having credit risk characteristics in common and are mainly based on a relative change combined with an absolute change in the PD. They also include absolute PD thresholds and certain other criteria. All instruments that are more than 30 days past due are transferred to Stage 2 of the impairment model.

Definition of default and credit-impaired financial asset

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes and for regulatory purposes. It considers relevant quantitative and qualitative factors. In particular, a loan is in default when contractual payments are over 90 days past due. A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant.

Measurement of the loss allowance for expected credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the loss allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of the contract, and total cash flows that the Federation expects to receive. For credit-impaired financial assets, expected credit losses are calculated based on the difference between the gross carrying amount of the asset and estimated cash flows.

The measurement of the loss allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, the Federation uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. The Federation uses three scenarios to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. It may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters.

For credit-impaired financial assets that are individually material, measuring the loss allowance for expected credit losses does not require using credit risk parameters. It is instead based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions.

Key data and assumptions

Estimating the loss allowance for expected credit losses under IFRS 9 is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions, and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

- Changes in the borrowers' credit risk rating (or PD);
- Determination of significant increases in credit risk;
- Incorporation of forward-looking information;
- Estimated life of revolving credit facilities.

Developments in the COVID-19 pandemic and its future resolution give rise to uncertainty. Management therefore had to make complex judgments to estimate the loss allowance for expected credit losses in the current situation, which increases the risk of adjustments in future periods.

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

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

Determination of significant increases in credit risk

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

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

Significant judgments had to be made to estimate the negative impact of the unprecedented current COVID-19 pandemic situation on the risk of default by the different types of borrowers and, consequently, on the determination of significant increases in credit risk and the measurement of the allowance. With respect to the use of the payment deferral program offered to its clients, the Federation considered that it was not, if taken individually, an indication of an increase in the risk of default over the life of the financial instrument. Accordingly, the use of such program was not considered to be, in itself, a sufficient criterion for concluding that it was a significant increase in credit risk and transferring a financial instrument to Stage 2 of the impairment model. Furthermore, the use of such program does not result in additional days past due.

Incorporation of forward-looking information

The Federation uses three different scenarios to determine the loss allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios are reviewed quarterly.

The incorporation of forward-looking information may increase or decrease the loss allowance for expected credit losses. Generally, an improvement in the outlook will give rise to a decrease in the allowance, while a deterioration will result in an increase in the allowance.

The major uncertainty resulting from the COVID-19 pandemic makes it significantly more complex to determine reasonable and supportable assumptions concerning the change in macroeconomic variables for the various scenarios and the related probability of occurrence. This uncertainty, which relates in particular to the duration and magnitude of the impact of the COVID-19 pandemic on the various macroeconomic variables used in the models as well as to the positive effect of support measures by central banks and governments, required management to make significant judgments to revise the assumptions concerning forward-looking information. Considering the atypical nature of the current economic crisis, management applied expert credit judgment as to the degree of correlation between input data related to forward-looking indicators and expected credit losses. Expert credit judgment was also applied to consider the impact of government support measures, which are at an unprecedented level and have been continuously evolving since the onset of the pandemic, as well as the temporary impact of the payment deferral programs offered by financial institutions.

Estimated life of revolving credit facilities

The expected life of most financial instruments is equal to the maximum contractual term during which the Federation is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans, for which their life must be estimated. To determine the life of revolving credit facilities, the Federation determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions. This estimate takes into account the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

The determination of the estimated life of revolving credit facilities has a significant impact on estimating the loss allowance for expected credit losses, mainly for revolving credit facilities in Stage 2 of the impairment model. Generally, an increase in the estimated life of revolving credit facilities gives rise to an increase in expected credit losses.

Additional information about loans and the allowance for credit losses, in particular a sensitivity analysis of the allowance for credit losses, is presented in Note 7, "Loans and allowance for credit losses" to the Consolidated Financial Statements.

IMPAIRMENT OF "AVAILABLE-FOR-SALE" SECURITIES UNDER IAS 39 CONSIDERED FOR THE OVERLAY APPROACH

The Federation elected to designate certain eligible insurance operations financial assets for the overlay approach permitted by IFRS 4, "Insurance Contracts", to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, "Financial Instruments", and IFRS 17, "Insurance Contracts".

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Consolidated Statements of Income under IFRS 9 and the amount that would have been reported if the Federation had continued to apply IAS 39. As a result, net surplus earnings related to designated financial assets reported in the Consolidated Statements of Income correspond to the amount that would have been reported if the Federation had continued to apply IAS 39.

In determining the amount that would have been reported in the Consolidated Statements of Income if IAS 39 had been applied, the Federation considers, in particular, the impairment of "Available-for-sale" securities under IAS 39, which requires the significant use of judgment.

Under IAS 39, "Available-for-sale" securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, major financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring and the disappearance of an active market for the asset in question. Debt securities are assessed individually to determine whether there is any objective evidence of impairment. For equity securities, objective evidence of impairment would also include a significant or prolonged decline in fair value below cost.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Federation assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires that management make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provisions for dividends and experience refunds as well as policyholder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, policyholder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM), in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Consolidated Balance Sheets of the assets that back them.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums, provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Consolidated Statements of Income for the year in which the revision occurs. The provision for claims and adjustment expenses is reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Note 16, "Insurance contract liabilities", to the Consolidated Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. A provision is recognized when the Federation has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant risks and uncertainties. Management must use significant judgment in determining whether a current obligation exists and in estimating the likelihood, timing and amount of any outflow of resources. The Federation regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ significantly from forecasts.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Federation's control or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably. In the normal course of its business, the Federation is involved in various litigation and legal proceedings.

Additional information is presented in Note 28, "Commitments, guarantees and contingent liabilities", to the Consolidated Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

The income tax expense on surplus earnings recognized in the Consolidated Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Consolidated Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of these income taxes, management must make judgments to establish assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If the Federation's interpretation differs from that of taxation authorities or if the reversal dates do not correspond to the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Note 27, "Income taxes on surplus earnings", to the Consolidated Financial Statements provides additional information on income taxes on surplus earnings.

DIVIDENDS TO MEMBER CAISSES

Dividends to member caisses presented in the Consolidated Statements of Income reflect management's best estimate. They are determined according to the Federation's distribution of the surplus earnings and are based on a resolution of the Board of Directors to recommend to the Annual General Meeting that their payment be approved. Dividend payments are recognized when approved by the member caisses. Dividends to member caisses are allocated to Treasury and Other Support to Desjardins Group Entities.

EMPLOYEE BENEFITS

The Federation participates in a pension plan and a supplemental pension plan through Desjardins Group's defined benefit group plans. It offers the majority of its employees, who meet certain criteria based on age and the number of years of plan membership, a defined benefit pension plan and a defined benefit supplemental pension plan. The Federation also offers a post-retirement benefit plan that provides medical, dental and life insurance coverage to retiring employees and their dependents.

The Federation participates in defined benefit group pension plans whose risks are shared by entities under common control. The Federation's share in the cost recognized and the net liability for the defined benefit group pension plans of Desjardins Group is mainly determined based on funding rules, as described in the plan's by-laws. The main Desjardins Group pension plan is funded by both employee and employer contributions, which are based on the financial position and the funding policy of the plan. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan.

The Federation's share in the cost of the group post-retirement benefit plan of Desjardins Group is determined based on the number of eligible insureds of the Federation as a percentage of the total number of eligible insureds for Desjardins Group as a whole.

Note 17, "Net defined benefit plan liabilities", to the Consolidated Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2020 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, "INSURANCE CONTRACTS"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", to replace the current standard, IFRS 4, "Insurance Contracts". IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 proposes a general model for the measurement of insurance contracts, as well as a simplified approach for contracts of one year or less, and a specific method for insurance contracts with direct participation features. The general model, which is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows. It takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

The provisions of IFRS 17 will apply retrospectively to each group of insurance contracts. When retrospective application is impracticable, the modified retrospective approach or the fair value approach may be used for annual reporting periods beginning on or after January 1, 2023.

In June 2020, the IASB issued amendments to IFRS 17, for which the initial effective date was deferred by two years to annual periods beginning on or after January 1, 2023. The Federation is currently assessing the impact on its financial statements of adopting IFRS 17 and the amendments thereto.

IFRS 9, "FINANCIAL INSTRUMENTS", IAS 39, "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT" AND IFRS 7, "FINANCIAL INSTRUMENTS: DISCLOSURES"

On January 1, 2020, the Federation adopted amendments to IFRS 9, IAS 39 and IFRS 7 arising from Phase 1 of the interest rate benchmark reform project. Phase 1 amendments providing relief with respect to applying hedge accounting during the period before the replacement of an interest rate benchmark had no impact on the Federation's profit or loss or financial position.

In August 2020, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in connection with Phase 2 of its interest rate benchmark reform project. The amendments focus on the impact on the financial statements of the replacement of an interest rate benchmark.

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

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

IFRS 7 was also amended to include the requirement to disclose the nature and extent of risks related to the reform and how the entity manages those risks as well as the entity's progress in completing the transition to alternative benchmark rates and how the entity is managing the transition. Amendments to these standards, which will apply to annual periods beginning on or after January 1, 2021, will not have any significant impact on the Federation's profit or loss or financial position. For more information about interest rate benchmark reform, please refer to the "Regulatory environment" section in this MD&A.

5.5 Five-year statistical review

Table 41 – Consolidated Balance Sheets
For the years ended December 31

(in millions of dollars)	2020	2019	2018[1]	2017[1][2]	2016[1][2]
ASSETS					
Cash and deposits with financial institutions	**$ 11,513**	$ 3,084	$ 2,738	$ 1,731	$ 1,212
Securities					
Securities at fair value through profit or loss	**34,958**	35,167	36,914	31,654	31,005
Available-for-sale securities	**N/A**	N/A	N/A	15,250	13,932
Securities at fair value through other comprehensive income	**40,361**	12,650	11,131	N/A	N/A
Securities at amortized cost	**29**	1,616	1,621	N/A	N/A
	75,348	49,433	49,666	46,904	44,937
Securities borrowed or purchased under reverse repurchase agreements	**11,592**	11,352	14,086	9,377	7,713
Loans					
Residential mortgages	**3,440**	4,183	4,626	4,323	3,486
Consumer, credit card and other personal loans	**19,091**	20,567	19,710	17,547	15,720
Business and government	**33,777**	40,827	37,992	37,012	33,416
	56,308	65,577	62,328	58,882	52,622
Allowance for credit losses	**(639)**	(464)	(491)	(198)	(192)
	55,669	65,113	61,837	58,684	52,430
Segregated fund net assets	**19,093**	17,026	13,234	13,379	11,965
Other assets					
Clients' liability under acceptances	**328**	380	160	31	11
Premiums receivable	**2,807**	2,689	2,378	2,098	1,961
Derivative financial instruments	**6,975**	4,795	4,376	3,772	3,706
Amounts receivable from clients, brokers and financial institutions	**2,508**	2,239	1,487	1,563	2,541
Reinsurance assets	**1,962**	2,001	1,958	2,202	2,582
Right-of-use assets	**291**	298	N/A	N/A	N/A
Investment property	**910**	944	943	817	806
Property, plant and equipment	**907**	840	811	780	769
Goodwill	**156**	121	121	121	471
Intangible assets	**424**	381	389	466	690
Investments in companies accounted for using the equity method	**1,189**	1,034	907	515	567
Deferred tax assets	**1,013**	1,015	896	746	724
Other	**2,387**	1,668	1,573	1,673	1,573
Assets of the disposal group held to be transferred	**-**	-	-	881	-
	21,857	18,405	15,999	15,665	16,401
TOTAL ASSETS	**$ 195,072**	$ 164,413	$ 157,560	$ 145,740	$ 134,658

See the next page for footnotes.

Table 41 – Consolidated Balance Sheets (continued)
For the years ended December 31

(in millions of dollars)	**2020**	2019	2018[1]	2017[1][2]	2016[1][2]
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 4,331**	$ 3,715	$ 4,105	$ 4,353	$ 3,817
Business and government	**53,169**	48,924	47,398	42,598	37,999
Deposit-taking institutions	**14,906**	6,333	6,554	5,198	5,086
	72,406	58,972	58,057	52,149	46,902
Other liabilities					
Acceptances	**328**	380	160	31	11
Commitments related to securities sold short	**9,353**	10,615	10,829	9,112	8,196
Commitments related to securities lent or sold under repurchase agreements	**19,152**	10,562	16,233	10,062	9,870
Derivative financial instruments	**6,753**	4,827	3,332	3,677	2,540
Amounts payable to clients, brokers and financial institutions	**6,810**	5,552	4,105	4,247	4,659
Lease liabilities	**346**	350	N/A	N/A	N/A
Insurance contract liabilities	**34,871**	31,637	28,764	28,300	27,493
Segregated fund net liabilities	**19,089**	17,002	13,212	13,354	11,957
Net defined benefit plan liabilities	**1,984**	1,956	1,578	1,741	1,478
Deferred tax liabilities	**273**	277	254	204	247
Other	**5,649**	5,373	5,105	4,794	5,247
Liabilities of the disposal group held to be transferred	**-**	-	-	662	-
	104,608	88,531	83,572	76,184	71,698
Subordinated notes	**1,493**	1,398	1,378	1,388	1,378
TOTAL LIABILITIES	**178,507**	148,901	143,007	129,721	119,978
EQUITY					
Capital stock	**8,884**	8,884	8,779	8,537	8,066
Undistributed surplus earnings	**5,442**	5,276	4,764	5,674	4,781
Accumulated other comprehensive income	**738**	249	(9)	458	393
Reserves	**751**	330	271	540	524
Equity – Group's share	**15,815**	14,739	13,805	15,209	13,764
Non-controlling interests	**750**	773	748	810	916
TOTAL EQUITY	**16,565**	15,512	14,553	16,019	14,680
TOTAL LIABILITIES AND EQUITY	**$ 195,072**	$ 164,413	$ 157,560	$ 145,740	$ 134,658

(1) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

Table 42 – Consolidated Statements of Income

For the years ended December 31

(in millions of dollars)	2020	2019[1]	2018[1][2]	2017[1][2][3]	2016[1][2][3]
Interest income					
Loans	**$ 2,229**	$ 2,806	$ 2,537	$ 2,050	$ 1,856
Securities	**377**	216	230	195	182
	2,606	3,022	2,767	2,245	2,038
Interest expense					
Deposits	**821**	1,327	1,119	750	629
Subordinated notes and other	**157**	195	158	97	110
	978	1,522	1,277	847	739
Net interest income	**1,628**	1,500	1,490	1,398	1,299
Net premiums	**10,028**	9,525	8,923	8,146	7,263
Other income					
Assessments	**394**	393	392	377	393
Service agreements	**818**	773	742	727	699
Lending fees and credit card service revenues	**634**	782	699	660	575
Brokerage and investment fund services	**954**	886	905	1,030	1,060
Management and custodial service fees	**648**	610	573	512	442
Net investment income	**2,926**	2,970	176	1,771	1,112
Overlay approach adjustment for insurance operations financial assets	**(42)**	(192)	523	N/A	N/A
Foreign exchange income	**103**	70	92	77	70
Other	**258**	557	302	313	141
	6,693	6,849	4,404	5,467	4,492
Total income	**18,349**	17,874	14,817	15,011	13,054
Provision for credit losses	**539**	310	288	278	248
Claims, benefits, annuities and changes in insurance contract liabilities	**9,257**	9,149	6,576	6,712	5,446
Non-interest expense					
Remuneration and other payments	**669**	660	563	536	492
Salaries and fringe benefits	**2,662**	2,443	2,239	2,255	2,329
Premises, equipment and furniture, including depreciation	**636**	556	496	514	437
Service agreements and outsourcing	**260**	359	341	322	306
Communications	**223**	221	219	244	265
Other	**2,786**	2,733	2,537	2,398	2,193
	7,236	6,972	6,395	6,269	6,022
Operating surplus earnings	**1,317**	1,443	1,558	1,752	1,338
Income taxes on surplus earnings	**305**	212	208	336	147
Surplus earnings before dividends to member caisses	**1,012**	1,231	1,350	1,416	1,191
Dividends to member caisses	**113**	115	70	60	25
Tax recovery on dividends to member caisses	**(30)**	(31)	(19)	(16)	(7)
Net surplus earnings for the year after dividends to member caisses	**$ 929**	$ 1,147	$ 1,299	$ 1,372	$ 1,173
Of which:					
Group's share	**$ 845**	$ 1,101	$ 1,258	$ 1,329	$ 1,088
Non-controlling interests' share	**84**	46	41	43	85

[1] Data have been reclassified to conform to the current year's presentation.

[2] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

[3] In accordance with the standards in effect before the adoption by the Federation of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

Table 43 – Selected financial measures
For the years ended December 31

(in millions of dollars and as a percentage)	2020	2019	2018[1]	2017[1][2]	2016[1][2]
Tier 1A capital ratio[3]	**21.9%**	21.6%	17.3%	18.0%	17.3%
Tier 1 capital ratio[3]	**21.9**	21.6	17.3	18.0	17.3
Total capital ratio[3]	**22.6**	21.6	17.6	18.4	17.9
Leverage ratio[3]	**8.5**	8.8	8.3	8.5	8.1
Return on equity[4]	**6.1**	8.3	8.6	9.4	8.5
Credit loss provisioning rate[4]	**0.88**	0.49	0.48	0.50	0.48
Gross credit-impaired loans[5]/gross loans and acceptances ratio[4]	**0.74**	0.56	0.56	0.14	0.18
Assets under administration[6]	**$ 458,177**	$ 437,000	$ 374,178	$ 423,574	$ 420,166
Assets under management[7]	**89,140**	77,018	66,359	66,653	59,490
Average assets[4]	**184,781**	162,914	154,106	143,110	134,333
Average net loans and acceptances[4]	**60,481**	62,752	59,973	54,977	51,213
Average deposits[4]	**70,306**	58,645	55,758	52,256	48,376

(1) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.
(3) On September 16, 2020, the AMF issued a notice stating that the Federation's capital ratios had to be calculated on the basis of the exposure of all the entities comprising Desjardins Group. Comparative data have been restated to conform to the presentation required by this change. For more information, see Section 3.2, "Capital management", to this MD&A.
(4) See "Non-GAAP measures".
(5) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.
(6) Data for 2019, 2018 and 2017 have been restated to conform to the current year's presentation.
(7) Assets under management may also be administered by the Federation. If applicable, they are included in assets under administration.

CONSOLIDATED FINANCIAL STATEMENTS

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Annual report by the Audit and Inspection Commission

The role of the Audit and Inspection Commission (AIC) is to support the Board of Directors of the *Fédération des caisses Desjardins du Québec* (the Federation) in its oversight, control and reporting responsibilities for Desjardins Group. It also oversees the organization's cultural shift, where the focus is on doing what's best for members and clients. The AIC's mandate consists primarily of:

- Analyzing the financial statements and Management's Discussion and Analysis and their presentation
- Ensuring the quality and integrity of financial reporting and the use of accepted accounting practices
- Overseeing the management of significant financial risks
- Ensuring that an effective internal control system is in place
- Overseeing the work of the internal auditor and independent auditor
- Ensuring that a compliance management framework is applied

The AIC reviews the Federation's interim and annual financial statements and Management's Discussion and Analysis, its prospectuses, and its annual information form. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, safeguarding of assets, fraud detection and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the Federation. The AIC analyzes the information resulting from this financial governance process every quarter.

The independent auditor is under the authority of the AIC. To fulfill its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence and objectivity by authorizing all of its non-audit services, by recommending its appointment or reappointment to the Federation's Board of Directors, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the AIC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual audit plan, its reports, its letter to management and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates can be awarded, and (c) responsibilities of key stakeholders. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Federation's entities.

The AIC works with the Federation's Board of Ethics and Professional Conduct (BEPC) to ensure the independence and objectivity of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC must issue an annual notice to the BEPC confirming that the Chief Monitoring Officer performed their internal audit duties without any obstruction from management. The AIC also works with the BEPC on the process to recommend the appointment or removal of the Chief Monitoring Officer as head of the monitoring function to the Federation's Board of Directors. The AIC analyzes the internal audit plan as well as the internal audit team's responsibilities and objectivity. It ensures the plan is carried out, reviews the internal audit results and, if necessary, takes appropriate follow-up action. As part of these duties, the AIC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management.

With respect to the Federation's relations with the *Autorité des marchés financiers* (AMF) in Québec, the AIC reviews and follows up on the inspection reports issued by the AMF and reviews the financial reports that are submitted each quarter to the AMF.

The AIC meets privately with: the independent auditor; the Senior Executive Vice-President and Chief Operating Officer of Desjardins Group; the Executive Vice-President of Finance, Treasury and Administration and Chief Financial Officer of Desjardins Group; and the Chief Monitoring Officer of Desjardins Group. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, every two years the AIC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

The AIC is made up of six independent directors, four of whom are elected and two of whom are co-opted by the Board of Directors. There are also four observers: the chairs of the audit and risk management committees of Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc., the chair of the Federation's Risk Management Commission, and a caisse general manager who sits on the Federation's Board of Directors. Except for this general manager, none of the AIC members receives direct or indirect compensation from Desjardins Group for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entities, including their committees and commissions.

In light of the significant changes made to accounting and financial reporting requirements, the AIC members attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards, personal information protection, information security and issues related to the COVID-19 pandemic. All AIC members possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AIC's charter.

The AIC held six meetings and one training session for its members in fiscal 2020. As at December 31, 2020, the six independent directors who are members of the AIC are: Johanne Charbonneau, FCPA, FCGA; Lisa Baillargeon, CPA, CMA; Sonia Corriveau; Louis Babineau; Stéphane Corbeil and Jean-François Laporte. The four observers are: Michel Magnan, FCPA, FCA; Robert St-Aubin, FCPA, FCA; Benoit Bélanger and Michel Doré. Pierre Perras also participated in the AIC's activities until the end of his mandate on April 30, 2020.

Johanne Charbonneau, FCPA, FCGA
Chair

Montréal, Québec
February 22, 2021

Management’s Responsibility for Financial Reporting

The Consolidated Financial Statements of the *Fédération des caisses Desjardins du Québec* (the Federation) and all information included in its annual Management’s Discussion and Analysis are the responsibility of management, which is responsible for ensuring reporting integrity and accuracy.

These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and the accounting requirements of the Autorité des marchés financiers (AMF) in Québec, which do not differ from IFRS. The IFRS represents Canada’s generally accepted accounting principles. These Consolidated Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include valuations of insurance contract liabilities performed by the actuaries of the relevant segments. All financial information in the annual Management’s Discussion and Analysis is consistent with these audited Consolidated Financial Statements.

Management is responsible for the accuracy of the Federation’s Consolidated Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. These controls are designed to provide reasonable assurance that the financial accounts are complete and accurate, assets are protected and records are kept appropriately. They include an organizational structure that ensures effective segregation of duties, a code of professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices. In our capacities as Chief Executive Officer and Chief Financial Officer of the Federation, we have overseen the process to assess financial information communication procedures and controls as well as internal control over financial reporting. As at December 31, 2020, we concluded that information communication procedures and controls and internal control over financial reporting were effective.

The AMF examines the affairs of the Federation on a regular basis.

For the purposes of approving the financial information contained in the annual report, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The commission is mandated by the Board of Directors to review the Federation’s Consolidated Financial Statements and its Management's Discussion and Analysis. The Audit and Inspection Commission comprises 6 independent directors, 4 elected and 2 co-opted board members and 4 observers, who help ensure necessary alignment with the Risk Management Commission, insurance subsidiaries and the caisse network. The Audit and Inspection Commission exercises an oversight role for management to develop and implement adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The Consolidated Financial Statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the Federation’s General Meeting, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any related issues, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Alain Leprohon, CPA, CA
Executive Vice-President, Finance, Treasury, Administration and
Chief Financial Officer
Desjardins Group

Lévis, Québec
February 24, 2021

Independent auditor's report

To the Members of the *Fédération des caisses Desjardins du Québec*

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the *Fédération des caisses Desjardins du Québec* and its subsidiaries (together, the Federation) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Federation's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Management's Discussion and Analysis, rather than in the notes to the consolidated financial statements. These disclosures are cross-referenced from the consolidated financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Federation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Federation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Federation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Federation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Federation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Federation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Federation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Federation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Linda Beauparlant.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.[(1)]
[(1)]CPA auditor, CA, public accountancy permit No. A117693

Montréal, Québec
February 24, 2021

Consolidated Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2020	As at December 31, 2019
ASSETS			
Cash and deposits with financial institutions		**$ 11,513**	$ 3,084
Securities	6		
Securities at fair value through profit or loss		**34,958**	35,167
Securities at fair value through other comprehensive income		**40,361**	12,650
Securities at amortized cost		**29**	1,616
		75,348	49,433
Securities borrowed or purchased under reverse repurchase agreements		**11,592**	11,352
Loans	7 and 8		
Residential mortgages		**3,440**	4,183
Consumer, credit card and other personal loans		**19,091**	20,567
Business and government		**33,777**	40,827
		56,308	65,577
Allowance for credit losses	7	**(639)**	(464)
		55,669	65,113
Segregated fund net assets	9	**19,093**	17,026
Other assets			
Clients' liability under acceptances		**328**	380
Premiums receivable		**2,807**	2,689
Derivative financial instruments	20	**6,975**	4,795
Amounts receivable from clients, brokers and financial institutions		**2,508**	2,239
Reinsurance assets		**1,962**	2,001
Right-of-use assets	10	**291**	298
Investment property	11	**910**	944
Property, plant and equipment	11	**907**	840
Goodwill		**156**	121
Intangible assets	12	**424**	381
Investments in companies accounted for using the equity method	13	**1,189**	1,034
Deferred tax assets	27	**1,013**	1,015
Other	14	**2,387**	1,668
		21,857	18,405
TOTAL ASSETS		**$ 195,072**	$ 164,413
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	15		
Individuals		**$ 4,331**	$ 3,715
Business and government		**53,169**	48,924
Deposit-taking institutions		**14,906**	6,333
		72,406	58,972
Other liabilities			
Acceptances		**328**	380
Commitments related to securities sold short		**9,353**	10,615
Commitments related to securities lent or sold under repurchase agreements		**19,152**	10,562
Derivative financial instruments	20	**6,753**	4,827
Amounts payable to clients, brokers and financial institutions		**6,810**	5,552
Lease liabilities	10	**346**	350
Insurance contract liabilities	16	**34,871**	31,637
Segregated fund net liabilities	9	**19,089**	17,002
Net defined benefit plan liabilities	17	**1,984**	1,956
Deferred tax liabilities	27	**273**	277
Other	18	**5,649**	5,373
		104,608	88,531
Subordinated notes	19	**1,493**	1,398
TOTAL LIABILITIES		**178,507**	148,901
EQUITY			
Capital stock	22	**8,884**	8,884
Undistributed surplus earnings		**5,442**	5,276
Accumulated other comprehensive income	23	**738**	249
Reserves		**751**	330
Equity – Group's share		**15,815**	14,739
Non-controlling interests	13	**750**	773
TOTAL EQUITY		**16,565**	15,512
TOTAL LIABILITIES AND EQUITY		**$ 195,072**	$ 164,413

The accompanying notes are an integral part of the Consolidated Financial Statements.

On behalf of the Board of Directors of the *Fédération des caisses Desjardins du Québec*,

Guy Cormier
Chair of the Board

Serge Rousseau
Vice-Chair of the Board

Consolidated Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	2020	2019
INTEREST INCOME			
Loans		**$ 2,229**	$ 2,806
Securities		**377**	216
		2,606	3,022
INTEREST EXPENSE			
Deposits		**821**	1,327
Subordinated notes		**57**	72
Other		**100**	123
		978	1,522
NET INTEREST INCOME	25	**1,628**	1,500
NET PREMIUMS	16	**10,028**	9,525
OTHER INCOME			
Assessments		**394**	393
Service agreements		**818**	773
Lending fees and credit card service revenues		**634**	782
Brokerage and investment fund services		**954**	886
Management and custodial service fees		**648**	610
Net investment income	25	**2,926**	2,970
Overlay approach adjustment for insurance operations financial assets		**(42)**	(192)
Foreign exchange income		**103**	70
Other	21	**258**	557
		6,693	6,849
TOTAL INCOME		**18,349**	17,874
PROVISION FOR CREDIT LOSSES	7	**539**	310
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	16	**9,257**	9,149
NON-INTEREST EXPENSE			
Remuneration and other payments		**669**	660
Salaries and fringe benefits		**2,662**	2,443
Premises, equipment and furniture, including depreciation		**636**	556
Service agreements and outsourcing		**260**	359
Communications		**223**	221
Other	26	**2,786**	2,733
		7,236	6,972
OPERATING SURPLUS EARNINGS		**1,317**	1,443
Income taxes on surplus earnings	27	**305**	212
SURPLUS EARNINGS BEFORE DIVIDENDS TO MEMBER CAISSES[(1)]		**1,012**	1,231
Dividends to member caisses		**113**	115
Tax recovery on dividends to member caisses	27	**(30)**	(31)
NET SURPLUS EARNINGS FOR THE YEAR AFTER DIVIDENDS TO MEMBER CAISSES		**$ 929**	$ 1,147
of which:			
Group's share		**$ 845**	$ 1,101
Non-controlling interests' share	13	**84**	46

[(1)] The Group's share of "Surplus earnings before dividends to member caisses" is presented in Note 30, "Segmented Information".

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Comprehensive income

For the years ended December 31

(in millions of Canadian dollars)	2020	2019
Net surplus earnings for the year after dividends to member caisses	**$ 929**	$ 1,147
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**18**	(272)
Share of associates and joint ventures accounted for using the equity method	**-**	(3)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**4**	8
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)**	-
	19	(267)
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains	**610**	152
Reclassification of net gains to the Consolidated Statements of Income	**(173)**	(36)
	437	116
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains	**60**	198
Reclassification of net gains to the Consolidated Statements of Income	**(25)**	(41)
	35	157
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**21**	(7)
Reclassification to the Consolidated Statements of Income of net losses on derivative financial instruments designated as cash flow hedges	**3**	2
	24	(5)
	496	268
Total other comprehensive income, net of income taxes	**515**	1
COMPREHENSIVE INCOME FOR THE YEAR	**$ 1,444**	$ 1,148
of which:		
Group's share	**$ 1,349**	$ 1,095
Non-controlling interests' share	**95**	53

The accompanying notes are an integral part of the Consolidated Financial Statements.

Income taxes on other comprehensive income

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

For the years ended December 31

(in millions of Canadian dollars)	2020	2019
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ 6**	$ (98)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(1)**	3
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**(1)**	-
	4	(95)
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains	**218**	55
Reclassification of net gains to the Consolidated Statements of Income	**(64)**	(13)
	154	42
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains	**15**	49
Reclassification of net gains to the Consolidated Statements of Income	**(8)**	(14)
	7	35
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**8**	(2)
Reclassification to the Consolidated Statements of Income of net losses on derivative financial instruments designated as cash flow hedges	**1**	1
	9	(1)
	170	76
Total income tax expense (recovery)	**$ 174**	$ (19)

Consolidated Statements of Changes in Equity

For the years ended December 31

(in millions of Canadian dollars)	Capital stock (Note 22)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 23)	Reserves: Stabilization reserve	Reserves: General and other reserves	Reserves: Total reserves	Equity - Group's share	Non-controlling interests (Note 13)	Total equity
BALANCE AS AT DECEMBER 31, 2018	$ 8,779	$ 4,764	$ (9)	$ 417	$ (146)	$ 271	$ 13,805	$ 748	$ 14,553
Net surplus earnings for the year after dividends to member caisses	-	1,101	-	-	-	-	1,101	46	1,147
Other comprehensive income for the year	-	(264)	258	-	-	-	(6)	7	1
Comprehensive income for the year	-	837	258	-	-	-	1,095	53	1,148
Issuance of F capital shares	105	-	-	-	-	-	105	-	105
Redemption of shares of capital stock	-	(1)	-	-	-	-	(1)	-	(1)
Payments to member caisses	-	(1)	-	-	-	-	(1)	-	(1)
Remuneration on capital stock	-	(115)	-	(152)	-	(152)	(267)	-	(267)
Issuance of share capital	-	-	-	-	-	-	-	7	7
Dividends	-	-	-	-	-	-	-	(35)	(35)
Transfer between surplus earnings to be distributed and reserves	-	(211)	-	-	211	211	-	-	-
Other	-	3	-	-	-	-	3	-	3
BALANCE AS AT DECEMBER 31, 2019	**$ 8,884**	**$ 5,276**	**$ 249**	**$ 265**	**$ 65**	**$ 330**	**$ 14,739**	**$ 773**	**$ 15,512**
Net surplus earnings for the year after dividends to member caisses	**-**	**845**	**-**	**-**	**-**	**-**	**845**	**84**	**929**
Other comprehensive income for the year	**-**	**15**	**489**	**-**	**-**	**-**	**504**	**11**	**515**
Comprehensive income for the year	**-**	**860**	**489**	**-**	**-**	**-**	**1,349**	**95**	**1,444**
Net buy-out of non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(93)**	**(93)**
Loss on dilution of non-controlling interest	**-**	**(14)**	**-**	**-**	**-**	**-**	**(14)**	**-**	**(14)**
Remuneration on capital stock	**-**	**(250)**	**-**	**-**	**-**	**-**	**(250)**	**-**	**(250)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(25)**	**(25)**
Transfer between surplus earnings to be distributed and reserves	**-**	**(423)**	**-**	**-**	**423**	**423**	**-**	**-**	**-**
Equity transactions relating to related party transactions	**-**	**(7)**	**-**	**-**	**(2)**	**(2)**	**(9)**	**-**	**(9)**
BALANCE AS AT DECEMBER 31, 2020	**$ 8,884**	**$ 5,442**	**$ 738**	**$ 265**	**$ 486**	**$ 751**	**$ 15,815**	**$ 750**	**$ 16,565**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)	2020	2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 1,317**	$ 1,443
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment and investment property, and amortization of intangible assets	**267**	251
Net change in insurance contract liabilities	**3,234**	2,873
Provision for credit losses	**539**	310
Net realized gains on securities classified as at fair value through other comprehensive income	**(228)**	(45)
Net gain on disposal of property, plant and equipment, intangible assets and investment property	**(113)**	(3)
Overlay approach adjustment for insurance operations financial assets	**42**	192
Other	**203**	(79)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**209**	1,747
Securities borrowed or purchased under reverse repurchase agreements	**(240)**	2,734
Loans	**8,905**	(3,586)
Derivative financial instruments, net amount	**(256)**	1,101
Net amounts receivable from and payable to clients, brokers and financial institutions	**989**	695
Deposits	**13,434**	915
Commitments related to securities sold short	**(1,262)**	(214)
Commitments related to securities lent or sold under repurchase agreements	**8,590**	(5,671)
Other	**(557)**	(94)
Payment of the contingent consideration	**(206)**	(209)
Income taxes paid on surplus earnings	**(245)**	(137)
Dividends paid to member caisses	**(115)**	(70)
	34,507	2,153
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	**997**	-
Redemption of subordinated notes	**(899)**	-
Repayment of lease liabilities	**(47)**	(30)
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	**(4)**	20
Issuance of F capital shares	**-**	105
Payments to member caisses	**-**	(1)
Redemption of share capital	**-**	(1)
Remuneration on capital stock	**(267)**	(260)
Issuance of share capital	**-**	7
Net buy-out of non-controlling interests	**(107)**	-
Dividends paid	**(25)**	(35)
	(352)	(195)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(58,452)**	(48,777)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**14,853**	13,513
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**18,102**	33,944
Payment of the contingent consideration recognized at acquisition date	**(2)**	(35)
Business acquisition, net of cash and cash equivalents acquired	**(57)**	-
Acquisitions of property, plant and equipment, intangible assets and investment property	**(325)**	(280)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	**155**	23
	(25,726)	(1,612)
Net increase in cash and cash equivalents	**8,429**	346
Cash and cash equivalents at beginning of year	**3,084**	2,738
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 11,513**	$ 3,084
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 1,045**	$ 1,311
Interest received	**3,089**	3,430
Dividends received	**193**	233

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – INFORMATION ON THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

Nature of operations

The *Fédération des caisses Desjardins du Québec* (the Federation) is the cooperative entity which is responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. Its role is also to protect the interests of Desjardins Group members. The Federation provides its member caisses with a variety of services, including certain technical, financial and administrative services. The member caisses exercise a collective power over the Federation, and each of them has a significant influence over the Federation.

In addition, the Federation is the parent company of several financial services subsidiaries. The various business segments in which the Federation operates are described in Note 30, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of compliance

Pursuant to the *Act Respecting Financial Services Cooperatives* (the Act), these Consolidated Financial Statements have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Consolidated Financial Statements for the current year. Accordingly, an amount of $39 million was moved from the "Other income – Other" to the interest income and expense items in the "Net interest income" heading, resulting in a change to these items by $107 million and $68 million respectively. In addition, amounts of $34 million and $11 million has been moved from the heading "Non-interest expense" and "Other income – Other" to the heading "Claims, benefits, annuities and changes in insurance contract liabilities". These reclassifications had no impact on net surplus earnings.

The Consolidated Financial Statements for the year ended December 31, 2020 were approved by the Board of Directors of the Federation on February 24, 2021.

The significant measurement and presentation rules applied to prepare these Consolidated Financial Statements are described below.

Significant judgments, estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, determination of the fair value of financial instruments, derecognition of financial assets, impairment of financial instruments, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, dividends to member caisses, employee benefits as well as intangible assets. Consequently, actual results could differ from those estimates and assumptions.

The COVID-19 pandemic created new sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Consolidated Financial Statements. The Federation closely monitors the development of the pandemic and its impact on its profit and loss and financial position:

- Securities designated for the overlay approach were examined at the reporting date to determine whether there was any objective evidence that they were impaired, and the Federation did not record any impairment losses.

- For more information on significant judgments made to estimate the loss allowance for expected credit losses, see Note 7, "Loans and allowance for credit losses".

- The participations in the Canada Emergency Business Account (CEBA) were assessed to determine whether the criteria for financial asset derecognition were met. For more information, see Note 8, "Derecognition of financial assets".

- Assumptions used to calculate insurance contract liabilities take into account economic uncertainties related to COVID-19.

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

Principles of consolidation

The Consolidated Financial Statements of the Federation include the assets, liabilities, operating results and cash flows of the Federation and its subsidiaries. The financial statements of all subsidiaries have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

The Federation administers various funds in accordance with the provisions of the Internal By-laws adopted at the General Meeting. For the purposes of the Consolidated Financial Statements of the Federation, these funds have been grouped together and are designated as a Group.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give the Federation control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities.

Subsidiaries

An entity is considered as a subsidiary when it is controlled by the Federation. The Federation controls an investee if and only if it has all the following:

- Power over the investee.
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect the amount of its returns.

Structured entities

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

Non-controlling interests

Non-controlling interests represent the share in profit or loss as well as net assets not held by the Group. They are presented separately in the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income and in equity, in the Consolidated Balance Sheets.

Associates

An associate is an entity over which the Federation exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. The Federation investments in associates are presented under “Investments in companies accounted for using the equity method” in the Consolidated Balance Sheets and are accounted for using the equity method. Under this method, investments are initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in the Federation’s share in the relevant entities’ equity.

Joint arrangements

A joint arrangement is an arrangement of which the Federation has joint control, which is the contractually agreed sharing of control of such arrangement with one or more other parties. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:

- A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party must recognize its assets, liabilities, revenue and expenses, including its share of the assets held jointly and of the liabilities incurred jointly as well as its share of the revenue generated and expenses incurred in connection with the joint operation.
- A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This type of joint arrangement is accounted for using the equity method. The Federation’s investments in joint ventures are presented under “Investments in companies accounted for using the equity method” in the Consolidated Balance Sheets.

Presentation and functional currency

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

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

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date the Federation becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

Classification and measurement

Financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

Contractual cash flow characteristics

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset, the cash flows from this asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally the fair value of the financial asset at initial recognition. Interest consists mainly of consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, but it may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, as well as a certain profit margin.

Business models

The Federation's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how the Federation manages its financial assets in order to generate cash flows. They therefore reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence that is available to the Federation at the date of the assessment.

The Federation's business models are defined as follows:

- Held to collect contractual cash flows: The objective of holding financial assets is achieved by collecting contractual cash flows.
- Held to collect contractual cash flows and sell: The objective is achieved by both collecting contractual cash flows and selling financial assets.
- Other business models: The objective is not consistent with any of the above-mentioned business models.

The classification and measurement of financial assets can be summarized as follows:

<table>
<tr><th rowspan="2" colspan="2">Classes</th><th rowspan="2">Categories</th><th colspan="2">Recognition</th></tr>
<tr><th>Initial</th><th>Subsequent</th></tr>
<tr><td rowspan="5">Financial assets</td><td rowspan="2">At fair value through profit or loss (i)</td><td>Classified as at fair value through profit or loss (ii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through profit or loss (iii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td rowspan="2">At fair value through other comprehensive income (iv)</td><td>Classified as at fair value through other comprehensive income (v)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through other comprehensive income (vi)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">Amortized cost (vii)</td><td>Fair value</td><td>Amortized cost</td></tr>
</table>

(i) Financial assets included in the "At fair value through profit or loss" class comprise financial assets "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of financial assets included in this class are recorded under "Net investment income" in the Consolidated Statements of Income.
- Interest income calculated using the effective interest method and dividend income from securities included in the "At fair value through profit or loss" class of the Personal and Business Services segment and the Other category are recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net investment income".

(ii) Financial assets "Classified as at fair value through profit or loss" include the following:

- Debt instruments that are managed for trading purposes or on a fair value basis or do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- Equity instruments.
- Derivative financial instruments.

Section n), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

Certain financial assets "Classified as at fair value through profit or loss" are designated for the overlay approach. For more information, see the "Application of the overlay approach to insurance operations financial assets" section of this note.

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

(iii) Financial assets “Designated as at fair value through profit or loss” are debt securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset.

The Federation’s financial assets included in this measurement category comprise mainly securities (debt instruments) that back the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims.

(iv) Financial assets included in the “At fair value through other comprehensive income” class comprise financial assets “Classified as at fair value through other comprehensive income” and “Designated as at fair value through other comprehensive income”. Therefore:

- Changes in fair value of financial assets included in this class, except for changes related to the loss allowance for expected credit losses and exchange gains and losses on financial assets “Classified as at fair value through other comprehensive income”, are recorded in the Consolidated Statements of Comprehensive Income as net unrealized gains and losses. For financial assets “Classified as at fair value through other comprehensive income”, gains and losses are reclassified to the Consolidated Statements of Income when the asset is derecognized, while for financial assets “Designated as at fair value through other comprehensive income”, gains and losses are never reclassified subsequently to the Consolidated Statements of Income and are reclassified immediately to undistributed surplus earnings.

- Premiums and discounts on the purchase of financial assets “At fair value through other comprehensive income” are amortized over the life of the securities using the effective interest method and recognized under “Interest income – Securities” for the Personal and Business Services segment and the Other category. For the other segments, they are mainly recognized under “Net investment income”.

(v) Financial assets “Classified as at fair value through other comprehensive income” include debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

(vi) Financial assets “Designated as at fair value through other comprehensive income” include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that are held on a long-term-basis.

(vii) Securities included in the “Amortized cost” class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

Securities included in this class are initially recognized at fair value in the Consolidated Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the “Amortized cost” class is presented under “Interest income – Loans” in the Consolidated Statements of Income when it is recognized by the Personal and Business Services segment and the Other category. For the other segments, it is recognized mainly under “Net investment income”.

Financial assets are not reclassified following their initial recognition, except when the business model for managing those financial assets is changed.

Application of the overlay approach to insurance operations financial assets

The Federation elected to designate certain eligible financial assets for the overlay approach to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, “Financial Instruments”, and IFRS 17, “Insurance Contracts”. To be eligible, a financial asset must meet the following criteria:

- It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39, “Financial Instruments: Recognition and Measurement”.

- It is held in respect of an activity connected with contracts within the scope of IFRS 4.

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Consolidated Statements of Income under IFRS 9 and the amount that would have been reported if the Federation had continued to apply IAS 39. As a result, net surplus earnings related to designated financial instruments reported in the Consolidated Statements of Income correspond to the amount that would have been reported if the Federation had continued to apply IAS 39.

Reclassifications under the overlay approach are presented under “Overlay approach adjustment for insurance operations financial assets” in the Consolidated Statements of Income and under “Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets” in the Consolidated Statements of Comprehensive Income. The overlay approach may be used for the years beginning before January 1, 2023 or until the adoption of IFRS 17, if earlier.

In determining the amount that would have been reported in the Consolidated Statements of Income if IAS 39 had been applied, the Federation considers the following accounting policies as well as foreign currency fair value hedge accounting for equity instruments under IAS 39.

“Available-for-sale” securities under IAS 39

Under IAS 39, “Available-for-sale” securities are initially recognized at fair value. They are subsequently measured at fair value, and gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Consolidated Statements of Comprehensive Income until the financial asset is derecognized. Premiums and discounts on the purchase of “Available-for-sale” securities as well as transaction costs are amortized using the effective interest method and recognized in the Consolidated Statements of Income. Foreign exchange gains and losses on securities included in this class are recognized in the Consolidated Statements of Income, except for unrealized foreign exchange gains and losses on non-monetary financial instruments, which are recognized in the Consolidated Statements of Comprehensive Income.

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

Impairment of "Available-for-sale" securities under IAS 39

Under IAS 39, "Available-for-sale" securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring an impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring, and the disappearance of an active market for the asset.

Debt securities are assessed individually to determine whether there is any objective evidence of impairment. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss has been recognized in the Consolidated Statements of Income, the impairment loss is reversed through the Consolidated Statements of Income.

For equity securities, when evidence of impairment exists, the cumulative loss is transferred out of other comprehensive income and recognized in the Consolidated Statements of Income. Impairment losses on equity securities are not reversed to the Consolidated Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded in other comprehensive income. Any impairment loss on securities previously impaired is directly recognized in the Consolidated Statements of Income.

Financial liabilities are classified based on their characteristics and the intention of management upon their issuance.

The classification and measurement of financial liabilities can be summarized as follows:

Classes		**Categories**	**Recognition**	
			Initial	**Subsequent**
Financial liabilities	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Amortized cost (iv)		Fair value	Amortized cost

(i) Financial liabilities included in the "At fair value through profit or loss" class comprise financial liabilities "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of financial liabilities included in this class are recorded under "Net investment income" in the Consolidated Statements of Income. However, for financial liabilities designated as at fair value, the change in fair value that is attributable to the Federation's own credit risk is recognized in other comprehensive income that will not be reclassified subsequently to the Consolidated Statements of Income and is reclassified immediately to undistributed surplus earnings.

- Interest expense related to financial liabilities included in the "At fair value through profit or loss" class is presented under "Net investment income".

(ii) Financial liabilities "Classified as at fair value through profit or loss" are securities held for trading and include debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as "Commitments related to securities sold short". Derivative financial instruments are also classified as held for trading.

Section n), "Derivative financial instruments and hedging activities", of this note specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial liabilities "Designated as at fair value through profit or loss" are designated as such by management upon initial recognition, on an instrument-by-instrument basis, and are essentially debt securities. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial liability, if a group of financial liabilities is managed and its performance is evaluated on a fair value basis, or if the liabilities are hybrid financial liabilities containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Financial liabilities included in this measurement category comprise deposits containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

(iv) Financial liabilities that are not in the "At fair value through profit or loss" class are included in the "Amortized cost" class.

Financial liabilities included in this class are initially recognized at fair value in the Consolidated Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the "Amortized cost" class is recognized under "Interest expense" in the Consolidated Statements of Income for the Personal and Business Services segment and the Other category. Interest expense for the other segments is recognized mainly under "Net investment income" in the Consolidated Statements of Income.

Determination of the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There is little subjectivity in the determination of the fair value of financial instruments, especially securities and commitments related to securities sold short, obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

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

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other valuation techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques rely on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is made in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

Loans

The fair value of performing loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and reflects estimated prepayments, adjusted to take into account credit losses on the loan portfolio. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by the Federation, which result in a favourable or unfavourable difference compared to their carrying amount.

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and reflects estimated prepayments. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, the Federation adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of the Federation, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 20, "Derivative financial instruments and hedging activities", specifies the nature of derivative financial instruments held by the Federation.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions"; "Securities borrowed or purchased under reverse repurchase agreements"; "Clients' liability under acceptances"; "Amounts receivable from clients, brokers and financial institutions"; some items included in "Other assets – Other", "Acceptances"; "Commitments related to securities lent or sold under repurchase agreements"; "Amounts payable to clients, brokers and financial institutions" and some items included in "Other liabilities – Other".

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method. However, for financial instruments classified or designated as "At fair value through profit or loss", these costs are expensed as incurred.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and the Federation intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

A financial asset is derecognized from the Consolidated Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but the Federation has the obligation to pay them to a third party under certain conditions, or when the Federation transfers the contractual rights to receive the cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by the Federation, such asset is not derecognized from the Consolidated Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, the Federation derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, the Federation continues to recognize the asset in the Consolidated Balance Sheets to the extent of its continuing involvement in that asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Consolidated Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

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

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates the Federation's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Consolidated Statements of Income.

b) Cash and deposits with financial institutions

"Cash and deposits with financial institutions" includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions—including net amounts receivable related to cheques and other items in the clearing process—as well as certain fixed-income securities. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

c) Securities

The classification and measurement of securities are determined using the criteria stated in section a), "Financial assets and liabilities", above.

Securities purchased under reverse repurchase agreements and securities borrowed

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Consolidated Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Consolidated Balance Sheets.

As part of securities borrowings, the Federation pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Consolidated Balance Sheets. When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of ownership of these securities are retained.

Securities sold under repurchase agreements and securities lent

Securities sold under repurchase agreements and securities lent are not derecognized from the Consolidated Balance Sheets, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Consolidated Balance Sheets.

As part of securities loans, the Federation receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Consolidated Balance Sheets. When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Securities sold short

Securities sold short as part of trading activities, which represent the Federation's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized under "Net investment income" in the Consolidated Statements of Income.

d) Loans

Loans are recorded at amortized cost, net of the allowance for credit losses, using the effective interest method.

Fees collected and direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loans. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities, shares, etc.) or cash.

Restructured loans are loans for which the Federation renegotiated the initial terms by granting concessions to the borrower in the context of financial difficulties or to prevent a failure by the borrower to meet its initial obligations. Once the terms of the loan have been renegotiated and accepted by the borrower, the loan is considered as restructured.

When the modification of the terms of a loan has no significant impact on contractual cash flows, the renegotiated loan is not derecognized. At the date of restructuring, the loan is reduced to the amount of the estimated net cash flows receivable under the modified terms, discounted at the effective interest rate (prior to the restructuring), which may result in a gain or loss on modification.

When the modification of the terms of a loan has a significant impact on contractual cash flows, the initial loan should be derecognized, which may result in a gain or loss on derecognition. In addition, a new loan should be recognized based on the new contractual terms.

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

When the modification of the terms of a loan does not result in the derecognition of such loan, the date of initial recognition of the loan remains unchanged for purposes of applying the impairment model. The default risk based on the modified contractual terms is then compared to the default risk based on the initial terms to determine whether there has been a significant increase in credit risk since initial recognition.

When the modification of the terms of a loan results in the derecognition of such loan and the recognition of a new loan, the date of the modification should become the date of initial recognition of the new loan for purposes of applying the impairment model. A new loan is usually considered as being in Stage 1 of the impairment model, but it may have to be considered as credit-impaired upon origination.

e) Impairment of financial instruments

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

- Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered as credit-impaired financial assets, a loss allowance amounting to 12-month expected credit losses is recognized.

- Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition but are not considered as credit-impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized.

- Stage 3: For financial instruments considered as credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the change in credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, the Federation bases its assessment on the change in default risk over the expected life of the financial instrument, which requires significant judgment.

To this end, the Federation compares the probability of default (PD) of the financial instrument at the reporting date with its PD at the date of initial recognition. In addition, it considers reasonable and supportable information indicating a significant increase in credit risk since initial recognition, including qualitative information and information about future economic conditions to the extent that it affects the assessment of the instrument's PD. The criteria used to determine a significant increase in credit risk vary depending on the groups of financial instruments with shared credit risk characteristics and are mainly based on a relative change combined with an absolute change in the PD. They also include absolute PD thresholds and certain other criteria. All instruments that are more than 30 days past due are transferred to Stage 2 of the impairment model.

For securities at "Amortized cost" or "Classified as at fair value through other comprehensive income", the Federation elected to use the low credit risk exemption. Consequently, when credit risk is equivalent to the credit risk of the "investment grade" category at the reporting date, the credit risk on the securities is deemed to not have significantly increased since initial recognition.

Definition of default and credit-impaired financial asset

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes and for regulatory purposes. It considers relevant quantitative and qualitative factors. In particular, a loan is in default when contractual payments are over 90 days past due. A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant.

Measurement of the loss allowance for expected credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the loss allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of the contract, and total cash flows that the Federation expects to receive. For credit-impaired financial assets, expected credit losses are calculated based on the difference between the gross carrying amount of the asset and estimated cash flows.

The measurement of the loss allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. The LGD of certain loans and off-balance sheet items is estimated at 0% due to the nature of the credit enhancement obtained. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

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

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics. The following table presents the main aggregation variables for the applicable parameters.

PD	LGD	EAD
Loans, loan commitments and financial guarantees: • Type of clients • Risk level • Type of instrument • Industry	*Loans, loan commitments and financial guarantees:* • Type of clients • Type of collateral • Type of guarantor • Risk level • Type of instrument • Industry	*Loans:* • No aggregation(1) *Loan commitments and financial guarantees(2):* • Type of clients • Risk level • Utilization rate • Authorized amount • Type of product • Industry

(1) No aggregation variable is required to determine the EAD for loans, as it represents the anticipated balance of each loan.
(2) To determine the EAD for loan commitments and financial guarantees, a credit conversion factor is applied.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, the Federation uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. The Federation uses three scenarios (base, upside and downside) to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. The Federation may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters. Incorporating forward-looking information is based on a set of assumptions and methodologies specific to credit risk and economic projections and therefore requires a high degree of judgment.

For credit-impaired financial assets that are individually material, measuring the loss allowance for expected credit losses does not require using credit risk parameters. It is instead based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions. In some cases, the Federation may not recognize any loss allowance when the probability of the collateral realization scenario is 100% and the estimated realizable value of the collateral exceeds the gross carrying amount of the loan.

Expected life

The expected life of most financial instruments is equal to the maximum contractual term during which the Federation is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans. Their life is estimated as being the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions.

Recognition of the loss allowance for expected credit losses

The loss allowance for expected credit losses on loans is recorded under "Allowance for credit losses" in the Consolidated Balance Sheets and under "Provision for credit losses" in the Consolidated Statements of Income.

The loss allowance for expected credit losses on loan commitments and financial guarantees is recorded under "Other liabilities – Other" in the Consolidated Balance Sheets and under "Provision for credit losses" in the Consolidated Statements of Income.

The loss allowance for expected credit losses on securities at "Amortized cost" is recorded against "Securities – Securities at amortized cost" in the Consolidated Balance Sheets and under "Provision for credit losses" in the Consolidated Statements of Income. The loss allowance for expected credit losses on securities "Classified as at fair value through other comprehensive income" is recognized under "Net unrealized gains on debt securities classified as at fair value through other comprehensive income" in the Consolidated Statements of Comprehensive Income and under "Provision for credit losses" in the Consolidated Statements of Income.

Foreclosed assets

Assets foreclosed to settle credit-impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount of the loan and the fair value recorded for the foreclosed assets is recognized under "Provision for credit losses".

Loan write-off

A loan is written off, in whole or in part, when recovery is no longer reasonably expected, which is when all attempts at restructuring or collection have been made and, based on an assessment of the file in its entirety, there are no other means to recover the loan. For secured loans, balances are generally written off once the collateral has been realized. Loans for which a consumer proposal or bankruptcy proceedings are ongoing but for which the Federation has no reasonable expectation of recovery are written off, but they may continue to be subject to recovery measures by an insolvency trustee. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days. These balances could however still be subject to enforcement activity during a certain period after they have been written off. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Consolidated Statements of Income.

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

f) Leases

The Federation analyzes contracts newly entered into or modified to assess whether they are, or contain, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The manner in which a lease is accounted for differs depending on whether the Federation is the lessee or the lessor.

Lessee

The Federation mainly leases premises that are used in the normal course of its operations. A right-of-use asset and a lease liability are recognized in the Consolidated Balance Sheets at the commencement date of the lease, except for short-term and low-value leases. The commencement date of the lease is the date on which the lessor makes the leased asset available for use by the lessee. The Federation elected to apply the exemption provisions for short-term and low-value leases. Accordingly, lease payments associated with those leases are recognized as a lease expense in the Consolidated Statements of Income based on the terms of the lease. In addition, the Federation applies the practical expedient which allows not to separate non-lease components from lease components for a contract.

Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liability, plus prepaid lease payments less lease incentives received. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shortest of the lease term and the useful life of the underlying asset. The lease term is the non-cancellable period and includes any renewal options if the Federation is reasonably certain to exercise those options and any termination options if the Federation is reasonably certain not to exercise those options. The right-of-use asset is periodically adjusted to reflect certain reassessments of the lease liability.

Right-of-use assets are presented in the Consolidated Balance Sheets and the depreciation of right-of-use assets is recognized under “Non-interest expense – Premises, equipment and furniture, including depreciation” in the Consolidated Statements of Income.

The lease liability is initially measured at the present value of the lease payments for the lease term that have not yet been paid, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee’s incremental borrowing rate. Generally, the Federation uses its incremental borrowing rate as discount rate. Payments included in the measurement of the lease liability comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, based on the index or the rate as at the commencement date of the lease, an estimated amount for any guaranteed residual value as well as amounts the Federation is reasonably certain to pay for the exercise price of a purchase option or a termination penalty.

The lease liability is subsequently adjusted to reflect interest on the lease liability and lease payments made. It is remeasured when there is a change in future lease payments mainly as a result of a change in an index or a rate, or a change in the amounts expected to be payable by the Federation under a residual value guarantee, when there are lease modifications, or when the Federation revises its assessment of the potential exercise of a purchase, renewal or termination option.

Lease liabilities are presented in the Consolidated Balance Sheets and interest expense on lease liabilities is recognized under “Interest expense” in the Consolidated Statements of Income.

Lessor

Leases in which the Federation is the lessor are leases for premises. The Federation classifies the leases in which it is the lessor as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not. The Federation mainly enters into operating leases.

When the Federation is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under “Net investment income” and the leased asset remains recognized in the Consolidated Balance Sheets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent is recognized in profit or loss in the year during which it is earned.

g) Property, plant and equipment and investment property

Property, plant and equipment

Property, plant and equipment consists of land, buildings, computer hardware, furniture, fixtures and other items as well as leasehold improvements. They are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under “Non-interest expense – Premises, equipment and furniture, including depreciation” in the Consolidated Statements of Income.

Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the “Investment property” category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the “Investment property” category to the “Buildings” category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by the Federation becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

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

The depreciation expense for investment properties is recognized under "Net investment income" in the Consolidated Statements of Income.

Depreciation

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	2 to 10 years
Furniture, fixtures and other	2 to 20 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

Derecognition

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains and losses on the disposal or sale of buildings are recognized in the Consolidated Statement of Income for the year in which they are realized under "Premises, equipment and furniture, including depreciation" for property, plant and equipment and under "Net investment income" for investment property.

h) Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method.

At the acquisition date, each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

Intangible assets

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

The Federation assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and client relationships and are amortized using the straight-line method over their estimated useful lives, which do not exceed 40 years.

Gains or losses resulting from the derecognition of an intangible asset correspond to the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under "Non-interest expense – Other" in the Consolidated Statements of Income upon derecognition of the asset.

i) Impairment of non-financial assets

The Federation assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Consolidated Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Consolidated Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

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

Goodwill

Goodwill is tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill is performed based on the recoverable amount of each CGU (or each group of CGUs) to which goodwill is allocated. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each CGU.

When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in the Consolidated Statement of Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of the impairment loss to the assets of the CGU or group of CGUs must however not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

j) Acceptances and clients' liability under acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our clients and that we guarantee for a fee. The potential liability of the Federation under acceptances is recognized under "Acceptances", in "Other liabilities". The Federation has equivalent offsetting claims against its clients in the event of a call on these commitments, which are recognized under "Clients' liability under acceptances", in "Other assets". Fees are recognized under "Other income – Other".

k) Insurance contract liabilities

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by these subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries. They are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM) in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Consolidated Balance Sheets of the assets that back them.

Under CALM, actuarial liabilities of the life and health insurance subsidiaries are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Consolidated Statement of Income for the year in which the revision occurs. The provisions for claims and adjustment expenses are reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the contract holder to participate in the profitability related to their contract. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health insurance subsidiaries elected not to recognize the participating portion of these contracts separately.

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

Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Consolidated Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under “Reinsurance assets” in the Consolidated Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These assets comprise the reinsurers’ share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers’ share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

l) Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by one of the life and health insurance subsidiaries for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Consolidated Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section a), “Financial assets and liabilities”. In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to contract holders’ rights to the segregated fund net assets is also recognized separately.

m) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing or amount. A provision is recognized when the Federation has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management’s best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant uncertainties and risks. Management must make significant judgments in determining whether a present obligation exists and in estimating the timing and amount of any outflow of resources. The Federation regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in profit or loss under the items corresponding to the nature of the expenditures covered.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Federation or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably.

n) Derivative financial instruments and hedging activities

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of the Federation’s derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 20, “Derivative financial instruments and hedging activities”.

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recognized at fair value on the Consolidated Balance Sheets. Changes in fair value of embedded derivatives required to be accounted for separately are recognized under “Net investment income” in the Consolidated Statements of Income.

Hybrid financial instruments

When a hybrid contract contains a host that is an asset within the scope of IFRS 9, the entire hybrid contract is classified and recognized based on the characteristics of the hybrid contract.

An embedded derivative is separated from the host and accounted for separately as a derivative when the host is not an asset within the scope of IFRS 9 and the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid contract is not measured at fair value with changes in fair value recognized in the Consolidated Statements of Income.

Objectives of holding derivatives

The Federation uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of member caisses and clients, and to allow the Federation to generate income on its own trading activities. These instruments are recognized at fair value in the Consolidated Balance Sheets, and changes in their fair value are recognized under “Net investment income” in the Consolidated Statements of Income.

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

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. They enable the Federation to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Consolidated Balance Sheets, as well as firm commitments and forecasted transactions.

Hedging activities

The Federation elected to continue applying the requirements of IAS 39 for hedge accounting instead of adopting the provisions of IFRS 9.

The Federation mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, the Federation must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows of the hedged item attributable to the risk being hedged.

The Federation may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting.

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or the Federation terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

Fair value hedges

In a fair value hedge transaction, changes in fair value of the hedging derivative financial instrument are recognized under “Net investment income” in the Consolidated Statements of Income, as are changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized under “Net investment income” in the Consolidated Statements of Income.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Previously recorded adjustments to the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Consolidated Statements of Income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under “Net investment income” in the Consolidated Statements of Income.

Cash flow hedges

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized under “Net losses on derivative financial instruments designated as cash flow hedges”, in other comprehensive income, until the hedged item is recognized in the Consolidated Statements of Income, at which time such changes are recognized in net interest income in the Consolidated Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized under “Net investment income” in the Consolidated Statement of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, the Federation discontinues hedge accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Consolidated Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under “Net investment income”.

o) Financial guarantees

A financial guarantee is a contract that could contingently require the Federation to make specified payments to the guaranteed party to repay a loss that such party incurred as a result of a default by a specified third party to make a payment upon maturity in accordance with the original or modified terms and conditions of a debt security.

Financial guarantees are initially recognized as liabilities in the Consolidated Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, except in cases where it must be measured at fair value through profit or loss, the guarantee is measured at the higher of the following amounts:

i) The amount initially recorded less, when appropriate, accumulated amortization recognized in the Consolidated Statements of Income;

ii) The amount of the allowance for credit losses.

If a financial guarantee meets the definition of a derivative, it is measured at fair value through profit or loss at each reporting date and presented as a derivative financial instrument. Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument.

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

The carrying amount of guarantees does not reflect the maximum potential amount of future payments under guarantees. The Federation considers the difference between these two amounts as off-balance sheet credit instruments.

p) Reserves

The Federation's stabilization reserve consists of amounts appropriated from the annual surplus earnings. Amounts appropriated to the Federation's stabilization reserve are essentially used to pay interest on F capital shares it issued.

The general reserve is essentially made up of amounts appropriated by the Federation. This reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on F capital shares.

Other reserves are mainly made up of amounts that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized.

q) Revenue recognition

In addition to the items mentioned in section a), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

Recognition criteria

Revenue is recognized when the Federation has transferred control of a good or service (the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

Net interest income

Interest income and expense are mainly earned or incurred by the Personal and Business Services segment and the Other category. They are recognized using the effective interest method for all financial instruments measured at "Amortized cost", for interest-bearing financial assets "Classified as at fair value through other comprehensive income" and for financial instruments included in the "At fair value through profit or loss" class.

The effective interest method is used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

When calculating the effective interest rate, the Federation estimates cash flows considering all contractual terms of the financial instruments, but it does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders' fees, are assimilated to supplemental interest.

For financial assets that are not considered credit-impaired (Stages 1 and 2), interest income is calculated on the gross carrying amount of the financial instrument. For credit-impaired financial assets (Stage 3), interest income is calculated by applying the effective interest rate to the amortized cost of the asset, which corresponds to the gross carrying amount less the loss allowance for expected credit losses.

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as they are recognized, an actuarial provision is established and recognized under "Insurance contract liabilities". Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Consolidated Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. They are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Consolidated Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under "Insurance contract liabilities" in the Consolidated Balance Sheets.

Service charges, commissions, brokerage fees and other

The Federation earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its member caisses and clients.

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under "Brokerage and investment fund services" in the Consolidated Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by the Federation is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under "Lending fees and credit card service revenues" in the Consolidated Statements of Income.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party-such as the arrangement of share or other securities acquisitions or business purchases or sales–are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under "Brokerage and investment fund services" in the Consolidated Statements of Income. Income from lending fees and credit card service revenue is recorded under "Lending fees and credit card service revenues" in the Consolidated Statements of Income.

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

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under “Management and custodial service fees” in the Consolidated Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under “Management and custodial service fees” in the Consolidated Statements of Income.

Fees for service agreements related to technical, financial and administrative support are recognized once the service has been provided or the product has been delivered. This income is recognized under “Service agreements” in the Consolidated Statements of Income.

Dividend income is recognized when the Federation’s right to receive payment of the dividend is established.

r) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Consolidated Balance Sheets of the Federation. Income from these management services is recognized under “Management and custodial service fees” in the Consolidated Statements of Income when the service is provided.

s) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized under “Foreign exchange income” in the Consolidated Statements of Income. However, the following items are presented in other comprehensive income in the Consolidated Statements of Comprehensive Income.

- Translation gains and losses on financial assets “Designated as at fair value through other comprehensive income”.
- Gains and losses on derivatives designated as cash flow hedging instruments.

t) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Consolidated Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Consolidated Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish the assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If the Federation’s interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that the Federation expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting dates.

Deferred income taxes

Deferred taxes are recognized, using the balance sheet liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Consolidated Balance Sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).

ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the difference reverses can be controlled and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these differences, tax loss carryforwards and tax credits can be utilized, except in the following cases:

i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).

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

ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the difference will reverse in the foreseeable future and that a taxable profit will be available against which such difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of a deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

u) Dividends to member caisses

Dividends to member caisses recognized in the Consolidated Statements of Income reflect management's best estimate. They are based on the distribution of the Federation's surplus earnings and on a resolution of the Board of Directors to recommend to the annual general meeting that payment of these dividends be approved. The dividends paid are determined and recognized when approved by the member caisses.

v) Employee benefits

Short-term benefits

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

Post-employment benefits

Pension and post-retirement benefit plans

The Federation offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Consolidated Statements of Income and includes current service cost, past service cost and net interest on net defined benefit plan liabilities. Past service cost resulting from a plan amendment or curtailment is immediately recognized in the Consolidated Statements of Income.

Remeasurements of net defined benefit plan liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Consolidated Statements of Income and are immediately reclassified to undistributed surplus earnings. These remeasurements include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Consolidated Statements of Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets or liabilities are equal to the present value of the plans' obligation, calculated using the projected unit credit method, less the fair value of plan assets. The value of any defined benefit plan asset is, when appropriate, limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

The Federation participates in defined benefit group plans whose risks are shared by entities under common control. The Federation's share in the cost recognized and the liability for the defined benefit group pension plans of Desjardins Group is mainly determined based on funding rules, as described in the plan's by-laws. The main Desjardins Group pension plan is funded by both employee and employer contributions, which are based on the financial position and the funding policy of the plan. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan.

The Federation's share in the cost of the group other post-retirement benefit plan of Desjardins Group is determined based on the number of eligible insureds of the Federation as a percentage of the total number of active insureds for Desjardins Group as a whole.

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

FUTURE ACCOUNTING CHANGES

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2020 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, “Insurance Contracts”

In May 2017, the IASB issued IFRS 17, “Insurance Contracts”, which will replace the current standard, IFRS 4, “Insurance Contracts”. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 provides a general model for measuring insurance contracts, but also includes a simplified method for contracts with a period of one year or less as well as a specific method for insurance contracts with direct participation features. The general model, which is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

IFRS 17 will be applied retrospectively to each group of insurance contracts. If retrospective application is impracticable, the modified retrospective approach or the fair value approach could be applied to the financial statements for the annual periods beginning on or after January 1, 2023.

In June 2020, the IASB issued amendments to IFRS 17, including the two-year deferral of the initial application date of IFRS 17 to the annual periods beginning on or after January 1, 2023. The Federation is currently assessing the impact of adopting this standard (and its amendments) on its financial statements.

IFRS 9, “Financial Instruments”, IAS 39, “Financial Instruments: Recognition and Measurement”, and IFRS 7, “Financial Instruments: Disclosures”

On January 1, 2020, the Federation adopted amendments to IFRS 9, IAS 39 and IFRS 7 arising from Phase 1 of the benchmark interest rate reform project. Phase 1 amendments providing relief with respect to applying hedge accounting during the period before the replacement of benchmark interest rates had no impact on the Federation’s profit or loss or financial position.

In August 2020, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in connection with Phase 2 of its interest rate benchmark reform project. The amendments focus on the impact on the financial statements of the replacement of an interest rate benchmark.

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

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

IFRS 7 was also amended to include the requirement to disclose the nature and extent of risks related to the reform and how the entity manages those risks as well as the entity’s progress in completing the transition to alternative benchmark rates and how the entity is managing the transition. Amendments to these standards, which will apply to annual periods beginning on or after January 1, 2021, will not have any material impact on the Federation’s profit or loss or financial position.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2020	**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	$ 174	$ 719	$ -	$ 10,619	$ 11,513
Securities	13,719	21,239	40,295	66	29	75,348
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,592	11,592
Loans	-	-	-	-	55,669	55,669
Other financial assets						
Clients' liability under acceptances	-	-	-	-	328	328
Derivative financial instruments[3]	6,975	-	-	-	-	6,975
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	2,508	2,508
Other	2	-	-	-	1,261	1,263
Total financial assets	$ 20,697	$ 21,413	$ 41,014	$ 66	$ 82,006	$ 165,196
Financial liabilities						
Deposits[4][5][6]	$ -	$ 206	$ -	$ -	$ 72,200	$ 72,406
Other financial liabilities						
Acceptances	-	-	-	-	328	328
Commitments related to securities sold short	9,353	-	-	-	-	9,353
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	19,152	19,152
Derivative financial instruments[3]	6,753	-	-	-	-	6,753
Amounts payable to clients, brokers and financial institutions	-	-	-	-	6,810	6,810
Other	155	-	-	-	2,220	2,375
Subordinated notes	-	-	-	-	1,493	1,493
Total financial liabilities	$ 16,261	$ 206	$ -	$ -	$ 102,203	$ 118,670

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

(2) As at December 31, 2020, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $4 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $604 million in assets and $145 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 20, "Derivative financial instruments and hedging activities".

(4) The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

(5) As at December 31, 2020, the cumulative amount of change in fair value attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss was $5 million.

(6) The amount recognized in other comprehensive income attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss that was realized at derecognition during the year was insignificant.

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

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

As at December 31, 2019	At fair value through profit or loss		At fair value through other comprehensive income			
	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	$ -	$ 273	$ 1,395	$ -	$ 1,416	$ 3,084
Securities	16,712	18,455	12,591	59	1,616	49,433
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,352	11,352
Loans	-	-	-	-	65,113	65,113
Other financial assets						
Clients' liability under acceptances	-	-	-	-	380	380
Derivative financial instruments[(3)]	4,795	-	-	-	-	4,795
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	2,239	2,239
Other	-	-	-	-	936	936
Total financial assets	$ 21,507	$ 18,728	$ 13,986	$ 59	$ 83,052	$ 137,332
Financial liabilities						
Deposits[(4)]	$ -	$ 84	$ -	$ -	$ 58,888	$ 58,972
Other financial liabilities						
Acceptances	-	-	-	-	380	380
Commitments related to securities sold short	10,615	-	-	-	-	10,615
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	10,562	10,562
Derivative financial instruments[(3)]	4,827	-	-	-	-	4,827
Amounts payable to clients, brokers and financial institutions	-	-	-	-	5,552	5,552
Other	268	-	-	-	2,421	2,689
Subordinated notes	-	-	-	-	1,398	1,398
Total financial liabilities	$ 15,710	$ 84	$ -	$ -	$ 79,201	$ 94,995

(1) An amount of $2,976 million corresponds to financial assets designated for the overlay approach.

(2) As at December 31, 2019, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $3 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $241 million in assets and $318 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 20, "Derivative financial instruments and hedging activities".

(4) The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

During the years ended December 31, 2020 and 2019, there were no material reclassifications of financial instruments.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

Fair value measurement is determined using the following three-level fair value hierarchy:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based primarily on observable market data;
- Level 3 – Valuation techniques not based primarily on observable market data.

Transfers between levels

Transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 11	$ 164	$ -	$ 175
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,698	-	-	5,698
Provincial governmental entities and municipal corporations in Canada	16,785	771	-	17,556
School or public corporations in Canada	16	95	-	111
Foreign public administrations	248	-	-	248
Other securities				
Financial institutions	-	1,278	10	1,288
Other issuers	59	4,327	735	5,121
Equity securities	3,901	71	964	4,936
	26,718	6,706	1,709	35,133
Derivative financial instruments				
Interest rate contracts	-	3,710	-	3,710
Foreign exchange contracts	-	465	-	465
Other contracts	-	2,800	-	2,800
	-	6,975	-	6,975
Other assets	-	2	-	2
Total financial assets at fair value through profit or loss	26,718	13,683	1,709	42,110
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	1	718	-	719
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	2,424	4,022	-	6,446
Provincial governmental entities and municipal corporations in Canada	26,850	1,963	-	28,813
School or public corporations in Canada	-	17	-	17
Foreign public administrations	11	-	-	11
Other securities				
Financial institutions	28	4,128	-	4,156
Other issuers	3	780	69	852
Equity securities	-	2	64	66
Total financial assets at fair value through other comprehensive income	29,317	11,630	133	41,080
Financial instruments of segregated funds	7,113	11,861	127	19,101
Total financial assets	$ 63,148	$ 37,174	$ 1,969	$ 102,291
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ -	$ 206	$ -	$ 206
Other liabilities				
Commitments related to securities sold short	8,671	682	-	9,353
Other	-	-	155	155
	8,671	888	155	9,714
Derivative financial instruments				
Interest rate contracts	-	3,350	-	3,350
Foreign exchange contracts	-	712	-	712
Other contracts	-	2,691	-	2,691
	-	6,753	-	6,753
Total financial liabilities	$ 8,671	$ 7,641	$ 155	$ 16,467

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

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

As at December 31, 2019	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	$ 264	$ -	$ 273
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,487	-	-	8,487
Provincial governmental entities and municipal corporations in Canada	15,680	785	-	16,465
School or public corporations in Canada	15	89	-	104
Foreign public administrations	133	-	-	133
Other securities				
Financial institutions	17	810	55	882
Other issuers	1	3,494	771	4,266
Equity securities	3,447	589	794	4,830
	27,789	6,031	1,620	35,440
Derivative financial instruments				
Interest rate contracts	-	1,515	-	1,515
Foreign exchange contracts	-	286	-	286
Other contracts	-	2,994	-	2,994
	-	4,795	-	4,795
Total financial assets at fair value through profit or loss	27,789	10,826	1,620	40,235
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	9	1,386	-	1,395
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	2,020	1,907	-	3,927
Provincial governmental entities and municipal corporations in Canada	6,017	593	-	6,610
Foreign public administrations	11	-	-	11
Other securities				
Financial institutions	5	1,451	-	1,456
Other issuers	-	517	70	587
Equity securities	-	2	57	59
Total financial assets at fair value through other comprehensive income	8,062	5,856	127	14,045
Financial instruments of segregated funds	6,588	10,351	81	17,020
Total financial assets	$ 42,439	$ 27,033	$ 1,828	$ 71,300
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ -	$ 84	$ -	$ 84
Other liabilities				
Commitments related to securities sold short	10,193	422	-	10,615
Other	-	-	268	268
	10,193	506	268	10,967
Derivative financial instruments				
Interest rate contracts	-	1,396	-	1,396
Foreign exchange contracts	-	528	-	528
Other contracts	-	2,903	-	2,903
	-	4,827	-	4,827
Total financial liabilities	$ 10,193	$ 5,333	$ 268	$ 15,794

During the years ended December 31, 2020 and 2019, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

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

HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE

The carrying amount of certain financial instruments measured at amortized cost does not equal fair value. The following tables present those instruments by hierarchy level.

As at December 31, 2020	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Securities	**$ 29**	**$ 29**	**$ -**	**$ 29**	**$ -**
Loans	**55,669**	**56,044**	**-**	**21,781**	**34,263**
Financial liabilities					
Deposits	**72,200**	**72,539**	**1,616**	**70,923**	**-**
Subordinated notes	**1,493**	**1,592**	**-**	**1,592**	**-**

As at December 31, 2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	$ 1,616	$ 1,617	$ -	$ 1,617	$ -
Loans	65,113	65,156	-	34,738	30,418
Financial liabilities					
Deposits	58,888	58,724	1,351	57,352	21
Subordinated notes	1,398	1,433	-	1,433	-

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

The Federation has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

The most significant financial instruments categorized within Level 3 that are held by the Federation are mortgage bonds, equity securities and the financial liability related to a contingent consideration resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

For mortgage bonds, the Federation developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

The Federation measures the majority of equity securities and other debt securities based on net values published by the fund administrator. If needed, these values are adjusted based on more recent information, when such information is available and appropriate. These models are examined and approved by the Federation.

In connection with the acquisition of the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), the Federation recognized a contingent consideration resulting from the price adjustment clause of the agreement. Under such clause, State Farm will compensate the Federation for 95% of the unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contracts transferred as part of the acquisition, while the Federation will give State Farm 90% of the favourable development of such provision.

Sensitivity of financial instruments categorized within Level 3

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

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

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

Changes in fair value of financial instruments categorized within Level 3

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

For the year ended December 31, 2020	Balance at beginning of year	Realized gains / losses recognized in profit or loss[(1)]	Unrealized gains / losses recognized in profit or loss[(2)]	Unrealized gains / losses recognized in other comprehensive income[(3)]	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 55	$ -	$ -	$ -	$ -	$ -	$ (45)	$ 10
Other issuers								
Hedge funds	2	2	(1)	-	-	-	-	3
Asset-backed term notes	4	-	-	-	-	-	(1)	3
Mortgage bonds	710	-	25	-	-	-	(67)	668
Other debt securities	55	-	-	-	-	9	(3)	61
Equity securities	794	(2)	49	-	-	137	(14)	964
Total financial assets at fair value through profit or loss	1,620	-	73	-	-	146	(130)	1,709
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	70	-	-	2	-	-	(3)	69
Equity securities	57	-	-	3	-	4	-	64
Total financial assets at fair value through other comprehensive income	127	-	-	5	-	4	(3)	133
Financial instruments of segregated funds	81	-	1	-	-	50	(5)	127
Total financial assets	$ 1,828	$ -	$ 74	$ 5	$ -	$ 200	$ (138)	$ 1,969
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	$ 268	$ -	$ 95	$ -	$ -	$ -	$ (208)	$ 155
Total financial liabilities	$ 268	$ -	$ 95	$ -	$ -	$ -	$ (208)	$ 155

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

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

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

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

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

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

For the year ended December 31, 2019	Balance at beginning of year	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 56	$ -	$ -	$ -	$ -	$ -	$ (1)	$ 55
Other issuers								
Hedge funds	1	-	1	-	-	-	-	2
Asset-backed term notes	5	-	-	-	-	-	(1)	4
Mortgage bonds	736	-	12	-	-	-	(38)	710
Other debt securities	-	-	(1)	-	-	56	-	55
Equity securities	698	(12)	(9)	-	-	193	(76)	794
Other assets	13	-	-	-	-	-	(13)	-
Total financial assets at fair value through profit or loss	1,509	(12)	3	-	-	249	(129)	1,620
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	89	-	-	-	-	-	(19)	70
Other	8	-	-	-	-	-	(8)	-
Equity securities	-	-	-	-	57	-	-	57
Total financial assets at fair value through other comprehensive income	97	-	-	-	57	-	(27)	127
Financial instruments of segregated funds	72	-	5	-	-	4	-	81
Total financial assets	$ 1,678	$ (12)	$ 8	$ -	$ 57	$ 253	$ (156)	$ 1,828
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	$ 319	$ -	$ 193	$ -	$ -	$ -	$ (244)	$ 268
Total financial liabilities	$ 319	$ -	$ 193	$ -	$ -	$ -	$ (244)	$ 268

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

[2] Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under “Net investment income”, while unrealized gains or losses on financial liabilities “Classified as at fair value through profit or loss” are recognized under “Net investment income” and “Other income – Other”, respectively.

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

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

Valuation techniques and inputs used to measure the fair value of financial instruments categorized within Level 3

The following tables present the main techniques and inputs used to measure the fair value of the significant financial instruments categorized within Level 3.

As at December 31, 2020	**Fair value**	**Main valuation techniques**	**Unobservable inputs**	**Input value ranges**			
Financial assets							
Securities							
Mortgage bonds	**$ 747**	Discounted cash flows	Credit spread(B,C) Comparable inputs(B,C)	**0 bp** **10 bp**	**to** **to**	**15 bp** **153 bp**	
	956	Adjusted net asset value	Adjusted net asset value(A,C)	**-**		**-**	(1)
	64	Market prices for comparable instruments	Enterprise value/revenue ratio(B,C)	**-**		**-**	(1)
Equity securities and other debt securities	**69**	Discounted cash flows	Discount rate(B,C) Liquidity premium(B,C)	**6.6%** **10.0%**	**to** **to**	**9.6%** **40.0%**	
Financials instruments of segregated funds	**127**	Adjusted net asset value	Adjusted net asset value(A,C)	**-**		**-**	(1)
Other financial assets	**6**						
Total financial assets	**$ 1,969**						
Financial liabilities							
Other liabilities - Other							
Financial liability related to the contingent consideration	**155**	Actuarial techniques(2)	Provision for claims and adjustment expenses(B)	**-**		**-**	(1)
Total financial liabilities	**$ 155**						

As at December 31, 2019	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
Mortgage bonds	$ 835	Discounted cash flows	Credit spread(B,C) Comparable inputs(B,C)	0 bp 37 bp	to to	300 bp 243 bp	
	789	Adjusted net asset value	Adjusted net asset value(A,C)	-		-	(1)
Equity securities and	57	Discounted cash flows	Required rate of return(B,C)	6.0%	to	6.8%	
other debt securities	60	Recent transactions and bids	Paid/bid price	-		-	(1)
Financial instruments of segregated funds	81	Adjusted net asset value	Adjusted net asset value(A,C)	-		-	(1)
Other financial assets	6						
Total financial assets	$ 1,828						
Financial liabilities							
Other liabilities - Other							
Financial liability related to the contingent consideration	268	Actuarial techniques(2)	Provision for claims and adjustment expenses(B)	-		-	(1)
Total financial liabilities	$ 268						

(1) Due to the nature of these financial instruments, no input value range is presented.
(2) The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the “Actuarial assumptions” section of Note 16, “Insurance contract liabilities”.

Fair value sensitivity to changes in unobservable inputs

(A) An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.
(B) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
(C) There is no predictable relationship between this input and other material unobservable inputs.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Consolidated Balance Sheets when, and only when, the Federation has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Federation has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements that do not meet the criteria for offsetting in the Consolidated Balance Sheets as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Consolidated Balance Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Consolidated Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, the Federation pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Consolidated Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the normal course of business.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Consolidated Balance Sheets.

The following tables present information about financial assets and liabilities that are set off and not set off in the Consolidated Balance Sheets and are subject to a master netting agreement or a similar agreement.

				Associated amounts not set off in the Consolidated Balance Sheets[(1)]		
As at December 31, 2020	**Gross recognized amounts**	**Set off amounts**	**Net amounts presented in the Consolidated Balance Sheets[(2)]**	**Financial instruments[(3)]**	**Financial collateral held / pledged**	**Residual amounts not set off**
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	**$ 16,262**	**$ 4,670**	**$ 11,592**	**$ 5,771**	**$ 5,821**	**$ -**
Derivative financial instruments	**6,915**	**-**	**6,915**	**3,001**	**3,698**	**216**
Amounts receivable from clients, brokers and financial institutions and other	**41**	**20**	**21**	**5**	**-**	**16**
Total financial assets	**$ 23,218**	**$ 4,690**	**$ 18,528**	**$ 8,777**	**$ 9,519**	**$ 232**
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	**$ 23,822**	**$ 4,670**	**$ 19,152**	**$ 5,771**	**$ 13,379**	**$ 2**
Derivative financial instruments	**4,126**	**-**	**4,126**	**3,001**	**116**	**1,009**
Amounts payable to clients, brokers and financial institutions and other	**60**	**20**	**40**	**5**	**-**	**35**
Total financial liabilities	**$ 28,008**	**$ 4,690**	**$ 23,318**	**$ 8,777**	**$ 13,495**	**$ 1,046**

(1) Any over-collateralization is excluded from the table.

(2) The difference between the net amounts presented in this table and balances appearing in the Consolidated Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

The following table presents information about financial assets and liabilities that are set off and not set off in the Consolidated Balance Sheets and are subject to a master netting agreement or a similar agreement *(continued).*

				Associated amounts not set off in the Consolidated Balance Sheets[1]		
As at December 31, 2019	Gross recognized amounts	Set off amounts	Net amounts presented in the Consolidated Balance Sheets[2]	Financial instruments[3]	Financial collateral held / pledged	Residual amounts not set off
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 16,549	$ 5,197	$ 11,352	$ 4,156	$ 7,192	$ 4
Derivative financial instruments	4,782	-	4,782	1,688	2,936	158
Amounts receivable from clients, brokers and financial institutions and other	37	25	12	4	-	8
Total financial assets	$ 21,368	$ 5,222	$ 16,146	$ 5,848	$ 10,128	$ 170
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 15,759	$ 5,197	$ 10,562	$ 4,156	$ 6,400	$ 6
Derivative financial instruments	2,024	-	2,024	1,688	79	257
Amounts payable to clients, brokers and financial institutions and other	52	25	27	4	-	23
Total financial liabilities	$ 17,835	$ 5,222	$ 12,613	$ 5,848	$ 6,479	$ 286

(1) Any over-collateralization is excluded from the table.
(2) The difference between the net amounts presented in this table and balances appearing in the Consolidated Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.
(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 6 – SECURITIES

MATURITIES OF SECURITIES

The following tables present an analysis of the maturities of the Federation's securities.

	Terms to maturity						
As at December 31, 2020	**Under 1 year**	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 to 10 years**	**Over 10 years**	**No specific maturity**	**Total**
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	$ 834	$ 844	$ 1,438	$ 1,310	$ 1,272	$ -	$ 5,698
Provincial governmental entities and municipal corporations in Canada	753	1,750	1,672	2,499	10,882	-	17,556
School or public corporations in Canada	-	-	4	8	99	-	111
Foreign public administrations	190	12	5	19	22	-	248
Other securities							
Financial institutions	100	246	418	284	240	-	1,288
Other issuers	252	474	298	912	3,124	61	5,121
Equity securities	-	-	-	7	4	4,925	4,936
Total financial assets at fair value through profit or loss	2,129	3,326	3,835	5,039	15,643	4,986	34,958
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	580	2,047	3,653	166	-	-	6,446
Provincial governmental entities and municipal corporations in Canada	1,196	4,780	5,467	16,632	738	-	28,813
School or public corporations in Canada	17	-	-	-	-	-	17
Foreign public administrations	11	-	-	-	-	-	11
Other securities							
Financial institutions	1,553	1,803	539	258	3	-	4,156
Other issuers	40	127	243	412	30	-	852
Equity securities	-	-	-	-	-	66	66
Total financial assets at fair value through other comprehensive income	3,397	8,757	9,902	17,468	771	66	40,361
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by							
Provincial governmental entities and municipal corporations in Canada	1	3	2	6	1	-	13
Foreign public administrations	-	-	1	3	12	-	16
Total financial assets at amortized cost	1	3	3	9	13	-	29
Total securities	$ 5,527	$ 12,086	$ 13,740	$ 22,516	$ 16,427	$ 5,052	$ 75,348

NOTE 6 – SECURITIES *(continued)*

MATURITIES OF SECURITIES *(continued)*

The following table presents an analysis of the maturities of the Federation's securities *(continued)*.

	Terms to maturity						
As at December 31, 2019	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	Total
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	$ 1,382	$ 1,938	$ 1,996	$ 1,244	$ 1,927	$ -	$ 8,487
Provincial governmental entities and municipal corporations in Canada	892	1,553	1,418	2,465	10,137	-	16,465
School or public corporations in Canada	-	-	-	15	89	-	104
Foreign public administrations	86	12	10	1	24	-	133
Other securities							
Financial institutions	275	174	163	161	109	-	882
Other issuers	202	305	477	660	2,620	2	4,266
Equity securities	-	-	-	6	4	4,820	4,830
Total financial assets at fair value through profit or loss	2,837	3,982	4,064	4,552	14,910	4,822	35,167
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	339	1,845	1,613	130	-	-	3,927
Provincial governmental entities and municipal corporations in Canada	393	2,183	1,658	1,454	922	-	6,610
Foreign public administrations	11	-	-	-	-	-	11
Other securities							
Financial institutions	714	366	275	101	-	-	1,456
Other issuers	45	66	187	266	23	-	587
Equity securities	-	-	-	-	-	59	59
Total financial assets at fair value through other comprehensive income	1,502	4,460	3,733	1,951	945	59	12,650
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by							
Provincial governmental entities and municipal corporations in Canada	199	2	2	6	-	-	209
School or public corporations in Canada	30	-	-	-	-	-	30
Foreign public administrations	-	-	1	6	21	-	28
Other securities							
Financial institutions	1,329	-	-	-	-	(1)	1,328
Other issuers	20	-	-	1	-	-	21
Total financial assets at amortized cost	1,578	2	3	13	21	(1)	1,616
Total securities	$ 5,917	$ 8,444	$ 7,800	$ 6,516	$ 15,876	$ 4,880	$ 49,433

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

At each reporting date, loans and off-balance sheet items are classified based on their credit quality using their 12-month PD adjusted to take into consideration relevant forward-looking information over their lifetime. This is the PD used to determine whether credit risk has significantly increased since initial recognition or identify financial instruments in regulatory default.

The following tables present PD tranches in relation with risk levels for loans and off-balance sheet items.

Residential mortgages, consumer, credit card and other personal loans

Risk levels	PD tranches
Excellent	0.00% to 0.08%
Very low	0.09% to 0.33%
Low	0.34% to 2.09%
Moderate	2.10% to 7.32%
High	7.33% to 99.99%
Default	100.00%

Business and government

Risk levels	PD tranches
Acceptable risk:	
Investment grade	0.00% to 0.36%
Other than investment grade	0.37% to 4.50%
Under watch	4.51% to 99.99%
Default	100.00%

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which the Federation estimates a loss allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified.

Loans

	Non-credit impaired		Credit-impaired[(1)]	
As at December 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 510	$ -	$ -	$ 510
Very low	962	-	-	962
Low	1,504	37	-	1,541
Moderate	137	205	-	342
High	5	69	-	74
Default	-	3	8	11
Total gross residential mortgages	$ 3,118	$ 314	$ 8	$ 3,440
Allowance for credit losses	(5)	(2)	(4)	(11)
Total net residential mortgages	$ 3,113	$ 312	$ 4	$ 3,429
Consumer, credit card and other personal loans				
Excellent	$ 1,405	$ -	$ -	$ 1,405
Very low	1,938	-	-	1,938
Low	7,540	293	-	7,833
Moderate	4,226	1,387	-	5,613
High	383	1,732	-	2,115
Default	-	-	187	187
Total gross consumer, credit card and other personal loans	$ 15,492	$ 3,412	$ 187	$ 19,091
Allowance for credit losses	(117)	(271)	(108)	(496)
Total net consumer, credit card and other personal loans	$ 15,375	$ 3,141	$ 79	$ 18,595
Business and government loans[(2)]				
Acceptable risk				
Investment grade	$ 25,869	$ -	$ -	$ 25,869
Other than investment grade	5,599	907	-	6,506
Under watch	385	1,119	-	1,504
Default	-	-	226	226
Total gross business and government loans	$ 31,853	$ 2,026	$ 226	$ 34,105
Allowance for credit losses	(22)	(35)	(75)	(132)
Total net business and government loans	$ 31,831	$ 1,991	$ 151	$ 33,973

(1) As at December 31, 2020, 80.6% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

(2) Includes clients' liability under acceptances.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

Loans *(continued)*

	Non-credit impaired		Credit-impaired[1]	
As at December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 515	$ -	$ -	$ 515
Very low	1,970	-	-	1,970
Low	1,527	8	-	1,535
Moderate	46	83	-	129
High	1	21	-	22
Default	-	4	8	12
Total gross residential mortgages	$ 4,059	$ 116	$ 8	$ 4,183
Allowance for credit losses	(5)	(1)	(4)	(10)
Total net residential mortgages	$ 4,054	$ 115	$ 4	$ 4,173
Consumer, credit card and other personal loans				
Excellent	$ 1,558	$ -	$ -	$ 1,558
Very low	3,610	-	-	3,610
Low	8,459	139	-	8,598
Moderate	3,515	1,313	-	4,828
High	23	1,701	-	1,724
Default	-	-	249	249
Total gross consumer, credit card and other personal loans	$ 17,165	$ 3,153	$ 249	$ 20,567
Allowance for credit losses	(103)	(186)	(130)	(419)
Total net consumer, credit card and other personal loans	$ 17,062	$ 2,967	$ 119	$ 20,148
Business and government loans[2]				
Acceptable risk				
Investment grade	$ 32,946	$ -	$ -	$ 32,946
Other than investment grade	7,662	220	-	7,882
Under watch	101	164	-	265
Default	-	-	114	114
Total gross business and government loans	$ 40,709	$ 384	$ 114	$ 41,207
Allowance for credit losses	(12)	(3)	(20)	(35)
Total net business and government loans	$ 40,697	$ 381	$ 94	$ 41,172

[1] As at December 31, 2019, 79.4% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

[2] Includes clients' liability under acceptances.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

Off-balance sheet items[(1)]

	Non-credit impaired		Credit-impaired	
As at December 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 14,341	$ -	$ -	$ 14,341
Very low	5,213	-	-	5,213
Low	23,207	87	-	23,294
Moderate	2,573	1,636	-	4,209
High	258	955	-	1,213
Default	-	-	35	35
Total gross off-balance sheet items	$ 45,592	$ 2,678	$ 35	$ 48,305
Allowance for credit losses	(45)	(8)	-	(53)
Total net off-balance sheet items	$ 45,547	$ 2,670	$ 35	$ 48,252
Business and government				
Acceptable risk				
Investment grade	$ 15,126	$ -	$ -	$ 15,126
Other than investment grade	7,662	461	-	8,123
Under watch	209	420	-	629
Default	-	-	29	29
Total gross off-balance sheet items	$ 22,997	$ 881	$ 29	$ 23,907
Allowance for credit losses	(5)	(2)	-	(7)
Total net off-balance sheet items	$ 22,992	$ 879	$ 29	$ 23,900

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

	Non-credit impaired		Credit-impaired	
As at December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 13,159	$ 3	$ -	$ 13,162
Very low	19,690	2	-	19,692
Low	7,525	16	-	7,541
Moderate	3,786	1,188	-	4,974
High	14	722	-	736
Default	-	-	32	32
Total gross off-balance sheet items	$ 44,174	$ 1,931	$ 32	$ 46,137
Allowance for credit losses	(24)	(2)	-	(26)
Total net off-balance sheet items	$ 44,150	$ 1,929	$ 32	$ 46,111
Business and government				
Acceptable risk				
Investment grade	$ 13,000	$ -	$ -	$ 13,000
Other than investment grade	9,057	78	-	9,135
Under watch	36	53	-	89
Default	-	-	2	2
Total gross off-balance sheet items	$ 22,093	$ 131	$ 2	$ 22,226
Allowance for credit losses	(6)	-	-	(6)
Total net off-balance sheet items	$ 22,087	$ 131	$ 2	$ 22,220

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

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES

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

For the year ended December 31, 2020	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Allowance for credit losses
Residential mortgages				
Balance at beginning of year	$ 5	$ 1	$ 4	$ 10
Provision for credit losses				
Transfers to[1]:				
Stage 1	2	(2)	-	-
Stage 2	(1)	1	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers[2]	(1)	1	-	-
Changes in model inputs[3]	-	2	-	2
New originations or acquisitions[4]	1	-	-	1
Derecognition and maturities[5]	(1)	-	-	(1)
Net drawdowns (repayments)[6]	-	-	-	-
Other	-	(1)	1	-
	-	1	1	2
Write-offs and recoveries	-	-	(1)	(1)
Balance at end of year	$ 5	$ 2	$ 4	$ 11
Consumer, credit card and other personal loans[7]				
Balance at beginning of year	$ 133	$ 188	$ 130	$ 451
Provision for credit losses				
Transfers to[1]:				
Stage 1	243	(225)	(18)	-
Stage 2	(72)	150	(78)	-
Stage 3	(1)	(39)	40	-
Net remeasurement due to transfers[2]	(26)	28	230	232
Changes in model inputs[3]	(139)	187	184	232
New originations or acquisitions[4]	61	43	-	104
Derecognition and maturities[5]	(20)	(33)	(59)	(112)
Net drawdowns (repayments)[6]	(12)	(18)	(12)	(42)
Other	-	-	1	1
	34	93	288	415
Write-offs and recoveries	-	-	(310)	(310)
Balance at end of year	$ 167	$ 281	$ 108	$ 556
Business and government				
Balance at beginning of year	$ 12	$ 3	$ 20	$ 35
Provision for credit losses				
Transfers to[1]:				
Stage 1	6	(6)	-	-
Stage 2	(10)	10	-	-
Stage 3	(1)	(3)	4	-
Net remeasurement due to transfers[2]	(1)	7	58	64
Changes in model inputs[3]	6	25	16	47
New originations or acquisitions[4]	12	1	-	13
Derecognition and maturities[5]	(4)	(5)	-	(9)
Net drawdowns (repayments)[6]	2	3	1	6
Other	-	-	1	1
	10	32	80	122
Write-offs and recoveries	-	-	(25)	(25)
Balance at end of year	$ 22	$ 35	$ 75	$ 132
Total balances at end of year	$ 194	$ 318	$ 187	$ 699
Composed of:				
Loans	$ 144	$ 308	$ 187	$ 639
Off-balance sheet items[8]	50	10	-	60

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

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Non-credit impaired		Credit-impaired	
For the year ended December 31, 2019	Stage 1	Stage 2	Stage 3	Allowance for credit losses
Residential mortgages				
Balance at beginning of year	$ 4	$ 1	$ 5	$ 10
Provision for credit losses				
Transfers to(1):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers(2)	-	-	-	-
Changes in model inputs(3)	-	-	-	-
New originations or acquisitions(4)	-	-	-	-
Derecognition and maturities(5)	-	-	-	-
Net drawdowns (repayments)(6)	-	-	-	-
Other	1	-	-	1
	1	-	-	1
Write-offs and recoveries	-	-	(1)	(1)
Balance at end of year	$ 5	$ 1	$ 4	$ 10
Consumer, credit card and other personal loans(7)				
Balance at beginning of year	$ 129	$ 259	$ 110	$ 498
Provision for credit losses				
Transfers to(1):				
Stage 1	241	(223)	(18)	-
Stage 2	(54)	99	(45)	-
Stage 3	(1)	(36)	37	-
Net remeasurement due to transfers(2)	(54)	35	214	195
Changes in model inputs(3)	(165)	70	218	123
New originations or acquisitions(4)	73	72	-	145
Derecognition and maturities(5)	(32)	(66)	(49)	(147)
Net drawdowns (repayments)(6)	(4)	(22)	2	(24)
	4	(71)	359	292
Write-offs and recoveries	-	-	(339)	(339)
Balance at end of year	$ 133	$ 188	$ 130	$ 451
Business and government				
Balance at beginning of year	$ 9	$ 5	$ 6	$ 20
Provision for credit losses				
Transfers to(1):				
Stage 1	4	(4)	-	-
Stage 2	(1)	1	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers(2)	(2)	1	9	8
Changes in model inputs(3)	(2)	1	(4)	(5)
New originations or acquisitions(4)	6	-	-	6
Derecognition and maturities(5)	(4)	(1)	(1)	(6)
Net drawdowns (repayments)(6)	2	-	7	9
Other	-	-	3	3
	3	(2)	14	15
Write-offs and recoveries	-	-	-	-
Balance at end of year	$ 12	$ 3	$ 20	$ 35
Total balances at end of year	$ 150	$ 192	$ 154	$ 496
Composed of:				
Loans	$ 120	$ 190	$ 154	$ 464
Off-balance sheet items(8)	30	2	-	32

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

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS

Estimating the loss allowance for expected credit losses is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

- Changes in the borrowers' credit risk rating (or PD)
- Determination of significant increases in credit risk
- Incorporation of forward-looking information
- Estimated life of revolving credit facilities

The development of the COVID-19 pandemic and its future resolution give rise to uncertainty. Management therefore had to make complex judgments to estimate the loss allowance for expected credit losses in the current situation, which increases the risk of adjustments in future periods.

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. For more information about these models, see section 4.0, "Risk Management", of the Management's Discussion and Analysis. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the loss allowance for expected credit losses.

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

Determination of significant increases in credit risk

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

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

Significant judgments had to be made to estimate the negative impact of the unprecedented current COVID-19 pandemic situation on the risk of default by the different types of borrowers and, consequently, on the determination of significant increases in credit risk and the measurement of the allowance. With respect to the use of the payment deferral program that it offers its members and clients, the Federation considered that it was not, taken individually, an indication of an increase in the risk of default over the life of the financial instrument. Accordingly, the use of such program was not considered to be, on its own, a sufficient criterion for concluding to a significant increase in credit risk and transferring a financial instrument to Stage 2 of the impairment model. Furthermore, the use of such program does not result in additional days past due.

Incorporation of forward-looking information

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

The incorporation of forward-looking information may increase or decrease the loss allowance for expected credit losses. Generally, an improvement in the outlook will give rise to a decrease in the allowance, while a deterioration will result in an increase in the allowance.

The major uncertainty resulting from the COVID-19 pandemic makes it significantly more complex to determine reasonable and supportable assumptions concerning the change in macroeconomic variables for the various scenarios and the related probability of occurrence. This uncertainty, which relates in particular to the duration and magnitude of the impact of the COVID-19 pandemic on the various macroeconomic variables used in the models and to the positive effect of support measures by central banks and governments, required management to make significant judgments to revise the assumptions concerning forward-looking information. Considering the atypical nature of the current economic crisis, management applied expert credit judgment as to the degree of correlation between input data related to forward-looking indicators and expected credit losses. Expert credit judgment was also applied to consider the impact of government support measures, which are at an unprecedented level and have been continuously evolving since the outset of the pandemic, as well as the temporary impact of the payment deferral programs offered by financial institutions.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

Incorporation of forward-looking information *(continued)*

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

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

As at December 31, 2019	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic variables[1]						
Gross domestic product (annualized change)	1.3%	1.5%	2.3%	1.9%	(1.0)%	1.3%
Unemployment rate (average)	4.5%	4.5%	4.1%	3.5%	6.1%	7.1%
Consumer Price Index (annualized change)	1.9%	1.7%	3.8%	2.6%	(1.9)%	1.5%
Housing prices (annualized change)	1.5%	0.7%	6.3%	1.9%	(5.8)%	(0.4)%
Corporate credit spread[2] (average)	124 bp	125 bp	94 bp	87 bp	173 bp	157 bp
S&P/TSX stock index[2] (annualized change)	4.7%	2.9%	9.9%	7.6%	(25.8)%	8.6%

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

The economic activity experienced a steep drop during the first two quarters of 2020, followed by a strong rebound in the third quarter. This rebound in economic activity observed during the summer gave way in the last quarter of 2020 to new challenges related to the COVID-19 second wave and the new health measures that had to be gradually reintroduced.

The base scenario forecasts that the economic activity will remain weak in the first quarter of 2021. Afterwards, with the gradual reopening of the economy, helped by the acceleration of the vaccination campaign, real GDP growth is expected to sharply increase in spring and summer 2021. We will however have to wait until early 2022 to see real GDP exceed its pre-pandemic high. After a significant decrease during summer 2020, the unemployment rate should be more stable in the first quarter of 2021 due to the weak short-term economic growth, but should quickly revert to its downward trend to end 2021 at approximately 6.4%. In addition, the housing market would remain quite strong and there would therefore not be any major correction in house prices.

In the downside scenario, real GDP would considerably decline in the first quarter of 2021. Afterwards, the economic recovery would be slower than under the base scenario. The economic setback in the first quarter of 2021 would be accompanied by an unemployment rate going back to over 9%. The unemployment rate would then decrease at a slower pace than in the base scenario. With respect to the housing market, this scenario expects a decrease of approximately 10% in house prices.

The upside scenario essentially assumes that the economic recovery will be faster than in the base scenario and would occur by the end of the first quarter of 2021. This recovery would be supported by a faster withdrawal of health restrictions as well as the acceleration and effectiveness of the vaccination campaign. The unemployment rate would continue to decrease quite rapidly to 5.5% by the end of 2021. The increase in house prices would remain quite strong in 2021, but the faster increase in interest rates under this scenario would eventually temper the housing market in future years.

The development of the economic outlook after December 31, 2020 will be considered in estimating the loss allowance for expected credit losses in future periods.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

Estimated life of revolving credit facilities

To determine the life of revolving credit facilities, the Federation determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions. In making this estimate, the Federation, considers the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the risk on the financial instruments has increased.

The determination of the estimated life of revolving credit facilities has a significant impact on estimating the loss allowance for expected credit losses, mainly for revolving credit facilities in Stage 2 of the impairment model. Generally, an increase in the estimated life of revolving credit facilities gives rise to an increase in expected credit losses.

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

Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2020	As at December 31, 2019
Under IFRS 9	**$ 512**	$ 342
Weighting of 100% assigned to the scenario		
Base	**$ 482**	$ 344
Upside	**470**	327
Downside	**611**	346

Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2020	As at December 31, 2019
Under IFRS 9	**$ 512**	$ 342
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 465**	$ 332

NOTE 8 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of Desjardins Group's liquidity and capital management strategy, the Federation participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program. Under this program, the Federation acquires interests in securitized mortgage loans from Desjardins Group member caisses. It creates pools of residential mortgage loans insured by Canada Mortgage and Housing Corporation (CMHC) that back mortgage-backed securities. These mortgage-backed securities are issued under the *National Housing Act* (NHA MBSs). The Federation originates from time to time such securities and retains them as holder or transfers them from time to time to the Canada Housing Trust (CHT). NHA MBSs give their holders a property right on the pools of loans backing them. In addition, in the context of the COVID-19 pandemic, the Canadian government, through CMHC, modified its Insured Mortgage Purchase Program (IMPP). Under this second program, the Federation sold NHA MBSs to CMHC.

In these transactions, the acquired interests in securitized mortgage loans do not meet the recognition criteria as member caisses retain substantially all the risks, including prepayment and interest rate risks. Furthermore, the Federation treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Consolidated Balance Sheets. The CHT funds these purchases by issuing Canada Mortgage Bonds (CMBs) to investors.

The terms and conditions of the program giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and the Federation to allow the monthly receipt of all cash flows related to the mortgage loans underlying the NHA MBSs. The Federation pays the CHT an amount corresponding to the interest payable to the holders of CMBs, the difference between these amounts being considered as excess interest margin. As part of these swaps, the Federation must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

Under this same program, the Federation creates pools of CMHC-insured residential mortgage loans that back mortgage-backed securities and transfers them to a related party. As part of these transactions, the Federation retains substantially all the risks, including prepayment and interest rate risks. As a result, these loans continue to be recognized in the Consolidated Balance Sheets. Furthermore, the Federation treats the transfers as collateralized financing transactions and recognizes a liability in that respect. This liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

Securities lent or sold under repurchase agreements

As part of transactions involving securities lent or sold under repurchase agreements, the Federation transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Consolidated Balance Sheets as the Federation retains substantially all the risks and rewards related to these assets.

The following table presents the carrying amount and the fair value of financial assets transferred by the Federation but not derecognized as well as the related liabilities recognized in the Consolidated Balance Sheets.

	As at December 31, 2020		As at December 31, 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 22**	**$ 22**	$ 33	$ 33
Securities sold under repurchase agreements	**1,202**	**1,202**	3,566	3,566
Securities lent	**12**	**12**	6	6
	$ 1,236	**$ 1,236**	$ 3,605	$ 3,605
Related liabilities	**$ 1,221**	**$ 1,221**	$ 3,583	$ 3,583

FINANCIAL ASSETS TRANSFERRED AND DERECOGNIZED

Canada Emergency Business Account federal program

The Federation participates in the Canada Emergency Business Account (CEBA) federal program, implemented in collaboration with Export Development Canada (EDC). Under this program, we grant loans that are funded by the government. We have determined that these loans qualified for derecognition as all cash flows are remitted to EDC and, in addition, substantially all the risks and rewards of ownership of the loans have been transferred. The Federation has a continued involvement with these derecognized loans at it services them. As at December 31, 2020, loans outstanding amounting to $3 million have been granted to the Federation's members and clients under the CEBA program.

NOTE 9 – SEGREGATED FUNDS

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	As at December 31, 2020	As at December 31, 2019
Investments		
Bonds	**$ 607**	$ 650
Shares and mutual fund units	**18,463**	16,330
Money market securities	**30**	40
Derivative financial instruments	**1**	-
Securities borrowed or purchased under reverse repurchase agreements	**12**	46
Other assets	**116**	93
Commitments related to securities lent or sold under repurchase agreements	**(8)**	(22)
Other liabilities	**(90)**	(76)
Net assets held for segregated fund contract holders	**$ 19,131**	$ 17,061
Assets held for the insurer	**(38)**	(35)
Total segregated fund net assets[(1)]	**$ 19,093**	$ 17,026

[(1)] The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Federation's scope of consolidation. These eliminations amounted to $4 million as at December 31, 2020 ($24 million as at December 31, 2019).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. The Federation classifies these instruments using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 4, "Fair value of financial instruments".

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Securities borrowed or purchased under reverse repurchase agreements", "Other assets", "Commitments related to securities lent or sold under repurchase agreements" and "Other liabilities".

The following tables present the financial instruments included in segregated fund net assets and recognized at fair value.

As at December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Bonds	**$ 317**	**$ 290**	**$ -**	**$ 607**
Shares and mutual fund units	**6,773**	**11,563**	**127**	**18,463**
Money market securities	**23**	**7**	**-**	**30**
Derivative financial instruments	**-**	**1**	**-**	**1**
Total financial instruments recognized at fair value	**$ 7,113**	**$ 11,861**	**$ 127**	**$ 19,101**

As at December 31, 2019	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 335	$ 315	$ -	$ 650
Shares and mutual fund units	6,219	10,030	81	16,330
Money market securities	34	6	-	40
Total financial instruments recognized at fair value	$ 6,588	$ 10,351	$ 81	$ 17,020

During the years ended December 31, 2020 and 2019, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value.

NOTE 9 – SEGREGATED FUNDS *(continued)*

Derecognition of financial assets

As part of transactions involving securities lent or sold under repurchase agreements, the segregated funds transfer financial assets under terms and conditions providing for their future repurchase. These assets remain recognized in the Consolidated Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2020, the carrying amount and the fair value of such transferred financial assets and related liabilities recognized in the Consolidated Balance Sheets were $7 million and $7 million, respectively ($40 million and $40 million as at December 31, 2019).

Financial assets pledged and held as collateral

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities in the normal course of the segregated funds' operations amounted to $7 million as at December 31, 2020 ($40 million as at December 31, 2019). The fair value of the financial assets held as collateral that the segregated funds are permitted to sell or repledge in the absence of default totalled $2 million ($3 million as at December 31, 2019). No financial assets held as collateral had been sold or repledged in 2020 and 2019. These financial assets were received as collateral in transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

The Federation is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	As at December 31, 2020	As at December 31, 2019
Balance at beginning – Net liabilities to segregated fund contract holders	**$ 17,037**	$ 13,243
Additions		
Amounts received from contract holders	**2,368**	3,557
Net investment income	**1,915**	2,190
	4,283	5,747
Deductions		
Withdrawals and redemptions	**2,045**	1,805
Management fees	**148**	148
	2,193	1,953
Balance at end – Net liabilities to segregated fund contract holders	**$ 19,127**	$ 17,037
Liabilities to the insurer	**(38)**	(35)
Total segregated fund net liabilities(1)	**$ 19,089**	$ 17,002

(1) The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Federation's scope of consolidation. These eliminations amounted to $4 million as at December 31, 2020 ($24 million as at December 31, 2019).

NOTE 10 – LEASES

LEASES – AS LESSEE

The following table presents the carrying amount of right-of-use assets by class of underlying asset.

	As at December 31, 2020	As at December 31, 2019
Buildings	**$ 282**	$ 290
Other[1]	**9**	8
	$ 291	$ 298

[1] The "Other" category mainly comprises vehicles.

During fiscal 2020, the Federation entered into leases that increased right-of-use assets by $29 million ($25 million in 2019).

The following table presents the depreciation of right-of-use assets by class of underlying asset.

	2020	2019
Buildings	**$ 32**	$ 29
Other[1]	**3**	1
	$ 35	$ 30

[1] The "Other" category mainly comprises vehicles.

The following table presents amounts recognized in the Consolidated Statement of Income for the year ended December 31.

	2020	2019
Interest expense on lease liabilities	**$ 13**	$ 13
Short-term leases	**5**	12

LEASES – AS LESSOR

Operating leases

Lease income is presented in Note 11, "Property, plant and equipment and investment property", and includes fixed lease payments.

For the years ended December 31, lease payments to be received under non-cancellable operating leases for premises and equipment are as follows:

	2020	2019
Under 1 year	**$ 67**	$ 74
1 to 2 years	**63**	64
Over 2 to 3 years	**57**	64
Over 3 to 4 years	**52**	57
Over 4 to 5 years	**45**	51
Over 5 years	**282**	318
Total future lease payments	**$ 566**	$ 628

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The following tables present the changes in property, plant and equipment and investment property.

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Cost									
As at December 31, 2018	$ 32	$ 614	$ 341	$ 152	$ 299	$ 1,438	$ 215	$ 1,006	$ 1,221
Additions	-	17	62	10	53	142	9	44	53
Disposals	-	(1)	(96)	(10)	(15)	(122)	(7)	(12)	(19)
Other	-	-	1	(11)	(1)	(11)	-	1	1
As at December 31, 2019	$ 32	$ 630	$ 308	$ 141	$ 336	$ 1,447	$ 217	$ 1,039	$ 1,256
Additions	**-**	**20**	**106**	**13**	**49**	**188**	**22**	**24**	**46**
Disposals	**-**	**(1)**	**(66)**	**(11)**	**(7)**	**(85)**	**(7)**	**(75)**	**(82)**
Other	**-**	**-**	**(2)**	**(1)**	**-**	**(3)**	**-**	**(1)**	**(1)**
As at December 31, 2020	**$ 32**	**$ 649**	**$ 346**	**$ 142**	**$ 378**	**$ 1,547**	**$ 232**	**$ 987**	**$ 1,219**

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Accumulated depreciation									
As at December 31, 2018	$ -	$ 197	$ 244	$ 66	$ 120	$ 627	$ -	$ 278	$ 278
Depreciation	-	20	49	12	21	102	-	36	36
Disposals	-	(1)	(95)	(10)	(15)	(121)	-	(1)	(1)
Other	-	-	1	(3)	1	(1)	-	(1)	(1)
As at December 31, 2019	$ -	$ 216	$ 199	$ 65	$ 127	$ 607	$ -	$ 312	$ 312
Depreciation	**-**	**21**	**58**	**13**	**23**	**115**	**-**	**40**	**40**
Disposals	**-**	**(1)**	**(66)**	**(8)**	**(7)**	**(82)**	**-**	**(43)**	**(43)**
As at December 31, 2020	**$ -**	**$ 236**	**$ 191**	**$ 70**	**$ 143**	**$ 640**	**$ -**	**$ 309**	**$ 309**

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Net carrying amount									
As at December 31, 2020	**$ 32**	**$ 413**	**$ 155**	**$ 72**	**$ 235**	**$ 907**	**$ 232**	**$ 678**	**$ 910**
As at December 31, 2019	$ 32	$ 414	$ 109	$ 76	$ 209	$ 840	$ 217	$ 727	$ 944

For the years ended December 31, 2020 and 2019, the Federation had no amounts representing costs related to buildings under construction. In addition, as at December 31, 2020 and 2019, the Federation had no commitments related to the acquisition of these buildings.

As at December 31, 2020, the fair value of investment property was $1,759 million ($1,876 million as at December 31, 2019). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 4, “Fair value of financial instruments”, as it is measured using techniques that are not primarily based on observable market inputs. The fair value of investment property is determined annually by management, mainly by using the work of independent real estate appraisers with recognized and relevant professional qualifications and any other significant information that may be deemed relevant. These appraisers use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on observable and unobservable inputs, involve estimating capitalization rates and adjusted net operating income, in the case of the normalized net income direct discounting method, and estimating discount and capitalization rates and applicable future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2020, lease income from investment property amounted to $145 million ($161 million in 2019). Amounts recognized in profit or loss for operating expenses related to investment property that generated lease income during the year totalled $115 million ($109 million in 2019), while no amount has been recognized for those that did not generate lease income. These amounts are presented under “Net investment income” in the Consolidated Statements of Income.

NOTE 12 – INTANGIBLE ASSETS

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software[1]	Client relationships	Other[2]	Total
Cost				
As at December 31, 2018	$ 810	$ 19	$ 124	$ 953
Acquisitions / Additions	85	-	-	85
Disposals / Retirements	(88)	(3)	(3)	(94)
Other	(6)	-	-	(6)
As at December 31, 2019	$ 801	$ 16	$ 121	$ 938
Acquisitions / Additions	**101**	**1**	**17**	**119**
Disposals / Retirements	**(42)**	**-**	**(16)**	**(58)**
Other	**2**	**-**	**-**	**2**
As at December 31, 2020	**$ 862**	**$ 17**	**$ 122**	**$ 1,001**

	Software[1]	Client relationships	Other[2]	Total
Accumulated amortization				
As at December 31, 2018	$ 511	$ 9	$ 44	$ 564
Amortization	77	1	5	83
Disposals / Retirements	(88)	(1)	(3)	(92)
Other	2	-	-	2
As at December 31, 2019	$ 502	$ 9	$ 46	$ 557
Amortization	**71**	**1**	**5**	**77**
Disposals / Retirements	**(42)**	**-**	**(16)**	**(58)**
Other	**1**	**-**	**-**	**1**
As at December 31, 2020	**$ 532**	**$ 10**	**$ 35**	**$ 577**

	Software[1]	Client relationships	Other[2]	Total
Net carrying amount				
As at December 31, 2020	**$ 330**	**$ 7**	**$ 87**	**$ 424**
As at December 31, 2019	$ 299	$ 7	$ 75	$ 381

[1] Software includes purchased software amounting to $134 million ($128 million in 2019) and internally developed software amounting to $196 million ($171 million in 2019).
[2] The "Other" category mainly includes the amount related to the acquisition of insurance contract portfolios and a distribution network.

NOTE 13 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries of the Federation have been incorporated in Canada and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held by the Federation in each of them.

	Nature of operations	As at December 31, 2020[(1)]	As at December 31, 2019[(1)]
Desjardins Capital Inc.	Issuance of securities on the markets and financing of the Desjardins caisses	**100 %**	100 %
Desjardins Financial Holding Inc.	Holding company	**100**	100
Zag Bank[(2)]	Financial institution	**-**	100
Desjardins Financial Corporation Inc.	Holding company	**100**	100
Desjardins Global Asset Management Inc.	Asset management	**100**	100
Desjardins General Insurance Group Inc.[(3)]	Property and casualty insurance	**90**	100
Property and casualty insurance subsidiaries[(3)(4)]	Property and casualty insurance	**100**	90
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	**100**	100
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	**100**	100
Desjardins Trust Inc.	Asset custody and trust services	**100**	100
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group's technology	**100**	100
Desjardins Securities Inc.	Securities brokerage	**100**	100
9420-7404 Québec inc.[(5)]	Real estate services	**100**	-

(1) Represents also the proportion of voting rights held by the Federation in these subsidiaries.
(2) During the fourth quarter of 2020, Zag Bank changed its name to Desjardins Finco Inc. and was afterwards acquired by Desjardins Investments Inc. Desjardins Finco Inc. was subsequently liquidated.
(3) On January 1, 2020, Desjardins General Insurance Group Inc. and some of its subsidiaries carried out a series of transactions to restructure their capital. Desjardins General Insurance Group Inc. acquired the common shares of its subsidiaries held by holders of non-controlling interests to bring its ownership interest in them to 100% and issued common shares as consideration.
(4) Represents a group of six property and casualty insurance subsidiaries.
(5) 9420-7404 Québec inc. operates two brands DuProprio and Purplebricks Canada.

Subsidiaries that have material non-controlling interests

As at December 31, 2020, Desjardins General Insurance Group Inc. is a subsidiary that has material non-controlling interests. As at December 31, 2019, the subsidiaries that have material non-controlling interests comprise the six property and casualty insurance subsidiaries aggregated under "Property and casualty insurance subsidiaries".

The following tables present summarized financial information about the subsidiaries that have material non-controlling interests. This information is presented before eliminating intragroup accounts and transactions and has been adjusted to reflect the fair value adjustments made at the time of acquisition.

	As at December 31, 2020	As at December 31, 2019
Assets	**$ 15,418**	$ 15,683
Liabilities	**11,946**	12,895
Equity	**$ 3,472**	$ 2,788
Non-controlling interests	**$ 750**	$ 773

For the years ended December 31	**2020**	2019
Total income	**$ 5,823**	$ 5,357
Net surplus earnings for the year after member caisses dividends	**623**	176
Comprehensive income for the year	**$ 730**	$ 246
Share of net surplus earnings for the year after member caisses dividends attributable to holders of non-controlling interests	**$ 84**	$ 46
Dividends / distributions paid to holders of non-controlling interests	**$ 25**	$ 36

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, the Federation issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, a structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. The operations of this entity are included in the Consolidated Financial Statements of the Federation as this entity is controlled by the Federation. The Federation granted financing to this entity to facilitate the acquisition of the assets for purposes of guaranteeing the covered bonds issued. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by this entity. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by this structured entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. As a result of the COVID-19 pandemic, the Bank of Canada has temporarily expanded the list of eligible collateral for its term repo operations program to include "own-name" covered bonds issued by the Federation (self-held). The covered bonds, amounting to $6,114 million as at December 31, 2020 ($5,654 million as at December 31, 2019), are presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

JOINT VENTURES

Information about material joint ventures

The Federation holds interests in the RPADS LP, Aviso Wealth, 101 St-Clair, Primus Immobilia, Western Canada Shopping Centres, Brentcliffe Park and Immeubles Mostra LP joint ventures. RPADS LP is an entity that acquires and develops real estate portfolios, Aviso Wealth is a wealth management company and the other joint ventures are a real estate management and investment companies. These joint ventures have been incorporated in Canada and their principal place of business is in this country.

The following tables present summarized financial information about these joint ventures, namely the amounts included in their IFRS financial statements, which were adjusted to reflect adjustments made by the Federation when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

As at December 31, 2020	**RPADS LP[1]**	**Aviso Wealth[2]**	**101 St-Clair[1]**	**Primus Immobilia**	**Western Canada Shopping Centres**	**Brentcliffe Park[1]**	**Immeubles Mostra LP[1]**
Proportion of ownership interest held	**60.10%**	**50.00%**	**60.00%**	**85.00%**	**28.46 %**	**80.00%**	**60.00%**
Assets	**$ 703**	**$ 2,920**	**$ 168**	**$ 45**	**$ 309**	**$ 73**	**$ 50**
Liabilities[3]	**130**	**2,664**	**35**	**5**	**170**	**-**	**15**
Equity	**$ 573**	**$ 256**	**$ 133**	**$ 40**	**$ 139**	**$ 73**	**$ 35**
Interests in joint ventures[4]	**$ 390**	**$ 356**	**$ 82**	**$ 34**	**$ 40**	**$ 61**	**$ 29**

(1) The interest in the RPADS LP, 101 St-Clair, Brentcliffe Park and Immeubles Mostra LP joint ventures reflects adjustments of $46 million, $2 million, $3 million and $8 million, respectively, made when using the equity method.
(2) The interest in the Aviso Wealth joint venture reflects adjustments of $228 million made when using the equity method, which correspond to goodwill included in the carrying amount.
(3) Consisting primarily of financial liabilities other than accounts payable and provisions.
(4) Represents the carrying amount of the interests in joint ventures recognized in the Consolidated Balance Sheets.

As at December 31, 2019	RPADS LP[1]	Aviso Wealth[2]	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres	Immeubles Mostra LP
Proportion of ownership interest held	60.10%	50.00%	60.00%	85.00%	28.46%	60.00%
Assets	$ 649	$ 2,041	$ 172	$ 46	$ 316	$ 26
Liabilities[3]	126	1,804	36	6	170	4
Equity	$ 523	$ 237	$ 136	$ 40	$ 146	$ 22
Interests in joint ventures[4]	$ 352	$ 347	$ 82	$ 34	$ 42	$ 13

(1) The interest in the RPADS LP joint venture reflects adjustments of $38 million made when using the equity method.
(2) The interest in the Aviso Wealth joint venture reflects adjustments of $228 million made when using the equity method, which correspond to goodwill included in the carrying amount.
(3) Consisting primarily of financial liabilities other than accounts payable and provisions.
(4) Represents the carrying amount of the interests in joint ventures recognized in the Consolidated Balance Sheets.

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

JOINT VENTURES *(continued)*

Information about material joint ventures *(continued)*

For the year ended December 31, 2020	RPADS LP	Aviso Wealth	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres	Brentcliffe Park	Immeubles Mostra LP
Total income	$ 122	$ 475	$ 10	$ 7	$ 29	$ -	$ 1
Net income and comprehensive income for the year	$ 24	$ 48	$ 3	$ 2	$ 4	$ -	$ (1)

For the year ended December 31, 2019	RPADS LP	Aviso Wealth	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres	Immeubles Mostra LP
Total income	$ 108	$ 432	$ 9	$ 6	$ 32	$ -
Net income and comprehensive income for the year	$ 19	$ 41	$ 2	$ 2	$ 6	$ -

JOINT OPERATIONS

The Federation holds an 80% ownership interest in a joint arrangement with Cogir Real Estate Fund 1 and a 50% ownership interest in a joint arrangement with First Capital Realty Inc. to invest in undivided co-ownership in commercial buildings in Québec. It also holds a 50.5% ownership interest in a second joint arrangement with First Capital Realty Inc. formed during fiscal 2018 to invest in undivided co-ownership in commercial buildings in Ontario.

The Federation also participates in a joint arrangement with 9509593 Canada Inc. formed to invest in undivided co-ownership in multi-residential buildings in Québec. The Federation holds a 50% ownership interest in this joint arrangement.

These joint arrangements are joint operations giving the joint operators rights to the assets and obligations for the liabilities based on their ownership interests. All decisions about the relevant activities require the unanimous consent of the joint operators. These joint operations have been incorporated in Canada and their principal place of business is in this country.

ASSOCIATES

Information about material associates

The Federation holds interests in the Fiera Holdings Inc. and CC&L Haldimand Solar Co-Investment Limited Partnership. Fiera Holdings Inc. operates in the investment management industry, while CC&L Haldimand Solar Co-Investment Limited Partnership operates in the solar energy industry. They have been incorporated in Canada and their principal place of business is in this country.

The following tables present summarized financial information about these associates, namely the amounts included in their IFRS financial statements adjusted to reflect adjustments made by the Federation when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	As at December 31, 2020		As at December 31, 2019	
	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership
Proportion of ownership interest held[1,2]	37.78%	33.33%	37.20%	33.33%
Assets[3,4]	$ 1,609	$ 113	$ 1,705	$ 112
Liabilities[4]	1,094	-	1,139	-
Equity[3,4]	$ 515	$ 113	$ 566	$ 112
Interests in associates[5]	$ 36	$ 38	$ 41	$ 37

(1) Represents also the proportion of voting rights held by the Federation in the associates.
(2) As at December 31, 2020, the Federation indirectly held an 6.99% ownership interest (7.20% as at December 31, 2019) in Fiera Capital Corporation through its interest in Fiera Holdings Inc.
(3) Include goodwill of $10 million ($10 million as at December 31, 2019) related to Fiera Holdings Inc.
(4) The assets, liabilities and equity of Fiera Holdings Inc. for 2020 and 2019 are based on data as at September 30.
(5) Represents the carrying amount of the interests in associates recognized in the Consolidated Balance Sheets.

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

ASSOCIATES *(continued)*

Information about material associates *(continued)*

For the years ended December 31	**2020**		2019	
	Fiera Holdings Inc.	**CC&L Haldimand Solar Co-Investment Limited Partnership**	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership
Total income[(1)]	**$ 720**	**$ 8**	$ 579	$ 6
Net income and comprehensive income for the year[(1)]	**$ 8**	**$ 7**	$ (19)	$ 6

[(1)] Total income, net income and comprehensive income of Fiera Holdings Inc. for 2020 and 2019 are based on data for the twelve-month periods ended September 30.

UNCONSOLIDATED STRUCTURED ENTITIES

Mutual funds

The Federation holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns as a result of the units it holds in these funds, these units do not give the Federation power over the relevant activities of these funds. Accordingly, the Federation does not control these funds, which are considered as unconsolidated structured entities.

The investments of these funds are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. The Federation's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

NOTE 14 – OTHER ASSETS – OTHER

The following table presents the breakdown of "Other assets – Other".

	As at December 31, 2020	As at December 31, 2019
Accounts receivable	**$ 861**	$ 627
Interest receivable	**374**	319
Prepaid expenses	**252**	215
Taxes receivable	**200**	151
Other	**700**	356
	$ 2,387	$ 1,668

NOTE 15 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at December 31, 2020				As at December 31, 2019			
	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	**$ 3,543**	**$ 41**	**$ 747**	**$ 4,331**	$ 3,128	$ 32	$ 555	$ 3,715
Business and government	**7,544**	**-**	**45,625**	**53,169**	5,835	-	43,089	48,924
Deposit-taking institutions	**6,326**	**-**	**8,580**	**14,906**	2,596	-	3,737	6,333
	$ 17,413	**$ 41**	**$ 54,952**	**$ 72,406**	$ 11,559	$ 32	$ 47,381	$ 58,972

NOTE 16 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2020			2019		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Gross premiums	**$ 4,760**	**$ 5,550**	**$ 10,310**	$ 4,733	$ 5,250	$ 9,983
Premiums ceded under reinsurance treaties	**(206)**	**(76)**	**(282)**	(188)	(270)	(458)
Net premiums	**$ 4,554**	**$ 5,474**	**$ 10,028**	$ 4,545	$ 4,980	$ 9,525

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2020	As at December 31, 2019
Insurance contract liabilities		
Actuarial liabilities − Life and health insurance	**$ 23,356**	$ 20,985
Provisions for claims and adjustment expenses − Property and casualty insurance	**7,379**	6,716
Unearned premiums	**2,990**	2,824
Policyholder deposits	**624**	657
Provisions for benefits, policyholder dividends and experience refunds	**469**	414
Other	**53**	41
	$ 34,871	$ 31,637

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts.

	As at December 31, 2020	As at December 31, 2019
Gross actuarial liabilities		
Non-participating policies	**$ 18,334**	$ 16,500
Participating policies	**5,022**	4,485
	23,356	20,985
Amounts ceded to reinsurers	**(1,227)**	(1,075)
Net actuarial liabilities	**$ 22,129**	$ 19,910

	As at December 31, 2020	As at December 31, 2019
Composition of assets backing net actuarial liabilities		
Bonds	**$ 15,056**	$ 13,116
Mortgage and business loans	**2,343**	2,522
Investment property	**1,188**	1,082
Equities	**1,631**	1,662
Other	**1,911**	1,528
	$ 22,129	$ 19,910

The fair value of assets backing net actuarial liabilities was $23,167 million as at December 31, 2020 ($20,848 million as at December 31, 2019).

Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by Canadian accepted actuarial practices. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Consolidated Statements of Income.

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in the Consolidated Statements of Income.

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE *(continued)*

Actuarial assumptions *(continued)*

Mortality

The life and health insurance subsidiaries determine their mortality assumptions based on the annual studies of their recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, they also take into account industry studies. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance with Canadian accepted actuarial practices.

Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the life and health insurance subsidiaries use industry-developed morbidity tables modified based on current data provided by their studies of their underwriting experience and those of the industry.

Contract cancellation rates

The life and health insurance subsidiaries carry out an annual study of their underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their policy before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on these subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiaries are not sufficiently credible.

Investment return

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The life and health insurance subsidiaries manage the investments backing their actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in their matching policy. CALM is the standard established by the CIA to ensure the compliance of assets backing actuarial provisions. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, they mitigate their sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, cash flows from these assets are matched with cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the loss allowance for expected credit losses recognized through a write-down of the carrying amount of the assets, a provision amounting to $437 million as at December 31, 2020 ($417 million as at December 31, 2019) has been included in actuarial liabilities as a protection against the risk of insufficient return on assets.

Operating expenses and taxes

The operating expense assumptions reflect the projected costs for managing and processing contracts in force, including indirect overhead expenses. The life and health insurance subsidiaries carry out an annual study of operating expenses by major product line, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on "Net surplus earnings for the year after dividends to member caisses" of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2020	2019
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (55)**	$ (53)
Products for which a rate decrease increases actuarial liabilities	**(27)**	(22)
5% increase in future morbidity rates	**(90)**	(87)
10% negative change in future contract cancellation rates	**(179)**	(154)
5% increase in future operating expenses	**(48)**	(43)

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE *(continued)*

Changes in actuarial liabilities

The change in net actuarial liabilities during the years ended December 31 was due to business activities and to changes in actuarial estimates, as follows:

	2020			2019		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 20,985**	**$ (1,075)**	**$ 19,910**	$ 18,553	$ (915)	$ 17,638
Change due to						
Passage of time	**1,620**	**(41)**	**1,579**	1,658	(20)	1,638
New business	**760**	**(29)**	**731**	783	(26)	757
Changes in actuarial assumptions	**(82)**	**(5)**	**(87)**	(86)	(22)	(108)
	2,298	**(75)**	**2,223**	2,355	(68)	2,287
Other changes	**73**	**(77)**	**(4)**	77	(92)	(15)
Balance at end of year	**$ 23,356**	**$ (1,227)**	**$ 22,129**	$ 20,985	$ (1,075)	$ 19,910

Changes in actuarial assumptions

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact of changes made to assumptions on “Net surplus earnings for the year after dividends to member caisses” for the years ended December 31.

	2020	2019
Changed assumptions		
Mortality	**$ 33**	$ 54
Morbidity	**(1)**	(4)
Contract cancellation rates	**(38)**	(36)
Investment return	**10**	37
Operating expenses	**(14)**	41
Methods and other	**74**	(13)
	$ 64	$ 79

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE

Methodology and assumptions

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the rate of return for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Change in provisions for claims and adjustment expenses

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2020			2019		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 6,716**	**$ (802)**	**$ 5,914**	$ 6,489	$ (935)	$ 5,554
Claims incurred during the years	**3,801**	**(113)**	**3,688**	4,272	(189)	4,083
Development of claims incurred in prior years	**(263)**	**36**	**(227)**	(584)	78	(506)
Changes in discount rates	**251**	**(23)**	**228**	100	(12)	88
Claims paid during the year	**(3,126)**	**173**	**(2,953)**	(3,561)	256	(3,305)
Balance at end of year	**$ 7,379**	**$ (729)**	**$ 6,650**	$ 6,716	$ (802)	$ 5,914

Changes in assumptions had no material impact on the Consolidated Financial Statements as at December 31, 2020 and 2019.

Assumption sensitivity analysis

The following table shows the impact on the Consolidated Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the "Interest rate risk management" section of this note.

	Changes in actuarial assumptions	**Impact on "Net surplus earnings for the year after dividends to member caisses"**	
		2020	2019
Average claims settlement cost	+ 5%	**$ (302)**	$ (263)

Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2010 and before	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	Total
Estimated ultimate claims amount												
At the end of the accident year		$ 1,272	$ 1,375	$ 1,471	$ 1,536	$ 2,186	$ 2,417	$ 3,158	$ 3,691	$ 4,107	**$ 3,758**	
1 year later		1,272	1,322	1,447	2,453	2,168	2,387	3,121	3,656	4,122		
2 years later		1,238	1,328	2,186	2,349	2,165	2,365	3,086	3,705			
3 years later		1,221	1,967	2,086	2,272	2,117	2,349	3,090				
4 years later		1,781	1,839	1,977	2,184	2,089	2,361					
5 years later		1,657	1,769	1,910	2,105	2,050						
6 years later		1,568	1,717	1,872	2,099							
7 years later		1,547	1,694	1,843								
8 years later		1,507	1,672									
9 years later		1,499										
Cumulative payments to date		1,408	1,552	1,677	1,854	1,834	1,967	2,401	2,704	2,728	**1,736**	
Net provisions for claims and adjustment expenses	$ 312	$ 91	$ 120	$ 166	$ 245	$ 216	$ 394	$ 689	$ 1,001	$ 1,394	**$ 2,022**	$ 6,650
Reinsurers' share in provisions for claims and adjustment expenses	3	-	-	-	-	175	224	111	64	86	**66**	729
Gross provisions for claims and adjustment expenses	$ 315	$ 91	$ 120	$ 166	$ 245	$ 391	$ 618	$ 800	$ 1,065	$ 1,480	**$ 2,088**	$ 7,379

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Insurance risk management

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

The life and health insurance subsidiaries are exposed to insurance risk through the products they sell. Depending on the insurance product, these subsidiaries may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose these subsidiaries to expenditure risk.

The property and casualty insurance subsidiaries underwrite automobile, home and commercial property insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: underwriting risk, catastrophe risk and reserve risk.

To manage insurance risk, the insurance subsidiaries apply stringent policies and criteria with respect to product and service development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed.

In addition, for the life and health insurance subsidiaries, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims. With respect to catastrophes, the property and casualty insurance subsidiaries have established a governance structure to monitor the various risks caused by such events and use sophisticated tools to simulate the related financial losses and operational impact. Given the unpredictable nature of large-scale catastrophic events, the property and casualty insurance subsidiaries have a catastrophe reinsurance treaty, which is reviewed at least annually.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

Use of reinsurance

In order to limit their losses, the life and health and property and casualty insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. This reinsurance structure takes into account their respective risk profile and appetite. In addition, these subsidiaries purchase additional reinsurance protection with respect to large-scale catastrophic events. The retention and limit amounts selected for the property and casualty insurance subsidiaries' catastrophe treaty are subject to a detailed annual review based on these subsidiaries' various catastrophe models and the positioning of their competitors in the industry.

In connection with the acquisition of the Canadian businesses of State Farm, the property and casualty insurance subsidiaries signed a share reinsurance treaty under which, over a five-year period, all premiums and claims from new business and renewals related to the acquired businesses occurring after the acquisition date are ceded using percentages decreasing from 90% for the 2015 accident year to 10% for the 2019 accident year. Pursuant to the terms and conditions of the reinsurance treaty, amounts payable and receivable under the treaty will be settled on a net basis.

In order to reduce reinsurance risk, the life and health and property and casualty insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release these subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investments in trust so that it can fulfill its reinsurance obligations.

For the years ended December 31, the impact of reinsurance reduced the Consolidated Statements of Income items presented in the table below by the following amounts:

	2020			2019		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 206**	**$ 76**	**$ 282**	$ 188	$ 270	$ 458
Claims, benefits, annuities and changes in insurance contract liabilities	**208**	**101**	**309**	187	123	310

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Insurance risk management *(continued)*

Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimum guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimum guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of stock market, exchange rate and interest rate fluctuations on the future cost of guarantees. This program covers all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

Interest rate risk management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Consolidated Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limits of the gap between the duration of liabilities and the duration of the related assets. These subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Consolidated Statements of Income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Consolidated Statements of Income of the life and health insurance subsidiaries. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Consolidated Statements of Income. However, the subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Consolidated Statements of Income.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after dividends to member caisses" of a change in interest rates on the life and health insurance subsidiaries' actuarial liabilities and the assets backing these actuarial liabilities.

	2020	2019
1% increase in interest rates	**$ 68**	$ 57
1% decrease in interest rates	**(92)**	(77)

The interest rate risk management policy of the property and casualty insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the gap compared to the target duration of the consolidated fixed-income portfolio and as well as the limit of the gap between the duration of assets and liabilities to be backed. The property and casualty insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after dividends to member caisses" arising from the impact of a change in interest rates on the property and casualty insurance subsidiaries' provisions for claims and adjustment expenses and the assets backing these provisions.

	2020	2019
1% increase in interest rates	**$ 10**	$ 6
1% decrease in interest rates	**92**	(8)

NOTE 16 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Insurance risk management *(continued)*

Liquidity risk management

The life and health insurance subsidiaries manage liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet their financial obligations as they become due, in both routine and crisis situations.

For these subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

For the property and casualty insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities and spreading the collection of insurance premiums throughout the year, which generally supports a large portion of the cash outflows associated with claims and other expenses.

The liquidity risk management policy describes the principles and mechanisms that apply to liquidity risk management. Life and health insurance and property and casualty insurance subsidiaries are responsible, among other things, for measuring, monitoring and controlling the main liquidity indicators that apply to them. This responsibility involves quarterly liquidity monitoring to identify a potential or actual lack of liquidity within the insurance subsidiaries.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Consolidated Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2020	As at December 31, 2019
Less than 1 year	**$ 2,974**	$ 2,857
1 to 5 years	**6,499**	6,075
Over 5 years	**38,845**	37,458
Total	**$ 48,318**	$ 46,390

NOTE 17 – NET DEFINED BENEFIT PLAN LIABILITIES

This note should be read in conjunction with Note 17, “Net defined benefit plan liabilities”, to the audited Combined Financial Statements of Desjardins Group for the year ended December 31, 2020 approved on February 24, 2021, which presents the defined benefit group plans, the risks related to pension plans and information on non-group plans.

GROUP PLANS

Pension plans

The Federation participates in a pension plan and a supplemental pension plan through Desjardins Group’s defined benefit group plans. Consequently, the Federation recognizes its share in the liabilities of these plans in its Consolidated Balance Sheets.

Post-retirement benefit plan

For employees meeting certain criteria based on age and the number of years of participation in the plan, the Federation also offers a post-retirement benefit plan, including medical, dental and life insurance, to retiring employees and their dependents through the defined benefit group plan of Desjardins Group. Consequently, the Federation recognizes its share in the liability of this plan in its Consolidated Balance Sheets.

NOTE 17 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

NON-GROUP PLANS

The Federation also offers certain active and retired executives other defined benefit supplemental pension plans for which a liability representing future obligations with respect to these plans was recognized in the Consolidated Balance Sheets.

In addition, the employees of certain subsidiaries are offered specific defined benefit pensions plans and defined benefit post-retirement benefit plan that are not part of Desjardins Group's defined benefit group plans.

The following tables present the recognized defined benefit plan liabilities, cost and remeasurement of net liabilities for all the plans as well as the Federation's share in defined benefit group plans.

	As at December 31, 2020		As at December 31, 2019	
Net defined benefit plan liabilities				
Group plans				
Pension plans	**$ 1,320**	**68%**	$ 1,310	67%
Post-retirement benefit plan	**321**	**38**	285	38
	1,641		1,595	
Non-group plans	**343**		361	
Total net defined benefit plan liabilities	**$ 1,984**		$ 1,956	

	As at December 31, 2020	As at December 31, 2019
Defined benefit plan cost recognized		
Group plans		
Pension plans	**$ 310**	$ 253
Post-retirement benefit plan	**8**	9
	318	262
Non-group plans	**50**	45
Total defined benefit plan cost recognized	**$ 368**	$ 307

	As at December 31, 2020	As at December 31, 2019
Remeasurement of net defined benefit plan liabilities		
Group plans		
Pension plans	**$ (33)**	$ 307
Post-retirement benefit plan	**42**	32
	9	339
Non-group plans	**(33)**	31
Total remeasurement of net defined benefit plan liabilities	**$ (24)**	$ 370

NOTE 18 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of "Other liabilities – Other".

	As at December 31, 2020	As at December 31, 2019
Accounts payable and other accrued liabilities	**$ 2,596**	$ 2,861
Client contract liabilities	**695**	616
Interest payable	**407**	424
Provisions for risks and expenses	**362**	110
Taxes payable	**471**	166
Borrowings from financial institutions	**16**	14
Other	**1,102**	1,182
	$ 5,649	$ 5,373

NOTE 19 – SUBORDINATED NOTES

The subordinated notes presented in The Federation's Consolidated Balance Sheets comprise senior notes issued by Desjardins Capital Inc. and subordinated notes issued by the Federation. The gross proceeds of the senior notes issued by Desjardins Capital Inc. are invested in notes issued by the Desjardins caisses in Québec that are subordinated to the claims of depositors and certain other creditors. These senior notes rank prior, in right of payment, to the subordinated debt securities of Desjardins Capital Inc. and are secured by a hypothec on the subordinated notes issued by the Desjardins caisses in Québec. The subordinated notes of the Federation are direct unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors of the Federation. These claims extend to other entities included in the Desjardins Cooperative Group in the event of the dissolution, insolvency, bankruptcy or liquidation of the Federation in accordance with applicable law.

Redemptions and cancellations of the notes are subject to the consent and approval of the applicable regulatory authorities. These notes comprise the following items:

	As at December 31, 2020	As at December 31, 2019
Senior notes Series G of Desjardins Capital Inc. (par value of $900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer.(1)	**$ -**	$ 899
Senior notes Series J of Capital Desjardins Inc. (par value of $500 million), issued on December 15, 2011, maturing in December 2026, bearing interest at an annual rate of 4.954% for the first 10 years, and for the following 5 years, at an annual rate equal to the 3-month bankers' acceptance rate plus 2.67%, redeemable at the option of the issuer starting in 2021.	**495**	499
Subordinated notes of the Federation (par value of $1 billion) issued on May 26, 2020, maturing in May 2030, bearing interest at an annual rate of 2.856% for the first 5 years, for the following 5 years, at an annual rate equal to the 3-month bankers' acceptance rate plus 2.11%, redeemable at the option of the issuer starting in 2025.(2)	**998**	-
	$ 1,493	$ 1,398

(1) On May 5, 2020, all the outstanding Senior notes Series G, amounting to $900 million, were redeemed.

(2) These subordinated notes qualify as Non-Viability Contingent Capital (NVCC). Upon the occurrence of a trigger event, as defined in the regulations governing capital, these notes are automatically and immediately convertible into Class Z-Contingent capital shares of the Federation, the number of which will be equal to (i) the note value multiplied by 1.50 divided by (ii) the conversion price.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

DERIVATIVE FINANCIAL INSTRUMENTS

The Federation's derivative financial instruments include the following types of contracts:

Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. The Federation uses interest rate contracts primarily for asset and liability management purposes.

Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. The Federation uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

Other financial derivative contracts

Other derivative financial contracts used by the Federation include total return swaps and stock index options, which are related to financial index transactions, as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. The Federation enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2020	**Under 1 year**	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	**Assets**	**Liabilities**
Designated as hedging instruments[1]							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	**$ 1,117**	**$ 5,642**	**$ 1,573**	**$ 2,021**	**$ 10,353**	**$ 384**	**$ 62**
Interest rate swaps traded through a clearing house	**31**	**3,417**	**5,880**	**14,773**	**24,101**		
Average rate	***1.1%***	***1.6%***	***1.5%***	***1.2%***			
	1,148	**9,059**	**7,453**	**16,794**	**34,454**	**384**	**62**
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	**1,555**	**3,394**	**3,217**	**778**	**8,944**	**190**	**74**
CAD-US average rate	**-**	***1.2729***	***1.2729***	**-**			
CAD-EUR average rate	***1.5550***	***1.5550***	***1.5550***	**-**			
	1,555	**3,394**	**3,217**	**778**	**8,944**	**190**	**74**
Total – Fair value hedges	**2,703**	**12,453**	**10,670**	**17,572**	**43,398**	**574**	**136**
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	**807**	**550**	**134**	**-**	**1,491**	**30**	**8**
Interest rate swaps traded through a clearing house	**425**	**917**	**1,698**	**147**	**3,187**	**-**	**-**
Average rate	***1.6%***	***1.2%***	***0.9%***	***1.1%***			
Total – Cash flow hedges	**1,232**	**1,467**	**1,832**	**147**	**4,678**	**30**	**8**
Total – Designated as hedging instruments	**$ 3,935**	**$ 13,920**	**$ 12,502**	**$ 17,719**	**$ 48,076**	**$ 604**	**$ 144**

[1] Hedging instruments are presented under "Derivative financial instruments" in the Consolidated Balance Sheets.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets (*continued*).

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2020	**Under 1 year**	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	**Assets**	**Liabilities**
Trading purposes[(1)]							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	$ 76,869	$ 103,481	$ 49,838	$ 6,412	$ 236,600	$ 3,272	$ 3,254
Forward rate agreements	1,773	-	-	-	1,773	11	16
Options purchased	255	479	40	-	774	7	-
Options written	194	406	91	-	691	-	3
Contracts traded through a clearing house							
Interest rate swaps	44,596	58,561	39,558	15,659	158,374	-	-
Exchange-traded contracts							
Futures	5,853	1,640	-	-	7,493	-	-
Options purchased	26,674	-	-	-	26,674	6	-
Options written	25,300	-	-	-	25,300	-	7
	181,514	164,567	89,527	22,071	457,679	3,296	3,280
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	32,278	805	53	-	33,136	252	498
Currency swaps	1,623	39	385	680	2,727	11	102
Options purchased	531	305	-	-	836	12	-
Options written	1,008	304	-	-	1,312	-	38
Exchange-traded contracts							
Futures	4	-	-	-	4	-	-
	35,444	1,453	438	680	38,015	275	638
Other contracts[(2)]							
Over-the-counter contracts							
Swaps	8	117	193	-	318	5	5
Options purchased	7,199	15,705	12,398	360	35,662	2,795	-
Options written	7,084	15,286	12,016	210	34,596	-	2,686
Contracts traded through a clearing house							
Swaps	-	-	649	-	649	-	-
Exchange-traded contracts							
Futures	1,049	-	-	-	1,049	-	-
Options purchased	4	2	-	-	6	-	-
	15,344	31,110	25,256	570	72,280	2,800	2,691
Total – Trading purposes	$ 232,302	$ 197,130	$ 115,221	$ 23,321	$ 567,974	$ 6,371	$ 6,609
Total derivative financial instruments before impact of master netting agreements	$ 236,237	$ 211,050	$ 127,723	$ 41,040	$ 616,050	$ 6,975	$ 6,753
Less:							
Impact of master netting agreements[(3)]	-	-	-	-	-	3,001	3,001
Total derivative financial instruments after impact of master netting agreements	$ 236,237	$ 211,050	$ 127,723	$ 41,040	$ 616,050	$ 3,974	$ 3,752

(1) As at December 31, 2020, include derivatives with notional amounts totalling $470 million that would have been designated as hedging instruments if the Federation had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Basis of presentation and significant accounting policies".

(2) Include contracts related to indexed term savings products.

(3) Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2019	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	Assets	Liabilities
Designated as hedging instruments[1]							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	$ 2,497	$ 5,898	$ 5,388	$ 2,830	$ 16,613	$ 122	$ 95
Average rate	*1.6%*	*1.7%*	*2.3%*	*2.2%*			
	2,497	5,898	5,388	2,830	16,613	122	95
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	5,820	2,755	2,185	728	11,488	92	183
CAD-US average rate	*1.2985*	*1.2985*	-	-			
CAD-EUR average rate	*1.4565*	*1.4565*	*1.4565*	-			
	5,820	2,755	2,185	728	11,488	92	183
Total – Fair value hedges	8,317	8,653	7,573	3,558	28,101	214	278
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	719	4,095	3,070	27	7,911	27	41
Average rate	*1.9%*	*1.9%*	*2.0%*	*2.1%*			
Total – Cash flow hedges	719	4,095	3,070	27	7,911	27	41
Total – Designated as hedging instruments	$ 9,036	$ 12,748	$ 10,643	$ 3,585	$ 36,012	$ 241	$ 319

[1] Hedging instruments are presented under "Derivative financial instruments" in the Consolidated Balance Sheets.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2019	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	Assets	Liabilities
Trading purposes[1]							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	$ 97,350	$ 112,415	$ 70,455	$ 7,829	$ 288,049	$ 1,356	$ 1,229
Forward rate agreements	963	-	-	-	963	4	20
Options purchased	728	389	85	-	1,202	5	-
Options written	27	274	131	-	432	-	8
Contracts traded through a clearing house							
Interest rate swaps	7,186	11,675	12,831	5,535	37,227	-	-
Exchange-traded contracts							
Futures	16,206	100	-	-	16,306	-	-
Options purchased	10,843	-	-	-	10,843	3	-
Options written	26,282	-	-	-	26,282	-	3
	159,585	124,853	83,502	13,364	381,304	1,368	1,260
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	33,282	1,061	14	-	34,357	159	279
Currency swaps	2,874	-	388	480	3,742	20	49
Options purchased	952	241	16	-	1,209	14	-
Options written	1,127	266	13	-	1,406	-	17
Exchange-traded contracts							
Futures	2	-	-	-	2	-	-
	38,237	1,568	431	480	40,716	193	345
Other contracts[2]							
Over-the-counter contracts							
Swaps	81	162	1,140	-	1,383	3	2
Options purchased	5,021	13,867	12,432	86	31,406	2,990	-
Options written	4,789	12,046	9,470	-	26,305	-	2,901
Contracts traded through a clearing house							
Swaps	-	-	195	-	195	-	-
Exchange-traded contracts							
Futures	899	-	-	-	899	-	-
Options purchased	1	-	-	-	1	-	-
	10,791	26,075	23,237	86	60,189	2,993	2,903
Total – Trading purposes	$ 208,613	$ 152,496	$ 107,17	$ 13,930	$ 482,209	$ 4,554	$ 4,508
Total derivative financial instruments before impact of master netting agreements	$ 217,649	$ 165,244	$ 117,81	$ 17,515	$ 518,221	$ 4,795	$ 4,827
Less:							
Impact of master netting agreements[3]	-	-	-	-	-	1,688	1,688
Total derivative financial instruments after impact of master netting agreements	$ 217,649	$ 165,244	$ 117,81	$ 17,515	$ 518,221	$ 3,107	$ 3,139

[1] As at December 31, 2019, include derivatives with notional amounts totalling $504 million that would have been designated as hedging instruments if the Federation had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Basis of presentation and significant accounting policies".

[2] Include contracts related to indexed term savings products.

[3] Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The manner in which the Federation assesses market risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis.

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. In addition, when a financial instrument is denominated in a foreign currency, the Federation may enter into fair value hedges by using currency swaps or cross-currency interest rate swaps. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. The Federation uses fair value hedge strategies for its loan, deposit and securities portfolios.

Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. The Federation uses cash flow hedge strategies for its loan, deposit and securities portfolios.

Effectiveness assessment and sources of hedging relationship ineffectiveness

The Federation assesses the effectiveness of a hedging relationship by comparing the change in fair value or cash flows of the hedging instrument with that of the hedged item attributable to the hedged risk to demonstrate the existence of a highly effective correlation between the two instruments. When derivative financial instruments are designated as hedging instruments for a currency risk, only the change in currency risk is taken into account to assess hedge effectiveness.

There is ineffectiveness when the change in fair value of the hedged item attributable to the hedged risk differs from the change in fair value of the hedging instrument. The main sources of ineffectiveness are a difference between the actual and expected repricing dates, a difference between the discounting factors used and a difference between the payment dates for the hedging instrument and the hedged item.

The following table presents information on the ineffectiveness of fair value hedges.

	As at December 31, 2020		As at December 31, 2019	
	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	**Hedge ineffectiveness recognized in profit or loss[(1)]**	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss[(1)]
Fair value hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	**$ 320**	**$ 2**	$ 125	$ -
Interest rate swaps traded through a clearing house	**59**	**(3)**	-	-
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	**217**	**(23)**	(786)	1
Total – Fair value hedges	**$ 596**	**$ (24)**	$ (661)	$ 1

(1) The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES *(continued)*

Effectiveness assessment and sources of hedging relationship ineffectiveness *(continued)*

The following tables present information on the ineffectiveness of cash flow hedges for the years ended December 31.

2020	**Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness**	**Hedge ineffectiveness recognized in profit or loss[(1)]**	**Hedging gains (losses) recognized in other comprehensive income**	**Gains (losses) reclassified from the cash flow hedge reserve into profit or loss – Active hedges[(2)]**
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	**$ 152**	**$ 2**	**$ 33**	**$ 13**
Interest rate swaps traded through a clearing house	**11**	**-**	**(4)**	**(9)**
Total – Cash flow hedges	**$ 163**	**$ 2**	**$ 29**	**$ 4**

(1) The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".
(2) The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

2019	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss[(1)]	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss – Active hedges[(2)]
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	$ (11)	$ -	$ (9)	$ 3
Total – Cash flow hedges	$ (11)	$ -	$ (9)	$ 3

(1) The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".
(2) The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES *(continued)*

Effectiveness assessment and sources of hedging relationship ineffectiveness *(continued)*

The following tables present the impact of hedge accounting on balances recognized in the Consolidated Balance Sheets and in accumulated other comprehensive income.

	Cash flow hedges			Fair value hedges			
As at December 31, 2020	**Balance of the cash flow hedge reserve**	**Balance of the reserve for discontinued hedges**	**Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year**	**Carrying amount of the hedged item**	**Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item**	**Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted**	**Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year**
Interest rate risk							
Assets							
Securities	**$ 9**	**$ 7**	**$ (13)**	**$ 23,368**	**$ -**	**$ -**	**$ 26**
Loans	**19**	**9**	**(182)**	**1,337**	**32**	**1**	**40**
Liabilities							
Deposits	**$ (8)**	**$ (21)**	**$ 34**	**$ 11,630**	**$ (374)**	**$ (45)**	**$ (445)**
Currency risk							
Liabilities							
Deposits	**$ -**	**$ -**	**$ -**	**$ 9,082**	**$ (151)**	**$ -**	**$ (240)**

	Cash flow hedges			Fair value hedges			
As at December 31, 2019	Balance of the cash flow hedge reserve	Balance of the reserve for discontinued hedges	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments for any hedged items that have ceased to be adjusted	Gains (losses) on hedged items used as the basis for calculating hedge ineffectiveness for the year
Interest rate risk							
Assets							
Securities	$ 2	$ -	$ 6	$ 2,382	$ -	$ -	$ (18)
Loans	(17)	(1)	12	1,349	(1)	-	12
Liabilities							
Deposits	$ 2	$ (4)	$ 1	$ 12,246	$ (14)	$ (4)	$ (119)
Currency risk							
Liabilities							
Deposits	$ -	$ -	$ -	$ 11,488	$ 40	$ -	$ 787

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward the Federation at a time when the fair value of the instrument is positive for the Federation. The manner in which the Federation assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Consolidated Financial Statements.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
Credit risk equivalent	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by Basel III.
Risk-weighted balance	The balance weighted by the risks related to the creditworthiness of counterparties, determined using methods prescribed by Basel III.

The following table gives an overview of the Federation's derivative financial instruments portfolio and related credit risk, before and after the impact of master netting agreements.

	As at December 31, 2020				As at December 31, 2019			
	Notional amount	**Replacement cost**	**Credit risk equivalent**	**Risk-weighted balance**	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Interest rate swaps	**$ 434,106**	**$ 3,685**	**$ 877**	**$ 1,079**	$ 349,800	$ 1,505	$ 819	$ 754
Forward rate agreements	**1,773**	**-**	**28**	**24**	963	-	4	5
Futures	**7,493**	**11**	**-**	**-**	16,306	4	-	-
Options purchased	**27,448**	**14**	**8**	**3**	12,045	8	7	4
Options written	**25,991**	**-**	**-**	**-**	26,714	-	-	-
	496,811	**3,710**	**913**	**1,106**	405,828	1,517	830	763
Foreign exchange contracts								
Forward contracts	**33,136**	**252**	**408**	**373**	34,357	159	451	373
Futures	**4**	**-**	**-**	**-**	2	-	-	-
Currency swaps	**11,671**	**201**	**126**	**118**	15,230	112	196	222
Options purchased	**836**	**12**	**27**	**42**	1,209	14	75	71
Options written	**1,312**	**-**	**-**	**-**	1,406	-	-	-
	46,959	**465**	**561**	**533**	52,204	285	722	666
Other contracts								
Swaps	**967**	**5**	**16**	**4**	1,578	3	114	33
Futures	**1,049**	**-**	**-**	**-**	899	-	-	-
Options purchased	**35,668**	**2,795**	**2,965**	**2,391**	31,407	2,990	2,650	2,661
Options written	**34,596**	**-**	**-**	**-**	26,305	-	-	-
	72,280	**2,800**	**2,981**	**2,395**	60,189	2,993	2,764	2,694
Total derivative financial instruments before impact of master netting agreements	**$ 616,050**	**$ 6,975**	**$ 4,455**	**$ 4,034**	$ 518,221	$ 4,795	$ 4,316	$ 4,123
Less:								
Impact of master netting agreements[(1)]	**-**	**3,001**	**-**	**82**	-	1,688	-	49
Total derivative financial instruments after impact of master netting agreements	**$ 616,050**	**$ 3,974**	**$ 4,455**	**$ 3,952**	$ 518,221	$ 3,107	$ 4,316	$ 4,074

[(1)] Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK *(continued)*

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

	As at December 31, 2020		As at December 31, 2019	
	Replacement cost	**Risk-weighted balance**	Replacement cost	Risk-weighted balance
Credit risk rating[(1)]				
AAA, AA+, AA, AA-	**$ 4,719**	**$ 914**	$ 2,786	$ 1,378
A+, A, A-	**2,015**	**1,835**	1,902	2,009
BBB, B, BB-, BBB-	**93**	**260**	43	126
CCC, CC, C	**-**	**1**	-	-
Not rated	**148**	**1,024**	64	610
	6,975	**4,034**	4,795	4,123
Less:				
Impact of master netting agreements[(2)]	**3,001**	**82**	1,688	49
Total after impact of master netting agreements	**$ 3,974**	**$ 3,952**	$ 3,107	$ 4,074
Type of counterparty				
Financial institutions	**$ 6,730**	**$ 2,791**	$ 4,653	$ 3,386
Other	**245**	**1,243**	142	737
	6,975	**4,034**	4,795	4,123
Less:				
Impact of master netting agreements[(2)]	**3,001**	**82**	1,688	49
Total after impact of master netting agreements	**$ 3,974**	**$ 3,952**	$ 3,107	$ 4,074

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of the Federation. Although the table presents information by external rating, risk-weighted assets have been calculated using internal ratings.
(2) Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – SIGNIFICANT TRANSACTIONS

Year ended December 31, 2020

On July 15, 2020, the Federation acquired, through 9420-7404 Québec inc., the Canadian real estate operations of Purplebricks Group plc for a total amount of $62 million. 9420-7404 Québec inc. mainly operates two brands, DuProprio and Purplebricks Canada. The determination of the fair value of identifiable assets and liabilities acquired, amounting to $80 million and $29 million, respectively, was completed during the year ended December 31, 2020. The transaction resulted in the recognition of intangible assets of $25 million and goodwill of $35 million. Closing costs directly attributable to the acquisition were recognized under “Non-interest expenses – Other”.

Year ended December 31, 2019

On December 31, 2019, the Federation completed the sale to Global Payments of its entire merchant portfolio, which was housed under the Monetico brand, and finalized the implementation, as of January 1, 2020, of the long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. In addition, on October 31, 2019, the Federation announced it would gradually phase out in-store Accord D financing as of May 1, 2020. These activities were presented in the Individual and Business Services segment.

In the Consolidated Statement of Income for the year ended December 31, 2019, a gain of $349 million on the disposal of the merchant portfolio was recognized under “Other income – Other”.

NOTE 22 – CAPITAL STOCK

AUTHORIZED

The capital stock of the Federation comprises the following qualifying shares and capital shares:

There is an unlimited number of qualifying shares with a par value of $5. These shares may be issued only to members of the Federation and are redeemable only at the Board of Directors' option under certain conditions stipulated in the by-law.

There is an unlimited number of A and G capital shares with a par value of $5 and an unlimited number of F capital shares and contingent Z-capital shares (Z capital shares) with a par value of $10. The A and G shares may be issued only to members of the Federation, while F capital shares may be issued only to members of Desjardins caisses in Québec, including their auxiliary members. Z capital shares may be issued to any person in accordance with the Act, but only for converting non-viability contingent capital instruments of the Federation or at the discretion of the Federation after such conversion. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, A, G, F and Z capital shares, if any, at any time. The Federation may also purchase, in whole or in part, A, G, F and Z capital shares, if any, by private agreement, at any time, with the authorization of the AMF. Furthermore, the A and G capital shares may be converted, at any time, by a resolution of the Board of Directors, in whole or in part, into another category of shares issued for this purpose. The interest rate on A, G, F and Z capital shares, if any, is determined by the Federation's Board of Directors which approves annually the surplus earnings that may be allocated to the payment of interest on these capital shares. The repayment of principal and payment of interest on the A, G, F and Z capital shares, if any, are subject to compliance with certain conditions.

The Federation has the right, by resolution of the Board of Directors, to call for capital in the form of G capital shares from its members, in particular to meet the requirements of a regulatory body with respect to capital adequacy or for other considerations. Any member subject to the capital call must acquire and pay for the G capital shares allotted to it.

There is an unlimited number of FIN-5A, INV, and SER capital shares related to an investment fund. These shares may be issued only to members of the Federation; they have no par value and do not bear interest. Subject to provisions of the Federation's own by-law, the holders of these shares divide up the net income of the funds. These shares are redeemable, with the authorization of the AMF, at the option of the Board of Directors or by private agreement. Furthermore, they may be converted, by a resolution of the Board of Directors, in whole or in part, into another category of shares issued for this purpose.

The qualifying share and the capital shares of the Federation do not entitle their holders to be called, participate or vote at the Federation members meetings.

SHARES ISSUED AND PAID

(in thousands of dollars)	**As at December 31, 2020**		As at December 31, 2019	
	Number of shares	**Amount**	Number of shares	Amount
Qualifying shares	**32,180**	**$ 161**	32,270	$ 161
A capital shares	**13,789,467**	**68,947**	13,789,467	68,947
F capital shares	**489,298,743**	**4,871,673**	489,298,743	4,871,673
G capital shares	**600,532,931**	**3,002,665**	600,532,931	3,002,665
INV capital shares	**47,856,914**	**-**	47,856,914	-
SER capital shares	**2,865,680**	**23,395**	2,865,680	23,395
FIN-5A capital shares	**694,258,599**	**916,974**	694,258,599	916,974
		$ 8,883,815		$ 8,883,815

ISSUANCE OF SHARES

In 2019, the Federation had issued 10,530,473 F capital shares for a cash consideration of $105 million.

REDEMPTION OF SHARES

During the year ended December 31, 2020, the Federation redeemed 90 capital shares (330 capital shares in 2019) for a non significant cash consideration.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2020		As at December 31, 2019	
	Group’s share	**Non-controlling interests’ share**	Group’s share	Non-controlling interests' share
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net unrealized gains on debt securities classified as at fair value through other comprehensive income[1]	**$ 559**	**$ 7**	$ 128	$ 1
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	**166**	**7**	132	6
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**12**	**-**	(12)	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**1**	**-**	1	-
Accumulated other comprehensive income	**$ 738**	**$ 14**	$ 249	$ 7

[1] Reflects an allowance for credit losses of $4 million as at December 31, 2020 ($3 million as at December 31, 2019) on securities classified as at fair value through other comprehensive income.

NOTE 24 – CAPITAL MANAGEMENT

Capital management is a function covering all Desjardins Group operations, including those of the Federation. Accordingly, the description of the Federation’s capital management and the manner in which it meets its capital management objectives is derived from the orientation followed for all Desjardins Group operations. The goal of capital management at Desjardins Group is to ensure that the capital level is consistent with its risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, and regulators’ expectations and requirements. Capital is managed in accordance with the Desjardins Group capital management policy approved by the Federation’s Board of Directors.

DESJARDINS GROUP’S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The 2018 revision of the *Act respecting Financial Services Cooperatives* made it possible to formalize the unique solidarity and liquidation mechanisms within the Desjardins Cooperative Group. Depositors and creditors are now protected by the overall capital of the Desjardins Cooperative Group. To reflect this situation, the AMF issued on September 16, 2020 a notice stipulating that the Federation’s capital ratios must be calculated on the basis of the exposure of all the entities making up Desjardins Group. Comparative data were restated to reflect that change.

The regulatory capital adequacy and composition of the Federation are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF, which is derived from the normative framework developed by the Basel Committee on Banking Supervision, and reflect the applicable relief measures implemented by the AMF in response to the COVID-19 pandemic. The holding company Desjardins Financial Corporation Inc. is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF. Consequently, for purposes of calculating capital, the holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and partly deducted from capital, in accordance with the significant investments rules set out in the guideline.

Some of the Federation’s subsidiaries are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements. Desjardins Group monitors and manages these entities’ capital requirements to ensure capital is effectively used and regulations are complied with on an ongoing basis.

BASEL III

The Federation’s capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets. The Federation must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively.

NOTE 24 – CAPITAL MANAGEMENT *(continued)*

REGULATORY CAPITAL

The regulatory capital differs from the equity disclosed in the Combined Balance Sheets of Desjardins Group. It comprises the following components:

i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1A (core capital) and Tier 1B (additional capital). Tier 1A capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings and accumulated other comprehensive income. Tier 1B capital consists of non-controlling interests. Non-controlling interests are determined, in particular, based on the nature of the operations and the capitalization of the investee.

ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It consists of NVCC subordinated notes, senior notes subject to phase-out, eligible qualifying shares and the eligible portion of the collective allowance.

The Federation is required by the AMF to meet a minimum leverage ratio of 3.5%. This ratio is determined by dividing Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet exposures.

The following table presents the regulatory capital balances, risk-weighted assets and capital ratios.

(in millions of dollars and as a percentage)	**As at December 31, 2020**	As at December 31, 2019
Capital		
Tier 1A capital	**$ 26,317**	$ 24,549
Tier 1 capital	**26,317**	24,549
Total capital[(1)]	**27,114**	24,549
Risk-weighted assets		
Credit risk	**103,658**	94,799
Market risk	**2,561**	3,095
Operational risk	**13,705**	13,021
Total risk-weighted assets before RWA floor	**$ 119,924**	$ 110,915
RWA floor[(2)]	**177**	2,946
Total risk-weighted assets	**$ 120,101**	$ 113,861
Ratios and leverage ratio exposure		
Tier 1A capital	**21.9%**	21.6%
Tier 1 capital	**21.9**	21.6
Total capital[(1)]	**22.6**	21.6
Leverage	**8.5**	8.8
Leverage ratio exposure	**$ 307,925**	$ 280,322

(1) During the second quarter of 2020, the Federation issued subordinated notes qualifying as Non-Viability Contingent Capital and considered as Tier 2 capital securities. For more information see Note 19, "Subordinated notes".

(2) In accordance with the guideline as updated during the first quarter of 2019, the RWA floor is now defined using the Standardized Approaches set out in that guideline.

COMPLIANCE WITH REQUIREMENTS

The Federation and its subsidiaries that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2020, as they were in the previous year.

NOTE 25 – NET INTEREST INCOME AND NET INVESTMENT INCOME

NET INTEREST INCOME

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

For the year ended December 31	2020	2019
Interest income on financial assets		
At amortized cost	**$ 2,262**	$ 2,841
At fair value through other comprehensive income	**333**	159
At fair value through profit or loss	**11**	22
	2,606	3,022
Interest expense on financial liabilities		
At amortized cost	**978**	1,522
	$ 1,628	$ 1,500

NET INVESTMENT INCOME

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

For the years ended December 31	2020			2019		
	Interest income and expense	**Change in fair value and other**	**Total**	Interest income and expense	Change in fair value and other	Total
Net investment income on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 276**	**$ 63**	**$ 339**	$ 327	$ 350	$ 677
Designated as at fair value through profit or loss	**516**	**1,338**	**1,854**	533	1,385	1,918
Classified as at fair value through other comprehensive income	**110**	**228**	**338**	143	45	188
At amortized cost and other	**125**	**270**	**395**	134	53	187
	$ 1,027	**$ 1,899**	**$ 2,926**	$ 1,137	$ 1,833	$ 2,970

NOTE 26 – NON-INTEREST EXPENSE – OTHER

For the years ended December 31, “Non-interest expense – Other” presented in the Consolidated Statements of Income consisted of the following:

	2020	2019
Commissions	**$ 809**	$ 830
Recovery of expenses related to reinsurance	**(27)**	(77)
Professional fees	**650**	622
Business and capital taxes	**349**	337
Other employee expenses	**93**	140
Amortization of intangible assets	**77**	83
Sponsorships and donations	**24**	32
Other	**811**	766
	$ 2,786	$ 2,733

NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense recognized in the Consolidated Financial Statements for the years ended December 31 is detailed as follows:

	2020	2019
Consolidated Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 382**	$ 284
Adjustments for current tax of prior years	**(5)**	(17)
Current tax recovery on remuneration on capital stock	**(66)**	(71)
Tax recovery on dividends to member caisses	**(30)**	(31)
	281	165
Deferred income taxes		
Origination and reversal of temporary differences	**(47)**	(2)
Changes in tax rates	**1**	1
Adjustments for deferred tax of prior years	**40**	17
	(6)	16
	$ 275	$ 181
Consolidated Statements of Comprehensive Income		
Current income taxes	**$ 170**	$ 74
Deferred income taxes	**4**	(93)
	174	(19)
Total income tax expense	**$ 449**	$ 162

Income taxes on surplus earnings presented in the Consolidated Statements of Income for the years ended December 31 are detailed as follows:

	2020	2019
Income taxes on surplus earnings	**$ 305**	$ 212
Tax recovery on dividends to member caisses	**(30)**	(31)
Income taxes on surplus earnings	**$ 275**	$ 181

TAX RATE RECONCILIATION

The income tax expense on surplus earnings recognized in the Consolidated Statements of Income for the years ended December 31 differs from the income tax expense determined using the Canadian statutory rate for the following reasons:

	2020	2019
Income taxes at the combined Canadian federal and provincial statutory rate of 26,39% (26.63% in 2019)	**$ 318**	$ 354
Non-taxable investment income and other items	**(73)**	(150)
Changes in tax rates	**1**	1
Non-deductible expenses	**5**	7
Ajustment for current and deferred tax of prior years	**35**	-
Tax recovery on remuneration on capital stock	**(66)**	(71)
Income tax expense resulting from an election for a deduction transferred to member	**53**	38
Other	**2**	2
	$ 275	$ 181

NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS *(continued)*

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Consolidated Balance Sheets		Consolidated Statements of Income	
	As at December 31, 2020	As at December 31, 2019	**2020**	2019
Deferred tax assets				
Lease liabilities	**$ 90**	$ 90	**$ -**	$ (90)
Allowance for credit losses	**127**	120	**(7)**	13
Net defined benefit plan liabilities	**524**	518	**(10)**	(2)
Tax losses	**157**	221	**64**	(53)
Other	**193**	168	**(25)**	7
	1,091	1,117	**22**	(125)
Deferred tax liabilities				
Property, plant and equipment, intangible assets and investment property	**168**	177	**(9)**	13
Right-of-use assets	**86**	88	**(2)**	88
Securities and other financial instruments	**42**	48	**(6)**	(1)
Insurance contract liabilities	**55**	66	**(11)**	41
	351	379	**(28)**	141
Net deferred income tax assets	**$ 740**	$ 738	**$ (6)**	$ 16

For the purposes of presenting the Consolidated Balance Sheets, deferred tax assets and liabilities are measured by legal entities and presented as follows:

	As at December 31, 2020	As at December 31, 2019
Deferred tax assets[1]	**$ 1,013**	$ 1,015
Deferred tax liabilities[1]	**273**	277
	$ 740	$ 738

[1] Deferred income taxes will reverse mainly in the long term.

There were no deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Consolidated Balance Sheets as at December 31, 2020 and 2019.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, the Federation uses credit instruments and off-balance sheet guarantees to meet the financing needs of its member caisses and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that the Federation granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that the Federation could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that the Federation could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater than the amount recognized in the Consolidated Balance Sheets.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Consolidated Balance Sheets expose the Federation to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2020	As at December 31, 2019
Commitments		
Credit commitments	**$ 71,375**	$ 67,490
Indemnification commitments related to securities lending	**1,702**	1,985
Documentary letters of credit	**117**	156
Financial guarantees		
Guarantees and standby letters of credit	**720**	717
Credit default swaps	**649**	195

Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that member caisses and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Indemnification commitments related to securities lending

As part of its asset custody operations, the Federation enters into securities lending agreements with clients. The Federation makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount. There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

Documentary letters of credit

Documentary letters of credit are instruments issued for a client and represent the Federation’s agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. The Federation is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by the Federation to make payments in the event that a client cannot meet financial obligations to third parties. The Federation’s policy with respect to collateral received for these instruments is generally the same as for loans.

Credit default swaps

In the normal course of its investment operations, the Federation entered into credit default swaps and undertook to assume the credit risk for the bonds that constitute the underlying assets for these swaps. The guarantee given is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

COMMITMENTS AND FINANCIAL GUARANTEES *(continued)*

Other indemnification agreements

In the normal course of its operations, the Federation enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, the Federation may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that the Federation could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, the Federation enters into asset pledge agreements and receives from its clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor's right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of the Federation's financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	As at December 31, 2020	As at December 31, 2019
Financial assets of the Federation pledged as collateral:		
Cash and deposits with financial institutions	**$ 1**	$ 18
Securities	**19,070**	12,463
Loans	**4,049**	4,141
	23,120	16,622
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**16,588**	16,629
Less: Assets not sold or not repledged	**1,272**	760
	15,316	15,869
	$ 38,436	$ 32,491
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 23,625**	$ 15,469
Transactions involving commitments related to securities sold short	**8,808**	10,639
Securitization transactions	**22**	185
Transactions on derivative financial instruments	**178**	114
Clearing systems, payment systems and depositories(1)	**4,842**	4,744
Transactions involving provisions for claims and adjustment expenses(2)	**961**	1,340
	$ 38,436	$ 32,491

(1) In the normal course of its operations, the Federation must pledge intraday collateral to the Bank of Canada for the use of the Large Value Transfer System. Such collateral is excluded as it is released back at the end of the daily settlement cycle.
(2) Represent securities pledged as collateral in connection with the reinsurance treaty that transferred, at the date of acquisition, the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to the Federation.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

LITIGATION

In the normal course of its business, the Federation is involved in various litigation matters and legal proceedings. It is not currently possible to predict the outcome of certain of these litigation matters and legal proceedings, the timing of such outcomes, or the potential impact on the financial position of the Federation. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and legal proceedings, to the extent that it can be measured, could have an impact on the profit or loss of the Federation for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT

The Federation and its subsidiaries are exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which the Federation assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas and tables marked with an asterisk (*) presented in that section are an integral part of these Consolidated Financial Statements. In addition, information on credit risk related to the recognition and measurement of expected credit losses are presented in these Consolidated Financial Statements, mainly in Note 2, "Basis of presentation and significant accounting policies", and in Note 7, "Loans and allowance for credit losses".

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS

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

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

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

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2020	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 11,125	$ 385	$ 3	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,513
Securities										
Securities at fair value through profit or loss[1]	172	181	865	302	627	1,508	5,632	20,672	4,999	34,958
Securities at fair value through other comprehensive income[1]	660	519	385	513	1,338	4,048	14,593	18,239	66	40,361
Securities at amortized cost	-	-	-	-	1	2	4	22	-	29
Securities borrowed or purchased under reverse repurchase agreements	10,610	599	383	-	-	-	-	-	-	11,592
Loans										
Residential mortgages[2]	26	84	139	107	230	979	589	1,279	7	3,440
Consumer, credit card and other personal loans[2]	23	42	111	214	326	1,234	5,240	5,178	6,723	19,091
Business and government[2]	7,384	3,255	1,675	1,502	1,020	6,414	7,931	1,667	2,929	33,777
Allowance for credit losses	-	-	-	-	-	-	-	-	(639)	(639)
Segregated fund net assets	-	-	-	-	-	-	-	-	19,093	19,093
Clients' liability under acceptances	312	2	-	14	-	-	-	-	-	328
Premiums receivable	173	59	13	3	-	-	-	-	2,559	2,807
Derivative financial instruments	156	247	431	280	246	1,149	3,823	643	-	6,975
Amounts receivable from clients, brokers and financial institutions	1,807	10	-	-	-	-	-	-	691	2,508
Reinsurance assets	38	71	78	69	66	173	362	1,105	-	1,962
Right-of-use assets	-	-	-	-	-	-	-	-	291	291
Investment property	-	-	-	-	-	-	-	-	910	910
Property, plant and equipment	-	-	-	-	-	-	-	-	907	907
Goodwill	-	-	-	-	-	-	-	-	156	156
Intangible assets	-	-	-	-	-	-	-	-	424	424
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,189	1,189
Deferred tax assets	-	-	-	-	-	-	-	-	1,013	1,013
Other assets	275	164	119	7	14	20	47	15	1,726	2,387
Total assets	$ 32,761	$ 5,618	$ 4,202	$ 3,011	$ 3,868	$ 15,527	$ 38,221	$ 48,820	$ 43,044	$ 195,072

For footnotes see next page.

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2020	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals(3)	$ 13	$ 38	$ 43	$ 36	$ 58	$ 118	$ 298	$ 137	$ 3,590	$ 4,331
Business and government(3)	10,382	5,770	4,463	2,056	376	4,925	13,861	3,597	7,739	53,169
Deposit-taking institutions(3)	706	1,167	1,648	808	490	1,498	2,245	18	6,326	14,906
Acceptances	312	2	-	14	-	-	-	-	-	328
Commitments related to securities sold short(4)	248	343	399	91	141	859	1,920	5,346	6	9,353
Commitments related to securities lent or sold under repurchase agreements	13,266	1,250	3,120	-	505	1,011	-	-	-	19,152
Derivative financial instruments	350	306	524	261	232	1,159	3,787	134	-	6,753
Amounts payable to clients, brokers and financial institutions	3,195	-	-	-	-	-	-	-	3,615	6,810
Lease liabilities	3	5	7	8	7	30	82	195	9	346
Insurance contract liabilities	469	849	1,013	913	862	2,135	4,885	20,755	2,990	34,871
Segregated fund net liabilities	-	-	-	-	-	-	-	-	19,089	19,089
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,984	1,984
Deferred tax liabilities	-	-	-	-	-	-	-	-	273	273
Other liabilities	1,935	708	315	17	13	62	43	33	2,523	5,649
Subordinated notes	-	-	-	-	-	-	-	1,493	-	1,493
Total equity	-	-	-	-	-	-	-	-	16,565	16,565
Total liabilities and equity	**$ 30,879**	**$ 10,438**	**$ 11,532**	**$ 4,204**	**$ 2,684**	**$ 11,797**	**$ 27,121**	**$ 31,708**	**$ 64,709**	**$ 195,072**
Off-balance sheet commitments										
Credit commitments(5)	$ 805	$ 189	$ 1,072	$ 1,043	$ 1,121	$ 3,381	$ 7,168	$ 153	$ 56,443	$ 71,375
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,702	1,702
Documentary letters of credit	6	8	67	8	13	12	3	-	-	117
Guarantees and standby letters of credit	60	129	181	141	147	8	12	6	36	720
Credit default swaps	-	-	-	-	-	-	649	-	-	649

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

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2019	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	$ 2,637	$ 428	$ 10	$ -	$ -	$ -	$ -	$ -	$ 9	$ 3,084
Securities										
Securities at fair value through profit or loss(1)	18	442	1,068	296	1,014	1,650	6,395	19,452	4,832	35,167
Securities at fair value through other comprehensive income(1)	353	330	379	255	185	1,479	6,715	2,895	59	12,650
Securities at amortized cost	567	468	263	166	113	1	4	34	-	1,616
Securities borrowed or purchased under reverse repurchase agreements	11,070	282	-	-	-	-	-	-	-	11,352
Loans										
Residential mortgages(2)	66	47	132	154	155	652	1,706	1,261	10	4,183
Consumer, credit card and other personal loans(2)	16	43	130	188	287	1,331	5,481	5,235	7,856	20,567
Business and government(2)	8,071	2,137	2,339	1,144	1,107	5,748	11,327	1,767	7,187	40,827
Allowance for credit losses	-	-	-	-	-	-	-	-	(464)	(464)
Segregated fund net assets	-	-	-	-	-	-	-	-	17,026	17,026
Clients' liability under acceptances	368	12	-	-	-	-	-	-	-	380
Premiums receivable	195	73	15	3	-	-	-	-	2,403	2,689
Derivative financial instruments	129	143	255	178	316	1,037	2,492	245	-	4,795
Amounts receivable from clients, brokers and financial institutions	1,738	3	-	-	-	-	-	-	498	2,239
Reinsurance assets	37	70	82	70	65	174	380	1,002	121	2,001
Right-of-use assets	-	-	-	-	-	-	-	-	298	298
Investment property	-	-	-	-	-	-	-	-	944	944
Property, plant and equipment	-	-	-	-	-	-	-	-	840	840
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	381	381
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,034	1,034
Deferred tax assets	-	-	-	-	-	-	-	-	1,015	1,015
Other assets	271	84	74	5	10	24	57	7	1,136	1,668
Total assets	$ 25,536	$ 4,562	$ 4,747	$ 2,459	$ 3,252	$ 12,096	$ 34,557	$ 31,898	$ 45,306	$ 164,413

For footnotes see next page.

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2019	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]	$ 41	$ 26	$ 33	$ 28	$ 44	$ 102	$ 211	$ 62	$ 3,168	$ 3,715
Business and government[3]	7,260	5,656	3,591	3,153	4,867	2,731	12,520	3,311	5,835	48,924
Deposit-taking institutions[3]	152	98	257	173	204	819	2,029	5	2,596	6,333
Acceptances	368	12	-	-	-	-	-	-	-	380
Commitments related to securities sold short[4]	495	201	171	9	7	196	1,866	7,668	2	10,615
Commitments related to securities lent or sold under repurchase agreements	10,562	-	-	-	-	-	-	-	-	10,562
Derivative financial instruments	152	198	307	218	238	1,067	2,506	141	-	4,827
Amounts payable to clients, brokers and financial institutions	2,695	-	-	-	-	-	-	-	2,857	5,552
Lease liabilities	3	4	7	7	7	26	78	210	8	350
Insurance contract liabilities	442	792	980	858	798	1,931	4,492	18,520	2,824	31,637
Segregated fund net liabilities	-	-	-	-	-	-	-	-	17,002	17,002
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,956	1,956
Deferred tax liabilities	-	-	-	-	-	-	-	-	277	277
Other liabilities	2,225	423	417	25	25	45	110	44	2,059	5,373
Subordinated notes	-	-	899	-	-	-	-	499	-	1,398
Total equity	-	-	-	-	-	-	-	-	15,512	15,512
Total liabilities and equity	$ 24,395	$ 7,410	$ 6,662	$ 4,471	$ 6,190	$ 6,917	$ 23,812	$ 30,460	$ 54,096	$ 164,413
Off-balance sheet commitments										
Credit commitments[5]	$ 966	$ 50	$ 395	$ 335	$ 549	$ 3,566	$ 7,977	$ 513	$ 53,139	$ 67,490
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,985	1,985
Documentary letters of credit	-	27	93	11	7	7	11	-	-	156
Guarantees and standby letters of credit	25	129	52	225	147	6	9	38	86	717
Credit default swaps	-	-	-	-	-	-	195	-	-	195

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

NOTE 30 – SEGMENTED INFORMATION

The Federation is made up of the three following segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. These segments have been structured according to the needs of the members of the Desjardins caisse network and clients and the markets in which the Federation operates, and they reflect the Federation's internal management method. During the first quarter of 2020, some changes were made to business segments to reflect management's decisions on how each segment is managed. Financial information related to activities that are not specific to a business segment is presented under the Treasury and Other Support to Desjardins Group Entities category. Comparative figures were restated to reflect these reclassifications.

The Personal and Business Services segment is responsible for upgrading and marketing a comprehensive, integrated offer designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. The line of products and services includes day-to-day, transactions, financing, specialized services, access to capital markets, development capital, business ownership transfers and advice. The Personal and Business Services segment supports the caisses and their service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through the introduction and management of complementary access networks, by phone, online and via, applications for mobile devices, as well as ATMs. Certain Desjardins Securities activities that were previously presented in the Wealth Management and Life and Health Insurance segment have been presented in the Personal and Business Services segment since the first quarter of 2020.

The Wealth Management and Life and Health Insurance segment provides various categories of service offerings aimed at increasing the wealth of members and clients of Desjardins Group and helping them protect their financial security. These offerings are intended for individuals and businesses, while group insurance or savings plans meet the needs of employees through their businesses or those of individuals who are part of any other group. This segment designs several lines of life and health insurance protection and savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private management products. This segment also includes asset management for institutional clients. Its products and services are distributed through employees of the caisse network and Desjardins Business centres, financial security advisors, investment advisors, private managers, exclusive agents, independent partners, actuarial consulting firms and group plan representatives. Certain product lines are also distributed online, via applications for mobile devices and through client care centres. This segment also includes the operations of the interest in Aviso Wealth. Certain Desjardins Trust activities that were previously presented in the Personal and Business Services segment have been presented in the Wealth Management and Life and Health Insurance segment since the first quarter of 2020.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in Québec and outside Québec, online and via applications for mobile devices.

The Treasury and Other Support to Desjardins Group Entities category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities and activities related to financial intermediation between surplus liquidity and the liquidity needs of the caisses, as well as orientation and organizational activities for Desjardins Group. This category also includes the operations of Desjardins Capital Inc. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. Since the third quarter of 2020, it also includes the real estate services operations of 9420-7404 Québec inc., which manages two brands, DuProprio and Purplebricks Canada. In addition to the various adjustments that are necessary to prepare the consolidated financial statements, the intersegment balance eliminations are classified in this category.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Consolidated Financial Statements of the Federation.

NOTE 30 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of the Federation's financial results by business segment for the years ended December 31.

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Net interest income	**$ 1,195**	$ 1,235	**$ 8**	$ 9	**$ -**	$ -	**$ 425**	$ 256	**$ 1,628**	$ 1,500
Net premiums	**-**	-	**4,711**	4,689	**5,484**	4,988	**(167)**	(152)	**10,028**	9,525
Other income	**2,166**	2,487	**3,690**	3,690	**337**	169	**500**	503	**6,693**	6,849
Total income	**3,361**	3,722	**8,409**	8,388	**5,821**	5,157	**758**	607	**18,349**	17,874
Provision for credit losses	**537**	308	**-**	1	**-**	-	**2**	1	**539**	310
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**5,564**	5,497	**3,689**	3,665	**4**	(13)	**9,257**	9,149
Non-interest expense	**2,704**	2,566	**2,100**	2,052	**1,303**	1,245	**1,129**	1,109	**7,236**	6,972
Operating surplus earnings	**120**	848	**745**	838	**829**	247	**(377)**	(490)	**1,317**	1,443
Income taxes on surplus earnings	**31**	171	**136**	141	**207**	60	**(69)**	(160)	**305**	212
Surplus earnings before dividends to member caisses[(1)]	**89**	677	**609**	697	**622**	187	**(308)**	(330)	**1,012**	1,231
Dividends to member caisses, net of income tax recovery	**-**	-	**-**	-	**-**	-	**83**	84	**83**	84
Net surplus earnings for the year after dividends to member caisses	**$ 89**	$ 677	**$ 609**	$ 697	**$ 622**	$ 187	**$ (391)**	$ (414)	**$ 929**	$ 1,147
of which:										
Group's share	**$ 89**	$ 677	**$ 609**	$ 697	**$ 538**	$ 141	**$ (391)**	$ (414)	**$ 845**	$ 1,101
Non-controlling interests' share	**-**	-	**-**	-	**84**	46	**-**	-	**84**	46

(1) For the year ended December 31, 2020, the Group's share of "Surplus earnings before dividends to member caisses" was $89 million ($677 million in 2019) for the Personal and Business Services segment, $609 million ($697 million in 2019) for the Wealth Management and Life and Health Insurance segment, $538 million ($141 million in 2019) for the Property and Casualty Insurance segment and $(308) million ($(330) million in 2019) for the Treasury and Other Support to Desjardins Group entities category.

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Treasury and Other Support to Desjardins Group Entities	Consolidated
As at December 31, 2020	**$ 71,829**	**$ 51,019**	**$ 15,473**	**$ 56,751**	**$ 195,072**
As at December 31, 2019	$ 63,019	$ 48,072	$ 13,860	$ 39,462	$ 164,413

NOTE 31 – RELATED PARTY DISCLOSURES

The Federation's related parties include entities included in the group scope of Desjardins Group and primarily member caisses. They also include associates, joint ventures and employee benefit plans, as well as certain entities for which the substance of the relationship indicates that they are related to the Federation, including the Desjardins Funds. In addition, they include key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH THE FEDERATION'S RELATED PARTIES

Transactions with the Federation's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The Federation and its subsidiaries carry out transactions with related parties, and primarily member caisses. Services rendered to member caisses include various technical, administrative and financial services for which income, such as assessments and fees, are earned. On the other hand, member caisses earn remuneration income from the Federation on products and services such as credit cards, payroll services, as well as fund and investment services and financial engineering. The Federation also plays a treasurer role, which allows the caisses to borrow or lend liquidities. Swaps are also entered into between member caisses and the Federation.

Through Desjardins Investments Inc., the Federation earns management fees as manager of the Desjardins Funds for the following services: accounting, record-keeping, securities custody, portfolio management and transfer agent services. Through Desjardins Trust Inc., the Federation also earns fees as fund custodian. Finally, the Federation also earns management income from pension plans and pays interest expense to the Desjardins Group Pension Plan.

These transactions and balances as at the reporting dates are as follows:

	2020				2019			
	Member caisses	**Associates / Joint ventures**	**Other related parties**	**Total**	Member caisses	Associates / Joint ventures	Other related parties	Total
Consolidated Statements of Income								
Interest income	**$ 401**	**$ 3**	**$ 1**	**$ 405**	$ 686	$ 5	$ -	$ 691
Interest expense	**(183)**	**-**	**(1)**	**(184)**	(182)	(1)	(2)	(185)
Net premiums	**108**	**-**	**1**	**109**	113	-	1	114
Assessments	**382**	**-**	**12**	**394**	380	-	13	393
Service agreements	**912**	**-**	**32**	**944**	826	-	30	856
Brokerage and investment fund services	**-**	**1**	**586**	**587**	-	1	560	561
Net investment income	**(540)**	**-**	**-**	**(540)**	(1,522)	3	(88)	(1,607)
Other income	**168**	**9**	**63**	**240**	185	9	(46)	148
Remuneration and other	**(589)**	**-**	**-**	**(589)**	(578)	-	-	(578)
Other expenses	**(253)**	**(6)**	**(1)**	**(260)**	(254)	(5)	(3)	(262)
Consolidated Balance Sheets								
Cash and deposits with financial institutions	**$ 81**	**$ -**	**$ -**	**$ 81**	$ 150	$ -	$ -	$ 150
Securities	**1**	**82**	**100**	**183**	-	98	111	209
Securities borrowed or purchased under reverse repurchase agreements	**1,933**	**-**	**195**	**2,128**	1,320	-	484	1,804
Loans	**20,383**	**113**	**14**	**20,510**	26,832	105	-	26,937
Segregated fund net assets	**-**	**-**	**2,939**	**2,939**	-	-	1,602	1,602
Other assets	**1,314**	**1**	**36**	**1,351**	757	2	23	782
Deposits	**14,550**	**133**	**260**	**14,943**	5,752	66	331	6,149
Commitments related to securities lent or sold under repurchase agreements	**-**	**-**	**-**	**-**	-	-	15	15
Derivative financial instruments	**4,465**	**-**	**75**	**4,540**	3,347	-	73	3,420
Other liabilities	**535**	**-**	**3**	**538**	565	1	6	572
Other								
Commitments given	**$ 739**	**$ 70**	**$ 535**	**$ 1,344**	$ 398	$ 36	$ 429	$ 863
Guarantees given	**1,531**	**6**	**197**	**1,734**	1,300	6	187	1,493
Credit commitments received	**35**	**-**	**-**	**35**	35	-	-	35
Guarantees received	**1,953**	**-**	**197**	**2,150**	1,335	-	480	1,815

NOTE 31 – RELATED PARTY DISCLOSURES *(continued)*

KEY MANAGEMENT PERSONNEL COMPENSATION

The Federation's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Federation. In the normal course of operations, the Federation carries out financial transactions with its management personnel. In addition to the compensation paid to key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance, and property and casualty insurance transactions with the various entities included in the scope of consolidation of the Federation. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of the Federation's key management personnel was as follows:

	2020	2019
Short-term benefits	**$ 13**	$ 14
Long-term and post-employment benefits	**5**	7
	$ 18	$ 21

Cooperative governance that changes and grows with members and clients

The values and democratic structure of Desjardins Group (Desjardins) are central to the organization's strategic vision and initiatives. Representatives acting on behalf of caisse members decide where we're heading. Caisse directors are appointed or elected to sit on the boards of directors of the Fédération des caisses Desjardins du Québec (Federation) and our subsidiaries and to attend Desjardins Group's annual meetings according to the rules set out in the *Bylaws of the Groupe coopératif Desjardins* (group bylaws) or the *Desjardins Group Policy on the Composition of Boards of Directors of Subsidiaries and Other Components.* The Desjardins Group Board of Directors also appoints 4 independent directors as members to enrich the decision-making process with new perspectives and experiences.

To prepare for their decision-making responsibilities, these representatives regularly participate in team-building exercises and they attend the Congress, which is generally held every 3 years. As caisse directors, these representatives delve into the local needs of their members and communities and make sure we're always doing what's best for them. The caisse boards—plus those of our subsidiaries and the Federation—are also responsible for making sure we're doing what's best for Desjardins clients all across Canada.

In 2020, we continued our efforts to integrate environmental, social and governance (ESG) factors into our governance and business practices. This aspect has become essential in the financial sector. We also remain committed to climate action and climate change adaptation, and now it's the caisse boards' turn to explore these topics. Our goals to be everyone's #1 choice and to enrich the lives of people and communities depend on collective efforts to protect resources and the environment. We have joined other key players in the civil sector and in government to contribute to a sustainable, responsible economy.

Governance highlights

The COVID-19 pandemic and a governance audit by the Autorité des marchés financiers (AMF) dominated 2020.

The other highlights from the year are:

1. **The cultural shift**

   We continued to roll out a cultural shift program for directors, managers and employees to change business practices, management practices and systems so that every person working at Desjardins is always doing what's best for members and clients. This is a recurring topic for board meetings. The board has been exploring how to track and achieve this goal, and it has made some changes to the general incentive plan to align the entire organization with the cultural shift objectives.

   To support the cultural shift, we launched a Desjardins Fundamentals training strategy for all Desjardins employees and directors at the start of 2021.

2. **Changes to Desjardins Group governance**

   As our industry changes, new risks emerge. To stay current, we need to adapt our governance practices for the board and Desjardins Group as a whole, especially as these practices relate to:
   - Ensuring a diversity of expertise and experience on the board and aligning director profiles with the skills needed to advise, guide and monitor an organization as large as ours
   - Monitoring the board and how robust its control, alert and crisis management mechanisms are
   - Reviewing the system of checks and balances within the organization to ensure sound and prudent management

   Our governance is designed to protect our members' and clients' wealth, support our organization over the long term, build trust and meet the requirements for a domestic systemically important financial institution. To help navigate any changes to governance, the board formed a committee of experts to review its governance practices and provide insight based on their experience and areas of expertise. We also surveyed governance practices in the banking, insurance and financial service cooperative sectors to align with industry best practices.

   With the committee's input, we were able to develop some questions to guide reflection on governance mechanisms and practices by the board and at the next Congress, planned for fall 2021. Several improvements will also be presented at the next annual general meeting, planned for March 2021.

3. Information technology, data management and data security governance

The board of directors adopted a series of measures to bolster risk management associated with data management and information technology (IT) governance. We also set up the Desjardins Group Security Office, which reflects our firm commitment to:

- Protect Desjardins members and clients, their assets and their personal information
- Effectively allocate resources and investments to support our security efforts
- Coordinate organizational initiatives and institute integrated, cross-sector security strategies
- Optimize our security reporting process

As one of the major ways we create value, IT is an integral part of our governance. To comply with the AMF's Guideline on Information and Communications Technology Risk Management, we'll be reviewing our governance documents in 2021 to integrate recommendations from the guideline and to strengthen the IT governance framework for Desjardins Group and our subsidiaries.

4. The COVID-19 pandemic and the Federation's annual general meeting

The Federation held its annual general meeting online in 2020 because with the pandemic, it wasn't safe for 1,200 delegates to gather in person. Since it wasn't possible to hold online elections on such short notice, the Federation also took the necessary steps to extend the mandates of the members of the board of directors and the Board of Ethics and Professional Conduct by 1 year.

5. Caisse annual general meetings postponed and special general meetings held online

In line with the government's recommendations to avoid all public gatherings, Desjardins caisses in Quebec postponed their in-person annual general meetings. Instead, they held special general meetings online to make sure their members received member dividends as a gesture of solidarity in the midst of the pandemic.

6. 2 new co-opted independent directors appointed to the Desjardins board of directors

The board co-opted 2 new independent directors to bolster its expertise in IT. Since 2019, the board has co-opted 4 independent directors with areas of expertise that it identified as priorities to round out its skill set. The priority areas include expertise in finance and accounting, brand management, the digital shift, cybersecurity, major project management and information technology.

7. Sustainable development, responsible finance and climate strategy initiatives

We adopted our first policy confirming our commitment to sustainable development in 2005. Since then, we've developed several initiatives, and we renewed our commitment in 2017 with a position outlining our contribution to reaching the Paris Agreement objectives. In 2020, following discussions held in 2019 and 2020, the board revised its policy and adopted a caisse-level version, which aims to do the following at the local level:

- Affirm that climate action and climate change adaptation are priorities for our organization
- Lay the foundations for identifying and analyzing the main risks and opportunities associated with ESG factors
- Establish a sustainable development performance management framework for caisses

Since 2018, the application of ESG factors has changed our business practices and management practices because these factors are now part of our procurement, real estate management and IT management operations. The board makes sure that climate risk and ESG factors are taken into consideration in our governance and business model. This means we need new expertise on our boards. Consequently, this requirement has been identified as a priority area for the next round of director elections. You can find the most up-to-date version of our commitments on our website at blogues.desjardins.com/press_release/2020/01/report-concrete-measures.php.

Governance structure

At Desjardins, the primary purpose of our governance practices is to support our mission of contributing to improving the economic and social well-being of people and communities. The Federation oversees the development and application of the Desjardins-wide governance framework, which takes into account our cooperative nature, our sustainable development and responsible finance objectives, the complexity of our operations and the AMF's guidelines. This framework covers the activities of the Federation, the Desjardins Security Fund, our subsidiaries, Quebec caisses and Caisse Desjardins Ontario Credit Union Inc. As certain components are subject to specific laws and regulations, the framework largely complies with rules established by the Canadian Securities Administrators and the Office of the Superintendent of Financial Institutions, as well as industry best practices.

Mandate of the Board of Directors

1. Administration of the Federation

Pursuant to the Act Respecting Financial Services Cooperatives, the board is responsible for managing the affairs of the Federation, with support from its commissions and committees. It ensures that the necessary mechanisms and structures are in place for it to accomplish its role as the organization that guides, plans, coordinates, monitors and controls all Desjardins operations. As part of its responsibilities, it makes the necessary decisions and coordinates the components' actions to support our organization over the long term. The organizational structure, which is built around the business sectors and support functions, serves to optimize overall performance, streamline the organization and improve financial and risk management. The board's responsibilities include the following:

a. Corporate culture

The board is responsible for promoting the corporate culture based on Desjardins's values: money at the service of human development, democratic action, personal commitment, integrity and rigour in the cooperative enterprise, solidarity with the community and intercooperation, with a view to earning the trust of the public and ensuring members and clients have confidence in their financial services cooperative. The board is also responsible for enforcing Desjardins's rules of professional conduct.

At the heart of this ever-evolving culture is the strategic framework defined by the board, which is based on Desjardins's purpose: At Desjardins, we enrich the lives of people and communities through our members and clients. All our decision-making and actions regarding our strategic priorities are guided by our goal of becoming everyone's #1 choice by always doing what's best for our members and clients.

The Federation has a Board of Ethics and Professional Conduct (BEPC) whose members are independent from management and from the board. Desjardins also has a policy for reporting violations of regulations and of the Desjardins Code of Professional Conduct. This policy is combined with a confidential reporting mechanism that protects the anonymity of those who use it. We regularly send communications to employees to make sure they're aware of this governance mechanism.

The Desjardins Code of Professional Conduct, which is available to the public on Desjardins.com, applies to all Desjardins components. It includes a section on ethics and Desjardins's mission and values, and a section that describes all the rules of professional conduct. All Desjardins employees and directors must sign an annual acknowledgement that they have read and agree to uphold the Desjardins Code of Professional Conduct. The BEPC obtains a report and follows up on this.

b. Strategic and financial planning process

The board has an ongoing strategic and financial planning process for Desjardins that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. This process is the basis for all other plans for Desjardins components and focuses on maintaining continuity, setting priorities and fostering commitment. The board adopts a strategic plan that is updated periodically. For this process, it requests the participation of the caisses, Desjardins Group's democratic bodies and business sectors, as well as the decision-making bodies of its subsidiaries.

The strategic planning process occasionally calls on the Congress, which is an assembly of more than 1,000 caisse delegates. Mechanisms are in place to ensure that all components are aligned with key strategic directions, including the general incentive plan, to set shared objectives that revolve around always doing what's best for members and clients and promoting unity, equality and synergy within the organization. These shared objectives encourage all managers and employees to put members and clients first.

The board plays a supervisory, monitoring and control role in this process, with support from the Desjardins Group Management Committee (DGMC). The DGMC produces regular reports via the performance review so the board can monitor the progress made on Desjardins's strategic plan and business plans, and make changes as needed.

c. Identification and management of main risks

The board is responsible for identifying the main risks facing Desjardins, approving the organization's appetite for these risks and ensuring that management sets up the required systems to manage these risks in a sound and prudent manner. The board is supported in these tasks by the Risk Management Executive Division. Backed by the Risk Management Commission (RMC), the board works with the Audit and Inspection Commission (AIC), which is responsible for risks related to the financial reporting process. The DGMC also supports the board in carrying out its responsibilities in this area. All RMC sessions include closed-door meetings with the Risk Management Executive Division, as well as closed-door meetings which are not attended by management.

A detailed presentation of the risk management principles applied at Desjardins Group can be found in the Risk Management section of the Management's Discussion and Analysis on page 54.

The mandates and lists of members of the commissions and committees that support the Federation's board of directors are available on our website at desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp. Additional information specifically about the RMC and its governance practices can also be found there.

d. Succession planning

The board oversees the senior management succession and development program with the support of the Human Resources Commission (HRC) and the Human Resources and Communications Executive Division. The HRC runs the program and reports to the board, making recommendations as needed. This program is an important tool for the DGMC, as it promotes personal development, supports succession planning and helps protect the organization against human resources-related risks.

Talent development, succession planning and hiring processes promote professional competency and diversity among Desjardins staff.

President and CEO

In keeping with Desjardins's cooperative nature, the president and CEO is chosen by an electoral college made up of representatives from all Quebec and Ontario caisses, meaning the successful candidate is backed by the majority, ensuring their ability to lead, align and unite the organization. The maximum tenure is 8 years (two 4-year terms). Although the board does not have the power to appoint the president and CEO, it does play a role in succession planning, mainly through the senior management succession program and skills development for directors of local caisses, subsidiaries and the Federation. The board is also responsible for ensuring smooth transitions between mandates by adopting the major parameters of each 4 year plan, which becomes the base for the next strategic plan, and by updating the president and CEO profile based on Desjardins's status as a domestic systemically important financial institution.

The electoral process is governed by the group bylaws and the Desjardins Code of Professional Conduct and is overseen by an Election Committee made up of directors who are independent from the board and the BEPC. The Election Committee is responsible for establishing the rules of the electoral process and the rules of conduct applicable to the electoral college, candidates, employees and directors from local caisses, assessing how the candidates fit the profile and recommending that the board remove candidates who do not meet the minimum requirements. This committee also makes sure that the electoral college has the tools it needs to assess the candidates who do meet the requirements. The BEPC is responsible for issuing notices for any violations of the Desjardins Code of Professional Conduct submitted by the Election Committee.

Senior Executive Vice-President and COO

To bolster independence, stability and succession planning, the board approves the appointment of the senior executive vice-president and COO, who assumes, for the purposes of the law and the group bylaws, the role of general manager of the Federation. The senior executive vice president and COO also recommends a working organizational structure for Federation and Desjardins senior executives to the president and CEO.

e. Integrity of internal control and management reporting systems

The board, backed by the AIC, ensures the implementation of effective control systems and obtains the required reporting information from management. The board is supported in this responsibility by Desjardins's chief monitoring officer, whose annual work plan is approved by the AIC. A rigorous financial governance process is applied throughout Desjardins to properly support the Executive Vice-President of Finance, Treasury and Administration and CFO who, together with Desjardins's president and CEO, is responsible for certifying Desjardins's combined financial statements.

The Federation discloses financial information in compliance with CSA *National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*. Desjardins is not, on a combined basis, a reporting issuer according to the National Instrument. However, we have elected to comply with the National Instrument to show our willingness to observe best practices in financial governance. Under Federation's financial governance system, signing officers certify, at the end of the fiscal year, the design and operating effectiveness of disclosure controls and procedures, as well as the internal controls over financial reporting.

At Desjardins, we continuously update our internal control system to make sure it's effective, efficient and tailored to our organization's needs. This system is designed to provide the boards of directors of Desjardins components with reasonable assurance that the components are achieving their business objectives in compliance with regulatory requirements.

The board ensures that the DGMC provides the board and its commissions and committees with information that is accurate, timely and adapted to the specific needs of its directors so they can take advantage of business opportunities and measure the risks involved. Board members are invited to assess the quality of documents used in the decision-making process. This is a recurring segment on the agenda to ensure continuous improvement.

The board benefits from the information used by each business sector to effectively monitor key performance indicators, as it allows its members to quickly obtain strategic information pertinent to the decision-making process.

Board members receive financial and operating reports at least quarterly so they can assess Desjardins's situation and the status of the Federation's projects. The board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of this information.

To effectively carry out its duties, the board holds regular meetings on a predetermined schedule. Board members receive the meeting agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process. The board constantly seeks to increase its efficiency and focus its efforts on strategic issues by optimizing meeting agendas and by delegating certain operational responsibilities to the DGMC. The DGMC's mandate, which clarifies how responsibilities are divided between the board and senior management, is reviewed annually.

Directors have access to technological tools so they can easily and securely access all meeting-related documentation and management guidelines for Desjardins's operations. They are required to comply with Desjardins's information security policy.

f. Strategic communications

The board adopts a communications policy and strategic communications priorities for Desjardins, in line with the Desjardins Group strategic and financial plan, including actions to be taken and targets. The Federation also draws up internal and external communications plans or strategies in order to better manage relations with the caisses and their members; the business sectors and their clients; employees; socioeconomic, community and non-governmental organizations; opinion makers; the public; the media; rating agencies; and the government. It ensures consistent, quality communications across Desjardins, helps promote Desjardins's cooperative nature, contributes to the promotion, development and growth of the Desjardins brand; and listens to internal and external audiences.

The Federation oversees the financial reporting process and the disclosure of any major changes that may affect Desjardins's financial position. It uses different teams and various channels to communicate effectively with its stakeholders.

These teams and channels include: the Office of the Ombudsman, the Desjardins ethics and professional conduct support team and the caisse complaint-handling procedure; as well as, within Desjardins: the annual general meetings, the disclosure of quarterly financial results, publications (including our annual report and the Social and Cooperative Responsibility Report), toll-free telephone numbers, intranet portals (including one designed especially for caisse directors), the website (which includes information on the Co-opme program on education, cooperation and dialogue with our members and clients, as well as a Member Relations section), the Federation's member services team, the procedure for reporting violations of regulations and of the Desjardins Code of Professional Conduct, newsletters and social media (Facebook, YouTube, LinkedIn, Twitter, etc.).

In addition, the Federation maintains relations with international rating agencies and coordinates Desjardins's relationships with the different levels of government in compliance with applicable lobbying legislation.

2. Composition of the board of directors

In 2020, the Federation's board consisted of 23 members, 20 of whom are independent directors. Currently, there are 19 elected members and 4 co-opted directors. One elected director position will be eliminated at the next elections to bring the number of directors to 22.

Additionally, the following members of management support the board by attending its meetings: the senior executive vice-president and COO; the Executive Vice-President, Finance, Treasury and Administration and CFO; the Secretary General and Vice-President, Governance and Sustainable Development; and the Vice-President, President's Office, Cooperation and Director Support.

3. Nomination process

In accordance with Desjardins's democratic structure and the principle of delegation, in 2020 there were 18 members of the board who were elected by the delegates of the Federation member caisses during the annual general meeting. The Federation therefore benefits from having independent directors who have in-depth knowledge of their community and the activities of Desjardins. Their knowledge of the organization is one of the considerable advantages of Desjardins's democratic structure. There were also 2 caisse general managers to help the board assess strategies and objectives and make sure they reflect the caisses' needs and priorities.

Every year, 4 independent directors are co-opted by the board for 1-year terms renewable for up to 12 years.

The last seat is reserved for the President and CEO of Desjardins Group, who is elected by a different electoral college than the other members and the board.

Board members have 3-year renewable terms, and each year one-third of the board members are outgoing. Federation directors and members of the BEPC are subject to a limit of 4 terms, consecutive or not. Given the exceptional circumstances surrounding the COVID-19 pandemic, we were unable to hold elections in 2020, so the mandates of the members of the Board and the BEPC were extended 1 year until March 2021.
Board membership is also based on an enhanced group profile, in accordance with the group bylaws. The board adopts and updates, as needed, this enhanced group profile, which it strives to achieve, and which takes into account the following criteria: interpersonal skills and expertise related to the individual qualities required to be a member of the board; the skills required to handle the strategic and fiduciary responsibilities of a domestic systemically important financial institution; and representation from diverse communities, members and clients. The Federation has designed tools to help electors understand what is expected of directors, so they can make an informed choice. The board's role is to put in place strategies to find the right mix of skill sets as quickly as possible and to present the candidates who meet the enhanced group profile and priority areas at the general meeting. The BEPC plays the same role for that governing body, which is independent of the board of directors. The general meeting's role is to elect people who meet the requirements set by the board or the BEPC.

Desjardins adopted a gender parity priority for the boards of directors of its caisses, subsidiaries and the Federation. Parity is taken into account in the electoral and nomination processes. Our goal is to reach parity by 2024.

4. Definition of independent director

A director is considered independent if they do not have any significant relationship with Desjardins that, in the opinion of the board, may affect the independence of their judgment.

There are 3 non-independent members of the board of directors: Desjardins's president and CEO, plus 2 caisse general managers. The president and CEO is a non-independent party because they are a member of Federation management, and the caisse general managers are non-independent parties because they are employees of cooperatives belonging to Desjardins (the caisses). The directors do not have any business or personal relationships with members of the DGMC; nor do they have any interests which, in the opinion of the board, could significantly interfere with their ability to act in the best interests of the Groupe coopératif Desjardins, or any interests of any other nature which, in the opinion of the board, could reasonably be perceived as harmful. As a result, the members of the board, both individually and collectively, are able to exercise objective and impartial judgment on Desjardins business free of undue influence from senior management or third parties. However, given that some directors and officers also sit on the boards of other companies, under certain circumstances a real or potential conflict of interest may arise due to their duties to the Federation and to the other companies. Marie-Ève Tremblay, for example, sits on the boards of directors for the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc. and Desjardins Capital Inc., while also serving as a director at Fondaction, an investment fund whose main activity is providing loans to Quebec businesses. This could lead to her having a potential conflict of interest with regard to Desjardins's venture capital activities.

For guidance in these matters, the board refers to the provisions of the Desjardins Code of Professional Conduct and the Conflict of Interest Management Policy which govern the actions of its directors, and to the declarations of interests filed annually by the directors. To make sure the assessment follows Basel Committee recommendations, we revised the declaration of interests form in 2020 to add the disclosure of personal, professional and financial ties to members of the board or the DGMC and anyone reporting to them.

Only 1 member of the Federation's board, Marie-Josée Lamothe, sits on the board of a public company.

Independent directors

In the opinion of the Board, and in accordance with CSA *National Instrument 52-110 – Audit Committees* and the AMF *Governance Guideline*, the following directors are independent:

- Louis Babineau
- Johanne Charbonneau
- Stéphane Corbeil
- Michel Doré
- Nadine Groulx
- Kateri C. Jourdain
- Jean-François Laporte
- Roch Ouellet
- Michel Tourangeau
- Stéphane Trottier
- Lisa Baillargeon
- Carole Chevalier
- Sonia Corriveau
- André Grenier
- Dominique Jodoin
- Marie-Josée Lamothe
- Camil Maltais
- Serge Rousseau
- Marie-Eve Tremblay
- Yvon Vinet

Sonia Corriveau and Dominique Jodoin were co-opted directors on June 10, 2020.
Pierre Perras is managing director, his mandate ended April 30, 2020. He is managing director and independent as well as the others directors.

Non-independent directors and bases for that determination

In the opinion of the Board, and in accordance with CSA *National Instrument 52-110 – Audit Committees* and the AMF *Governance Guideline*, the following directors are not independent:

- Guy Cormier
- Benoît Bélanger
- Neil Hawthorn

5. Performance reviews and director skills

Performance reviews

The board and its commissions and committees conduct a review of their performance every 2 years. A 2-year action plan based on these performance reviews is then submitted to the board by the Corporate Governance and Responsible Finance Commission (CGRFC), which oversees the plan.

This exercise is accompanied by individual meetings between each director and the chair of the board. These meetings, whether formal or not, are intended to enhance the performance of decision-making bodies and each director's contribution. Directors have regular meetings with the chair throughout the year. The vice-chair, who is also a lead director, holds regular meetings with the board to monitor its independence and exemplary conduct.

Director skills

The board has adopted an enhanced group profile with criteria to help elect members of the board at the general meeting. The profile also guides the disclosure of how well the membership of the Federation's board lines up with these criteria.

Moreover, on the recommendation of the CGRFC and in accordance with the AMF *Guideline Governing Integrity and Competency Criteria*, the board performs a self-assessment of the skills of its members. Every 2 years, each member completes a self-assessment grid for this purpose. Then an external firm holds one-on-one interviews with members of the board and BEPC. The results of the self-assessments and the one-on-one interviews are used to establish the skills development plan for members of governing bodies.

The information below shows that the members of the Federation's board collectively possess a wide range of experience and complementary skills that enable them to make an active and enlightened contribution to Desjardins's governance. The new enhanced group profile adopted by the board and the skills of its members are reviewed together annually, and the results show what the board needs to focus on to gradually achieve this profile This voluntary disclosure will evolve over time. The weighting for the board members' self-assessments is determined by the chair and vice-chair of the board after consulting the external firm's report, whose results are presented to the CGRFC.

Federation director skills and expertise

To achieve its enhanced group profile, the directors—whether elected or co-opted—each contribute to helping the board of directors play its role and collectively shoulder all the responsibilities as a domestic systemically important financial institution.

Guy Cormier, MBA

Chair of the Board, President and CEO of Desjardins Group, elected in 2016. Expertise: **cooperative governance** and **strategic management.**

Other key areas of expertise

- ✓ Leadership and culture
- ✓ Finance
- ✓ Insurance industry
- ✓ Responsible investment and sustainable development
- ✓ Digital shifts

Serge Rousseau

Elected in 2014 and became **vice-chair in 2018.** Expertise: **management** and **cooperative governance.**

Other key areas of expertise

- ✓ Human and financial resource management
- ✓ Social services
- ✓ Network management
- ✓ Customer service

Michel Tourangeau, Lawyer, LLB, IAS

Elected in 2017 and became **secretary in 2019.** Expertise: **governance** and **corporate law.**

Other key areas of expertise

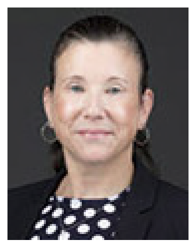
- ✓ Financing
- ✓ Real estate asset management and life and health insurance
- ✓ Corporate Director

Louis Babineau, DBA, ASC

Elected in 2016. Expertise: **governance** and **project management.**

Other key areas of expertise

- ✓ Information technology
- ✓ International cooperation
- ✓ Corporate Director



Lisa Baillargeon, PhD, MBA, CPA, Adm. A.

Elected in 2019. Expertise: **governance** and **process management**.

Other key areas of expertise

- ✓ Accounting
- ✓ Education and training
- ✓ Management

Benoît Bélanger, MBA

Elected in 2017. Expertise: **financial services.**

Other key areas of expertise

- ✓ Financial planning and control
- ✓ Human resources management
- ✓ Change management and distribution network restructuring

Johanne Charbonneau, FCPA, FCGA, MBA, C. Dir.

Co-opted in 2019. Expertise: **finance** and **accounting**.

Other key areas of expertise

- ✓ Auditing
- ✓ Compliance
- ✓ Credit unions and insurance
- ✓ Corporate Director

Carole Chevalier, retired

Elected in 2011. Expertise: **cooperative management** and **community involvement.**

Other key areas of expertise

- ✓ Socioeconomic development
- ✓ General management
- ✓ Human resources

Stéphane Corbeil, CFA, MBA

Elected in 2016. Expertise: **finance** and **entrepreneurship**.

Other key areas of expertise

- ✓ Treasury and financing
- ✓ Business development
- ✓ Mergers, acquisitions and business integration

Sonia Corriveau, MBA

Co-opted in 2020. Expertise: **information technology**.

Other key areas of expertise

- ✓ Cybersecurity
- ✓ Digital innovation
- ✓ Canada-wide experience

Michel Doré, BBA

Elected in 2018. Expertise: **financial management.**

Other key areas of expertise

- ✓ Financial planning and control
- ✓ Human resources
- ✓ Defence sector

André Grenier, AGR

Elected in 2018. Expertise: **agribusiness management.**

Other key areas of expertise

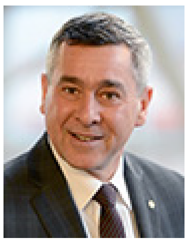
- ✓ Corporate financial analysis
- ✓ Corporate strategic consulting

Nadine Groulx, agricultural entrepreneur

Elected in 2017. Expertise: **cooperative management** and **agribusiness.**

Other key areas of expertise

- ✓ Entrepreneurship
- ✓ Agricultural technology



Neil Hawthorn, MBA

Elected in 2015. Expertise: **financial services.**

Other key areas of expertise

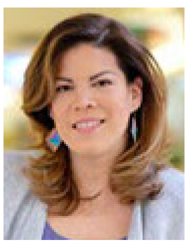
- ✓ General management
- ✓ Human resources management
- ✓ International financial services
- ✓ Organizational development

Dominique Jodoin, MBA, MSc

Co-opted in 2020. Expertise: **cybersecurity**.

Other key areas of expertise

- ✓ Information technology
- ✓ Sales and marketing
- ✓ Canada-wide and international experience



Kateri C. Jourdain, BCom

Elected in 2019. Expertise: **communications** and **Indigenous community relations.**

Other key areas of expertise

- ✓ Communications, public and community relations
- ✓ Community involvement
- ✓ Real estate management

Marie-Josée Lamothe, BSc

Co-opted in 2019. Expertise: **digital shifts** and **brand management.**

Other key areas of expertise

- ✓ Digital innovation
- ✓ Marketing
- ✓ Retail market
- ✓ Education

Jean-François Laporte, MBA

Elected in 2017. Expertise: **financial management**.

Other key areas of expertise

- ✓ Finance
- ✓ Mergers and acquisitions
- ✓ Insurance industry

Camil Maltais, agricultural entrepreneur

Elected in 2017. Expertise: **cooperation** and **agribusiness management.**

Other key areas of expertise

- ✓ Entrepreneurship
- ✓ Agricultural sector

Roch Ouellet, retired

Elected in 2017. Expertise: **cooperation** and **regional socioeconomic development.**

Other key areas of expertise

- ✓ Public service logistics
- ✓ Community outreach

Marie-Eve Tremblay, MSc, CHRP

Elected in 2019. Expertise: **human resources management** and **sustainable development.**

Other key areas of expertise

- ✓ Cooperation
- ✓ Organizational development
- ✓ Entrepreneurship
- ✓ Marketing

Stéphane Trottier, MSc

Elected in 2016. Expertise: **Ontario financial services**.

Other key areas of expertise

- ✓ Occupational ergonomics
- ✓ Business administration

Yvon Vinet, Notary, LLB, DNL

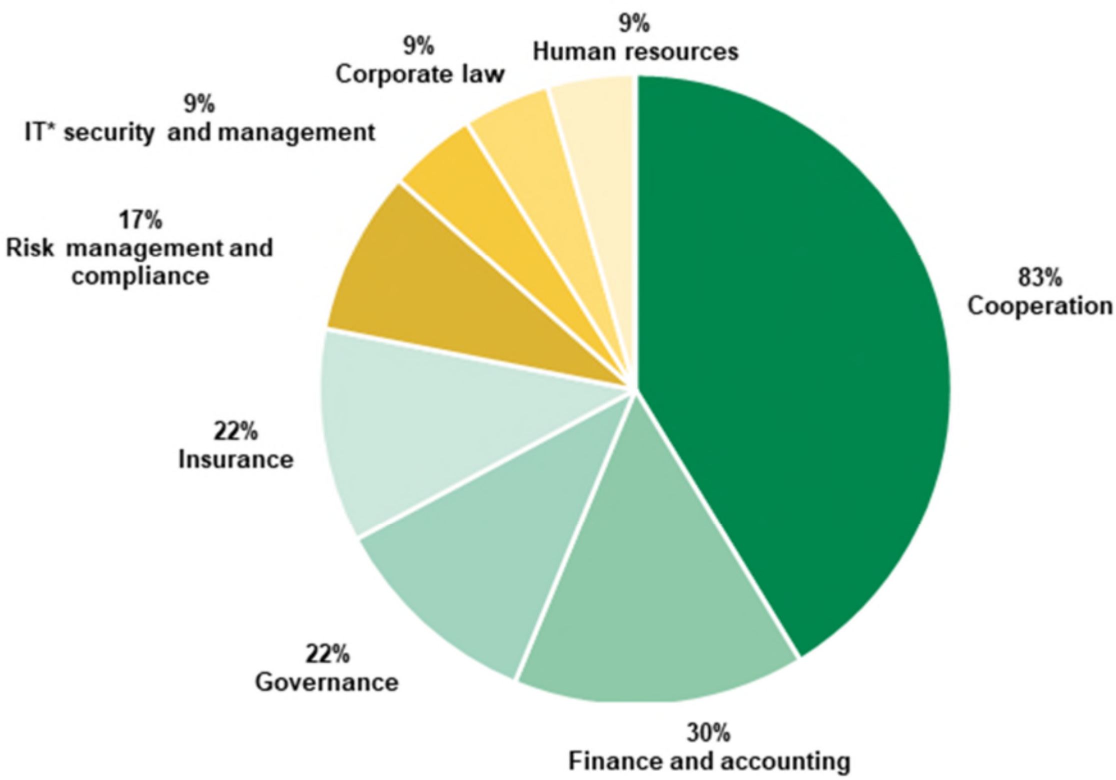
Elected in 2009. Expertise: **corporate** and **notary law**

Other key areas of expertise

- ✓ Cooperation
- ✓ Insurance industry

Key skills on the board

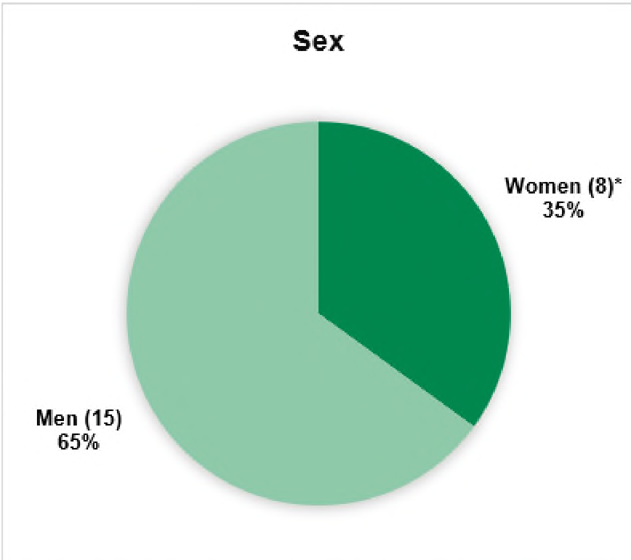
This diagram shows the proportion of key skills across the board of directors.



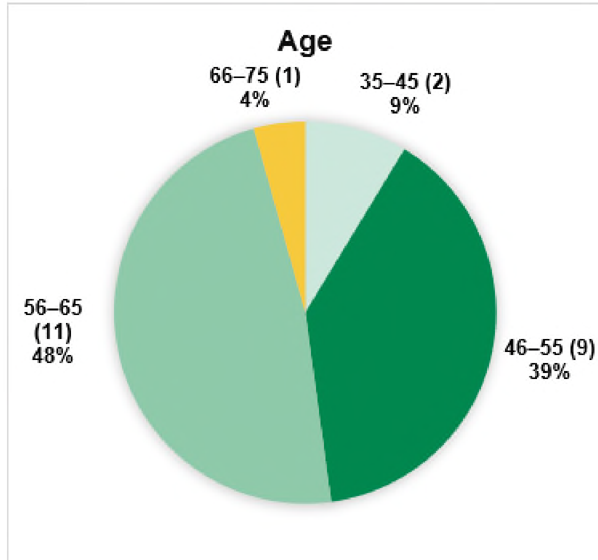
* Information Technology

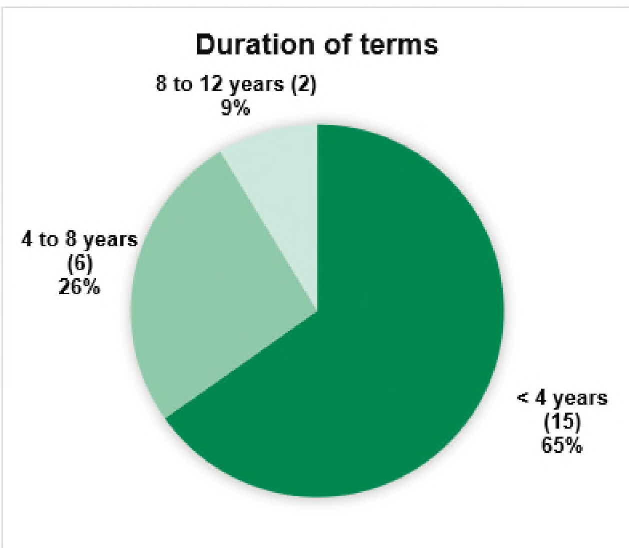
Composition of the board

The Federation's board has 23 members, 20 of whom are independent directors. It currently includes the president and CEO of Desjardins Group, elected by an electoral college of caisse chairs; 18 members elected by an electoral college of caisse delegates at the general meetings; and 4 directors co-opted by the board.



*including one representative for Indigenous communities.





6. Onboarding and training program for new Federation directors and BEPC members

The Federation organizes onboarding and training programs for all its directors and members of the BEPC. It develops individual and group knowledge acquisition and enhancement activities, so board and BEPC members can learn more about the various aspects of their roles and responsibilities and Desjardins Group's operations. All new directors and members of the BEPC attend orientation sessions where they meet with members of management and receive a reference manual containing all the information they need to carry out their duties. Onboarding sessions are held to ensure effective and efficient integration of new members of board commissions and committees.

The training program for board and BEPC members is based on needs identified through their skills self-assessments. The Corporate Governance and Responsible Finance Commission (CGRFC) reviews these needs and creates a 2-year skills development program for both boards. The board also holds conferences on specific topics related to strategic planning and the associated challenges. These conferences, which are also attended by members of the DGMC, are skills development and contribution opportunities for board members. The training program was updated specifically to include skills development activities with external experts to help the board expand its knowledge base for informed and independent decision-making.

7. Compensation policy for Federation directors and BEPC members

The board reviews, whenever it deems it necessary and at least every 5 years, its policy on the compensation of Federation directors and BEPC members. It receives recommendations from the Corporate Governance and Responsible Finance Commission, which keeps a close eye on industry developments. The policy's compensation rates are consistent with those of comparable cooperative organizations in Quebec, Canada and Europe.

The policy includes guidelines for calculating the compensation for caisse directors, Federation directors, BEPC members and subsidiary directors.

In accordance with the *Act Respecting Financial Services Cooperatives*, the total budget for the payment of attendance fees to directors and BEPC members is authorized by the Federation's general meeting. The total compensation budget (annual stipends plus attendance fees) is reported to the general meeting. The general meeting receives a report on changes to the compensation budget every year. The total budget for 2020 was $2,206,000 to account for the addition of 2 directors co-opted by the board. In 2019, the total budget was $2,083,000.

The policy’s compensation rates can be found on page 210 of this section of the Federation annual report.

8. Independence of the board of directors from Desjardins Group management

Desjardins Group governing bodies have established a number of structures and procedures to ensure the board’s independence from management:

- There is only 1 board member who is also a member of Desjardins management: the President and CEO of Desjardins, who is also a director elected by an electoral college made up of representatives from all caisses. Since the president and CEO does not select the members of the board, its legitimacy and independence are ensured.

- The vice-chair of the board, an independent director, presides over the board's meetings, playing the role of lead director, when the issues being discussed require the recusal of the president and CEO. The group bylaws state that the vice-chair of the board replaces the chair of the board when the latter is unable to act, such as when the chair is in a real or perceived conflict of interest. A description of this position is available in the *Governance Policy*.

- The directors hold periodic informal meetings among themselves. The chair of the board and CEO of Desjardins provides updates to the members of the DGMC, who are not present at these meetings. Both independent and non-independent directors attend these meetings, given that the discussions pertain to matters that do not bear any risk of conflict of interest for the non-independent directors.

- Closed-door sessions not attended by management (except for the chair of the board and CEO) are held at the end of each meeting of the board and of the executive committee. The same is true for board commissions and committees.

- Closed-door sessions not attended by the president and CEO are held with the individuals in independent oversight functions, namely the Executive Vice-President, Finance, Treasury and Administration and CFO; the Executive Vice-President, Risk Management; the chief monitoring officer; and the chief security officer, who the Vice-President and Chief Compliance and Privacy Officer reports to.

- Closed-door sessions between independent directors, not attended by management (except for the chair of the board and CEO), are held at the end of each meeting of the board and of the executive committee

- Once a year, the Board holds a closed-door meeting with the BEPC.

- The Corporate Governance and Responsible Finance Commission (CGRFC), the Audit and Inspection Commission (AIC) and the Risk Management Commission (RMC) are chaired by independent directors. The AIC is chaired by an independent director who is a CPA.

- The Corporate Governance and Responsible Finance Commission, chaired by the vice-chair of the board and of which only 1 member is a non-independent party, assumes responsibility for:
  - Managing relations between the board and the DGMC
  - Ensuring that the board fulfills its duties (however, the responsibility of drawing up and overseeing meeting agendas for the board and its commissions/committees falls to the chair of the board and is subject to the process for assessing the performance of governing bodies)
  - Providing a direct line between the vice-chair of the board and the secretary general, who assumes functional leadership of the CGRFC and the BEPC

- Only independent directors serve on the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins Group (CAR).

- The division of responsibilities between the board and the DGMC is formally documented in the *Governance Policy* and the mandates of these 2 governing bodies, which define their respective areas of activity.

- The president and CEO can appoint and replace the senior executive vice-president and COO with the approval of the board. This safeguard allows the board to assess the relationship between the CEO and the COO.

- The members of the Human Resources Commission (HRC) and the Committee on the Aggregate Remuneration of the President and CEO of Desjardins Group (CAR) are supported, when needed, by an external consultant when dealing with issues involving the aggregate remuneration of senior management.

Position against separating the functions of Chair of the Board from those of CEO

The responsibilities of the President and CEO of Desjardins Group are set out in the group bylaws. The functions of Desjardins's chair of the board and CEO are concurrent. This decision, which was made by the Federation's general meeting and reaffirmed in 2018, has been integrated into its bylaws.

At the 23rd Congress held in the fall of 2017, caisse delegates adopted a priority confirming that the roles of Desjardins's chair of the board and CEO should be held by the same person. The priority was integrated into the group bylaws. Considering the fact that risk management for Desjardins's leadership transition process is the responsibility of the Federation's board, the bylaws also allow for the following: when someone new assumes this role, it happens promptly and there is a structured transition process lasting up to 6 months, under the board's supervision.

The main reasons for making the responsibilities concurrent are:

- The CEO is elected by an electoral college made up of a representative from each caisse. This individual's primary responsibility is to ensure the group is always doing what's best for members and clients, the group's interests are protected, democratic bodies are functioning properly and cooperative values are respected.

- The chair of the board and CEO has no influence over the choice of the 17 directors who are elected at the annual general meeting, but may help identify the pool of candidates to fill the 4 co-opted director positions. Ultimately, the board's recommendation on who to appoint to these positions is the responsibility of the Corporate Governance and Responsible Finance Commission, which is presided over by an independent director. The chair of the board and CEO also has no influence on the selection of BEPC members.

- The board created the CAR, which is chaired by an independent director and made up entirely of independent directors, to eliminate any risk of conflict of interest. CAR meetings are closed-door. The committee also holds working sessions with the board of directors, which the president and CEO does not attend.

- Owing to the complex nature of Desjardins's management structure and activities, and to the expectations of regulators and the general public, it is essential that the chair of the board be sufficiently familiar with the activities, business and projects of both the Federation and Desjardins in order to effectively act as a leader for the democratic and decision-making bodies, the management teams of the Desjardins subsidiaries, managers and employees.

- Desjardins's structure frees its president and CEO from the everyday operational concerns of the Federation and Desjardins. This person can therefore focus on other areas, such as: managing Desjardins; defining, developing and overseeing the implementation of key strategic directions; listening to members and clients; overseeing development, innovation and governance; engaging people; and representing Desjardins as a socioeconomic leader.

- The group bylaws confirm that the responsibilities of the president and CEO are tied to those of the board regarding group priorities and governance documents, including guidelines from regulatory authorities.

- With a view to freeing the president and CEO from such responsibilities, the senior executive vice-president and COO oversees all Desjardins business sectors and support functions.

9. Senior management reviews

a. Setting annual management objectives and performance reviews

President and CEO

The annual objectives of Desjardins's president and CEO are recommended to the board by the CAR. The CAR is chaired by the lead director in accordance with the established independence standards. The president and CEO is not present for the committee's deliberations.

The degree to which these objectives are achieved is measured through a year-end review process. The CAR supervises the performance review of Desjardins's president and CEO and sets out how board members participate in the process.

Senior Executive Vice-President and COO

The annual objectives of the senior executive vice-president and COO are set by the board, on the recommendation of the president and CEO.

Executive vice-presidents on the DGMC

The objectives of the executive vice-presidents on the DGMC are set by the president and CEO and the senior executive vice-president and COO, and provided to the HRC and the board for information purposes.

b. Variable compensation evaluation

President and CEO

The compensation paid to the president and CEO is determined by an evaluation of the annual objectives by the board of directors and the achievement of certain strategic planning priority targets.

Senior Executive Vice-President and COO and executive vice-presidents on the DGMC

The board has established guidelines for setting objectives for the various indicators to ensure sound management of Desjardins's general incentive plan. The results are reviewed by the HRC and approved by the board.

10. External consultants

A director may require the board to retain the services of an external consultant at the Federation's expense. The board is reminded about this option annually. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance and Responsible Finance Commission.

Mandates and membership of the Federation's commissions, committees and BEPC

As at December 31, 2020

The board of directors (board) creates committees and commissions and defines their mandates in order to support and streamline its guidance, planning, monitoring and control activities. These commissions and committees are made up entirely or almost entirely of independent parties. At the end of each meeting, these commissions and committees hold closed-door sessions which members of management do not attend, except for the chair of the board and CEO (unless this individual's recusal is necessary for independence reasons). The composition and mandate of these commissions and committees are reviewed annually. Any work carried out by a commission or committee is documented in a factual report, which is presented at the next board meeting, and the commission or committee chair gives board members a review of the issues discussed.

The detailed mandates of these bodies are available on our website at desjardins.com/ca/about-us/desjardins/governance-democracy/board-directors/commissions-committees/index.jsp.

Note: In this section, when the name of a director is followed by an asterisk (*), it means that the person is an independent director. A double asterisk (**) indicates that the person is also a managing director.

EXECUTIVE COMMITTEE

This committee has the same functions and powers as the board, with the exception of those which the board may reserve for itself or assign to another committee or commission. It held 5 regular meetings and 3 special meetings in 2020.

The executive committee is composed of 7 directors:

- Guy Cormier, Chair of the Board and Chair of the Committee
- Serge Rousseau*, Vice-Chair of the Board
- Michel Tourangeau*, Secretary of the Board
- Carole Chevalier*
- Nadine Groulx*
- Neil Hawthorn
- Camil Maltais*

COOPERATION AND CULTURE COMMISSION

This commission assists the board with issues related to Desjardins's cooperative culture as it pertains to our mission and values and their consideration in commercial and management practices. The commission ensures the effective and efficient implementation of mechanisms for collaboration, participation and connection with the network. In addition, it examines Desjardins's Social and Cooperative Responsibility Report and recommends its adoption to the board. It also makes recommendations to the board, if need be. It held 4 regular meetings and 8 special meetings in 2020.

The Cooperation and Culture Commission is composed of 6 directors :

- Nadine Groulx*, Chair
- Benoît Bélanger
- André Grenier*
- Kateri C. Jourdain*
- Marie-Josée Lamothe*
- Camil Maltais*

AUDIT AND INSPECTION COMMISSION

The AIC, established under the *Act Respecting Financial Services Cooperatives*, acts as the audit committee for the Federation's caisse inspection activities. Its members are all independent directors and its chair is an independent director who is a CPA.

The roles and responsibilities of the AIC have been defined to give its members a clear understanding of their control and reporting oversight duties. It reviews all financial information, supervises the required reporting activities and plays a lead role in overseeing financial disclosure controls and assessing their accuracy. The AIC has a direct line of communication with the Desjardins Group Monitoring Office (DGMO), which oversees the internal audit of the Desjardins subsidiaries and components and the inspections of the Quebec and Ontario caisses. It also has a line of communication with the external auditors, should the need arise to discuss and review any issues. The commission also oversees the organization's cultural shift, where the focus is on doing what's best for our members and clients.

The DGMO provides independent opinions on the management of the caisses. Through its inspections, it monitors the risks associated with network activities and determines whether these risks are being managed according to sound and prudent practices and in compliance with applicable legislation, regulations, standards and rules of conduct. The AIC works with the Federation's BEPC to ensure the independence and objectivity of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC must issue an annual notice to the BEPC confirming that the chief monitoring officer performed their internal audit duties without any obstruction from management. The AIC also works with the BEPC to recommend appointing or removing the chief monitoring officer as the person in charge of monitoring to the board. It held 6 regular meetings in 2020

The Audit and Inspection Committee is composed of 6 directors:

- Johanne Charbonneau, CPA*, Chair
- Louis Babineau*
- Lisa Baillargeon*
- Stéphane Corbeil*
- Sonia Corriveau*(i)
- Jean-François Laporte*

(i) Terms began on August 19, 2020.

Pierre Perras**/* was a member until April 30, 2020.
Benoit Bélanger, Michel Doré*, Michel Magnan and Robert Saint-Aubin sit on the AIC as observers.

RISK MANAGEMENT COMMISSION

The RMC's main role is to assist the board with overall strategies and directions for risk management.[1] It ensures the implementation of an integrated risk management framework, standards and policies that establish the rules for accepting, monitoring, managing and reporting the material risks that Desjardins is exposed to. The commission also monitors compliance with Desjardins's risk appetite framework and examines the steps that need to be taken when established limits have been exceeded. It held 7 regular meetings and 4 special meetings in 2020.

The Risk Management Commission is composed of 7 directors:

- Michel Doré*, Chair
- André Grenier*
- Dominique Jodoin*(i)
- Marie-Josée Lamothe*
- Camil Maltais*
- Roch Ouellet*
- Stéphane Trottier*

(i) Terms began on August 19, 2020.

Johanne Charbonneau*, Neil Hawthorn, Claudia Champagne and Francine Côté sit on the RMC as observers.
(1) The term “risk management” includes different security risks, such as information security, physical security, privacy protection, and financial crime and fraud prevention.

HUMAN RESOURCES COMMISSION

The HRC supports the board in the following areas: governance and risk management of issues relating to human resources and overall compensation across Desjardins; creation and maintenance of the integration and skills development program for general managers, managers and employees; the senior management succession plan; creation and maintenance of the profile of general managers, managers and employees; annual salary recommendations, including incentive plans; the group insurance plan; changes to the pension plan; union relations; the management structure, etc. The mandate of the HRC does not include the terms of employment for the president and CEO. It held 7 regular meetings in 2020.

The Human Resources Commission is composed of 6 directors:

- Guy Cormier, Chair of the Board and Chair of the Commission
- Serge Rousseau*, Vice-Chair of the Board
- Michel Tourangeau*, Secretary of the Board
- Carole Chevalier*
- Marie-Eve Tremblay*
- Yvon Vinet*

COMMITTEE ON THE AGGREGATE REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

This committee, whose members are all independent directors, is mandated to make recommendations to the board regarding the president and CEO's remuneration, working conditions, annual objectives and performance review. It held 3 regular meetings in 2020.

The CAR is composed of 5 directors:

- Serge Rousseau*, Vice-Chair of the Board and Chair of the Committee
- Michel Tourangeau*, Secretary of the Board
- Carole Chevalier*
- Marie-Eve Tremblay*
- Yvon Vinet*

CORPORATE GOVERNANCE AND RESPONSIBLE FINANCE COMMISSION

This commission supports the board in applying and updating Desjardins's corporate governance framework and policy. The CGRFC examines guidelines and reports issued by regulatory authorities. It also assists the board in applying its enhanced group profile. The CGRFC oversees the selection process for the directors of Desjardins's subsidiaries, the performance review program for members of the board and its commissions and committees, as well as the integration and skills development program for Federation directors. It also administers various policies, including the policy on the compensation of directors and BEPC members and the policy on Desjardins's commitment to sustainable development. It held 5 regular meetings and 6 special meetings in 2020.

The Corporate Governance and Responsible Finance Commission is composed of 6 directors:

- Serge Rousseau*, Vice-Chair of the Board and Chair of the Commission(i)
- Lisa Baillargeon*
- Guy Cormier, Chair of the Board
- Nadine Groulx*
- Camil Maltais*
- Roch Ouellet*

DESJARDINS INVESTMENT COMMISSION (i)

This commission's role is to monitor the markets and develop an integrated overview to provide a Desjardins-wide framework for portfolio positioning and asset distribution. It also follows up on strategies and directions and acts as an advisory body. The commission's activities complement—but do not overlap—the RMC and Desjardins's various other investment committees. It held 4 regular meetings and 3 special meetings in 2020.

The Desjardins Investment Committee is composed of 6 directors:

- Carole Chevalier*, Chair
- Benoît Bélanger
- Stéphane Corbeil*
- André Grenier*
- Kateri C. Jourdain*
- Stéphane Trottier*

Bernard Morency and Normand Provost sit on the IC as observers.
(i) The Desjardins Investment Commission was eliminated on December 31, 2020, and its core responsibilities were transferred to the Risk Management Commission.

ELECTION COMMITTEE

This committee oversees the proper conduct of the election process for positions on the board and BEPC. It's also responsible for overseeing all processes for electing the president and CEO. The committee provides guidelines for the electoral process and ensures compliance with them, sets up processes that enable the electoral colleges to properly fulfill their role, and assesses the nominations according to the enhanced group profiles adopted by the board and by the BEPC. The committee also establishes any other measures or rules necessary for the electoral process to run properly and makes any other decisions regarding the process. While the committee is not composed of directors, it is accountable to the board. It held 6 regular meetings and 2 special meetings in 2020.

The Election Committee is composed of 5 caisse directors who are neither Federation directors nor BEPC members:

- Lorraine Bédard, Chair
- Marie-Claude Beaudin, Vice-Chair
- Érik Asselin
- Marie Caron
- Marc Lemieux

DESJARDINS GROUP RETIREMENT COMMITTEE

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the *Desjardins Group Pension Plan Regulation*, the DGRC is in charge of administering the Desjardins Group Pension Plan (DGPP), managing the pension fund and paying members and their survivors the benefits they are entitled to. The members share the role of trustee for the pension fund. It held 4 regular meetings and 3 special meetings in 2020.

The Federation assumes the responsibilities of the DGPP's sponsor. The Federation's board has decision-making powers in certain areas, including the *Desjardins Group Pension Plan Regulation*, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. The Federation stands surety for the obligations (payment of benefits) resulting from the participation of all Desjardins employers in the DGPP.

The DGRC is composed of 11 members: 6 employer representatives (including the chair), 2 who represent active members, 2 who represent non-active members and beneficiaries, and 1 external member. The employer representatives and the external member are appointed by the Federation's board, and those who represent active members, non-active members and beneficiaries are elected.

Employer representatives:

- Yvon Vinet*, Chair
- Roch Ouellet*, Vice-Chair
- Jean-François Laporte*(i)
- Bernard Morency
- Marie-Eve Tremblay*
- Stéphane Trottier*, Secretary

(i) Terms began June 11, 2020 (appointed to replace Pierre Perras).

Pierre Perras*/** was a member until April 30, 2020.

Active member representatives:

- Dominic Laurin(i)
- Brigitte Chabarekh, observer

(i) Member until March 27, 2020, and appointed again on June 11, 2020 to fill the position vacated by Vincent Coulombe, who retired.

Julie Tremblay was a member until March 27, 2020. Vincent Coulombe was a member until June 11, 2020.

External member:

- Marc Saint-Pierre

Non-active member and beneficiary representatives:

- Jacques Dignard
- Robert Desbiens, observer

DESJARDINS GROUP RETIREMENT INVESTMENT COMMITTEE

Under the responsibility of the DGRC, which adopts the investment policy, the RCIC's mandate is to ensure that the policy is applied, respected and followed. The committee selects investment vehicles, awards mandates to portfolio managers and ensures that each investment meets expectations. It held 40 regular meetings and 8 special meetings in 2020.

The DGRC is composed of 7 members:

- Sylvain Gareau, Chair
- Patrick Chillis, Secretary
- Louis Beaulieu
- Jean-Philippe Cazelais
- François Hudon
- Éric Lemay
- Mylène Villeneuve

Frédéric Angers and Guillaume Morency were members until October 1, 2020.

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Federation has a Board of Ethics and Professional Conduct (BEPC) that is independent from its board of directors (board). There are 5 members who are directors of local caisses. The BEPC is supported by a team that reports to the Office of the Secretariat General and Governance and Sustainable Development Division, which enables it to organize education and training activities and provide advisory services.

One of the main responsibilities of the BEPC is to ensure the independence and objectivity of the Office of the Ombudsman and the Federation's inspection service for the caisses (DGMO), and to make recommendations to the board by working with the Audit and Inspection Commission regarding the appointment or removal of the person responsible for managing this service. In addition to the above-mentioned responsibilities, the BEPC's role includes adopting the rules of conduct applicable to the directors of Desjardins and its subsidiaries and to the employees of the Federation and the caisses; presenting these rules for approval to the board and ensuring the caisses and the Federation comply with them; supporting the caisses and the Federation in applying the rules of conduct; issuing advice, observations and recommendations on ethical and professional conduct issues, particularly in cases of misconduct; notifying the board of violations of the rules of professional conduct or of violations by the Federation of the *Act Respecting Financial Services Cooperatives* or the regulations governing restricted party transactions and conflicts of interest; and ensuring that complaints about the Federation originating from the caisses or other Federation members (holding companies or subsidiaries) are addressed. Members of the BEPC and directors attend meetings with AMF representatives. The BEPC holds closed-door meetings that are not attended by management. It held 6 regular meetings and 4 special meetings in 2020.

The BEPC is composed of 5 members:

- Michel Guénette, Chair
- Katia Cyr
- Normand Gingras
- Maryse Lapierre
- Michel Yelle

DESJARDINS GROUP MANAGEMENT COMMITTEE

This committee supports the president and CEO and the board in their responsibility of managing Desjardins with one voice. The DGMC helps the board incorporate the strategic directions of the cooperative network, business sectors and support functions and implement business development strategies. It also oversees operations in accordance with the rules and requirements set by the board and other Desjardins governing bodies. The DGMC is responsible for operational files with economic, environmental and social significance that have an impact on Desjardins. It makes sure that all Desjardins's operations are above board and that its managers and employees act with integrity. The mandates of the DGMC and its committees were reviewed in fall 2020. It held 24 regular meetings and 14 special meetings in 2020.

The management committee is composed of 11 management members, including 5 women (45%):

- **Guy Cormier**
  President and CEO of Desjardins Group
- **Réal Bellemare**
  Senior Executive Vice-President and COO
- **Jean-Yves Bourgeois**[i]
  Executive Vice-President, Business Services
- **Francine Champoux**
  Executive Vice-President, Risk Management
- **Marie-Huguette Cormier**
  Executive Vice-President, Human Resources and Communications
- **Denis Dubois**
  Executive Vice-President, Wealth Management and Life and Health Insurance
  President and Chief Operating Officer, Desjardins Financial Security
- **Johanne Duhaime**[ii]
  Executive Vice-President, Information Technology
- **Éric Lachaîne**
  Executive Vice-President, Caisse Network and Member and Client Services
- **Nathalie Larue**
  Executive Vice-President, Strategy, Marketing and Personal Services
- **Valérie Lavoie**
  Executive Vice-President, Property and Casualty Insurance
  President and Chief Operating Officer, Desjardins General Insurance Group
- **Alain Leprohon**
  Executive Vice-President, Finance, Treasury and Administration and CFO

(i) Appointed on January 5, 2021. Until that date, Marie-Claude Boisvert was Executive Vice-President, Business Services.
(ii) Appointed October 5, 2020. Until that date, Réal Bellemare was serving 2 roles as Senior Executive Vice-President and COO and Interim Executive Vice-President, Information Technology

The Vice-President, President's Office, Cooperation and Director Support, always attends DGMC meetings.

DGMC members are deemed to be Federation managers within the meaning of section 93 of the *Act Respecting Financial Services Cooperatives.* The following individuals are also considered Federation managers:

- Steeve Talbot[(i)], Chief Monitoring Officer
- Sylvain Perreault, Chief Security Officer
- Marie-Andrée Alain[(ii)], Vice-President and Chief Compliance and Privacy Officer
- Luc Boucher[(iii),] Vice-President and Chief Legal Officer
- Isabelle Garon, Vice-President, President's Office, Cooperation and Director Support
- Pauline D'Amboise, Secretary General and Vice-President, Governance and Sustainable Development

(i) Appointed on May 9, 2020. Until that date, Daniel Dupuis was Chief Monitoring Officer.
(ii) Appointed January 23, 2020. Until that date, Sylvain Perreault was Vice-President and Chief Compliance Officer.
(iii) Appointed on January 4, 2021. Until that date, Renaud Coulombe was Vice-President and Chief Legal Officer.

The DGMC has Desjardins-wide coordination committees in the following areas:

- Disclosure
- Environmental, social and governance issues
- Finance and risk management
- Data governance
- Development planning and follow-up

DIRECTOR COMPENSATION

Certain Desjardins components, namely the Federation and Desjardins Capital Inc., are subject to obligations regarding the disclosure of director compensation. As required by CSA *National Instrument 51-102 Respecting Continuous Disclosure Obligations*, the compensation of directors from these components is presented in this annual report, the Federation's Annual Information Form and the disclosure document filed by Desjardins Capital Inc. The Annual Information Form and the disclosure document are available on the SEDAR website (www.sedar.com) under each component's respective company profile.

Compensation rates for the members of the boards of directors of the Federation, Desjardins Technology Group and Desjardins Trust Inc., and the members of the Board of Ethics and Professional Conduct of the Federation

	Federation (1)	***Subsidiaries***
Chair of the board of directors(2)	$0 This position is held by the President and CEO of Desjardins	$11,500
Annual stipend for the chair of a commission or committee of the board of directors(3)	$7,400 (not including the AIC)	$7,400
Annual stipend for the chair of the Audit and Inspection Commission	$14 800	N/A
Annual stipend for the vice-chair of the board of directors	$22 800	N/A
Annual stipend for a member of the board of directors(4)	$53 800	$11,500
Annual stipend for a member of a commission or a committee of the board of directors(5)	$2,300	$2,300
Additional annual stipend for a member of the Audit and Inspection Commission	$2,300	$2,300 (Audit and Risk Management Committee)
Attendance fee for a meeting of the board of directors	$1,375 (daily maximum)	$1,400 (daily maximum)
Attendance fee for a meeting of a commission or committee of the board of directors(6)	$1,375 (daily maximum) $685 (per half-day)	$1,400 (daily maximum) $700 (per half-day)
Conference call	$230	$230
Attendance fee for a meeting of the Board of Ethics and Professional Conduct or the Professional Conduct Committee(7)	$2,750 (for the chair) $1,375 (for members)	$700 (per half-day)

*** The compensation rates were updated in 2018 further to the review of the policy on the compensation of directors and BEPC members and changes to the organization's governance structure.

N/A: Not applicable

(1) The director compensation indicated for the Federation includes, where applicable, the portion paid to members of the board to also serve as directors for Desjardins Trust Inc., Desjardins Technology Group Inc. and Desjardins Capital Inc.
(2) The position of chair of the boards of directors of the following subsidiaries is held by a member of the Federation's board: Développement international Desjardins, Desjardins General Insurance Group Inc., Desjardins Financial Security Life Assurance Company and Desjardins Financial Corporation Inc.
(3) The attendance fee is doubled in lieu of the annual stipend for the chairs of commissions or committees that hold fewer than 4 meetings per year, except for the chair of the CAR.
(4) The stipend paid to the managing director is $38,100. A single stipend is paid to directors for their roles on the boards, commissions and committees of the Federation, Desjardins Capital Inc., Desjardins Trust Inc. and Desjardins Technology Group Inc. For the Federation, the annual stipend also covers directors' roles as members of the community collaboration groups and of the Desjardins Collaboration Forum.
(5) A board member's annual stipend includes all of the commissions and committees they sit on for the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc., and Desjardins Capital Inc. In other words, a single stipend is paid for all positions held for all 4 entities.
(6) The maximum daily attendance fee for the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc. and Desjardins Capital Inc. is $1,375, regardless of the number of board, commission or committee meetings a member attends in a single day. Every effort is made to schedule multiple meetings on the same day to keep costs to a minimum. The Federation's board may invite any caisse director to sit on any of its committees. The board determines the compensation to be paid based on the nature of the responsibilities entrusted to the caisse director and the compensation schedule. General managers who sit on the board or on a commission or committee do not receive an attendance fee.
(7) This represents the fee for full-day meetings of the Federation's BEPC. The fee for half-day meetings is $1,375 for the chair and $700 for members.

Director compensation

The compensation paid to each member in 2020 for the duties they assume as directors of the Federation, Desjardins Trust Inc., Desjardins Technology Group Inc., Desjardins Capital Inc. or for other duties listed below is detailed as follows:

	Compensation received as a director of the Federation, Desjardins Technology Group Inc. Desjardins Trust Inc. and Desjardins Capital Inc.		Other fees[1]		
Name	**Attendance fees ($)**	**Annual stipend ($)**	**Attendance fees ($)**	**Annual stipend ($)**	**2020 TOTAL ($)**
Babineau, Louis (Chair of the Board, DID)[2]	44,510.72	56,100.00	8,444.27	43,552.00	152,606.99
Baillargeon, Lisa	44,165.72	56,100.00	969.27	5,752.00	106,986.99
Bélanger, Benoît	N/A	56,100.00	N/A	N/A	56,100.00
Charbonneau, Johanne	51,590.29	70,900.00	2,249.65	29,352.00	154,091.94
Chevalier, Carole	42,328.17	61,200.00	1,336.80	21,300.00	126,164.97
Corbeil, Stéphane (Chair of the Board, DSF)[2]	41,190.72	56,100.00	969.27	11,500.00	109,759.99
Corriveau, Sonia[3]	20,870.00	27,715.11	N/A	N/A	48,585.11
Cormier, Guy (Chair of the Board, DFS)[2][4]	N/A	N/A	N/A	N/A	N/A
Doré, Michel	53,149.98	63,500.00	115.00	N/A	116,764.98
Grenier, André	45,370.03	53,800.00	N/A	N/A	99,170.03
Groulx, Nadine	44,982.05	61,200.00	27,197.91	16,100.00	149,479.96
Hawthorn, Neil	N/A	53,800.00	N/A	16,100.00	69,900.00
Jodoin, Dominique[3]	20,640.01	26,900.00	N/A	N/A	47,540.01
Jourdain, Kateri C.	38,040.03	53,800.00	N/A	N/A	91,840.03
Lamothe, Marie-Josée	45,595.03	53,800.00	N/A	N/A	99,395.03
Laporte, Jean-François (Chair of the Board, DGIG)[2]	42,164.68	56,100.00	21,940.00	31,233.33	151,438.01
Maltais, Camil	51,392.05	53,800.00	1,087.91	13,800.00	120,079.96
Ouellet, Roch	45,135.00	53,800.00	N/A	12,000.00	110,935.00
Perras, Pierre*	15,299.06	10,285.28	285.94	4,438.00	30,308.28
Rousseau, Serge[5]	51,145.26	91,400.00	1,104.73	13,800.00	157,449.99
Tourangeau, Michel	47,308.17	53,800.00	6,311.80	16,100.00	123,519.97
Tremblay, Marie-Eve	35,745.00	53,800.00	115.00	12,000.00	101,660.00
Trottier, Stéphane	42,390.00	53,800.00	336.00	12,000.00	108,526.00
Vinet, Yvon	35,745.00	53,800.00	N/A	23,000.00	112,545.00
Total	**838,116.96**	**1,231,600.39**	**72,463.55**	**282,027.33**	**2,424,208.23**

N/A: Not applicable

* Managing director

(1) Amounts received for: chairing the board of a subsidiary; sitting on the Desjardins Group Retirement Committee (DGRC) or the DGRC Investment Committee; sitting on the board of directors of Desjardins Financial Corporation Inc., and the Desjardins Security Fund; and contributing to other ad hoc committees.

(2) Développement international Desjardins (DID); Desjardins General Insurance Group Inc. (DGIG); Desjardins Financial Security Life Assurance Company (DFS); Desjardins Security Fund (DSF).

(3) Terms began on June 10, 2020.

(4) Desjardins's president and CEO does not receive any compensation for the position of chair and member of the boards of directors of the Federation, Desjardins Trust, Desjardins Financial Security, Desjardins Financial Corporation Inc., Desjardins Capital, and Desjardins Technology Group.

(5) Serge Rousseau receives compensation for his roles as vice-chair of the board, chair of the Corporate Governance and Responsible Finance Commission and chair of the Committee on the Aggregate Remuneration of the President and Chief Executive Officer of Desjardins GroupB

Compensation of members of the Federation’s Board of Ethics and Professional Conduct

Name	Attendance fees ($)
Cyr, Katia	7,110.00
Gingras, Normand	7,110.00
Guénette, Michel (Chair)	14,220.00
Lapierre, Maryse	6,650.00
Yelle, Michel	7,216.00

Record of attendance for the members of the Federation's board of directors

Name	BoD (regular)	BoD (special)	EC	CCC	AIC	RMC	HRC	CAR	CGRFC	IC(3)	DGRC	RCIC
Babineau, Louis*	10/10	13/14			7/7							N/A
Baillargeon, Lisa*	10/10	14/14			7/7				11/11			N/A
Bélanger, Benoît	10/10	14/14		12/12	7/7					7/7		N/A
Charbonneau, Johanne*	10/10	14/14			7/7	11/11						N/A
Chevalier, Carole*	10/10	13/14	8/8				7/7	3/3		7/7		N/A
Corbeil, Stéphane*	10/10	15/15			7/7					7/7		N/A
Corriveau, Sonia*(1)	5/5	10/10			3/3							N/A
Cormier, Guy	10/10	14/14	8/8				7/7		11/11			N/A
Doré, Michel*	10/10	14/14			6/7	11/11						N/A
Grenier, André*	10/10	14/14		12/12		10/11				7/7		N/A
Groulx, Nadine*	10/10	13/14	8/8	12/12					11/11			N/A
Hawthorn, Neil	10/10	12/14	8/8			10/11						N/A
Jodoin, Dominique*(1)	5/5	10/10				4/4						N/A
Jourdain, Kateri C.*	10/10	12/12		11/12						7/7		N/A
Lamothe, Marie-Josée*	9/10	14/14		12/12		9/11						N/A
Laporte, Jean-François*	10/10	14/14			7/7						7/7	N/A
Maltais, Camil*	10/10	14/14	8/8	12/12		11/11			11/11			N/A
Ouellet, Roch*	10/10	14/14				11/11			11/11		7/7	N/A
Perras, Pierre*/**(2)	4/4	2/2			2/2						3/3	N/A
Rousseau, Serge*	10/10	14/14	8/8				7/7	3/3	11/11			N/A
Tourangeau, Michel*	10/10	14/14	8/8				7/7	3/3				N/A
Tremblay, Marie-Eve*	10/10	12/14					7/7	3/3			7/7	N/A
Trottier, Stéphane*	10/10	14/14				11/11				7/7	6/7	N/A
Vinet, Yvon*	10/10	14/14					7/7	3/3			7/7	N/A

BoD = board of directors, EC = executive committee, CCC = Cooperation and Culture Commission, AIC = Audit and Inspection Commission, RMC = Risk Management Commission, HRC = Human Resources Commission, CAR = Committee on the Aggregate Remuneration of the President and CEO of Desjardins, CGRFC = Corporate Governance and Responsible Finance Commission, IC = Desjardins Group Investment Commission, DGRC = Desjardins Group Retirement Committee and RCIC = Desjardins Group Retirement Committee Investment Committee

Note: In the above table, when the name of a director is followed by an asterisk (*), it means that the person is an independent director. A double asterisk (**) indicates that the person is also a managing director.

(1) Term began on June 10, 2020.
(2) Pierre Perras was a member until April 30, 2020.
(3) The commission was eliminated on December 31, 2020.

The board of directors held 10 regular meetings over 19 days and 14 special meetings in 2020. Directors may be absent for professional or personal reasons, but justification is required in all instances.

Record of attendance for the members of the Federation's Board of Ethics and Professional Conduct

Name	Number of meetings
Cyr, Katia	10/10
Guénette, Michel (Chair)	10/10
Gingras, Normand	10/10
Lapierre, Maryse	8/8
Yelle, Michel	10/10

Main subsidiaries[1]

As at December 31, 2020

Subsidiaries	Main activities
FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC	Planning, supervision, coordination, treasury and development of Desjardins Group, Desjardins Group's financial agent on the Canadian and international markets and payment solution and credit card issuance
DESJARDINS CAPITAL INC.	Capital issuances on financial markets and financing for the Desjardins caisses
COLLABRIA FINANCIAL SERVICES INC.	Payment solution and credit card issuance
DESJARDINS FINANCIAL SERVICES FIRM INC.	Mutual fund brokerage and financial planning services
DESJARDINS CAPITAL MANAGEMENT INC.	Development and venture capital fund management
DESJARDINS FINANCIAL HOLDING INC.	Holding company
Desjardins Financial Corporation Inc.	Holding company
Desjardins Global Asset Management Inc.	Asset management
Desjardins General Insurance Group Inc.	Property and casualty insurance
Certas Direct Insurance Company	Property and casualty insurance
Certas Home and Auto Insurance Company	Property and casualty insurance
Desjardins General Insurance Inc.	Property and casualty insurance
Desjardins General Insurance Services Inc.	Property and casualty insurance
The Personal General Insurance Inc.	Property and casualty insurance
The Personal Insurance Company	Property and casualty insurance
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services
Assistel Inc.	Assistance services
Desjardins Investment Product Operations Inc.	Processing and administration of savings and investment accounts and specialized products for Desjardins Group components
Desjardins Independent Network Insurance Inc.	Mutual fund and insurance brokerage
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products
Desjardins Financial Security Investments Inc.	Mutual fund and insurance brokerage
Desjardins Trust Inc.	Asset custody and trust services
Desjardins Investment Management Inc.	Investment management
Desjardins Real Estate Group Inc.	Property and workspace management
Desjardins Shared Services Group Inc.	Administrative services
Desjardins Technology Group Inc.	Development, maintenance and modernization of Desjardins Group technology
Aviso Wealth	Wealth management company held in equal shares by Desjardins Group and the partnership between five provincial credit union centrals and CUMIS Group
Desjardins Securities Inc.	Securities brokerage
9420-7404 Québec inc.[2]	Real estate services

(1) Additional information on the *Fédération des caisses Desjardins du Québec*'s activities is presented in Section 2.3 "Analysis of business segment results" in the 2020 Management's Discussion and Analysis.

(2) 9420-7404 Québec inc. operates two brands, DuProprio and Purplebricks Canada.

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.

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 caisse members or clients and are therefore not recognized on its Consolidated 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 caisse members or clients and are therefore not recognized on its Consolidated 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.

***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.

Basis point

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

Bond

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

Capital ratios

Ratio determined by dividing regulatory Tier 1A capital, Tier 1 capital or total regulatory capital by risk-weighted assets. These measures are defined in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF.

Catastrophe and notable event

- Catastrophe

  In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the cost is deemed significant since it reaches a minimum threshold, established annually the *Fédération des caisses Desjardins du Québec's* (the Federation) 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 the Federation's management.

Commercial mortgage-backed security

Security created through the securitization of a pool of commercial mortgage loans.

Commitment

- Direct commitment

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

- Indirect commitment

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

Counterparty and issuer risk

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

Covered bond

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

Credit commitment

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

Credit-impaired loan

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated cash flows of that financial asset have occurred or when contractual payments are 90 days past due.

Credit instrument

Credit facility offered in the form of a loan or other financing vehicle recognized in the Consolidated 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 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 Consolidated Balance Sheets.

Credit valuation adjustment

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

Defined benefit pension plan

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

Derivative financial instrument, or derivative

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

Desjardins Group component

Cooperative or subsidiary that is part of Desjardins Group.

Dividend to member caisses

The Federation distributes to its member caisses a portion of its surplus earnings for a given year, taking into account its financial capacity. This distribution, called dividend to member caisses, is paid based on the volume of assessments paid during the year by the member caisses to the Federation.

Documentary letter of credit

Instrument issued for a caisse member or a client that represents the Federation's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. The Federation 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.

Environmental or social risk

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

Exposure at default

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

Fair value

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

Fair value measurement

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

Financial asset-backed security

Security created through the securitization of a pool of financial assets.

Foreign exchange risk

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

Forward contract

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

Forward exchange contract

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

Futures contract

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

Gross premiums written

In property and casualty insurance, the premiums stipulated in insurance policies issued during the year.

Guarantee and standby letter of credit

Irrevocable commitment by a financial institution to make payments in the event that a caisse member or client cannot meet financial obligations to third parties. The Federation’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 the Federation'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 caisse members and clients with whom the Federation 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.

Insurance contract liabilities

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

Insurance premium

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

Insurance risk

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

Insurance sales

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

Internal Model Method

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

Internal Ratings-Based Approach

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

Large loss

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

Legal and regulatory risk

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

Leverage ratio

Ratio determined by dividing Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items.

Liquidity coverage ratio

Basel III metric representing a liquidity standard that measures the sufficiency of high quality liquid assets available to face net short-term financial obligations over a 30 day period in an acute liquidity stress scenario.

Liquidity risk

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

Loss given default

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

Market risk

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

Master netting agreement

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

Matching

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

Morbidity rate

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

Mortality rate

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

Mortgage-backed security

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

Net interest income

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

Net premiums

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

Net sales of savings products

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

Notional amount

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

NVCC subordinated notes

Securities that meet the non-viability contingent capital (NVCC) requirements set out in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF, in particular securities issued by the 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 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, failure to achieve objectives or a negative impact on reputation.

Option

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

Other retail client exposures

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

Pension plan

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

Pension plan risk

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

Permanent share or capital share

Equity security offered to Desjardins caisse members.

Price risk

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

Probability of default

Probability that a borrower defaults on his obligations over a period of one year.

Qualifying revolving retail client exposures

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

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.

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 Consolidated Balance Sheets. Some assets are not weighted, but rather deducted from capital. The calculation method is defined in the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF. For more details, see the "Capital management" section of the Management's Discussion and Analysis.

Scaling factor

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

Securitization

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities and transferred to a trust.

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 financial institution uses valuations performed by external credit assessment institutions recognized by the AMF to determine the risk-weighting factors related to the various exposure categories.
- Market risk

  Default approach used to calculate risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on predefined rules such as those on the size and nature of the financial instruments held.
- Operational risk

  Risk measurement approach used to assess the capital charge for operational risk. For this measurement, activities are divided into predefined business lines for a financial institution. The capital charge is calculated by multiplying each business line's gross income by a specific factor. The total capital charge represents the three-year average of the summation of the capital charges across each of the business lines in each year.

Strategic risk

Risk of loss attributable to an inability to adapt to a changing environment because of failure to act, an inappropriate strategic choice or the inability to effectively implement strategies.

Stressed Value at Risk (VaR)

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

Structural interest rate risk

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

Structured entity

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

Subordinated note

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

Subsidiary

Company controlled by the Federation.

Swap

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

TLAC leverage ratio

Ratio determined by dividing the sum of regulatory capital, as previously defined, and instruments that meet the eligibility criteria set out in the *Total loss absorbing capacity* guideline issued by the AMF (the TLAC guideline) by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items.

TLAC ratio

Ratio determined by dividing total regulatory capital, as previously defined, and instruments that meet the eligibility criteria set out in the *Total loss absorbing capacity* guideline issued by the AMF (the TLAC guideline) by risk-weighted assets.

Underwriting experience

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

Unused exposure

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

Used exposure

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

Value at Risk (VaR)

Estimate of the potential loss over a certain period of time at a given confidence level, calculated using historical data for a one-year interval.

Written premiums

In life and health insurance, insurance or annuity premiums for the policies or certificates issue during the year.

Desjardins