Committed. Connected.

2022 Annual Report
Desjardins Group

Desjardins

Committed to enriching the lives of people and communities

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This annual report was produced by the Human Resources and Communications Executive Division of Desjardins Group (Corporate Communications and Change Management Division) and the Finance Executive Division of Desjardins Group (Finance Division).

Message from the president and CEO

Committed and connected to our members and clients

We're united and we share the same goals. That's what I believe makes us so adaptable and focused on always doing what's best for our members and clients. At the start of 2022, we faced an ongoing pandemic, where the work done by Desjardins teams made a real difference in the lives of many.

I greatly appreciate what our teams have done to listen to our members and clients, find solutions to their needs and support their financial empowerment. Thanks to what we accomplished together in 2022, our financial results were on par with expectations.

Our operating income,[1] member dividends and membership are up, while our capital base remains very strong. We generated operating income[1] of $21,798 million, up $1,393 million compared to the previous year. Every sector in our organization played a part in our $2,050 million in surplus earnings. Plus, on a net basis, we added 72,214 individual members and 13,849 business members in the past year. Since 2016, more than 270,000 individual members and more than 55,000 business members have joined our financial institution. In early 2022, Desjardins Group topped $400 billion in assets. That's something we're very proud of! Financial cooperatives with $407.1 billion in assets are rare. In fact, there's only one in North America—and it's us.

The scope of our operations, our financial stability, and the undeniable economic spinoffs we provide across Quebec and the country make Desjardins an incredible driver for socioeconomic development and an influential voice when it comes to addressing major societal issues.

A strong socioeconomic leader

As inflation climbs and the price of housing and food rises, causing worries for many people, Desjardins is committed to being a leader. Right now, being a socioeconomic leader means being a positive, reassuring, inspiring presence for our members and clients.

We're actively promoting economic activity and regional development from coast to coast through the Momentum Fund, which supports business owners, the GoodSpark Fund, which supports economic, social and environmental initiatives in communities, and the GoodSpark Grants, which provide $20,000 in financial assistance to small businesses across Canada.

Since the $250 million GoodSpark Fund was created, we've pledged $161 million to 726 projects. Meanwhile, the Momentum Fund has supported growth projects at 1,912 companies. The Momentum Fund is now a recurring annual program. This year, it had a budget of $7.3 million to provide business owners with additional support.

Growing across Canada

Without a doubt, one of my proudest moments in 2022 was signing the agreement for the $750 million acquisition of Guardian Capital Group Limited's distribution activities in insurance and personal savings.

By acquiring the activities of this key player in the Canadian market, we're affirming and solidifying our position as a Canadian leader in the independent distribution of individual savings and insurance products, and creating value for our members and clients.

Driven by solidarity and caring

We saw some devastating events in 2022. True to our values, we stepped up to show our solidarity. For example, we contributed to fundraising efforts by the Red Cross to support Ukrainians, and, closer to home, we offered support to members and clients affected by Hurricane Fiona.

We've also continued to work on addressing major social issues. For example, to support diversity and inclusion, we added gender affirmation coverage to our group insurance plans.

In addition, I was extremely proud to see Desjardins ranked fourth in *Forbes* magazine's list of the World's Top Female-Friendly Companies. This strong showing confirms that our practices, programs and approach to gender parity set us apart on the world stage.

[1] For more information on non-GAAP financial measures, see the **Non-GAAP and other financial measures** section on pages 3 to 7 of the **Management's Discussion and Analysis**.

Cutting-edge digital solutions with artificial intelligence

We continued to do major IT work in 2022, focusing on modernizing our systems, enhancing our security and advancing our digital transformation. Artificial intelligence, which we use responsibly, is helping us support our members and clients, notably through natural language processing in Quebec French, as used by our virtual assistant and client relation centres.

Desjardins teams won several awards for their work at the 2022 Gala des OCTAS presented by Réseau Action TI. We received the people's choice award for the virtual assistant using natural language processing in Quebec French, the jury's choice award for the quality of French in 3 IT solutions and the business solution award for online mortgage pre-approvals.

Also notable is our 3-year partnership with Mila – Quebec Artificial Intelligence Institute. Our business members looking to break into international markets can use the technology and support provided by the institute, known around the world for its expertise in technology and ethics.

Focusing on youth to build a better tomorrow

Young people are a priority at Desjardins. I believe that helping young people take their place in the world and achieve their full potential will generate major, positive, long-term benefits for all of society.

Through our flagship program, Together For Our Youth, we've supported thousands of local and Desjardins-wide initiatives that benefit young people. We invested $80 million in Together For Our Youth this year. To date, the program has helped more than 1 million young people.

We also launched The Project Factory, an innovative fundraising platform for school projects and extracurricular activities at elementary and secondary schools in Quebec and Ontario.

We continue to support thousands of young Canadians through scholarships for all levels of post-secondary education, regardless of their field of study. We're more convinced than ever that a financial boost can help keep post-secondary students in school.

Finally, I met with young people across Quebec and Ontario to gain a better understanding of their concerns and make sure their voices are heard. As part of a partnership with the Regroupement des jeunes chambres de commerce du Québec, I also went out to meet with young entrepreneurs across Quebec. It was important to me to really understand the challenges they face, their dreams, and their vision for the future. I will continue meeting with youth in 2023, culminating in a major, national youth event on June 19 and 20, where we'll push our thinking even farther and start taking action.

Continuing our sustainable development efforts

This year, Desjardins took concrete action to speed up the transition to a low-carbon economy.

First, we added an indicator on environmental, social and governance factors to the general incentive plan for our 58,774 employees. The target encourages us to work together to support responsible finance and consider the effects of our decisions on the world.

With this in mind, we're committed to providing our members and clients with effective, responsible products so that they can do their part for a more sustainable future. That's why we've added 10 new SocieTerra Funds to our lineup, bringing our total number of responsible investment solutions to over 70.

We're also the first financial institution in Canada to exclusively offer responsible annuities for our individual savings. All new annuities purchased at Desjardins will automatically go into investments that meet strict environmental, social and governance criteria.

Once again, we asserted our leadership as the main sponsor of the Sustainable Finance Summit. This major event is designed to inspire and inform financial players in Quebec so they can strengthen the integration of sustainability factors in their business practices and operations.

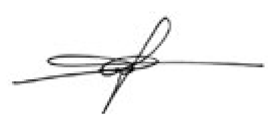
At the same time, we launched sustainable development and responsible finance training for all Desjardins employees. Our initial goal was to have an 85% completion rate by the end of 2023—but we're already at more than 90%. Given the course's popularity, we also launched Climate School, a training and awareness platform with classes on specific topics to help employees dive deeper.

Desjardins is also promoting a number of sustainable mobility solutions, such as our growing network of electric charging stations, which now has 363 locations, the launch of 22 bicycle repair stations across Quebec, and the use of low-emission vehicles in our fleet.

Thank you to the 61,230 people who put their hearts into serving our 7.5 million members and clients

Lastly, I'd like to underscore the exceptional dedication of our 2,456 directors and 58,774 employees. Each and every one of them has demonstrated an unwavering commitment to achieving our mission and ensuring that Desjardins is a positive force for change when it comes to addressing major issues in society.

Thank you so much, to all our employees and directors, for what you do. And thank you to our 7.5 million members and clients for choosing Desjardins.



Guy Cormier
President and CEO
Desjardins Group

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[1] and employees, about democracy, economics, solidarity, and individual and collective responsibility

Goal

To be everyone's #1 choice

Values

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

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

Desjardins Group

2022 key figures

7.5 million
members and clients

2,456
directors

58,774
employees

$518 million[1]
redistributed to members and the community

13,849
new business members

72,214
new personal members

$2,050 million
in surplus earnings

$14 million
from the GoodSpark Fund for strong, sustainable communities

20.2%[3]
Tier 1A capital ratio

$12.6 billion[2]
in insurance premiums

$407 billion
in assets

$1.69 billion[4]
invested in the renewable energy infrastructure sector

$17.4 billion[5]
in indivisible shared wealth held in the caisses' general reserves

1 For more information on non-GAAP financial measures, see the **Non-GAAP and other financial measures section** on pages 3 to 7 of the **Management's Discussion and Analysis.**

2 Gross written premiums.

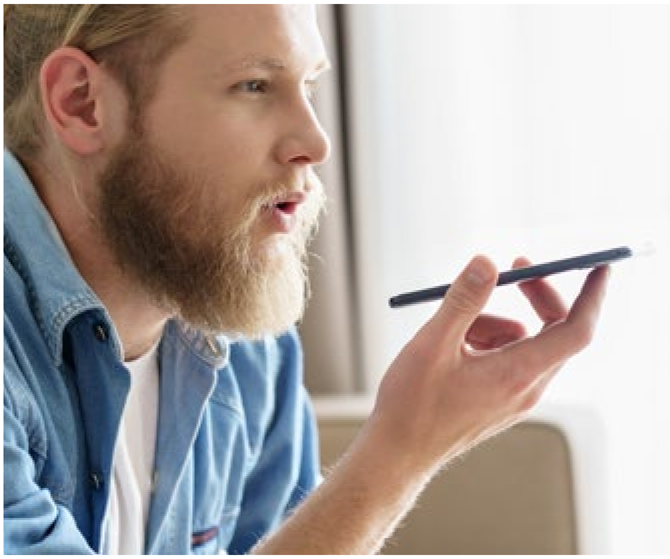
3 In accordance with the *Capital Adequacy Guideline – Financial services cooperatives* issued by the AMF. Takes into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See section 3.2, **Capital management,** of the **Management's Discussion and Analysis.**

4 Together with the Desjardins Group Pension Plan. Cumulative amount as at September 30, 2022.

5 Included in the $20.6 billion total reserves presented in Desjardins Group's combined financial statements as at December 31, 2022.

Driven by innovation

New benefits for members and clients



Improving the client relation centre experience with innovative technologies

Our virtual assistant now directs calls from members and clients to agents who can help them based on what they say rather than what they select on a telephone keypad. Between the updated interactive voice response system and the virtual assistant, callers enjoy complete autonomy and can complete transactions without needing to wait for an advisor to become available or navigate through endless menu options. Going forward, all calls to 1-800-CAISSES will go through the virtual assistant, which is over 91% accurate. A testament to its success, the virtual assistant using natural language processing in Quebec French won the people's choice award at the 2022 Gala des OCTAS.

Creating an omnichannel experience for auto insurance in Quebec

We provide comprehensive support so our clients have all the information they need to complete transactions on their own and to select the coverage that's best for them when they need it, through the channel of their choice. To streamline the client experience, we've rolled out a solution that supports our omnichannel transformation. This cross-sector solution involves reviewing underwriting rules, simplifying questions to help clients get the right premium and coverage, overhauling advisory roles, and updating the tools we provide to clients who use the self-serve channel to do business with us.

We rolled out this solution when we merged our various auto insurance websites into a single one. We'll continue consolidating our content in 2023 to provide our members and clients with a streamlined digital experience.

Updating the Alert program

To help our clients protect their belongings even better, we've improved the Alert program. Alert now includes a security system paired with a monitoring service that users can easily manage on a mobile app. Users get a notification or text on their smartphone if the sensors detect something, like a smoke alarm, a break-in, a water leak, freezing or a power outage. That way, users can act quickly to minimize damage. The monitoring service can also send emergency services to the home if necessary.

A caring approach

Education that supports financial empowerment

At Desjardins, financial literacy has always been central to our mission. In 2022, we invested $11 million in financial and cooperative literacy programs to foster healthy financial habits, financial wellness and financial empowerment.

In tune with our members and clients

Over the past 2 years, the Desjardins Web Panel has grown significantly, from 3,000 to more than 10,000 panellists. That means we can consult more members about specific topics and test more ideas.

Proactive support strategy

Aware that with each rate hike, there's a greater risk of members finding themselves in a vulnerable situation, we developed a proactive support strategy. For members most at risk—those with variable rate loans and those whose mortgage payments increase substantially at renewal—we rolled out a series of preventive steps, including personalized communications and contact from their advisor. As part of this strategy, we called more than 50,000 personal members whose mortgage payments were no longer enough to cover interest.

Web conferences with our chief economist

Rate hikes, inflation, gas prices, home prices, recession risk ... more than ever, our members and clients need advice that addresses their concerns. We've enhanced our financial literacy initiatives and now offer web conferences hosted by Chief Economist Jimmy Jean. Thousands of people attended the public web conferences held in May and September in both French and English.

Security is our priority

Speech recognition: A resounding success

Our **voice authentication feature** (video in French only) won the digital solution category at the 2022 Gala des OCTAS. In total, 1.2 million members and clients have consented to this secure method of authentication since we rolled it out in our client relation centres in 2021. It's like a voice fingerprint that's designed to protect members and clients.

Major support for Canada's Digital Identity Laboratory

As an organization committed to promoting digital identity nationwide, Desjardins supports Canada's Digital Identity Laboratory. The IDLab is an independent non-profit. Its aim is to accelerate the adoption and development of digital ID solutions that are compliant and interoperable with the systems used both here and abroad. Desjardins's $845,000 financial contribution will go toward setting up the laboratory, including recruiting cybersecurity and personal information protection specialists.

This initiative promotes the introduction of digital identity as a preferred means of identification and authentication. Digital identity solutions help people better protect their privacy and give them back control over their data.

A historic commitment to road safety

In 2022, Desjardins Insurance announced a $3.2 million investment over 3 years in road safety education and initiatives in Quebec and across Canada. With this commitment, we're making a major contribution to the **Decade of Action for Road Safety** created by the United Nations and the World Health Organization. The initiative's goal is to reduce road traffic deaths and injuries by 50% by 2030.

DECADE OF ACTION FOR
ROAD SAFETY
2021 - 2030

Firmly focused on the future

Democracy in action

In 2022, the annual general meetings (AGMs) of Desjardins Group, Desjardins caisses in Quebec and Desjardins Ontario Credit Union were held in hybrid mode. Combining in-person and online attendance had a very positive effect on our cooperative financial group's democratic life.

At the Desjardins Group level, delegates were able to choose to attend the AGMs in person or take part online via a secure platform. The remote voting system introduced in 2021 made it possible to receive all the delegates' votes simultaneously.

The caisses hosted both hybrid and 100% online AGMs. After the 212 AGMs, there was a deferred vote on AccèsD. Members had 4 days to elect directors for their caisse's board and vote on proposals for distributing member dividends and surplus earnings. Since the introduction of deferred voting in 2020, member participation has increased by 345% over the in-person AGMs held in 2019. By making it easier for members to take part in AGMs, we're helping to preserve one of the distinctive foundations of our cooperative group: democracy. We're also reducing the overall greenhouse gas emissions generated by travel.

A major acquisition

We kicked our Canada-wide growth into high gear by signing agreements to purchase Guardian Capital Group Limited's insurance distribution activities and mutual fund and securities companies.

Once completed, this transaction will give Desjardins access to a key player and a top-performing network of some 5,000 independent advisors known across Canada. Our current activities combined with the activities being acquired make us a Canadian leader in the independent distribution of insurance and savings products.

Socioeconomic leadership

Driving economic activity

Momentum Fund

In 2022, the Momentum Fund provided $6.4 million to Quebec and Ontario businesses to maintain or create quality jobs. Up to $20,000 in non-repayable funding was granted to 752 businesses to support their growth and transformation projects.

Based in Melbourne, La Vallée du Moulin has been a Desjardins member since 2006.

Energy efficiency project by a family business in Estrie

La Vallée du Moulin received $10,000 in non-repayable funding to help automate its watering system. La Vallée du Moulin (in French only), the first organic fig producer in Quebec, pays close attention to its environmental footprint. The automated watering system not only provides substantial energy savings, but also improves productivity. It's a solution that's good for everyone—and also the planet.

Desjardins GoodSpark Grants

The Desjardins GoodSpark Grants program supports small businesses' commitment to innovation, investing in their employees and sustainable development. We launched the Desjardins GoodSpark Grants to stimulate economic growth in Ontario and the Atlantic and Western regions. This year, the program had a budget of $3 million. Judging by the number of applications we received—more than 7,000—the initiative is clearly popular with small businesses. In 2022, we gave out $20,000 grants to 150 small businesses. During the summer, our partnership with *The Amazing Race Canada* gave many of our grant recipients the chance to get the word out about their business on TV.

Actively promoting buy local initiatives

Desjardins 100% Members Platform

This online tool helps Desjardins entities and our employees find and support our business members. The platform is good for our members' sales and it helps create and maintain jobs outside urban centres. In 2022, nearly 2,000 business owners were registered on the platform, a clear sign that our members see the value of this initiative.

Buy local campaigns to support local retailers

These one-of-a-kind crowdfunding campaigns, run through La Ruche, give users the chance to buy gift cards redeemable at participating retailers, with a 20% to 50% bonus. In 2022, 11,000 users participated in 22 buy local campaigns on La Ruche, raising more than $2 million in bonus gift cards redeemable at local businesses in 10 regions of Quebec. Five Desjardins caisses provided funding for 6 of these campaigns, representing a total investment of $136,500.

Fast-tracking the transition to a low-carbon circular economy

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

$50 million to support solutions with a positive climate impact

We invested $50 million in the **Idealist Climate Impact Fund**. The mission of this $250 million fund, supported by multiple stakeholders, is to help accelerate the energy transition. The fund will provide businesses with growth capital to fast-track the commercialization of proven solutions that generate positive climate impact. The Idealist Fund is a North American fund with a primary focus on the Canadian market.

$250,000 to support an innovative platform in Ontario

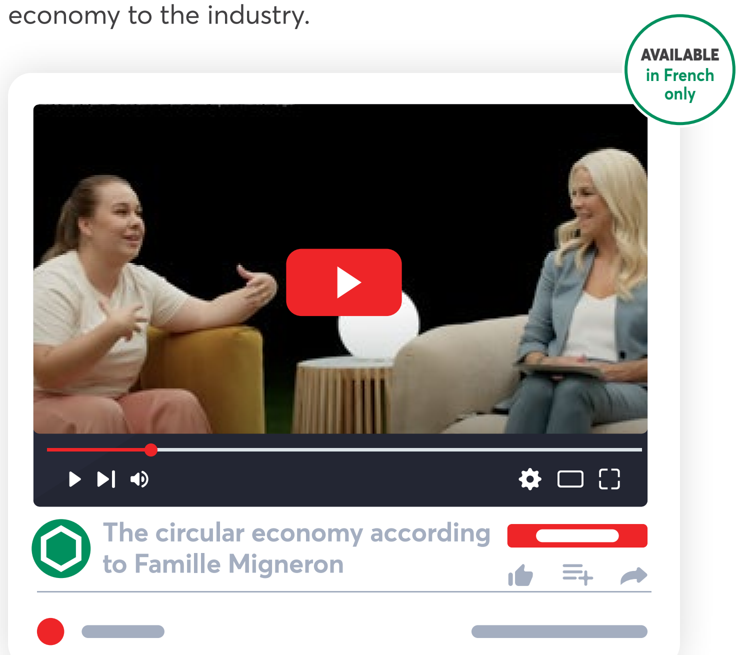
We've committed $250,000 to the **Circular Opportunity Innovation Launchpad**'s Climate and Circularity Solutions Hub. The Hub, which launched in October 2022, applies circular economy principles to provide expertise, research and strategies to help regional businesses and community organizations take action to reduce carbon emissions and tackle climate change.

Up to $1 billion in sustainable financing over the next 3 years

In December 2022, we announced a partnership with Export Development Canada for a pilot program involving a new sustainable financing offer for companies looking to reduce their greenhouse gas emissions. With this new product, we'll grant up to $1 billion over the next 3 years for projects that support the transition to a low-carbon economy.

Ecosystem of labs to fast-track the circular economy

Thanks to our $2.1 million contribution over 5 years, the École de technologie supérieure's Center for Intersectoral Studies and Research on the Circular Economy set up its first lab geared towards the construction industry in April 2021. In 2022, 15 experimental projects were underway, focusing on different links in the industry's value chain. More than 200 actors are involved in the construction, renovation and demolition lab to find ways to bring the circular economy to the industry.



Cultivating innovative entrepreneurship

Cooperathon – A platform for creating impact entrepreneurship

The Cooperathon brings citizens, communities, entrepreneurs, researchers and academic and institutional groups together to build a socially responsible future. The goal: find innovative solutions to real social issues. The theme for the seventh year of the competition was "Innovation at heart to lead the change." The Cooperathon awarded more than $50,000 in prizes and grants to teams whose ideas stood out for their potential for social impact.

- The Beta Grand Prize was awarded to HOP Tech, which developed IoT machine learning applications for the identification and stratification of patients with respiratory disease, type 2 diabetes and heart failure.

- The Alpha Grand Prize was awarded to Aqua Preserve, which combines the use of a 4K underwater camera with intelligent facial recognition to monitor invasive species in lakes and rivers.

Partnerships with 2 startup incubators/accelerators

Incubators and accelerators play an important role in starting and growing a business. They provide a variety of programs and services for businesses at different stages of development.

LE CAMP
Accélérateur - incubateur

DMZ

Through a new partnership with **LE CAMP**, up-and-coming entrepreneurs will have access to Desjardins Group's expertise, experience and full network. This agreement will help energize the tech ecosystem in the Quebec City area and accelerate the development of participating startups.

Based at Toronto Metropolitan University, the **DMZ** is a leading startup incubator. Desjardins and the DMZ have teamed up to offer the **Launchpad for Entrepreneurs** program. This virtual program helps young tech entrepreneurs develop the personal and professional skills they need to build strong business foundations by providing easy, unlimited access to videos and training content.

$19.4 million

invested in entrepreneurship in 2022

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

Contributing to community vitality

GoodSpark Fund

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

Snapshot since the fund's creation:

726 projects supported

$161 million committed

Throughout Quebec and Ontario, the GoodSpark Fund is taking real action to address social issues. Learn more about how the fund is benefiting people and communities through some of the inspiring initiatives that it has helped to roll out since 2016.

VIDEOS AVAILABLE in French only

A more caring world for André

Thanks to caregivers from the Réseau de coopération des Entreprises d'Économie Sociale en Aide à Domicile (domestic help social economy businesses network), André and his wife receive quality personal services that enable them to continue living at home together.

A greener world for Suzie

Cultive le partage is a field gleaning network that helps recover food to support food security.

A more inclusive world for Zahia

Thanks to the support she received from La Maisonnée, Zahia and her husband were able to find balance in their professional lives after immigrating to Canada.

A gentler world for Gaëlle

Vide ta sacoche provides gift bags with cosmetics to women in vulnerable situations to help them through difficult times.

Community Development Funds

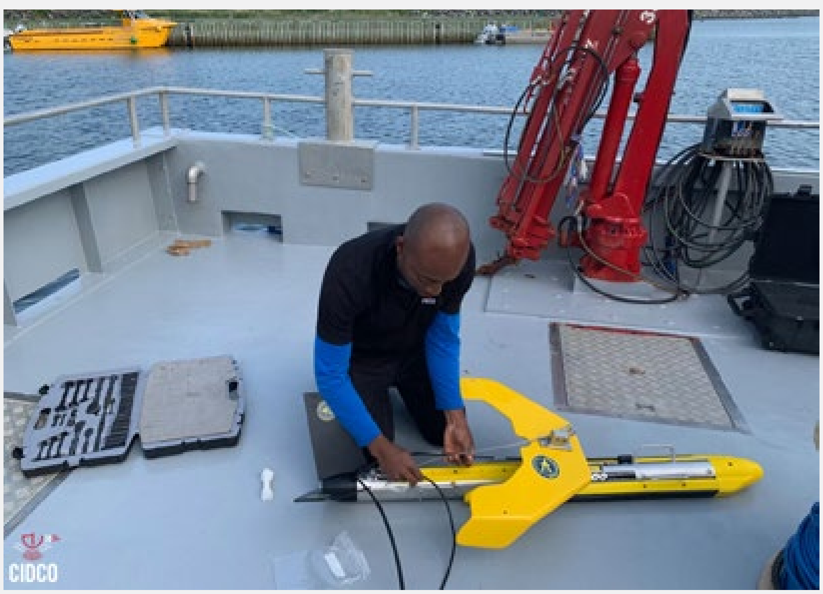
Our Community Development Funds (CDFs) are just one way caisse members show their generosity. At caisse general meetings, members decide how they want to split the surplus earnings between member dividends and the CDF to support meaningful projects in the community. This year, the caisses gave back $45.7 million to communities.

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

$1 million eco-friendly fund

Caisse Desjardins de Rimouski rolled out an eco-friendly fund. Using money from the caisse's CDF, this $1 million fund was set up to support local environmental initiatives.

The fund has been used to buy specialized equipment that the Interdisciplinary Centre for the Development of Ocean Mapping can use to retrieve fishing gear lost at sea. Once detected, gear can be recovered over a large area. In 2015, 85% of North Atlantic right whale deaths along the US East Coast were attributed to fishing gear.



New heights for the Cares and Shares campaign

In 2022, 33,812 donors—made up of Desjardins employees, directors and retirees—contributed to our Cares and Shares campaign. Between everyone's individual donations and the organization's contributions, a record $8.6 million was raised. The sense of personal commitment we share is helping to build inclusive communities for marginalized people and open up a world of possibility for youth.

33,812 donors and a record-breaking

$8.6 million

Sustainable socioeconomic development

Our solidarity-based finance programs

Through strategic partnerships with community organizations, we continued to expand our solidarity-based finance activities all across Quebec. In 2022, we invested $18.2 million in these programs.

Desjardins Mutual Assistance Fund

The Desjardins Mutual Assistance Fund provides individuals experiencing financial hardship with budget counselling and emergency loans. It allows them to address their short-term budget problems so they can make lasting changes to their spending and budgeting habits.

In 2022, almost 23,000 people received financial guidance and support under this program.

CRÉAVENIR

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

2022 snapshot:

- 282 projects supported
- 655 jobs created or maintained
- $5.2 million in grants and financing awarded through the program, generating $24.2 million in community investments

Desjardins Microcredit to Businesses

The Desjardins Microcredit to Businesses program helps microentrepreneurs and self-employed workers without access to traditional credit get business advice and flexible alternative financing they can afford.

2022 snapshot:

- 1,093 business members supported
- 424 jobs created or maintained
- $1.2 million in loans granted through the program, generating $10.3 million in community investments

Game-changing generosity

Our ongoing commitment to sustainable community development shines through in so many ways. Here are a few examples of some of the many initiatives we supported during the year:

Encouraging healthy living

We teamed up with the Heart and Stroke Foundation of Canada and are now the official nationwide presenter of the Jump Rope for Heart program. Our multi-year donation helps support both components of this program that encourages young people to adopt and maintain a healthy lifestyle at home and at school.

Helping sick kids

We donated $500,000 to Opération Enfant Soleil during its 35th annual telethon. This major donation will go toward providing high-quality pediatric care to children across Quebec.

Furthering university education and research

In 2022, we invested $7.5 million in 9 universities (5 in Quebec and 4 in Ontario). These partnerships fund chairs to support research, for example the Chaire Desjardins en développement des petites collectivités (Desjardins chair for small community development), support programs like Queen's University's Master of Financial Innovation and Technology, propel student entrepreneurship projects like University of Toronto Entrepreneurship, make higher education more accessible via scholarship programs, and improve the quality of student life.

Supporting shaken Canadian and international communities

We continue to support the Canadian Red Cross's efforts to support communities when events threaten their health and well-being:

- $30,000 donation to the Pakistan Floods Appeal.
- $75,000 donation and several support measures to help members and clients affected by Hurricane Fiona in Canada.
- $100,000 donation to provide urgent aid to the people and communities affected by the war in Ukraine. An additional $200,000 was collected by several caisses in the Montreal area and donated to organizations active in the Ukrainian community. From the outset of the conflict, we set up a variety of measures—including free international fund transfers, traditional savings withdrawals without penalty, property and casualty insurance premium relief, and legal and psychological assistance—to help everyone affected by this humanitarian crisis. We were also part of the strategy to welcome people leaving the conflict, offering job opportunities and immigration support services.

$114.6 million in sponsorships, philanthropic partnerships and scholarships in 2022

Firmly committed to helping young people

$80 million to support youth in 2022

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

Our steadfast commitment to education

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

2022 snapshot:

- Nearly $5.5 million to help young people succeed
- 478,821 young people supported

Desjardins Foundation Prizes

Through the [Desjardins Foundation Prizes](), we award schools and youth organizations grants of up to $3,000 for projects for kindergarteners through high school students. The program, which is available in Quebec, Ontario, Alberta and New Brunswick, provides an engaging way for teachers to motivate their students.

2022 snapshot:

- 546 projects supported
- Over $1.4 million awarded
- 96,500 young people reached

Inspiring Indigenous initiatives

In 2022, 10 inspiring Indigenous initiatives got off the ground thanks to the Desjardins Foundation Prizes. For example, Dalewood Public School in Ontario will be using the funds to make a medicinal garden that will serve as an outdoor learning space honouring the history of the school land. The garden will give Indigenous youth a special space that fosters exchanges, inclusion and mutual understanding.

Scholarships

2022 was a challenging year for college and university students. To encourage them to stay in school, we awarded 3,978 scholarships totalling $5.3 million.

- The Desjardins Foundation supported 1,283 students with financial needs, 880 of whom stood out for their perseverance or community involvement, and 403 who decided to switch careers or go back to school.
- Desjardins caisses supported 2,603 students through local scholarship programs totalling $2.7 million.

With the cost of living on the rise, several scholarship amounts were increased to help students financially.

New equity, diversity and inclusion targets

The Desjardins Foundation has set a specific target under its scholarship program to support students from different backgrounds. The Foundation makes sure at least 15% of its scholarships are awarded to recipients in the following groups: visible minorities, cultural minorities, Indigenous Peoples or persons with disabilities.

YMCA Black Achievers Desjardins Scholarships

The YMCA of Greater Toronto's Black Achievers program reinforces a feeling of belonging, inclusion and representation for Black youth at school, at work and in the financial world. The program motivates young people to grow and develop by offering them access to Black mentors and role models, and workplace and post-secondary campus exposure. We're pleased to award 2 scholarships under this program.

Greater Toronto
Shine On

Donating to organizations that motivate young people to learn

In 2022, the Desjardins Foundation awarded nearly $1.4 million to dozens of youth organizations. These partner organizations operate in a variety of areas, all of which can have a significant impact on keeping young people in school.

Record contribution of $1 million to Kids Help Phone

Mental health problems among young people are becoming more prominent, with 1 in 2 teenagers saying they experience symptoms of anxiety or depression. To ensure young people have someone to talk to when they need help, the Desjardins Foundation announced a $1 million contribution to Kids Help Phone—its largest donation to date.

An ally to help young people grow and develop

Launch of The Project Factory

The Project Factory is a brand new crowdfunding platform that lets users manage fundraising initiatives for motivating school and extracurricular projects that promote financial literacy.

Doubling up on support for youth initiatives

As part of the Together For Our Youth program, the Simple to Double Fund combines crowdfunding and Desjardins's support to give a boost to initiatives for young Quebecers ages 5 to 29. To qualify for the double up, the fundraising must be done on La Ruche or, if it's a school project, on The Project Factory. The Simple to Double Fund has a budget of $1 million over 2 years. Since the fund was launched in March 2022, it has invested nearly $525,000 to support 45 projects involving more than 45,000 young people across Quebec.

Événement Crépuscule

Event organizers Léa Morin, Amy D'Amours, Maïka Pelletier and Rosalie Caron

Students at Collège Notre-Dame in Rivière-du-Loup organized a fun run with a family zone at the end. The funds raised during the event were used to provide some joy to women and children staying at L'Autre-Toit du KRTB,[1] a domestic violence shelter. With the money, local shop Bébé Loup prepared packages for these women, who often leave home with nothing. The students tripled their initial goal by raising over $21,000 through The Project Factory, including a $10,000 donation from the Simple to Double Fund.

[1] KRTB refers to the area covering the regional county municipalities of Kamouraska, Rivière-du-Loup, Témiscouata and Les Basques.

Cultivating the entrepreneurial spirit

Meeting with young entrepreneurs

In partnership with the Regroupement des jeunes chambres de commerce du Québec, Guy Cormier met with young entrepreneurs across the province. During the 6 events, our president spoke with young professionals and entrepreneurs about the socioeconomic issues they face, including employment, entrepreneurship, housing, education and corporate responsibility. The meetings were also an excellent opportunity to listen to what these young people have to say, to hear their concerns and, above all, to see how we can better support them. Guy Cormier will continue meeting with youth in 2023, culminating in a huge national youth event on June 19 and 20.

$500,000 over 2 years to help young entrepreneurs

We've teamed up with Evol to create 2 support programs for regular and takeover social entrepreneurs. The programs will allow young entrepreneurs to advance their projects through an innovative approach that includes training workshops, co-development cells, networking, personalized support and scholarships.

Introducing entrepreneurship at an early age

We support Youth Fusion, La grande journée des petits entrepreneurs and the Défi48, all of which help young people launch entrepreneurial initiatives. We also support the Semaine des entrepreneurs à l'école, during which local business owners share their passion for entrepreneurship with students of all ages.

One of the many kiosks at the Marché de petits entrepreneurs in Limoilou

Empowering youth through financial literacy

Youth dividends now available to more young people

On January 1, 2022, we opened up our youth dividends (formerly for School Caisse participants only) to all Desjardins members in Quebec and Ontario between the ages of 5 and 17, representing more than 280,000 people. The purpose of the $10 dividend is to reward young members for good savings habits. Teens ages 12 to 17 can get an additional $15 if they make the required deposits and have an eligible savings account or product.

School Caisse

Founded in 1907, the School Caisse is one of our flagship programs. We work with parents and schools to teach elementary students the basics of saving, the economy and cooperation. Promoting financial literacy and steering young people toward financial empowerment are fundamental values for our organization. In 2022, a total of 82,312 elementary school students in Quebec and Ontario took part in the School Caisse program.

PERSONAL FINANCE: I'M IN CHARGE®

EDUCATIONAL PROGRAM

Personal Finance: I'm in Charge® is a financial literacy program for young adults ages 16 to 25 and newcomers to Canada. The program teaches them how to manage their money and start their financial lives with confidence, by covering practical topics like high debt levels, social pressure to spend and financial literacy.

2022 snapshot:

- Over $3.7 million invested
- 78,384 registrations, for a total of 485,269 since 2013
- 195 participating caisses in Quebec and Ontario
- 412 accredited trainers from 114 partner organizations

® Registered trademark of the Fédération des caisses Desjardins du Québec.

A youth-focused approach

360d spaces

We've developed a one-of-a-kind concept in North America for young people: 360d. These 8 hip, friendly financial service centres work with caisses to serve young members and workers ages 18 to 30 on university campuses.

Top employer

A work environment where employees can thrive

At Desjardins, we're committed to helping our employees make a real difference in the lives of people and communities. Our 58,774 employees enjoy great working conditions, training opportunities and benefits.

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

58,774

employees enjoy great working conditions, training opportunities and benefits.

Immigration Support Centre

Set up for international recruiting, our Immigration Support Centre helps temporary foreign workers and Desjardins managers with the immigration process. As mentioned in an article that appeared in Le Droit, from the moment these future Desjardins employees start their sometimes stressful immigration journey until they gain Canadian citizenship, they can rely on our in-house team of 11 immigration specialists and lawyers.[1] The Centre also helps the families of the new foreign employees make the move, by helping them obtain a student or work permit, or by offering spouses a job at Desjardins when possible. This support goes so far as to help them find a place to live, a school or even daycare.

Colombian-born scrum master
Diana Niño Pimiento

Some temporary immigrant employees share their stories

Making the decision to go live and work in another country isn't always easy. It's a life-changing event that often represents a new start for a person or even a whole family. **Discover the stories** of Diana Niño Pimiento and Antoine Phung, who joined Desjardins in 2019. See how our Immigration Support Centre made moving to Canada and settling in easier for them.

Vietnamese-born programmer analyst
Antoine Phung

Passionate Professionals Network launch

The Passionate Professionals Network is a group of over 200 employees from across Desjardins. They share their passion for their jobs with peers and are available to answer questions. The slogan "Explore the possibilities and find your passion!" sums up the network's mission, which is to help our 58,774 employees find jobs in line with their career goals. By rolling out an internal job market to promote cross-sector moves, we've paved the way for all our employees to find the right role for them at Desjardins.

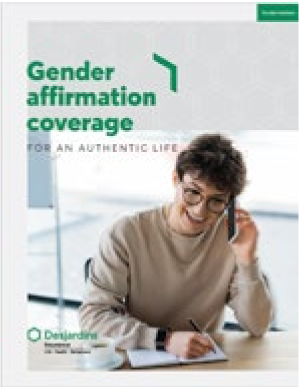
[1] **L'accueil « fait maison » des travailleurs étrangers chez Desjardins | Actualités | Le Droit - Gatineau, Ottawa** (in French only)

Equity, diversity and inclusion

Steadfast support throughout the gender affirmation process

Desjardins Insurance wants to ensure that all individuals can affirm their gender identity and be respected and valued for who they are, which is why the insurer now includes gender affirmation coverage in its group insurance plans. This new group insurance product tops up the expenses that are generally covered under public health plans by adding coverage for expenses related to some treatments and surgeries. The initiative was developed in collaboration with Fondation Émergence. Through its ProAlly program, this organization advocates for the rights of LGBTQ+ people to create more inclusive workplaces.

As of January 1, 2023, gender affirmation coverage will be included in the Desjardins employee group insurance plans. This coverage for employees and their dependents is fully paid for by us. We've also created a guide outlining an approach, tools and resources that managers can refer to as they support an employee through each step of the gender transition process.



See brochure >

United and proud

Always active in the LGBTQ+ community, we showed our support by featuring a rainbow-coloured logo on social media and on our flagship buildings periodically over the summer. We supported a number of Pride events, and our employees were in attendance to celebrate gender and sexual diversity.

Employees celebrating at Calgary Pride

An ally of Indigenous Peoples

Innovative First Nations financing solution

First Nations face significant challenges with respect to home ownership. Outdated government programs and **federal legislation**, which prohibits security from being taken over property on First Nations territories, make it difficult for them to purchase property. Aware of the long turnaround times and cost inequity of the current process, we developed the First Nations Home Ownership Program. Designed with help from a law firm specializing in Indigenous rights, this program streamlines the mortgage approval process for First Nations communities by not systematically relying on government loan guarantees. After a successful pilot project, the Mashteuiatsh community and Caisse Desjardins du Pekuakami signed a partnership agreement in early November 2022 to roll out the solution to this Innu community.

The advantages of the program include turnaround times and borrowing costs that are similar to those available to other communities we serve. It also provides First Nations with access to a broader range of mortgage and personal insurance products.

The journey of 2 Indigenous women

To mark the National Day for Truth and Reconciliation on September 30, we shared **the inspiring journey** of Sonia Lefebvre and Mandie Montour, general managers of their respective caisses in Wendake and Kahnawake. With careers spanning over 30 years at Desjardins, these Indigenous women have played a key role in supporting economic, cultural and social development in their communities.

Sonia Lefebvre, General Manager of Caisse Desjardins de Wendake

Mandie Montour, General Manager of Caisse populaire Kahnawake

Encouraging women in leadership

A new learning path for women entrepreneurs

To take women's leadership to the next level, we've teamed up with The A Effect to offer the Entrepreneur's learning path. The learning path is free and open exclusively to women who are Desjardins members or clients. In 2022, 2 cohorts got underway, with a total of 2,100 women entrepreneurs embarking on the learning path. These entrepreneurs are either self-employed, starting a business, or acting as manager or president of a growing SME.

A program to improve the representation of women on boards of directors

We offer SME governance training to promote the presence of women on boards of directors. A total of 40 women entrepreneurs have taken the program since it was rolled out in 2020. Once these entrepreneurs have completed the training, they're added to our database of potential candidates to sit on the boards of Desjardins Capital Management Inc.'s partner companies. Desjardins Capital Management Inc. assists businesses in setting up boards of directors or advisory committees that bring together members with complementary expertise and a wide range of profiles.

Women in Insurance

In April 2022, we launched the Women in Insurance community to round out our Empowering Women initiative. It's a community where employees can rally around the shared goal of empowering women in the insurance industry. We provide them with networking opportunities and support them in their career development.

Farah Alibay and explorer perseverance

Farah Alibay wears a lot of different hats: she's an aerospace engineer, mentor, Big Sister and all-around inspiration. Women around the world look up to her for her perseverance. Born in Montreal to Indian parents from Madagascar, Farah is an advocate for diversity and inclusion in every industry and sector. As part of our programming for International Women's Day, she spoke about explorer perseverance during a talk organized by Empowering Women.

Courageous Conversations about Racism and Inclusion: A popular initiative

Twice a month, we hold discussion groups on racism and discrimination. This community forum allows employees to share experiences, have a safe space to interact and create a friendly atmosphere to discuss racism and discrimination. During these conversations, employees can speak freely and everyone can learn more about the challenges racialized people face. This employee favourite won a Desjardins Pride Prize in 2022 at our Recognition Gala.

Our commitment to a greener, fairer world

Signatory of important commitments

Finance for Biodiversity Pledge

In early December 2022, through our subsidiaries Desjardins Global Asset Management and Desjardins Investments, we signed the **Finance for Biodiversity Pledge**. The goal of this initiative, which has 126 signatories, is to protect and restore biodiversity through finance activities.

Climate action plan

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

NET ZERO EMISSIONS 2040

Reducing our operational emissions by 41% by 2025

To hit this first target, we launched the Cooperating for the Climate Challenge in 2022. This internal challenge includes 5 priority action areas: paper consumption, business travel, energy use in our buildings, employee buy-in and our supply chain.

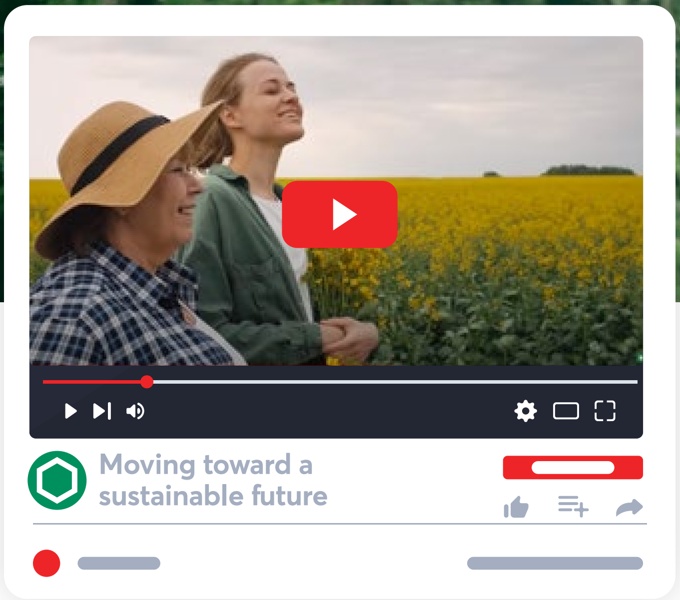
Rethinking business travel

We're taking action in a number of areas for lower-carbon travel: almost halving our vehicle fleet since 2019; electrifying Desjardins General Insurance's fleet, which is now 62% lower-emission vehicles; changing how we reimburse for essential travel to encourage carpooling and hybrid or electric vehicle use; and promoting our Alternative Transportation Program.

Mobilized employees

We launched the training Striving for Sustainability, which was taken by 93% of employees; rolled out our Climate School, a platform with informative videos on climate change and loss of biodiversity; and held Climate Fresk workshops—because we know that reaching our climate targets also depends on mobilizing all of our employees.

Climate action plan (continued)



Sustainable mobility

- We continued to install electric charging stations at caisse and credit union locations across Quebec and eastern Ontario. To date, 363 charging stations have been installed, including 337 that are available to the general public.
- 22 bike repair stations have been set up.
- As a key partner of Propulsion Québec, we support all the cluster's efforts and initiatives to promote the growth and expansion of Quebec's intelligent and electric transportation ecosystem. In 2022, we supported the development of Ambition EST 2030, a roadmap for the electric and smart transportation ecosystem.

Bike station at Caisse Desjardins de Granby–Haute-Yamaska

Investing $2 billion in renewables by 2025

As at September 30, 2022, we had invested $1.69 billion[1] in the renewable energy infrastructure sector. That's 42% of our infrastructure portfolio.

Adding targets to our general incentive plan

In 2022 we added an indicator based on our ESG performance, evaluated by 4 major extra-financial rating agencies, to the general incentive plan of all Desjardins employees.

[1] Together with the Desjardins Group Pension Plan.

Responsible finance

Responsible investment

We've launched a number of initiatives to educate members and clients on responsible investment (RI) and explain the benefits and positive environmental and community impacts of RI.

An increasingly popular choice

We offer more than 70 responsible investment product options, making us a Canadian leader in the field. As at December 31, 2022, we had almost $12.4 billion in RI assets under management.

42%

of Desjardins Funds unitholders now hold SocieTerra Funds or Portfolios, up from 38% in 2021.

A growing responsible investment product offer

Expanding the SocieTerra line

We're taking the SocieTerra investment fund lineup to the next level with 10 new Desjardins SocieTerra Funds and 1 new Desjardins SocieTerra Portfolio, all of which are fossil fuel-free, giving members and clients additional ways to participate in the energy transition.

The new Desjardins SocieTerra American Equity ETF

This investment product rounds out our range of RI exchange-traded funds (ETFs).

More RI options for wealth management members and clients

Members and clients in our specialized wealth management networks now have even more options for taking part in the transition to a more sustainable economy thanks to Desjardins Signature RI Fund Portfolios and RI discretionary management mandates for Desjardins Securities.

Enhancing our RI offer for group retirement savings

We've added 6 SocieTerra Funds to the Desjardins Insurance group retirement savings platform. This is part of the rollout of our responsible investment life cycle path.

Responsible annuities

As of September 6, 2022, all new annuities purchased at Desjardins automatically go into investments that meet strict ESG criteria. This decision makes Desjardins the first financial institution in Canada to turn its entire range of individual savings annuities into responsible annuities.

Awards and recognition

Desjardins Group

- In a ranking of the largest cooperative groups published in the International Cooperative Alliance's *World Cooperative Monitor* report, we ranked **#5 in the world and #1 in North America**.
- Our creativity got noticed! We brought home a record **14 awards at Idéa,** a Quebec-wide creative communications competition.
- Our president and CEO, Guy Cormier, received an honourable mention for his commitment to communities at Finance et Investissement's Top des leaders de l'industrie financière event.

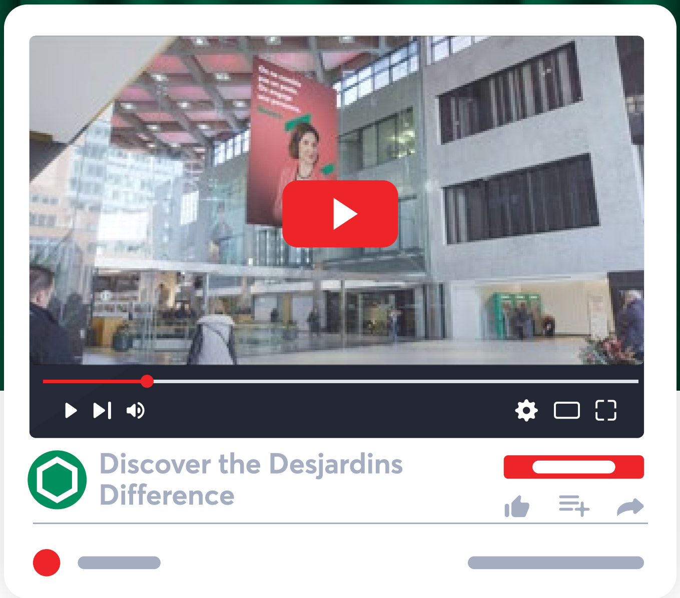
Award-winning products and services

- We took home **6 trophies** at **Fundata's annual FundGrade A+® Awards** ceremony. 2 SocieTerra mutual funds and 4 guaranteed investment funds won awards for excellent performance in 2022.
- For the 11th year in a row, we made our mark at the 2022 SRP Americas Awards—an event organized by UK-based firm Structured Retail Products—receiving top honours with the **Best House, Canada** award. In addition to receiving this prestigious award for the 3rd year in a row, we won 2 other awards at the event.
- **2 Desjardins responsible investment products were recognized at the Refinitiv Lipper Fund Awards.** For the 2nd consecutive year, the Desjardins SocieTerra Cleantech Fund was recognized as the best mutual fund in the Global Small/Mid Cap Equity category. The Desjardins RI Emerging Markets Multifactor – Low CO_2 ETF was recognized for the first time in the Emerging Markets Equity category.

OCTAS

We made our mark at the **Gala des OCTAS**, an event recognizing the best IT initiatives in Quebec:

- Our virtual assistant in Quebec French earned a **People's choice award**.
- Our voice authentication feature won the **Digital solution** category.
- Our mortgage pre-approval tool was recognized in the **Business solutions – Private companies** category.
- We also earned a **Jury's choice award for the quality of the French** in our 3 winning solutions.



A stimulating and inclusive workplace

- In *Forbes*' list of the Top **Female-Friendly** Companies, we ranked **#4 in the world** and **#1 in Canada**.
- We ranked 8th on **Glassdoor**'s Best Places to Work in Canada list. This recognition means a lot to us because ranking is based solely on employee opinions.
- Mediacorp Canada ranked us one of **Canada's Top 100 Employers** for the **12th straight year**.
- We were ranked one of Canada's Best **Diversity** Employers, Top Employers for **Young People** and Top **Family-Friendly** Employers by Mediacorp Canada.
- Mediacorp Canada has recognized us as one of Canada's **Greenest Employers** every year since 2015.
- For the 5th time, we were recognized by Women in Governance with **Gold Parity Certification** for the steps we're taking toward achieving equal representation of women at every level of the organization.
- We came in at **#16 in LinkedIn's annual ranking** of ability to advance, skills growth, company stability, company affinity, gender diversity and educational background.
- Desjardins Capital Management Inc. made its mark at the inaugural Réseau Capital Recognition Cocktail by winning the **Ally for Diversity and Inclusion Award** for its actions and commitment to promote diversity and inclusion in the financial industry.

We earned 2 awards at the **Association of Quebec Women in Finance**'s Gala Les Talentueuses:

- Guy Cormier received the **Alter Ego award** in recognition of his commitment to the advancement of women in finance.
- Our Empowering Women platform also won the **Promoting the advancement of women in Finance award**.

2022 CANADA'S GREENEST EMPLOYERS

Sustainable development

- In May 2022, **Moody's ESG Solutions**[1] increased our rating. We achieved the **highest ESG Assessment score** in the industry category Diversified Banks in North America.
- For the 9th year in a row, we're on *Corporate Knights* magazine's list of the **Best 50 Corporate Citizens in Canada**.
- In Year 4 of **BOMA Quebec**'s Building Energy Challenge, **7 Desjardins buildings were recognized** for significantly reducing their energy consumption over the previous 12 months and for having reduced their greenhouse gas emissions by at least 10% in 4 years. Also, our building at 995 Boulevard Alphonse-Desjardins in Lévis received BOMA BEST PLATINUM certification. This certification recognizes excellence in energy performance and environmental management in commercial real estate. The platinum level is the highest distinction possible.

Recognition for our circular economy approach

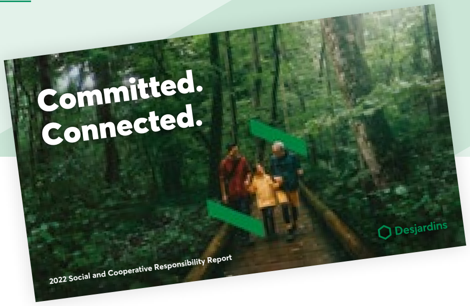
We won a circular economy award for repurposing office supplies through our Programme Récüp. The award was presented by Synergie Québec (in French only) to recognize the excellence of this highly beneficial initiative. The initiative allowed us to create opportunities for 6 people living with disabilities to get back on their feet, provide school supplies to 30 or so elementary and high schools, divert 4 tonnes of materials from landfills and avoid producing 3.3 tonnes of CO_2 equivalent.

Find out more about this initiative!

AVAILABLE in French only

Enriching the lives of people and communities

That's what drives us each and every day. Want to find out more about how we do this? Read more about all our accomplishments in our Social and Cooperative Responsibility Report.



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

Enhanced Disclosure Task Force recommendations index

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

Information regarding the EDTF recommendations is presented in the Management Discussion and Analysis (MD&A), the Financial Statements as well as in "Supplemental Financial Information" report and "Pillar 3 Report", which are available on Desjardins Group's website at www.desjardins.com/ca/about-us/investor-relations. The "Supplemental Financial Information" report and "Pillar 3 Report" are not incorporated by reference in the 2022 MD&A.

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

Type of risk	Recommen-dation	Disclosure	2022 Annual Report	Supplemental Financial Information	Pillar 3 Report
General	1	Summary of risk information	Current page		
	2	Risk terminology, risk measures and key parameters	61-66, 113-120	11	83-85
	3	Top and emerging risks	50-52, 58-60, 66-92		
	4	New regulatory ratios	50-53, 85, 87-89, 207, 208		
Risk governance, risk management and business models	5	Organizational risk management structure	61-66		
	6	Risk management culture	62-66		
	7	Risks from business model and risk appetite	13, 29, 33, 37, 40, 50, 54-56, 61-67		
	8	Stress testing	50, 62, 66, 67, 81-83		
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	50, 51		11-13, 77, 78
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	52-54, 207, 208		15, 16, 25, 77
	11	Movements in regulatory capital	51, 53, 54		
	12	Capital management and planning	50-56		
	13	Risk-weighted assets by business segments	55, 67		6-9
	14	Breakdown of capital requirements by type of risk and by calculation method	54, 55, 68, 69, 72, 73, 81-83		6-8, 10
	15	Credit risk	54-56		51, 54-56, 59
	16	Movements in risk-weighted assets by type of risk	55, 56		6-10, 51
	17	Back testing and validation of credit models	72		52, 53, 59
Liquidity	18	Management of liquidity needs and reserve	85-89		79
Funding	19	Encumbered and unencumbered assets	85-88, 90-92, 212-214		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	89, 90, 214-218		
	21	Funding sources and strategies	49, 85, 90, 91		
Market risk	22	Reconciliation of market risk measures to balance sheet	80, 81		
	23	Market risk factors	80-84, 190-194		
	24	Assumptions, limitations and validation procedures for market risk models	81-83		
	25	Extreme loss measures	50, 62, 81-83		
Credit risk	26	Credit risk profile	48, 59, 60, 62, 72, 73, 75-79	6-10	27-59
	27	Policy for identifying gross credit-impaired loans	74, 134-152		
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	48, 75-79, 134-152, 166-173		31, 41-50
	29	Counterparty risk related to derivatives	79, 196-205		60-69
	30	Credit risk mitigation techniques	73, 79, 196-205		33-37
Other risks	31	Management of other risks	54-56, 58-60, 64-67, 92-98		
	32	Publicly known risk events	92-94, 212-214		

Desjardins Group Management's Discussion and Analysis

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

The Management's Discussion and Analysis (MD&A) dated February 22, 2023, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the year ended December 31, 2022, in comparison to previous fiscal years. Desjardins Group reports financial information in compliance with Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings ("Regulation 52-109") prescribed by the Canadian Securities Administrators (CSA). Unlike the Federation, Desjardins Group is not a reporting issuer, on a combined basis, under this or any other applicable securities regulations. Pursuant to Decision No. 2021-FS-0091 of the Autorité des marchés financiers (AMF) dated April 23, 2021, the Combined Financial Statements and MD&As of Desjardins Group are to be filed by the Federation instead of the Consolidated Financial Statements and MD&As of the Federation, in order to meet its financial disclosure obligations as a reporting issuer under Regulation 51-102 respecting Continuous Disclosure Obligations of the CSA, and the Federation is to maintain controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group in compliance with Regulation 52-109. Since April 23, 2021, and pursuant to the AMF and CSA decision, the Federation has used the financial statements and MD&As of Desjardins Group for all relevant purposes under the applicable securities regulations. Information on the controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group may be found in Section 5.0, "Additional information", of this MD&A.

The MD&A should be read in conjunction with Desjardins Group's Combined Financial Statements, including the Notes thereto, as at December 31, 2022.

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

The Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the AMF in Québec, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). The accounting policies used are the same as those in 2021. For more information about the accounting policies used, see Note 2, "Significant accounting policies", to the Combined Financial Statements.

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

The factors that may affect the accuracy of the forward-looking statements in the MD&A include those discussed in Section 4.0, "Risk management", of this MD&A and, in particular, credit, market, liquidity, operational, insurance, strategic and reputation risk, as well as environmental or social risk, and regulatory risk.

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

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

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

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

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

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

Non-GAAP financial measures

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

Giving back to members and the community

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

More detailed information about the amount returned to members and the community may be found in Table 5, “Financial highlights”, in this MD&A.

Income

Operating income

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

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

Investment income

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

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

Table 1 – Correspondence of total income between the MD&A and the Combined Financial Statements
For the years ended December 31

(in millions of dollars)	2022	2021	2020
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 6,330**	$ 5,786	$ 5,640
Net premiums	**11,842**	11,278	9,920
Other income			
Deposit and payment service charges	**448**	424	388
Lending fees and credit card service revenues	**991**	735	628
Brokerage and investment fund services	**989**	1,108	954
Management and custodial service fees	**786**	732	617
Net investment income (loss)[(1)(2)]	**(4,505)**	319	3,116
Overlay approach adjustment for insurance operations financial assets	**747**	(404)	(42)
Foreign exchange income	**119**	121	103
Other	**293**	221	149
Total income[(2)]	**$ 18,040**	$ 20,320	$ 21,473
Presentation of income in the MD&A			
Net interest income	**$ 6,330**	$ 5,786	$ 5,640
Net premiums	**11,842**	11,278	9,920
Other operating income			
Deposit and payment service charges	**448**	424	388
Lending fees and credit card service revenues	**991**	735	628
Brokerage and investment fund services	**989**	1,108	954
Management and custodial service fees	**786**	732	617
Foreign exchange income	**119**	121	103
Other	**293**	221	149
Operating income	**21,798**	20,405	18,399
Investment income (loss)			
Net investment income (loss)[(1)(2)]	**(4,505)**	319	3,116
Overlay approach adjustment for insurance operations financial assets	**747**	(404)	(42)
Investment income (loss)	**(3,758)**	(85)	3,074
Total income[(2)]	**$ 18,040**	$ 20,320	$ 21,473

(1) The breakdown of this line item is presented in Note 27, "Net interest income and net investment income (loss)", to the Combined Financial Statements.
(2) In order to take into account the life and health insurance and P&C insurance subsidiaries' matching activities, the change in this line item must be analyzed together with "Claims, benefits, annuities and changes in insurance contract liabilities" in the Combined Statements of Income.

Non-GAAP ratios

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

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

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

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

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

Table 2 – Growth in operating income and growth differential between operating income and non-interest expense
For the years ended December 31

(in millions of dollars and as a percentage)	2022	2021	2020
Operating income	**$ 21,798**	$ 20,405	$ 18,399
Growth in operating income	**6.8 %**	10.9 %	3.0 %
Non-interest expense	**$ 10,638**	$ 9,566	$ 8,297
Growth in non-interest expense	**11.2 %**	15.3 %	3.3 %
Growth differential between operating income and non-interest expense	**(4.4)%**	(4.4)%	(0.3)%

Productivity index

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

The following table presents the productivity index.

Table 3 – Productivity index
For the years ended December 31

(in millions of dollars and as a percentage)	2022	2021	2020
Non-interest expense	**$ 10,638**	$ 9,566	$ 8,297
Total income	**18,040**	20,320	21,473
Claims, benefits, annuities and changes in insurance contract liabilities	**(4,500)**	(6,883)	(9,233)
Total income excluding claims	**$ 13,540**	$ 13,437	$ 12,240
Productivity index	**78.6 %**	71.2 %	67.8 %

Net interest margin

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

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

Table 8, "Net interest income on average assets and liabilities", of this MD&A provides more detailed information on net interest margin, average interest-bearing assets and average interest-bearing liabilities.

Loss ratio – Expense ratio – Combined ratio

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

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

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

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

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

The following table presents the calculation of the loss ratio, the expense ratio and the combined ratio for the Property and Casualty Insurance segment.

Table 4 – Loss ratio - Expense ratio - Combined ratio
For the years ended December 31

(in millions of dollars and as a percentage)	2022	2021	2020
Net premiums	**$ 6,005**	$ 5,909	$ 5,484
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 3,911**	$ 2,792	$ 3,689
Market yield adjustment (MYA)	**476**	171	(257)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 4,387**	$ 2,963	$ 3,432
Loss ratio	**73.1 %**	50.1 %	62.6 %
Non-interest expense	**$ 1,612**	$ 1,460	$ 1,303
Other expenses excluded from the expense ratio[1]	**(17)**	(19)	(9)
Non-interest expense excluding certain items	**$ 1,595**	$ 1,441	$ 1,294
Expense ratio	**26.6 %**	24.4 %	23.6 %
Combined ratio	**99.7 %**	74.5 %	86.2 %

(1) Mainly from investment management expenses.

Supplementary financial measures

In accordance with Regulation 52-112, supplementary financial measures are used to depict historical or expected future financial performance, financial position or cash flow. In addition, these measures are not disclosed in the financial statements. Desjardins Group uses certain supplementary financial measures, and their composition is presented in the Glossary on pages 113 to 120.

REGULATORY ENVIRONMENT

Regulatory environment

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

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

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

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

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

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

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

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

Regulatory governance requirements

As mentioned on page 1, Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, as prescribed by the CSA. Desjardins Group's financial and corporate governance are discussed on page 99 of this MD&A and in the "Corporate governance" section of the 2022 Desjardins Group Annual Report.

Domestic systemically important financial institution

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI), which subjects Desjardins Group to higher capital requirements and enhanced disclosure requirements, among other things, as instructed by the AMF. Desjardins Group globally incorporates the recommendations issued by the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board contained in the document "Enhancing the Risk Disclosures of Banks", into its risk management disclosure framework. Desjardins Group also continues to adapt its disclosure to comply with the principles of risk data aggregation and risk reporting (RDARR), which will strengthen governance as well as risk data aggregation and risk reporting capabilities. Furthermore, Desjardins Group developed a living will, detailing the actions it would take to restore its financial position in the event of a severe crisis.

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

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

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

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

The AMF released, on March 21, 2019, the *Notice relating to the bail-in power set out in the second paragraph of section 40.50 of the Deposit Insurance Act*, which specifies the AMF's current intention with respect to the application of the bail-in regime. In this context, the AMF plans to propose to the resolution board that it convert negotiable and transferable unsecured debt into capital shares of the Federation in accordance with the conversion measures set out in the regulations. The AMF would then propose to the resolution board that it carry out an amalgamation/continuance operation, the purpose of which would be to amalgamate the entities belonging to the Cooperative Group and have them continued as one Québec savings company. This operation would result in the capital shares issued by the amalgamating entities being converted into common shares of the savings company. In addition, Bill 3, *An Act to amend various legislative provisions mainly with respect to the financial sector*, was assented to on December 8, 2021. It amends, in particular, the *Deposit Institutions and Deposit Protection Act* in order to remove the AMF's write-off and cancellation powers from its bail-in power. As a result, the AMF's power to write off any part of the negotiable and transferable unsecured debts and to cancel any part of the capital shares issued by the Federation has been removed.

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

Furthermore, the AMF's *Total Loss Absorbing Capacity Guideline* (the TLAC Guideline) applies to and establishes standards for Desjardins Group in this regard. As a result, since April 1, 2022, Desjardins Group has been required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the prescribed criteria or regulatory capital instruments to support its recapitalization in the event of a failure. Additional information can be found under “Regulatory framework and internal policies” in Section 3.2, “Capital management”.

U.S. regulations

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

Changes in the regulatory environment

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

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

Amendments were announced to the PCMLTFA and its regulations on July 10, 2019. Most of them came into force on July 10, 2019, June 1, 2020 and June 1, 2021, while those relating to the reporting requirement will come into force in 2023 and 2024. After the publication of these regulatory changes, a project was implemented within Desjardins Group so that its systems, processes and procedures would be amended accordingly. Further regulatory changes came into force between 2020 and 2022, particularly to cover crowdfunding platforms.

Financial reforms in the U.S.

U.S. reform initiatives pertaining to financial regulation affect non-U.S. financial institutions operating in the United States, including Desjardins Group. Since the passage of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the finalization of the Volcker rule, Desjardins Group has been able to put in place the necessary elements and interpretations to be applied to its relevant entities. Consequently, the final changes to the Volcker rule, whose objective is to prohibit banking entities from engaging in proprietary trading and to limit their investing in or sponsoring of hedge funds and private equity funds, complete the existing tools and reinforce the work already done. With regard to the final changes to the restrictions on the control framework and the concept of control pursuant to the *Bank Holding Company Act* (BHCA), Desjardins Group has been working on revising the BHCA frameworks, whose adoption by the authorities and implementation by the entities affected by this regulation were completed in 2022.

Protection of data confidentiality and security

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

Pillar 3 financial disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These Pillar 3 requirements aim to enhance comparability with other financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its base capital adequacy guideline for financial services cooperatives (in French only), which includes revised Pillar 3 provisions. Desjardins Group has been issuing a Pillar 3 Report since December 31, 2018 in order to comply with Pillar 3 requirements. On January 1, 2020, the AMF put the Pillar 3 financial disclosure requirements into a separate document entitled *Pillar 3 Disclosure Requirements Guideline*, which features new requirements that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. In January 2022, the AMF issued the latest update to the *Pillar 3 Disclosure Requirements Guideline*, which clarifies the implementation of the provisions that will apply by January 1, 2024 and incorporates new requirements that address, in particular, risk-weighted asset modelling, encumbered assets and compensation.

Legislative and regulatory developments in insurance in Ontario

The Financial Services Regulatory Authority of Ontario (FSRA) released its final guidance outlining sound practices for operational risk management in the rating and underwriting of automobile insurance. This information guidance is intended to outline foundational and sound practices for operational risk management in the rating and underwriting of automobile insurance. This guidance is part of FSRA's broader strategy to reform the regulation of rates and underwriting in Ontario's auto insurance sector, which is a priority in FSRA's 2022-2025 Annual Business Plan. In December 2022, FSRA initiated its latest consultations for feedback on rate regulation reform and auto insurance rates in Ontario. Its goal is to achieve significant reforms that protect consumers while promoting a sound market through efficient regulations. A public consultation on FSRA's preliminary recommendations is scheduled for the summer or fall 2023.

Interest rate benchmark reform

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. Its objective is to improve benchmark indices by making sure they comply with robust international standards. The gradual withdrawal of certain interest rate benchmarks began on May 17, 2021, with the discontinuation of the six-month and 12-month Canadian Dollar Offered Rate (CDOR). In addition, on March 5, 2021, rate administrators announced that the publication of the London Interbank Offered Rate (LIBOR) would officially cease after December 31, 2021 for all currencies except certain USD LIBOR settings, which will not cease publication until after June 30, 2023. Subsequently, on July 29, 2021, USD LIBOR rate administrators officially recommended the use of the forward-looking term rates of the Secured Overnight Financing Rate (SOFR) for loans, which concludes the final phase of the transition plan that was initiated to promote the use of SOFRs. On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), CDOR's administrator, announced that it would cease publication of all tenors of CDOR after June 28, 2024. This announcement triggered the two-stage transition period recommended by the Canadian Alternative Reference Rate working group (CARR) in its White Paper in December 2021. By the end of the first stage of the transition plan, namely June 30, 2023, CDOR should be replaced by the Canadian Overnight Repo Rate Average or CORRA for new derivatives (except in some specific circumstances) and securities. By the end of the second stage of the transition plan, namely June 28, 2024, CDOR loan agreements should have transitioned to CORRA or any other alternative benchmark rate in effect at the time of the cessation. On January 11, 2023, the CARR's working group confirmed the development of the Term CORRA rate following the strong interest demonstrated by Canadian businesses regarding the need for a forward-looking term. The use of the Term CORRA for certain maturities, which is expected to be available for use by the end of the third quarter of 2023, will be restricted to loans and derivative financial instruments associated to hedging strategies. Desjardins Group has set up an internal task force on interest rate benchmark reform to ensure a seamless transition from benchmark interest rates, including CDOR, to risk-free rates. The discontinuation of CDOR, including the impact on hedging relationships, is also managed by this working group.

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

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

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

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

- Consultation process launched by the CSA on its proposed National Instrument 51-107, Climate-related Disclosure Requirements and related Companion Policy closed in January 2022; if passed, NI 51-107 could be applicable to issuers as early as the end of 2023.
- In January 2022, the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI) issued the final report on the pilot project to analyze climate change scenarios.
- A bill regarding climate-aligned finance (S-243), tabled in the Senate in March 2022, is currently in second reading, and its aim is to require banks to increase capital risk weights and capital reserve requirements for financing exposed to acute transition risks.
- Internationally, the International Sustainability Standards Board (ISSB), established by the IFRS Foundation, completed a consultation that closed in July 2022 on IFRS S1, Sustainability-related Disclosure Requirements, and IFRS S2, Climate-related Disclosure Requirements. These standards should be issued in 2023.
- The OSFI closed its consultation in September 2022, on Guideline B-15, Climate Risk Management. The Guideline should be issued by early 2023, and phased in starting in 2024 for the fiscal years ending after October 1, 2023.

These points confirm that climate change consideration and disclosure requirements will be strengthened internationally, nationally and provincially in the future. Desjardins Group continues to closely monitor developments in this file and responds, where relevant, to consultations on this subject directly or via industry associations. Desjardins is also ensuring that it follows sound practices in ESG integration, monitoring and disclosure. This disclosure is reflected in the annual Social and Cooperative Responsibility report, which is aligned with the standards of the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The key elements of disclosure related to the TCFD recommendations are summarized under "Environmental or social risk" in Section 4.0, "Risk management", and detailed in the "Climate action at Desjardins – 2022 TCFD report on Climate change-related risks and opportunities" report.

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

Since January 1, 2023, the CSA has recognized the new self-regulatory organization in Canada (new SRO) and the Canadian Investor Protection Fund (CIPF). The new SRO combines the functions of the IIROC and MFDA. This amalgamation was preceded by an extensive consultation launched in June 2020 by the MFDA concerning the regulatory framework for the operations of self-regulatory organizations. Desjardins Group continues to analyze the potential impact of the new SRO's regulatory framework on its operations.

Economic sanctions – Russia-Ukraine war

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

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

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

Capital adequacy requirements for insurers

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

1.0 Desjardins Group

1.1 Profile and structure

WHO WE ARE

Desjardins Group is the largest financial cooperative group in North America, with assets of $407.1 billion. As at December 31, 2022, the organization grouped together 212 caisses in Québec and Caisse Desjardins Ontario Credit Union Inc., the *Fédération des caisses Desjardins du Québec* and its subsidiaries and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association, and Desjardins Florida Branch.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 58,700 employees and the commitment of nearly 2,460 directors in the caisse network.

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

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

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

WHAT MAKES US DIFFERENT

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

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

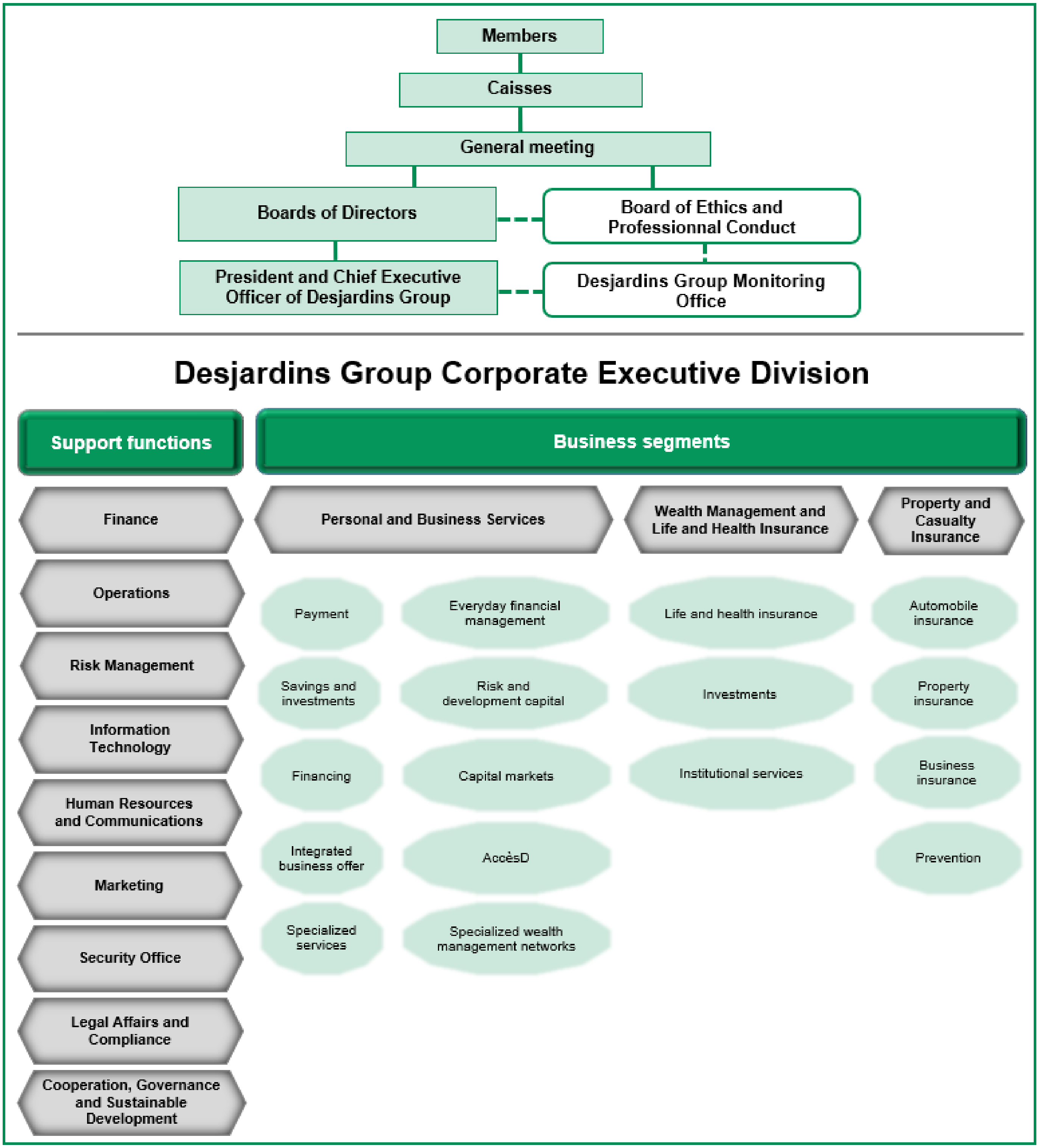
Desjardins Group's goal is to be everyone's #1 choice. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best meet members'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

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

STRUCTURE OF DESJARDINS GROUP

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

Additional information on the business segments, particularly their profile, operations, 2022 achievements, the industry in which they operate, and their strategies and priorities for 2023 may be found in Section 2.2, "Analysis of business segment results".



1.2 Financial highlights

Table 5 – Financial highlights
As at December 31 and for the years ended December 31

(in millions of dollars and as a percentage)	2022	2021	2020
Results			
Net interest income	**$ 6,330**	$ 5,786	$ 5,640
Net premiums	**11,842**	11,278	9,920
Other operating income[1]	**3,626**	3,341	2,839
Operating income[1]	**21,798**	20,405	18,399
Investment income (loss)[1]	**(3,758)**	(85)	3,074
Total income	**18,040**	20,320	21,473
Provision for credit losses	**277**	69	863
Claims, benefits, annuities and changes in insurance contract liabilities	**4,500**	6,883	9,233
Non-interest expense	**10,638**	9,566	8,297
Income taxes on surplus earnings	**575**	860	661
Surplus earnings before member dividends	**$ 2,050**	$ 2,942	$ 2,419
Contribution to surplus earnings by business segment[2]			
Personal and Business Services	**$ 1,126**	$ 1,459	$ 1,314
Wealth Management and Life and Health Insurance	**692**	463	609
Property and Casualty Insurance	**450**	1,197	622
Other	**(218)**	(177)	(126)
	$ 2,050	$ 2,942	$ 2,419
Amount returned to members and the community[1]			
Member dividends	**$ 403**	$ 387	$ 330
Sponsorships, donations and scholarships[3]	**115**	110	72
	$ 518	$ 497	$ 402
Indicators			
Net interest margin[4]	**2.13 %**	2.06 %	2.38 %
Return on equity[5]	**6.2**	8.9	8.3
Productivity index[4]	**78.6**	71.2	67.8
Credit loss provisioning rate[5]	**0.11**	0.03	0.41
Gross credit-impaired loans/gross loans and acceptances[5]	**0.47**	0.47	0.62
Liquidity coverage ratio[6]	**140**	140	157
Net stable funding ratio[6]	**126**	129	N/A
On-balance sheet and off-balance sheet			
Assets	**$ 407,109**	$ 397,085	$ 362,035
Net loans and acceptances	**249,865**	230,779	211,749
Deposits	**259,836**	238,355	225,236
Equity	**32,448**	33,526	30,263
Assets under administration[5]	**447,312**	482,911	458,177
Assets under management[5]	**76,169**	91,258	77,474
Capital measures			
Tier 1A capital ratio[7]	**20.2 %**	21.1 %	21.9 %
Tier 1 capital ratio[7]	**20.2**	21.1	21.9
Total capital ratio[7]	**21.9**	22.1	22.6
TLAC ratio[8]	**28.7**	26.5	24.7
Leverage ratio[7]	**7.6**	8.5	8.5
TLAC leverage ratio[8]	**10.6**	10.4	9.5
Risk-weighted assets[7]	**$ 139,311**	$ 134,518	$ 120,101
Other information			
Number of employees	**58,774**	53,783	48,930

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.
(2) The breakdown by line item is presented in Note 31, “Segmented information”, to the Combined Financial Statements.
(3) Including $46 million in 2022 from the caisses’ Community Development Fund ($41 million in 2021).
(4) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 3 to 7.
(5) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.
(6) In accordance with the *Liquidity Adequacy Guideline* issued by the AMF. See Section 4.0, “Risk management”.
(7) In accordance with the base capital adequacy guideline for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2 “Capital management”.
(8) In accordance with the Total Loss Absorbing Capacity Guideline (“TLAC Guideline”) issued by the AMF and based on risk-weighted assets and exposures for purposes of the leverage ratio at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc. See Section 3.2, “Capital management”.

2022 Desjardins Group highlights

Surplus earnings before member dividends	Operating income[1]	Net loans and acceptances outstanding	Gross written premiums[2] - Life and Health Insurance	Gross written premiums[2] - P&C Insurance	Tier 1A capital ratio	Member dividends
$2,050 million	$21,798 million	$249.9 billion	$6.4 billion	$6.1 billion	20.2%	$403 million
- 30.3%	+ 6.8%	+ 8.3%	+ 9.4%	+ 1.5%	- 0.9%	+ 4.1%

Comparison of 2022 to 2021

- Surplus earnings before member dividends of $2,050 million, down $892 million or 30.3%.
- Operating income[1] of $21,798 million, up $1,393 million or 6.8%
  – Net interest income of $6,330 million, up $544 million or 9.4%, partly due to growth in the average return on loans driven by the higher interest rate environment and growth in average residential mortgages and business loans outstanding, partly offset by the increase in the interest expense on deposits.
  – Net premiums of $11,842 million, up $564 million, essentially due to business growth in group annuities.
  – Other operating income[1] of $3,626 million, up $285 million or 8.5%, due to an increase in business volumes from payment activities at Desjardins Card Services.
- A higher cost of claims in the Property and Casualty Insurance segment, reflecting among other things the increased frequency of automobile insurance claims and the impact of inflation. In addition, fiscal 2022 was marked by one catastrophe (a rare weather phenomenon known as a *derecho*) in Ontario and Québec and five major events (flooding, windstorm, heavy rain, Hurricane Fiona and a snowstorm), while 2021 was marked by one catastrophe (a hailstorm in Alberta) and a major event.
- Favourable impact of the following items related to Life and Health Insurance operations:
  – Higher interest rates on actuarial liabilities;
  – Overall more favourable experience, mainly from group insurance;
  – Changes in actuarial assumptions made in the normal course of business, whereas such changes had a negative impact in fiscal 2021.
- Higher provision for credit losses in 2022 compared to 2021, which had reflected the impact of an improved macroeconomic outlook and better borrower credit quality.
- Non-interest expenses of $10,638 million, up $1,072 million:
  – Planned increase in investments to continue strategic projects, especially in relation to security and the digital shift;
  – An increase in spending on personnel, technology and communications to support business growth and enhance the services offered to members and clients.
- $518 million returned to members and the community[1], up $21 million or 4.2% from fiscal 2021.

Other highlights

- Tier 1A capital ratio of 20.2%, compared to 21.1% as at December 31, 2021.
- Total capital ratio of 21.9%, compared to 22.1% as at December 31, 2021.
- Total assets grew 2.5% since December 31, 2021, to $407.1 billion as at December 31, 2022.
- In 2022, the Federation proceeded to make various securities issues on U.S., Canadian and European markets. For more information, see the "Sources of financing" section on pages 90 and 91.

ESG highlights

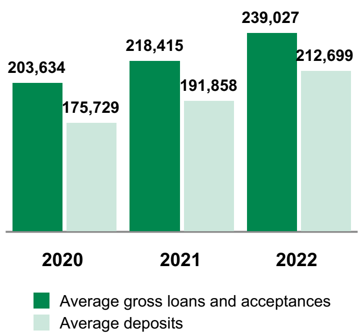
- In May 2022, Moody's ESG Solutions[3] upgraded Desjardins Group's rating, assigning it the highest score in the "Diversified Banks" category in North America for including ESG concerns. In its November 2022 update, Systainalytics ranked Desjardins 3rd among diversified banks in North America for its ESG risk management.
- In April 2022, Desjardins launched a sustainable development and responsible finance training course for all its employees, and 93% of its employees completed it by the end of 2022.
- In September 2022, Desjardins invested $50 million in the Idealist Climate Impact Fund, a fund providing businesses with growth capital to accelerate the marketing of proven solutions that would have a positive impact on the climate.
- In 2022, Desjardins joined the collaborative initiative *Principles for Responsible Investment - Advance*, where institutional investors undertake to work together in taking action on human rights and social issues.
- In 2022, Desjardins joined ranks with close to 60 signatories of the Action Declaration on Climate Policy Engagement, led by Corporate Knights. The Action Declaration is a clear promise made by the most committed businesses to sustainable development that they will support policy-makers' implementation of initiatives and standards aligned with the goals of the Paris Agreement.
- At the beginning of December 2022, Desjardins signed the Finance for Biodiversity Pledge through its subsidiaries Desjardins Global Asset Management Inc. and Desjardins Investments Inc. This initiative, which included more than 120 signatories at the end of 2022, aims to protect and restore biodiversity through financial activities.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.
(2) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.
(3) Moody's ESG Solutions is a business unit of Moody's Corporation. By providing data and analytical tools and intelligence, the group enables organizations to identify ESG risks and opportunities, strengthen sustainability action plans and communicate with key stakeholders.

2022 Segment highlights

Personal and Business Services

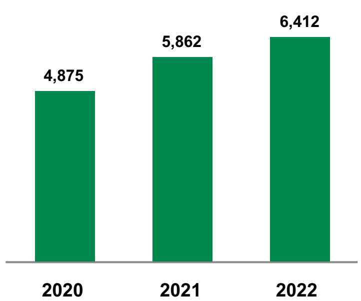
Average gross loans and acceptances and average deposits[1]
(in millions of dollars)



- Québec's leader in residential mortgages and a leading player in consumer loans in Québec, with estimated market shares of 38% and 26%, respectively.
- 4th largest credit card issuer in Canada (based on 2021 outstandings).
- Leader in farm credit in Québec, with a market share of about 42%.
- Major player in Québec in the commercial and industrial niche, with an estimated market share of 22%.
- Leader in personal savings in Québec, particularly in on-balance sheet savings products, with an estimated market share of approximately 41%.
- Surplus earnings before member dividends totalled $1,126 million, down 22.8% compared to 2021, due to the higher non-interest expense, mainly as a result of the larger amounts invested in strategic projects, as expected, and the increase in employee expenses, as well as the higher provision for credit losses, partially offset by the increase in net interest income, less the decline in derivative financial instrument activities, and by the increase in other operating income.[2]
- Growth of $20.6 billion, or 9.4%, compared to 2021, in the average outstandings for the entire loans and acceptances portfolio.

Wealth Management and Life and Health Insurance

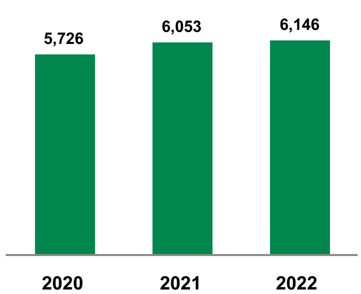
Gross written premiums[1]
(in millions of dollars)



- No. 5 life and health insurer in Canada and No. 4 in Québec (based on gross written premiums in 2021).
- No. 1 in Canada and in Québec for market-linked guaranteed investments (based on 2021 assets under management).
- Award for Excellence - Life & Health Insurer of the Year at the Insurance Business Canada Awards.
- Awarded six 2022 FundGrade A+® Awards by Fundata, which annually recognizes the best of the best investment solutions available in Canada, including two for responsible investment solutions.
- Launch of responsible annuities – A first for Canada.
- Record sales of $1.2 billion in annuities paid.
- Net surplus earnings of $692 million, up 49.5%, compared to 2021, mainly due to the positive effect of higher interest rates on actuarial liabilities, the overall more favourable experience, essentially in mainly group insurance and the positive impact of revisions of actuarial assumptions, as well as higher gains on the disposal of securities and real estate investments, mitigated by the increase in non-interest expense and by the more unfavourable market impact on guaranteed investment funds.
- Gross written premiums of $6.4 billion, for an increase of 9.4% compared to 2021.

Property and Casualty Insurance

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



- No. 2 property and casualty insurer in Canada and Québec, and No.3 in Ontario (based on gross direct premiums written in 2021).
- Gross written premiums grew by $93 million, or 1.5%, compared to 2021.
- Underwriting profits for the 30th consecutive year.
- Launch of version 2.0 of the Alert prevention program (prevention of damage from water, risk of freezing or break-in risk).
- Loss ratio[3] of 73.1% in 2022, compared to 50.1% in 2021.
- Net surplus earnings of $450 million, down $747 million compared to 2021, due to a higher loss experience in auto and property insurance because fiscal 2022 was marked by a higher frequency of claims, particularly in auto insurance, by the impact of inflation as well as by one catastrophe and five major events compared to one catastrophe and one major event in 2021. This decrease in surplus earnings was mitigated by the higher investment income[2], excluding the change in the fair value of matched bonds.

(1) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.
(2) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.
(3) For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 3 to 7.

1.3 Significant events

Guardian Capital Group Limited's independent life insurance and retail investment distribution operations

On November 30, 2022, Desjardins Group, acting through 9479-5176 Quebec Inc., an indirect, wholly-owned subsidiary of the Federation, agreed to acquire the independent life insurance and retail investment distribution operations of Guardian Capital Group Limited, in particular by purchasing all the shares of IDC Worldsource Insurance Network Inc., Worldsource Financial Management Inc. and Worldsource Securities Inc. for a total consideration of $750 million, subject to customary purchase price adjustments.

The transaction is expected to close in the first quarter of 2023, subject to the required regulatory approvals and customary closing conditions. The results of these operations will be accounted for within the Wealth Management and Life and Health Insurance segment.

Interest in The Insurance Company of Prince Edward Island

On December 9, 2022, 1000379969 Ontario Limited, an entity representing a consortium of purchasers comprised of Desjardins General Insurance Group Inc., an indirect subsidiary of the Federation, certain key members of management of The Insurance Company of Prince Edward Island (ICPEI), certain other employees of ICPEI and shareholders of ICPEI Holdings Inc., the parent company of ICPEI (ICPEI Holdings), as well as certain other investors, filed an offer to the shareholders of ICPEI Holdings to acquire the shares thereof in their entirety.

Upon the closing of the transaction, Desjardins Group, through its holding in 1000379969 Ontario Limited, will have a minority interest in ICPEI Holdings in exchange for a cash consideration of $17 million.

The transaction is expected to close in the first quarter of 2023, subject to the closing conditions.

1.4 Strategic orientations and financial objectives

STRATEGIC ORIENTATIONS AND FOUNDATIONS

Fiscal 2022 was the second year of the 2021-2024 Strategic Plan. To achieve Desjardins's goal of being everyone's #1 choice, the organization continues to work on implementing the following seven strategic orientations for the 2023-2024 period:

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

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

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

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

FINANCIAL OBJECTIVES

Desjardins Group sets medium-term financial objectives that provide it with the means of realizing its ambitions for members and clients by ensuring a profitability level that allow it to achieve its goals of giving back to the community, ensuring its sustainability and supporting its growth.

This section follows up on the results for the objectives stated for 2022. The organization's performance is measured using key indicators aligned with Desjardins's goals, in accordance with the orientations and foundations of the 2021-2024 Strategic Plan. Desjardins's goal is to be everyone's #1 choice by constantly working in the best interests of members and clients in order to enrich the lives of people and communities. It is therefore essential to focus on achieving the medium-term financial performance objectives as this helps make available the levers needed to achieve this goal.

In recent years, and more specifically in 2021 and 2022, Desjardins Group has invested significantly in initiatives to support its growth, the development of innovative technology platforms, privacy, security and the improvement of business processes. These decisions, which were in line with the 2021-2024 Strategic Plan and backed by excellent capitalization, have nevertheless had an impact on the organization's financial performance in 2022. In this context, efficiency and productivity are still a priority in order to continue to achieve Desjardins Group's strategic goals.

Despite a slowing economy and persistent inflation, the 2022 results are still in line with the financial plan. Rising interest rates have had an overall positive effect on net interest income from banking products and also contributed to the good performance of group and individual insurance. In addition, investment income and the matching strategy in Property and Casualty Insurance have helped to solidify Desjardins Group's results. However, the growth in non-interest expense was as anticipated, and mainly due to the larger amounts invested for the continued implementation of projects related in particular to the digital shift and security, in accordance with the strategic plan. In addition, the higher employee expenses as a result of the additional employees hired to support growth of operations and to enhance the services offered to members and clients can also account for the increase in non-interest expense. Lastly, it should be mentioned that the provision for credit losses increased due to worsening economic conditions.

In relation to its strategic orientations, Desjardins Group expects to stabilize its strategic investments in 2023, although they remain important. As a result, Desjardins aims to enhance the member and client experience, and improve its productivity and efficiency by deploying initiatives to optimize its performance in order to support its goals and ensure that sound information security practices are always in place.

This decision to invest in enhancing security and modernizing its systems and processes is in line with Desjardins's objective to be a leader in information security. In this regard, Desjardins Group's high level of capitalization and its financial performance will enable it to achieve its goals and support its investment projects. The year 2023 will in fact be marked by a stabilization in the investments made in these projects and by more moderate growth in non-interest expense. These investments as well as the uncertainty about current economic conditions will have an impact on Desjardins Group's surplus earnings in 2023, so that they should be relatively similar to those in 2022.

The following table presents the medium-term financial objectives for the 2021-2024 Strategic Plan, as well as the results achieved in 2022 for each of the indicators. It is important to keep in mind that the medium-term key indicators presented below do not factor in the repercussions that extraordinary events could have on Desjardins Group's ability to achieve them.

Key indicators	Medium-term objectives	4-year results[1]	2022 results
Growth in operating income[2]	5% to 8%	7.1%	6.8%
Growth differential between operating income and non-interest expense[1]	> 0%	(2.1)%	(4.4)%
Productivity index[2]	< 75%	71.6%	78.6%
Tier 1A capital ratio[3]	> 15%	21.2%	20.2%
Return on equity[4]	> 8%	8.3%	6.2%

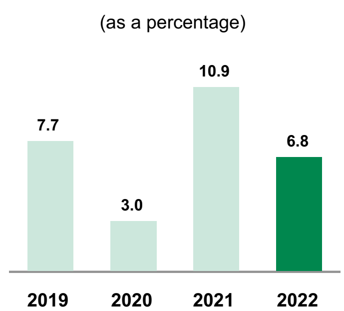
Overall performance in 2022

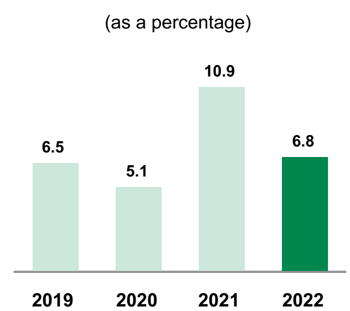
Desjardins Group's performance in recent years has been positive overall, with, in particular, surplus earnings before member dividends of $2,942 million in 2021, and of $2,419 million in 2020. In 2022, given the economic slowdown and rising inflation, surplus earnings before member dividends was $2,050 million. In accordance with the strategic orientations, the sharp increase in non-interest expense, resulting from major investments, had a negative impact on the main financial ratios for the year. In 2023, the stabilization of investments and the implementation of initiatives to improve efficiency and effectiveness will help to strengthen the organization's overall performance. Owing to Desjardins Group's excellent financial strength and high level of capitalization, it continues to participate actively in the reopening of society and the economy, in particular through its significant contribution to members and the community.

Key indicators	Trend	Adjusted trend[5]

Growth in operating income[2]:
A measure of growth in Desjardins Group's operations.

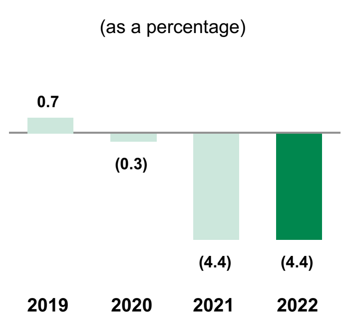
Results achieved in 2022[6]:
Growth was 6.8%, which was within the target of 5% to 8%.

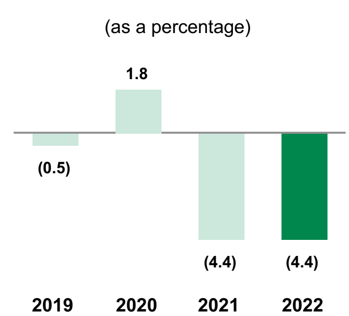




Growth differential between operating income and non-interest expense[2]:
A measure of sustainability and profitability.

Results achieved in 2022[6]:
The growth differential was (4.4)%, which is below the target of more than 0%, but is as expected and in line with the strategic orientations, mainly due to the larger amounts invested in the strategic projects and the higher employee expenses.



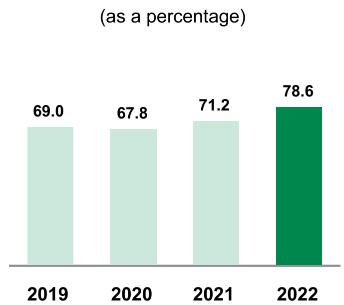


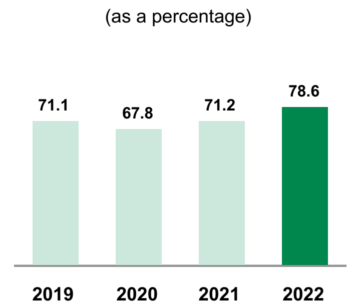
Footnotes to this table are presented on the next page.

Key indicators	Trend	Adjusted trend

Productivity index[2]:
A measure of efficiency.

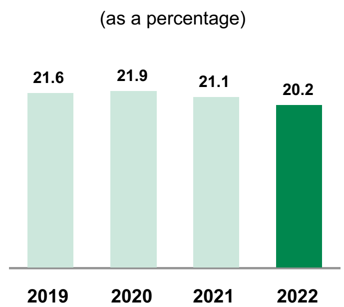
Results achieved in 2022[6]:
The index was 78.6%, which does not match the target productivity index of under 75%, but it is as expected and in line with the strategic orientations, mainly due to the larger amounts invested in strategic projects and the higher employee expenses.





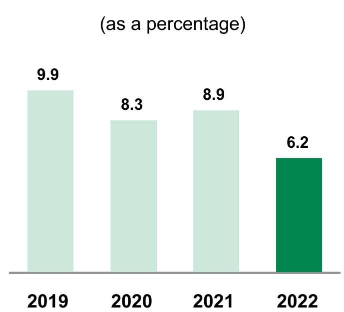
Tier 1A capital ratio[3]:
A measure of Desjardins Group's financial strength.

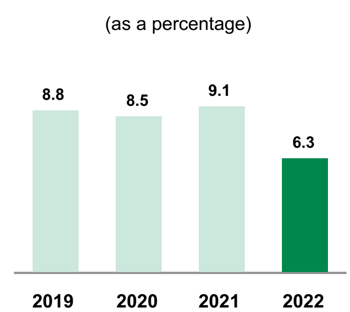
Results achieved in 2022:
As at December 31, 2022, this ratio was 20.2%, whici is above the 15% target.



Return on equity[4]:
A measure of profitability resulting in value creation for members and clients.

Results achieved in 2022:
This indicator and the adjusted indicator were 6.2% and 6.3%, respectively, which do not meet the target of over 8%, but are as expected and in line with the strategic orientations, mainly due to a decrease in surplus earnings, as explained in Section 2.1, “Analysis of 2022 results”.





(1) The four-year results represent the average of the key indicators for the fiscal years 2019 to 2022.
(2) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 3 to 7.
(3) In accordance with the base capital adequacy guideline for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, “Capital management”.
(4) For more information about supplementary financial measures, see the Glossary on pages 113 to 120.
(5) Includes the gain related to the sale of the entire portfolio of merchants receiving Desjardins Group services under the Monetico brand in 2019.
(6) The indicator and the adjusted indicator for 2022 are the same in both cases.

FINANCIAL OUTLOOK

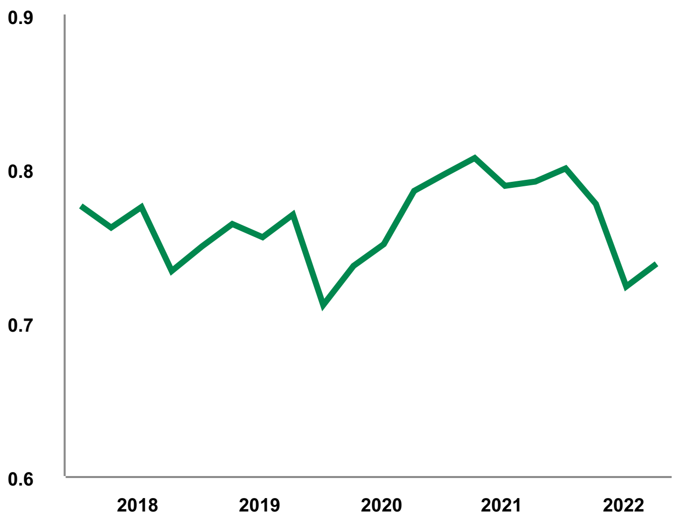
Desjardins Group will continue fiscal 2023 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry. There is still some uncertainty about the full impact of the economic slowdown on Desjardins Group’s operations and results because the economy is expected to be down from 2022, when real GDP in Canada grew by 3.6%. Net interest income will continue to be affected by strong competitive pressure in the banking industry and will be influenced upward by North American key interest rates, which should remain high until inflation is brought under control. In addition, this environment will favour on-balance sheet savings products, which are again becoming more attractive to members and clients.

Moreover, the changeover to IFRS 17 on January 1, 2023 and the complete application of IFRS 9 could prompt Desjardins Group to review certain calculation methods for its long-term financial performance objectives. The new standard will changing the measurement and recognition of insurance contracts as well as disclosure in Desjardins Group's financial statements. The insurers' net surplus earnings will be more sensitive to changes in mainly capital markets, but also in interest rates, which may add to the volatility of quarterly and annual results compared to what was observed in the past. However, the economic value of the insurance contrats will stay the same during the duration of the contract. Work is in progress to update the 2021-2024 strategic planning indicators, which will be monitored in 2023.

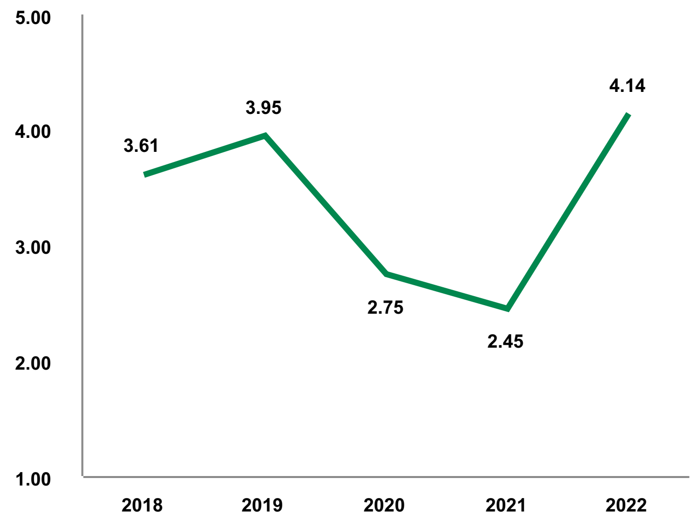
Finally, strict cost control, including the implementation of initiatives to promote efficiency and effectiveness as well as capital management, will allow Desjardins Group to maintain a significant level of investments for the benefit of members and communities by adopting innovative concepts to enhance and streamline service delivery and ensure information security, including privacy.

1.5 Economic environment and outlook

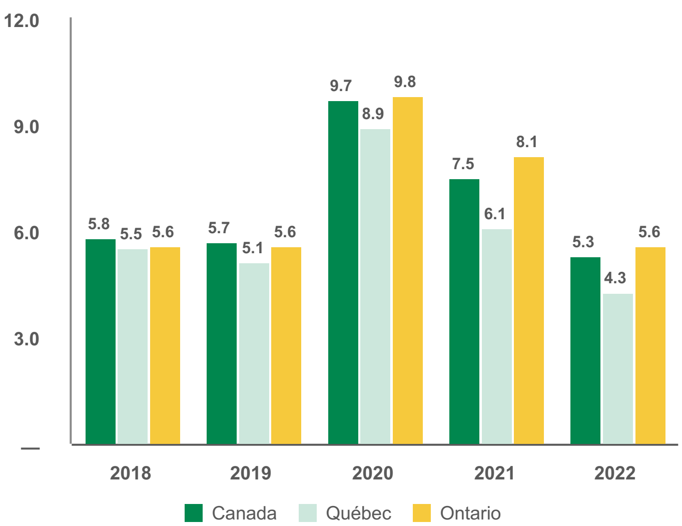
Changes in the Canadian dollar vs. the U.S. dollar (at quarter end)
(in U.S. dollars / Canadian dollars)



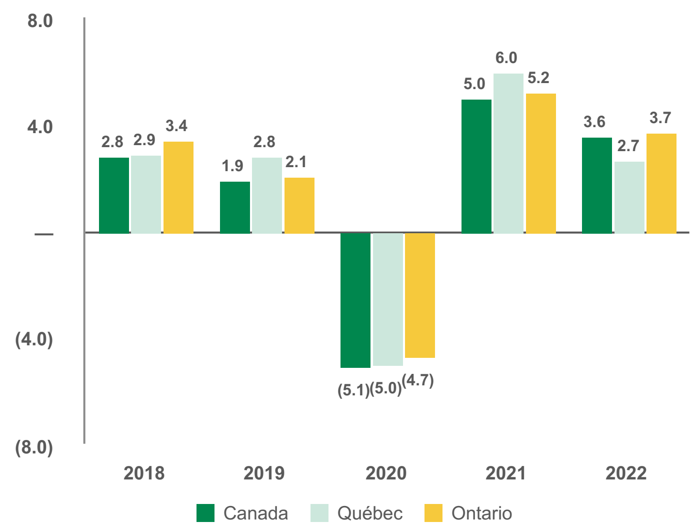
Changes in the prime rate (annual average)
(as a percentage)



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



Annual growth in GDP
(as a percentage)



Global economy

In 2022, the global economy continued to recover from the pandemic. However, the 3.1% growth in global real GDP recorded for 2022 fell significantly short of the 6.2% gain in 2021. Several economies also struggled during the period. Global production was affected by waves of COVID-19, particularly in China and, more importantly, it was further hampered by the war in Ukraine. This led to a surge in prices for raw materials, including energy and food. The war also led to more supply chain problems, further exacerbating inflation, which was already high in many parts of the world. The war's impacts were most apparent in Europe, including the United Kingdom, which faced sharply higher energy prices that undermined household incomes and severely wore down consumer confidence. In China, the economy suffered when major cities were closed in the spring and fall under the government's zero-COVID policy.

Growth is expected to slow even further in most countries in 2023, as the rising cost of living continues to erode real consumer income and interest rate hikes suppress demand for goods and services, particularly in the housing market. Global real GDP growth for 2023 is projected at only 2.2%.

The world's major equity indices posted significant declines in 2022. Although the inflationary environment continued to support growth in corporate profits, surging interest rates took a heavy toll on returns in the financial markets. Higher interest rates first hit government bonds early in the year, and the central banks quickly followed suit with cycles of monetary tightening in Canada, the United States and elsewhere in the world. With the entire yield curve now at the highest levels in 15 years, the risks are driving down economic growth, and this may continue to weigh on equity market performance.

United States

The U.S. economy faced several challenges in 2022. Real GDP actually declined in the first two quarters of the year. However, it was difficult to speak of a recession at that time, as several other indicators, including domestic demand and the labour market, continued to rise. Real GDP growth improved in the third and fourth quarters. Inflation remained problematic throughout 2022, although it peaked at 9.1% in June according to the annual change in the consumer price index. In order to fight excessive growth in the cost of living and keep inflationary expectations under control, the U.S. Federal Reserve began monetary tightening in March and subsequently picked up the pace. The sharp increase in policy rates and market rates, including those on mortgages, was detrimental to the economy. The problems began in the housing market, which declined for most of the year. There was also a marked slowdown in the consumption of goods, even though the post-pandemic recovery in the consumption of services continued unabated.

Annual GDP growth is expected to be sluggish in 2023 as households and businesses continue to be affected by rising interest rates. A recession is therefore expected. A recovery should become apparent in the second half of 2023 as inflation eases and the economy, including the labour market, rebalances. U.S. real GDP grew by a strong 5.9% in 2021 and a respectable 2.1% in 2022, but only 0.7% growth is expected in 2023.

Canada

The Canadian economy continued to recover at a healthy pace in the first half of 2022. In June, the unemployment rate even reached a new historic low of 4.9%. However, there have been significant imbalances due to a combination of strong demand and supply that was constrained by problems in global supply chains and some shortages. As in many other regions of the world, these imbalances caused inflation to accelerate sharply, from 4.8% in December 2021 to a high of 8.1% in June 2022. To bring supply and demand back into better balance and ease the pressures driving up prices, the Bank of Canada began raising its key interest rates in March 2022, followed by other increases throughout the year. By the end of 2022, the target overnight rate stood at 4.25%, up from just 0.25% at the start of the year.

Sharply higher interest rates have had a significant impact on the Canadian economy, particularly in sectors that are most sensitive to interest rates. The housing market declined sharply as prices slipped and sales of existing homes fell. Under these conditions, real GDP growth slowed in the second half of 2022. On the other hand, the much tighter monetary policy began to affect inflation, which began a gradual decline in July 2022. For 2022 as a whole, Canadian real GDP is expected to have grown 3.6%, and inflation should average 6.8%. The problems are expected to peak in 2023 and provoke a recession in Canada. However, Canadian real GDP is expected to post positive growth again in the fall. For 2023 as a whole, Canadian real GDP is expected to be almost of approximately 0.7%. Inflation should continue to normalize throughout the year and average 3.5% for 2023.

Québec

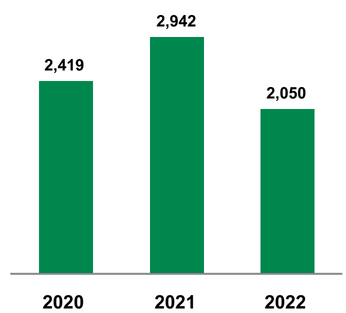
Following an exceptional start to the year, economic growth slowed sharply in the spring of 2022. Annualized real GDP growth fell from 5.5% in the first quarter to 1.2% in the second quarter. The second half of 2022 was particularly challenging. In the third quarter, real GDP contracted at an annualized rate of 1.9%, which could marking the beginning of a recession. The housing market, which changed course in spring 2022, continued to cool. Sales of existing homes declined, with the average price falling 6.9% from the high reached in April to December 2022. Housing starts declined approximately 15% in 2022, ending the strong growth recorded during the pandemic. Rising interest rates also placed pressure on household spending, which was sorely tested. Consumers were contending with high inflation, which was eroding their purchasing power. The inflation rate reached 6.7% in 2022, and Quebecers' confidence plummeted to a level almost as low as that reached at the height of the pandemic. The savings rate, however, remained high at close to 10% in 2022 due to government support measures and relatively limited consumer spending. The overheated labour market conditions nevertheless continued. The unemployment rate reached 4.3% in 2022, and wages grew quickly. As for businesses, supply chain disruptions began to ease, and the cost of shipping containers by sea from Asia fell to near pre-pandemic levels. However, exporting companies are confronted with the global economic slowdown that began in 2022. In addition, high interest rates have made highly leveraged households and businesses more vulnerable. The environment in Québec became more difficult in 2022, and the deterioration of the economy will continue in 2023.

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

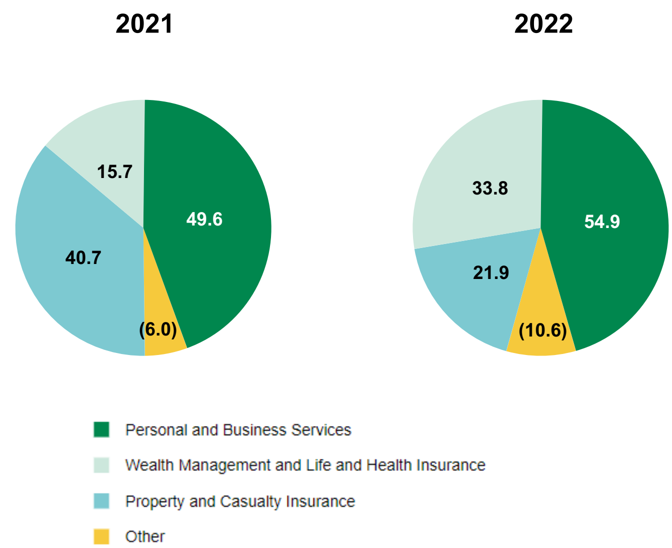
2.0 Review of financial results

2.1 Analysis of 2022 results

Surplus earnings before member dividends
(in millions of dollars)



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



2022 SURPLUS EARNINGS

For 2022, Desjardins Group reported surplus earnings before member dividends of $2,050 million, a decrease of $892 million, or 30.3%, compared to 2021. This decrease in surplus earnings was largely due to a rise in the cost of automobile and property insurance claims in the Property and Casualty Insurance segment. Fiscal 2022 was marked by an increased frequency of automobile insurance claims, which was lower in 2021 in the context of the pandemic, the impact of inflation and more adverse weather conditions. The decrease in surplus earnings can also be attributed to investments in projects planned in accordance with Desjardins Group's strategic directions and an increase in spending on personnel. This reduction in surplus earnings was partially offset by an increase in net interest income and other operating income[1], the effect of higher interest rates on actuarial liabilities in life and health insurance, and an overall more favourable experience in group insurance.

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

- A total of $518 million was returned to members and the community,[1] compared to $497 million for 2021.
  - Provision for member dividends of $403 million, a $16 million increase compared to 2021.
  - An amount of $115 million was given back in the form of sponsorships, donations and scholarships, compared to $110 million for the previous year, with $46 million in 2022 and $41 million in 2021 from the caisses' Community Development Fund.
- Commitments of $14 million made in 2022 under the GoodSpark Fund to support in particular regional social and economic activities. Since 2017, Desjardins Group has made total commitments of $161 million.

Contribution of business segments to surplus earnings:

- Personal and Business Services: **Surplus earnings of $1,126 million,** down $333 million, or 22.8%, compared to 2021, essentially due to:
  - Increase in non-interest expense, mainly as a result of the larger amounts invested, as expected, in strategic projects related in particular to the digital shift and security, as well as the rise in spending on personnel in order to support growth in operations and enhance the services offered to members and clients.
  - Higher provision for credit losses in 2022 than in 2021, reflecting the impact of the improved macroeconomic outlook and borrower credit quality.
  - Offset by an increase in net interest income, less the decline in derivative financial instrument activities, and growth in other operating income[1].
- Wealth Management and Life and Health Insurance: **Surplus earnings of $692 million,** up $229 million, or 49.5% compared to 2021, mainly on account of:
  - Favourable effect of higher interest rates on actuarial liabilities.
  - Overall more favourable experience than for the comparative period of 2021, mainly in group insurance.
  - Positive effect of revisions of actuarial assumptions in the normal course of business while they had affected 2021 unfavourably.
  - Larger gains on disposal of securities and real estate investments than in 2021.

  This increase was mitigated in part by the following:
  - Increase in non-interest expense mainly as a result of higher employee expenses and the expected increase in the amounts invested in strategic projects.
  - Markets' impact on guaranteed investment funds more unfavourable than in 2021.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.

- Property and Casualty Insurance: **Surplus earnings of $450 million,** down $747 million, or 62.4%, compared to 2021, due to the following:
  - Higher loss ratio compared to 2021, essentially in property insurance and automobile insurance. 2022 was affected by:
    - Higher frequency of claims compared to 2021, particularly in automobile insurance.
    - Impact of inflation.
    - One catastrophe, a rare weather phenomenon called a *derecho*, and five major events (flooding, windstorm, heavy rainfall, Hurricane Fiona and snowstorm), compared to one catastrophe and one major event in 2021.
  - Offset by an increase in investment income[(1)] excluding the change in the fair value of matched bonds.

- **Return on equity was 6.2%,** compared to 8.9% for 2021, primarily due to the decrease in surplus earnings, as explained earlier.

The following table shows return on equity.

Table 6 – Return on equity
For the years ended December 31

(in millions of dollars and as a percentage)	**2022**	2021	2020
Surplus earnings before member dividends	**$ 2,050**	$ 2,942	$ 2,419
Non-controlling interests' share	**(67)**	(143)	(84)
Group's share before member dividends	**$ 1,983**	$ 2,799	$ 2,335
Average equity before non-controlling interests' share	**$ 31,978**	$ 31,518	$ 28,247
Return on equity[(1)]	**6.2 %**	8.9 %	8.3 %

(1) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

OPERATING INCOME

Table 7 – Operating income
For the years ended December 31

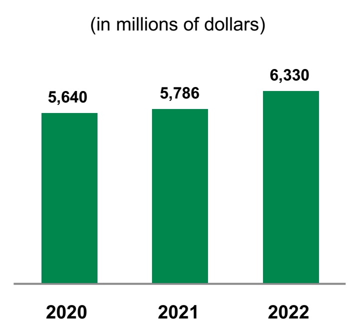
(in millions of dollars)	**2022**	2021	2020
Net interest income	**$ 6,330**	$ 5,786	$ 5,640
Net premiums	**11,842**	11,278	9,920
Other operating income[(1)] (see Table 10)	**3,626**	3,341	2,839
Total operating income[(1)]	**$ 21,798**	$ 20,405	$ 18,399

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.

Operating income rose to $21,798 million, an increase of $1,393 million, or 6.8%, compared to 2021.

Net interest income

Net interest income is the difference between interest income earned on assets, such as loans and securities, and the interest expense related to liabilities, such as deposits and subordinated notes. It is sensitive to interest rate fluctuations, funding and matching strategies, as well as the composition of interest-bearing or non-interest-bearing financial instruments. For analysis purposes, Table 8 shows the changes in net interest income for the main asset and liability classes, while Table 9 details how net interest income was affected by changes in volume and interest rates for the different assets and liabilities.



Net interest income totalled $6,330 million, up $544 million, or 9.4%, as a result of the following:
- Increase in the average return on loans as a result of the higher interest rate environment.
- Growth in average residential mortgages outstanding and average business loans outstanding.
- Increase in interest income resulting from liquidities and securities.
- Offset by an increase in interest expense on deposits as a result of higher interest rates.

- **Net interest margin of 2.13%** in 2022, up 7 basis points compared to 2021, mainly because of an increase in average loan volume coupled with higher interest rates.

- **Interest income of $9,385 million,** up $1,984 million, or 26.8%, essentially due to the following:
  - Increase in the average return on total interest-bearing assets, namely loans, securities, cash and deposits with financial institutions, which boosted income by $1,381 million.
  - Increase of $603 million in interest income as a result of growth in the average volume of total interest-bearing assets, mainly loans.

- **Interest expense of $3,055 million,** up $1,440 million, or 89.2%, primarily as a result of:
  - Increase of $1,342 million in interest expense, mainly from deposits linked to the growth in interest rates.
  - Growth in the average volume of total interest-bearing liabilities, mainly from deposits, resulting in a $98 million increase in interest expense.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.

Table 8 – Net interest income on average assets and liabilities
For the years ended December 31

(in millions of dollars and as a percentage)	2022 Average volume	2022 Interest	2022 Average rate	2021 Average volume	2021 Interest	2021 Average rate	2020 Average volume	2020 Interest	2020 Average rate
Assets									
Interest-bearing assets[1]									
financial institutions	**$ 59,034**	**$ 1,107**	**1.88 %**	$ 62,646	$ 473	0.76 %	$ 35,992	$ 488	1.36 %
Loans	**237,678**	**8,278**	**3.48**	217,864	6,928	3.18	200,652	7,278	3.63
Total interest-bearing assets	**296,712**	**9,385**	**3.16**	280,510	7,401	2.64	236,644	7,766	3.28
Other assets	**10,067**			9,698			8,422		
Total assets	**$ 306,779**	**$ 9,385**	**3.06 %**	$ 290,208	$ 7,401	2.55 %	$ 245,066	$ 7,766	3.17 %
Liabilities and equity									
Interest-bearing liabilities[1]									
Deposits	**$ 247,105**	**$ 2,829**	**1.14 %**	$ 233,757	$ 1,508	0.65 %	$ 202,888	$ 2,010	0.99 %
Subordinated notes	**2,325**	**78**	**3.35**	2,058	65	3.16	1,416	57	4.03
Other liabilities[2]	**5,395**	**148**	**2.74**	4,947	42	0.85	1,459	59	4.04
Total interest-bearing liabilities	**254,825**	**3,055**	**1.20**	240,762	1,615	0.67	205,763	2,126	1.03
Other liabilities[2]	**29,401**			26,333			18,423		
Equity	**22,553**			23,113			20,880		
Total liabilities and equity	**$ 306,779**	**$ 3,055**	**1.00 %**	$ 290,208	$ 1,615	0.56 %	$ 245,066	$ 2,126	0.87 %
Net interest income		**$ 6,330**			$ 5,786			$ 5,640	
Net interest margin[3]			**2.13 %**			2.06 %			2.38 %

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.
(2) Data for 2021 and 2020 have been reclassified to conform to the current year’s presentation.
(3) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 3 to 7.

Table 9 – Impact of changes in volumes and rates on net interest income
For the years ended December 31

(in millions of dollars and as a percentage)	2022/2021 Change in average volume	2022/2021 Change in average rate	2022/2021 Interest	Increase (decrease) Average volume	Increase (decrease) Average rate	2021/2020 Change in average volume	2021/2020 Change in average rate	2021/2020 Interest	Increase (decrease) Average volume	Increase (decrease) Average rate
Assets										
Securities, cash and deposits with financial institutions	**$ (3,612)**	**1.12 %**	**$ 634**	**$ (27)**	**$ 661**	$ 26,654	(0.60)%	$ (15)	$ 361	$ (376)
Loans	**19,814**	**0.30**	**1,350**	**630**	**720**	17,212	(0.45)	(350)	624	(974)
Change in interest income			**1,984**	**603**	**1,381**			(365)	985	(1,350)
Liabilities										
Deposits	**$ 13,348**	**0.49 %**	**$ 1,321**	**$ 86**	**$ 1,235**	$ 30,869	(0.34)%	$ (502)	$ 306	$ (808)
Subordinated notes	**267**	**0.19**	**13**	**8**	**5**	642	(0.87)	8	26	(18)
Other liabilities[1]	**448**	**1.89**	**106**	**4**	**102**	3,488	(3.19)	(17)	141	(158)
Change in interest expense			**1,440**	**98**	**1,342**			(511)	473	(984)
Change in net interest income			**$ 544**	**$ 505**	**$ 39**			$ 146	$ 512	$ (366)

(1) 2021/2020 data have been reclassified to conform to the current year’s presentation.

Net premiums[1]

Net premiums, comprising life and health insurance, annuity, and property and casualty insurance premiums**, totalled $11,842 million,** up $564 million, or 5.0%, compared to 2021, due to items from the following segments:

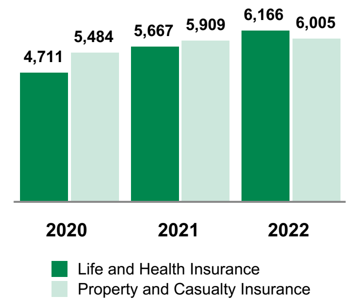
Wealth Management and Life and Health Insurance

- **Net insurance and annuity premiums of $6,166 million,** up $499 million, or 8.8%, due to the following:
  – Increase of $313 million essentially in group annuity premiums, primarily as a result of agreements signed with groups, the value of which was higher than that signed in 2021. This growth is reflected in a similar change in actuarial liabilities included under “Claims, benefits, annuities and changes in insurance contract liabilities”.
  – Increase of $146 million in group insurance premiums and of $40 million in individual insurance premiums.

Property and Casualty Insurance

- **Net premiums of $6,005 million,** up $96 million, or 1.6%, in particular as a result of business growth.

(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 10 – Other operating income
For the years ended December 31

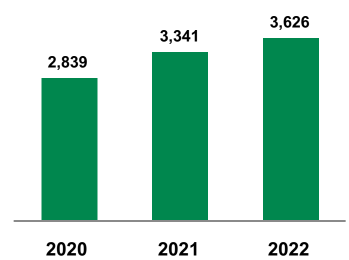
(in millions of dollars)	2022	2021	2020
Deposit and payment service charges	**$ 448**	$ 424	$ 388
Lending fees and credit card service revenues	**991**	735	628
Brokerage and investment fund services	**989**	1,108	954
Management and custodial service fees	**786**	732	617
Foreign exchange income	**119**	121	103
Other	**293**	221	149
Total other operating income[1]	**$ 3,626**	$ 3,341	$ 2,839

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.

Other operating income stood at $3,626 million, for an increase of $285 million, or 8.5%, compared to 2021, due to the following:

- **Deposit and payment service charges of $448 million,** up $24 million, or 5.7%, on account of growth in transaction volume.
- **Lending fees and credit card service revenues of $991 million,** up $256 million, or 34.8%, because of an increase in business volumes from Desjardins Card Services payment activities.
- **Income from brokerage and investment fund services of $989 million,** down $119 million, or 10.7%, due to:
  – Decline in assets under management as a result in particular of the impact of developments on financial markets.
  – Lower income from securities brokerage activities.

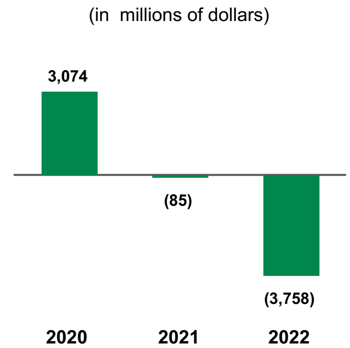
(in millions of dollars)



- **Management and custodial service fees of $786 million,** up $54 million, or 7.4%.
- **Foreign exchange income of $119 million,** a comparable amount to that of 2021.
- **Other operating income of $293 million,** up $72 million, or 32.6%, due to the following:
  – Change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.
  – Smaller increase than in 2021 in the contingent consideration payable as part of the acquisition of the Canadian operations of the State Farm Mutual Automobile Insurance Company (State Farm), arising from favourable developments in claims taken over.
  – Offset by a decrease in income from EspaceProprio operations.

INVESTMENT INCOME[1]

Loss of $3,758 million, reported under “Investment income (loss)”, compared to a loss of $85 million for 2021, essentially due to the following**:**
- Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to fluctuations in the fair value of the bond portfolio mainly as a result of a larger increase in market interest rates than in 2021.
  - It should be mentioned that this change in the fair value of bonds was offset by the decrease in the cost of claims due to matching.
- A greater decrease in the fair value of matched bonds in the Property and Casualty Insurance segment compared to 2021, on account of the greater increase in market interest rates in 2022 than in 2021. It should be mentioned that this change in the fair value of bonds was offset by a decrease in the cost of claims due to matching.
- Decline in derivative financial instrument activities.
- Offset by higher gains on the disposal of securities and real estate investments than in 2021.



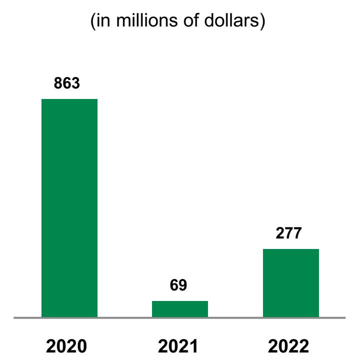
TOTAL INCOME

Total income, comprising net interest income, net premiums, other operating income and investment income, **amounted to $18,040 million**, for a decrease of $2,280 million, or 11.2%, compared to 2021. This decrease was mainly due to the decline in investment income, as explained earlier, and it was largely offset by a similar change in actuarial liabilities included in “Claims, benefits, annuities and changes in insurance contract liabilities”.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totalled $277 million, up $208 million compared to 2021. The provision for 2022 was affected in particular by an increase in outstandings and a certain deterioration in the credit quality of the credit card portfolios and, to a lesser extent, of the business loan portfolios. The provision for 2021 primarily reflected the impact of an improved macroeconomic outlook and better borrower credit quality. Net write-offs in 2022 and 2021 remained historically low for all the portfolios.

Desjardins Group continued to present a high-quality loan portfolio in 2022.
- The credit loss provisioning rate was 0.11% in 2022, compared to 0.03% for 2021. The increase in this rate was due to the fact that the 2022 provision for credit losses was higher than for 2021, which primarily reflected the impact of the improved macroeconomic outlook and borrower credit quality.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.47%, unchanged from December 31, 2021.



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

Table 11 – Credit loss provisioning rate
For the years ended December 31

(in millions of dollars and as a percentage)	2022	2021	2020
Total provision for credit losses	**$ 277**	$ 69	$ 863
Provision for credit losses on securities	**5**	1	—
Provision for credit losses on loans and off-balance sheet items	**$ 272**	$ 68	$ 863
Average gross loans	**$ 241,613**	$ 222,138	$ 208,482
Average gross acceptances	**131**	210	200
Average gross loans and acceptances[1]	**$ 241,744**	$ 222,348	$ 208,682
Credit loss provisioning rate[1]	**0.11 %**	0.03 %	0.41 %

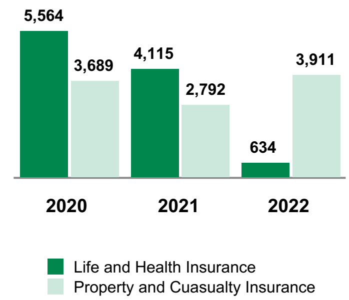
(1) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.

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

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $4,500 million, down $2,383 million, or 34.6%, compared to 2021. This decrease, partially offset by a similar change under "Investment income (loss)", is due to items from the following segments:

(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 $634 million,** down $3,481 million, or 84.6%, basically due to:
  - Decrease of $3,736 million in actuarial liabilities under "Insurance contract liabilities", on account of:
    - The decrease in the fair value of matched investments, presented under "Investment income (loss)".
    - Positive effect of higher interest rates on liabilities.
    - Overall more favourable experience in group insurance.
    - Positive effect of revisions of actuarial assumptions in the normal course of business whereas they had affected 2021 unfavourably.
    - Partially offset by provisions made for group annuities related in particular to agreements signed with groups, the value of which was higher than that signed in 2021, as previously mentioned.
  - Offset by the increase in benefits connected with business growth and the higher cost of prescription drugs and health care.

Property and Casualty Insurance segment

- **Cost of claims of $3,911 million,** up $1,119 million, or 40.1%, as a result of:
  - Loss ratio of 73.1%, compared to 50.1% in 2021.
    - Higher current year loss ratio compared to 2021, namely, 75.2% vs. 60.8%, mainly in automobile insurance and in property insurance, reflecting the higher frequency of automobile insurance claims and the impact of inflation, among other things.
    - Less favourable ratio of changes in prior year claims than in 2021, i.e. (6.1%) vs. (12.1%), essentially in automobile insurance, particularly on account of recent inflationary pressures.
    - Higher loss ratio related to catastrophes and major events than in 2021, i.e. 4.0% vs. 1.4%. 2022 was marked by one catastrophe, a rare weather phenomenon called a *derecho*, in Ontario and in Québec, and five major events (flooding, windstorm, heavy rainfall, Hurricane Fiona and snowstorm), compared to one catastrophe, a hailstorm in Alberta, and one major event in 2021.
  - Offset by a higher favourable impact of the increase in the discount rates used to measure the provision for claims than in 2021. It should be mentioned that this favourable impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under "Investment Income (loss)".

NON-INTEREST EXPENSE AND PRODUCTIVITY INDEX

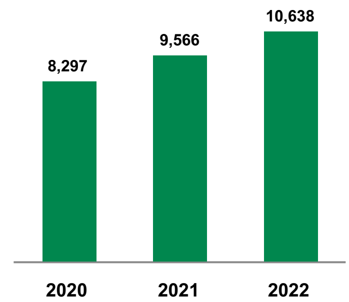
Table 12 – Non-interest expense
For the years ended December 31

(in millions of dollars and as a percentage)	2022	2021(1)	2020(1)
Salaries and employee benefits			
Salaries	**$ 4,137**	$ 3,553	$ 3,101
Employee benefits	**929**	884	801
	5,066	4,437	3,902
Professional fees	**1,159**	1,013	664
Technology	**978**	893	791
Commissions	**929**	881	788
Occupancy costs	**403**	406	419
Communications	**417**	329	290
Business and capital taxes	**482**	459	418
Other	**1,204**	1,148	1,025
Total non-interest expense	**$ 10,638**	$ 9,566	$ 8,297
Productivity index(2)	**78.6 %**	71.2 %	67.8 %

(1) Data have been reclassified to conform to the current year's presentation.
(2) For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 3 to 7.

Non-interest expense totalled $10,638 million for 2022, up $1,072 million, or 11.2%, compared to 2021. This increase was essentially due to:
– Increase in investments, as expected, for the continued implementation of strategic projects related in particular to the digital shift and security.
– Rise in spending on personnel, technology and communication to support growth in operations and enhance the services offered to members and clients.
– Higher rewards program expenses due to growth in payment activity volumes.

(in millions of dollars)



- **Salaries and employee benefits of $5,066 million,** up $629 million, or 14.2%, compared to 2021, mainly because of higher salaries due to growth in operations, and strategic projects related to the digital shift, security and indexing.
  – This expense item represented 47.6% of total non-interest expense, namely a percentage slightly higher than 46.4% in 2021.
  – The ratio of employee benefits to total base compensation[1] was 22.5% in 2022, down from 24.9% in 2021.

- **Professional fees of $1,159 million,** up $146 million, or 14.4%, compared to 2021 due to increased investments for the continued implementation of strategic projects, related in particular to the digital shift and security.

- **Technology expenses of $978 million,** up $85 million, or 9.5%, compared to 2021, to support growth in operations and enhance the services offered to members and clients.

- **Commissions of $929 million,** up $48 million, or 5.4%, compared to 2021, due to higher expenses related to remuneration on premiums for P&C Insurance operations.

- **Occupancy costs of $403 million,** which is comparable to 2021.

- **Communication expenses of $417 million,** up $88 million, or 26.7%, compared to 2021, due to higher advertising expenses.

- **Business and capital taxes of $482 million,** up $23 million, or 5.0%, compared to 2021.

- **Other expenses of $1,204 million,** up $56 million, or 4.9%, compared to 2021, due to the higher expenses related to the rewards program as a result of higher payment activity volumes.

- **Productivity index at 78.6% for 2022,** compared to 71.2% for 2021, particularly because of the larger amounts invested in strategic projects and the increase in employee expenses.

INCOME TAXES ON SURPLUS EARNINGS AND INDIRECT TAXES

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

- **Income taxes on surplus earnings before member dividends of $575 million,** a decrease of $285 million compared to 2021.
  – Effective tax rate[1] of 21.9% for the year ended December 31, 2022, compared to 22.6% for 2021.

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

Indirect taxes consist of property and business taxes, payroll and social security taxes, the goods and services tax, and sales taxes. Indirect taxes are included in non-interest expense. For 2022, Desjardins entities paid $1,954 million in indirect taxes, compared to $1,641 million in 2021.

2.2 Analysis of business segment results

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

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

[1] For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

2.2.1 Personal and Business Services

PROFILE

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

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

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

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

SERVICES

- **Everyday financial management:**
  - In particular, transaction services carried out at the caisse counter and at ATMs, requests for information and specialty services, such as purchasing foreign exchange, money orders, drafts and safety deposit boxes. A number of these services are increasingly available online and via mobile devices.
- **Savings and investments:**
  - Products distributed by the caisses, the Desjardins Business centres and the Signature Service centres, as well as through specialized wealth management teams and complementary networks, such as mutual investment funds (Desjardins Funds), market-linked guaranteed investments (MLGI), the guaranteed savings offer, the guaranteed investment fund offer, and annuity products.
- **Integrated business offer:**
  - Customized solutions to support businesses of all sizes in their plans, whether on Québec, Canadian or international markets.
- **Financing:**
  - **Residential mortgages,** for the purchase of land, new or existing homes and for renovations.
  - **Consumer loans,** such as loans for the purchase of automobiles and durable goods, personal loans and lines of credit, student loans and Accord D financing solutions.
  - **Commercial credit,** which makes it possible to offer financing in the commercial and industrial, agricultural and agri-food, and public and institutional sectors, as well as for commercial and multi-residential real estate.
- **Payment:**
  - Debit, credit and prepaid card payment services for individuals and businesses, electronic payment services, and both domestic and international funds transfers.
- ***AccèsD*:**
  - Desjardins Group products and services are available at anytime, anywhere in the world, by phone, online and via applications for mobile devices.
- **Specialized wealth management networks (Signature Service, Private wealth management, Securities and Online brokerage):**
  - Each Desjardins network provides support to members and clients, as well as their families, based on a 360° vision of wealth management.
  - These networks differ from one another in their approach and in the range of proprietary advisory services and products they offer. They have access to a team of specialists from various backgrounds (tax specialists, notaries, lawyers, accountants, etc.) who can cover all aspects of wealth management.
  - Members and clients can simply choose the network that offers them the most appropriate type of support, depending on their net worth, situation and how they wish to manage their wealth.
- **Capital markets:**
  - Meeting the financing needs of Canadian corporations, institutions and cooperatives, and providing advisory services for mergers and acquisitions, as well as intermediation and execution services on the stock and fixed income securities markets.
  - Carried out by seasoned sales and trading teams who are supported by a research team that is renowned in the industry for its excellence.
- **Risk and development capital (Desjardins Capital):**
  - Specializes in direct and indirect investment in small and medium-sized enterprises (SMEs) and cooperatives in every region of Québec.
  - Promotes, supports and encourages the sustainability of SMEs in Québec.
  - As manager of *Capital régional et coopératif Desjardins* (CRCD), *Desjardins Capital* encourages Quebecers to save.
  - Accompanies and provides customized solutions, strategic advice and value-added services for companies in various stages of start-up, growth or transfer.
- **Specialized services:**
  - International services, banking and cash management services, Desjardins employer solutions (payroll and human resources management, as well as group retirement savings), factoring, specialized financing for institutional clients, the franchise sector, health care and professional firms.

2022 ACHIEVEMENTS

- In the current economic environment of tightening monetary policy, **providing support to members and clients is still a priority**. Each rate hike increases the number of members in a vulnerable position. Several initiatives have been implemented to support members and clients in a vulnerable position using a proactive approach involving listening and caring, such as preparing our front-line employees to properly support members and clients, making proactive intake calls and sending out a special newsletter about economic conditions.
- **Safety and fraud prevention tips:**
  - Continuation of the "Sharpen your cyber reflexes" program to provide support to members and clients with relevant information and tools:
    Inviting members and clients to sharpen their cyber reflexes through various tips; the offensive addresses various security issues identified and prioritized by Desjardins Group: phishing, easy money scams, romance scams, investment fraud and transactional best practices.
  - Two-step validation is gradually becoming mandatory for all *AccèsD* and *AccèsD Affaires* users, and providing, as a result, a simple and seamless experience for members and clients, and adding a layer of security to *AccèsD* accounts.
- **Enhanced and simplified digital experience:**
  - Continued reduction in the number of our websites in 2022 to make the navigation and search experience simpler, faster and more engaging for members and clients.
  - *AccèsD* Online and mobile services overhauled to enhance self-service functions for members and clients so they can:
    - Easily manage their credit cards.
    - Have a new experience in consulting and managing their everyday transaction accounts.
    - Have self-serve access to the MLGI portfolio.
  - Voice authentication: Number of users has risen beyond 1 million. For a faster and more secure experience, callers to our Client Relations Centres (CRC) can be identified with their voiceprint. This initiative won the "Coup du coeur du public" award at the Réseau Action TI's OCTAS award gala.
  - Desjardins Virtual Assistant:
    - Makes access simpler for 14 million callers who contact the CRCs. The project was aimed at developing interactive voice response while prioritizing the needs of members and clients. Desjardins is one of the first companies in Canada to provide virtual assistance in French in Québec thanks to Google solutions.
    - Offers advice, particularly for replacing debit and credit cards.
    - This project's execution and delivery won awards in the "Process Transformation – Large Business" category at the Réseau Action TI's most recent OCTAS gala.
  - Roll-out in assisted mode of the new appointment scheduling solution for caisses, CRCs and *AccèsD*. Among other things, it gives members access to the first available advisor with the required expertise, and not only the member's assigned advisor at the caisse.
  - Simplification of the online account application process for entrepreneurs, with increased automation improving the member's or client's experience and ensuring information integrity.
- **Improvement of offers in retail sectors:**
  - Performance of offers enhanced for businesses in the technology, manufacturing and farm sectors. Front-line teams now have tools to provide better support to businesses in these sectors.
  - Development of an offer for syndicates of co-owners to raise members' awareness of amendments to the *Civil Code of Québec* with regard to co-owners' insurance and its impact on the management of a property in co-ownership. This offer helps them to manage and maintain their real estate holdings while giving them access to the expertise of partners to support them in administering their building and to propose innovative and affordable management tools.
  - Offer developed to raise entrepreneurs' awareness and support them in their digital shift, thereby ensuring their competitiveness and increasing their productivity.
- **Introduce young people to entrepreneurship:** Under the Together for Our Youth program, a $500,000 partnership was announced with EVOL to finance two programs for young entrepreneurs in order to support them in their entrepreneurial and sustainable development process through training sessions, co-development, networking, coaching and scholarships.
- **Reinforcing our role as a socioeconomic leader:**
  - More than $6 million was granted in 2022 to Québec and Ontario entrepreneurs by the Momentum Fund, which has a $7 million envelope for the year. Non-repayable funding of up to $20,000 was granted to over 750 businesses to carry out their growth and quality job creation projects, major levers for regional economic development. Since 2020, Desjardins Group has made commitments totalling $14 million under this program.
  - Desjardins GoodSpark Grants for a 3rd year: $3 million in the form of $20,000 grants distributed to 150 small businesses to stimulate economic growth in Ontario and in the Atlantic and Western regions.
- The sector is gradually applying its **ESG approach** to all its operations, in particular:
  - Desjardins Group's commitment, along with the Québec government and other partners, to support the construction of 1,000 affordable housing units in the next three years. This commitment reaffirms our resolve to continue to contribute to the well-being of individuals and communities.
  - Launch of a new offer to support business members to facilitate the attraction, settlement and retention of international workers in Québec, in partnership with Montréal International.
  - A new learning path created by Empowering Women, in conjunction with The A Effect, to have female entrepreneurs tap into their full leadership potential. The Entrepreneur's learning path is offered for free and exclusively to female Desjardins members and clients.
  - Sustainable development commitment: Since August 2022, charging an electric car at a public charging station allows you to accumulate more BONIDOLLARS and receive cash remittances on specific Desjardins credit cards.
  - At the first edition of the *Soirée reconnaissance Réseau Capital*, Desjardins Capital won the award for being an ally of diversity and inclusion for its actions and commitment to promote diversity and inclusion in the financial industry.
- **Modernization of the Canadian payments ecosystem:** As a leading financial institution, Desjardins gradually began rolling out Interac transfers in 2022, providing a simplified and modernized experience for members and clients, and making payments easier, smarter, and safer for all members and clients.
- **Nilson Report:** Desjardins is the financial institution with the best growth in purchase volume and in the number of credit card transactions by small and microbusinesses.
- **40th anniversary of Desjardins Online Brokerage:** Four decades of democratization of equity markets and financial education. Close to 250 educational events are offered every year to beginners or active and seasoned investors. For young investors, the exclusive offer of Broker@ge 18-30 will raise their awareness of the importance of sound financial health and best practices for independent investing for those budding investors who want to start out on equity markets. Moreover, since 2021, there has been no commission on equity and exchange-traded fund (ETF) trades.

INDUSTRY

- **Canadian market:**
  - In 2022, the Canadian financial industry comprised some 81 domestic and foreign banking institutions, as well as 426 savings and loan cooperatives, almost half of which belonged to Desjardins Group.
  - In the banking services industry, on-balance sheet and off-balance sheet personal savings outstanding was estimated at $6,023 billion as at December 31, 2022, for a year-over-year decrease of 1.1%, compared to a 15.2% increase a year earlier. This decrease is due to the lower returns on financial markets, with the S&P/TSX and S&P 500 stock indices down by 8.7% and 19.4%, respectively, in the past 12 months. 2022 was also marked by a very good performance in sales of on-balance sheet savings products (term savings) after a year of strong growth in off-balance sheet personal savings in 2021.
  - Outstanding volume of loans to individuals was estimated at $2,681 billion as at December 31, 2022, a year-over-year increase of 6.9%, down from the 8.5% increase at the previous year-end. This year-over-year growth was largely due to the vigorous housing market, which continued at the start of the year, fuelling the demand for residential mortgages.
  - Business financing outstanding estimated at $1,119 billion as at December 31, 2022, a year-over-year increase of 19.4%, shooting up from the 8.2% increase at the end of 2021.

- **Québec market:**
  - On-balance sheet and off-balance sheet personal savings outstanding was estimated at $1,141 billion as at December 31, 2022, a year-over-year decrease of 1.9%, versus an increase of 17.6% at year-end 2021 due to the same factors as mentioned for personal savings in the Canadian market.
  - Outstanding volume of retail financing was estimated at $469 billion as at December 31, 2022, for a year-over-year increase of 6.6%, compared to a 7.6% increase recorded a year earlier.
  - Business financing outstanding was estimated at $234 billion as at December 31, 2022, for a year-over-year increase of 24.9%, compared to a 14.5% growth at year-end 2021.
    - Agricultural loans, included in business financing, were estimated at $24.8 billion as at December 31, 2022, a year-over-year increase of 7.7%, slowing from its 12.2% growth on the same date a year earlier.

- **Competition in Québec for financial services to individuals and businesses:**
  - Desjardins Group is a leader in many of the fields in which it operates.
  - A leader in residential mortgages, its market share was estimated at about 38% as at December 31, 2022, and it is a major player in consumer credit, with a market share of approximately 26% on the same date.
  - Desjardins Group is a leader in personal savings in Québec, especially in on-balance sheet personal savings products, with a market share of this industry estimated at approximately 41% as at December 31, 2022.
  - In commercial and industrial loans, Desjardins Group is also a major player in Québec, with an estimated market share of approximately 22% as at December 31, 2022.
  - Desjardins Group is a leader in agricultural financing, with a loan portfolio of more than $10.5 billion and an estimated market share of 42% as at December 31, 2022.
  - 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.

2023 STRATEGIES AND PRIORITIES

The 2023 strategies and priorities of the Personal and Business Services segment are incorporated into Desjardins Group’s strategic orientations and are aimed at helping Desjardins to achieve its goal of being everyone’s #1 choice, by always working in the best interests of members and clients. The seven strategic directions of Desjardins Group, as presented in Section 1.4, “Strategic orientations and financial objectives”, of this MD&A, are also the strategic directions of the Personal and Business Services segment.

The segment intends to enhance its leadership position in financing, everyday financial management, savings and, through its distribution network, life and health and P&C insurance products. The segment will continue to work always in the best interests of its members and clients, in particular, by giving members and clients a simple, omnichannel experience by leveraging mobile platforms, speeding up the segment’s digital initiatives, and enhancing the support provided by employees in delivering services. The Personal and Business Services segment will also strengthen relationships with our customers by taking a life-event management approach and by making integrated offers. The segment will also continue to strive to enhance the employee experience (including talent management) in order to minimize the impact of labour shortages on the market.

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

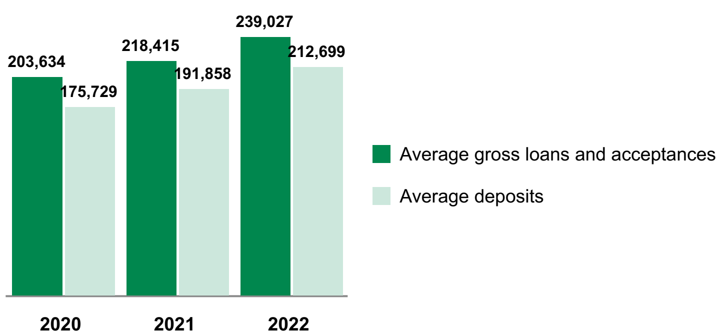
ANALYSIS OF FINANCIAL RESULTS

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

(in millions of dollars and as a percentage)	2022	2021	2020
Net interest income	$ 5,631	$ 5,005	$ 4,970
Other operating income[1]	2,991	2,684	2,366
Operating income[1]	**8,622**	7,689	7,336
Investment income[1]	36	241	276
Total income	**8,658**	7,930	7,612
Provision for credit losses	274	75	867
Non-interest expense	6,860	5,886	4,987
Income taxes on surplus earnings	398	510	444
Surplus earnings before member dividends	**1,126**	1,459	1,314
Member dividends, net of tax recovery	297	284	245
Net surplus earnings for the year after member dividends	**$ 829**	$ 1,175	$ 1,069
Indicators			
Average gross loans and acceptances[2]	$ 239,027	$ 218,415	$ 203,634
Average deposits[2]	212,699	191,858	175,729
Credit loss provisioning rate[2]	0.11 %	0.03 %	0.43 %
Gross credit-impaired loans/gross loans and acceptances ratio[2]	0.48	0.47	0.64

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.
(2) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

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



COMPARISON OF 2022 AND 2021

- **Surplus earnings before member dividends of $1,126 million,** down $333 million, or 22.8%, compared to 2021, essentially due to:
  - Increase in non-interest expense, mainly as a result of the larger amounts invested, as expected, in strategic projects related in particular to the digital shift and security, as well as the rise in spending on personnel in order to support growth in operations and enhance the services offered to members and clients.
  - Higher provision for credit losses in 2022 than in 2021, reflecting the impact of the improved macroeconomic outlook and borrower credit quality.
  - Offset by an increase in net interest income, less the decline in derivative financial instrument activities, and growth in other operating income[1].

- **Operating income[1] of $8,622 million,** up $933 million, or 12.1%.

- **Net interest income of $5,631 million,** up $626 million, or 12.5%, due to:
  - Increase in the average return on loans as a result of the higher interest rate environment.
  - Growth in average residential mortgages outstanding and average business loans outstanding.
  - Increase in interest income resulting from liquidities and securities.
  - Offset by an increase in interest expense on deposits as a result of higher interest rates.

- **Other operating income[1] of $2,991 million,** up $307 million, or 11.4%, mainly due to higher business volumes of Desjardins Card Services payment activities.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.

- **Investment income[(1)] of $36 million,** down $205 million, or 85.1%, mainly as a result of:
  - Decline in activities related to derivative financial instruments, which was offset by growth in net interest income.
  - Offset by losses on the disposal of securities realized in 2022, which were smaller than in the previous year.

- **Total income of $8,658 million,** up $728 million, or 9.2%.

- **Provision for credit losses of $274 million,** up $199 million, compared to 2021. The provision for 2022 was affected in particular by an increase in outstandings and a certain deterioration in the credit quality of the credit card portfolios and, to a lesser extent, of the business loan portfolios. The provision for 2021 primarily reflected the impact of an improved macroeconomic outlook and better borrower credit quality. Net write-offs in 2022 and 2021 remained historically low for all the portfolios.

- **Non-interest expense of $6,860 million,** up $974 million, or 16.5%, essentially due to:
  - Increase in amounts invested, in particular for the digital shift and security.
  - A rise in spending on personnel and technology in order to support growth in operations and enhance the services offered to members and clients, particularly wealth management advisory services and Client Relations Centre advisory services.
  - Growth in expenses related to the rewards program as a result of higher volumes of payment activities.

2.2.2 Wealth Management and Life and Health Insurance

PROFILE

The Wealth Management and Life and Health Insurance segment combines different categories of service offers aimed at growing and protecting the assets of Desjardins Group members and clients. These offers are intended for individuals, businesses and their employees.

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

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 Client Relations Centres, online or through applications for mobile devices. Online services are constantly being fine-tuned so that they meet clients' changing requirements.

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

On November 30, 2022, Desjardins Group, acting through 9479-5176 Quebec Inc., an indirect, wholly-owned subsidiary of the Federation, agreed to acquire the independent life insurance and retail investment distribution operations of Guardian Capital Group Limited, in particular by purchasing all the shares of IDC Worldsource Insurance Network Inc., Worldsource Financial Management Inc. and Worldsource Securities Inc. The transaction is expected to close in the first quarter of 2023, subject to the required regulatory approvals and customary closing conditions. The results of these operations will be accounted for within the Wealth Management and Life and Health Insurance segment.

SERVICES

Life and Health Insurance

- Includes products and services offered to individuals, and a group insurance service offering for businesses and their employees.
- These life and health insurance coverages provide peace of mind by reducing the financial effects that could occur due to illness, disability, accident or death.

Wealth Management

- **Investments:**
  - Wide range of investment solutions for individuals and group retirement savings service proposals for businesses and their employees.
  - Mutual funds, guaranteed investment funds, market-linked guaranteed investments (MLGI) and exchange-traded funds (ETF), including responsible investing product lines, allowing members and clients to find the investment best suited to their needs, whether they are preparing for retirement, planning a trip or any other financial goal.
- **Institutional services:**
  - Services for institutional clients, mainly pension funds, foundations, investment funds and insurers.
  - Asset management by a team of specialists who combine innovation, availability and discipline to design the best customized solutions.
  - Trust services, such as custody of securities on North American and international markets and fiduciary services for businesses.

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.

2022 ACHIEVEMENTS

Life and Health insurance

- Implementing actions to allow members and clients to obtain **real-time replies** when applying for **individual insurance.**
- Launching the innovative **5-pay PAR**, participating whole life insurance, in order to better meet the needs of our clients and distribution partners.
- Continuation of initiatives aimed at **enhancing the credit insurance offer and support** to meet the coverage needs of members and clients.
- Life and Health Insurance is gradually rolling out its **ESG approach** across all its operations, including:
  - Launching a group insurance offer for people in the process of gender affirmation. This new offering is part of a series of actions taken by Desjardins in its desire to move towards an ever more inclusive society.
  - Rolling out responsible insurance training for employees to raise their awareness of the impact of climate change on the health of Canadians and to anticipate the changing needs of our members, clients and partners in this new environment.
- **Several awards won and recognition gained,** all attesting to our commitment to supporting our members and clients:
  - According to the *Baromètre de l'assurance 2022* (2022 insurance barometer), a satisfaction survey of financial security advisors in Québec, Desjardins stands out for its life insurance and annuity products compared to its competitors.
  - Desjardins stood out at the Insurance Business Canada Awards as the recipient of the Award for Life & Health Insurer of the Year, which recognizes Desjardins's commitment to its products and services, to financial literacy and to its exemplary customer service approach.

Wealth Management

- **Development of the offering integrating ESG considerations** to meet the needs of members and clients**:**
  - Launching responsible annuities: Desjardins is the first Canadian financial institution to exclusively offer responsible annuities in retail investing.
  - New funds and portfolios added to enhance the socially responsible line, enabling our members and clients to contribute to the energy transition.
  - Launching new exchange-traded funds (ETFs), including a U.S. equity mandate with a responsible investing approach.
  - Responsible investing training course for advisors and teams designing investment solutions.
  - New fund offer and training in responsible investing rolled out for members and clients in group retirement savings.
  - Development of the group annuity offering in order to provide a competitive response to the expectations of members and clients.
- **Signing** of the Finance for Biodiversity Pledge aimed at **protecting and restoring biodiversity** through members' financial activities.
- **Several awards won and recognition gained,** all attesting to our commitment to developing high-return investing solutions for members and clients:
  - Garnered 6 FundGrade A+® 2022 awards from Fundata, which recognizes the best investment solutions available in Canada each year, two of which were for responsible investing solutions.
  - Desjardins was ahead of the pack with its line of structured products.
    - The prestigious "Best House, Canada" award (for the third year in a row) by Structured Retail Products.
    - "Best Private Bank" and "Best Sales" awards given in Canada at the first edition of SPi Canada 2022 Awards for Excellence.

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 2021, financial assets of close to $6,472 billion were held by Canadian households. Assets were up 15.8% in 2021, growing annually at 8.6% on a compound basis over the past 10 years. Stock markets continued to grow in 2021, fuelled by investor optimism and the savings accumulated during the pandemic. In 2022, inflation and rising key interest rates had an impact on the economy, creating a volatile market and economic environment.
  - Life and Health Insurance: Premium income totalled $139 billion in life and health insurance and in annuities in 2021, exceeding the pre-pandemic level by close to $17 billion and growing an average 5.6% per annum over the last five years. More than 29 million Canadians are financially protected, and $113 billion was paid in benefits in 2021. Since the COVID-19 crisis, the industry has resumed growth and mental health support has become increasingly important with a 75% increase in benefits compared to their pre-pandemic level.

- **Competition in Canada:**
  - Wealth Management: The major industry players are the major banking groups, life and health insurance companies and investment fund manufacturers that are trying to outdo one another in order to win over clients and build their loyalty. Desjardins is one of the most committed players when it comes to promoting and advancing responsible investing in Canada by:
    - Offering an extensive line of responsible investing solutions on the market (more than 30 solutions);
    - Ranking 2nd among mutual fund issuers and 3rd among ETF issuers in responsible investing as at December 31, 2021.
  - Life and Health Insurance: Based on 2021 statistics, there are more than 150 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 $5.9 billion in 2021.

- **Changes in 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 adjusting and positioning itself to meet these expectations.

2023 STRATEGIES AND PRIORITIES

The 2023 strategies and priorities of the Wealth Management and Life and Health Insurance segment form part of Desjardins Group's strategic orientations that aim to help Desjardins Group to achieve its goal of being everyone's #1 choice. The seven strategic orientations of Desjardins Group, as presented in Section 1.4, "Strategic orientations and financial objectives", of this MD&A, are also the strategic orientations of the Wealth Management and Life and Health Insurance segment.

Just like the other Desjardins Group business segments, the Wealth Management and Life and Health Insurance segment will continue to always work in the best interests of its members and clients, providing a simple and improved digital experience with enhanced, customized support based on their life and health insurance and wealth management needs. The segment will also continue its efforts to improve the employee experience (including talent management) in order to minimize the effects of the labour shortage in the market.

As for the acquisition of Guardian Capital Group Limited's independent distribution operations in insurance and individual savings, Desjardins will implement winning conditions to support these networks in their growth so that they can continue to provide their customers with quality service.

In order to strengthen its leadership in the area of client experience, 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

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

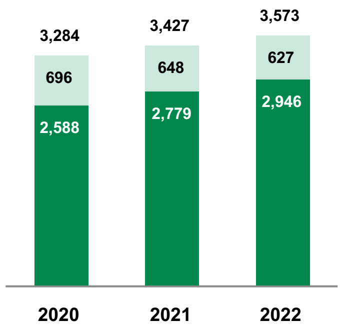
(in millions of dollars)	**2022**	2021	2020
Net interest income	**$ 7**	$ —	$ 8
Net premiums	**6,166**	5,667	4,711
Other operating income[1]	**1,458**	1,487	1,286
Operating income[1]	**7,631**	7,154	6,005
Investment income (loss)[1]	**(3,430)**	(55)	2,404
Total income	**4,201**	7,099	8,409
Claims, benefits, annuities and changes in insurance contract liabilities	**634**	4,115	5,564
Non-interest expense	**2,653**	2,448	2,100
Income taxes on surplus earnings	**222**	73	136
Net surplus earnings for the year	**$ 692**	$ 463	$ 609
Indicators			
Net sales of saving products[2]	**$ 2,040**	$ 8,552	$ 3,704
Insurance sales[2]	**429**	506	396
Net premiums	**6,166**	5,667	4,711
Group insurance premiums	**3,573**	3,427	3,284
Individual insurance premiums	**968**	928	901
Annuity premiums	**1,625**	1,312	526
Receipts related to segregated funds[2]	**3,665**	4,338	2,368

(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.
(2) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

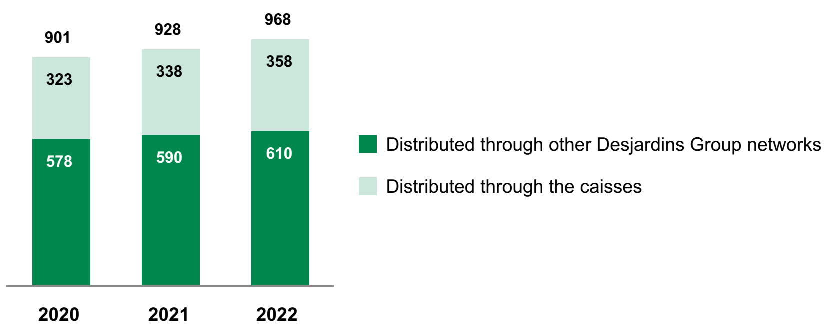
Table 15 – Claims, benefits, annuities and changes in insurance contract liabilities
For the years ended December 31

(in millions of dollars)	**2022**	2021	2020
Insurance and annuity benefits	**$ 3,663**	$ 3,461	$ 3,158
Change in actuarial liabilities	**(3,176)**	560	2,222
Policyholder dividends, experience refunds and other	**147**	94	184
Total	**$ 634**	$ 4,115	$ 5,564

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



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



COMPARISON OF 2022 AND 2021

- **Net surplus earnings of $692 million,** up $229 million, or 49.5% compared to 2021, mainly on account of:
  - Favourable effect of higher interest rates on actuarial liabilities.
  - Overall more favourable experience than for the comparative period of 2021, mainly in group insurance.
  - Positive effect of revisions of actuarial assumptions in the normal course of business while they had affected 2021 unfavourably.
  - Larger gains on disposal of securities and real estate investments than in 2021.

  This increase was mitigated in part by the following:
  - Increase in non-interest expense mainly as a result of higher employee expenses and the expected increase in the amounts invested in strategic projects.
  - Markets' impact on guaranteed investment funds more unfavourable than in 2021.

- **Operating income[(1)] of $7,631 million,** up $477 million, or 6.7%.

- **Net premiums of $6,166 million,** up $499 million, or 8.8%, due to the following:
  - Increase of $313 million essentially in group annuity premiums, primarily as a result of agreements signed with groups, the value of which was higher than that signed in 2021. This growth is reflected in a similar change in actuarial liabilities included under "Claims, benefits, annuities and changes in insurance contract liabilities".
  - Increase of $146 million in group insurance premiums and of $40 million in individual insurance premiums.

- **Other operating income[(1)] of $1,458 million,** down $29 million, or 2.0%, mainly as a result of the decline in assets under management, related particularly to the impact of financial market developments.

- **Loss of $3,430 million, presented under "Investment income (loss)"[(1)],** compared to loss of $55 million in 2021, primarily due to:
  - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio mainly as a result of a larger increase in market interest rates than in 2021.
    - It should be mentioned that this change in the fair value of bonds was offset by the decrease in the cost of claims due to matching.
  - Offset by higher gains on the disposal of securities and real estate investments compared to 2021.

- **Total income of $4,201 million,** down $2,898 million, or 40.8%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $634 million,** down $3,481 million, or 84.6%, basically due to:
  - Decrease of $3,736 million in actuarial liabilities under "Insurance contract liabilities", on account of:
    - The decrease in the fair value of matched investments, presented under "Investment income (loss)".
    - Positive effect of higher interest rates on liabilities.
    - Overall more favourable experience in group insurance.
    - Positive effect of revisions of actuarial assumptions in the normal course of business whereas they had affected 2021 unfavourably.
    - Partially offset by provisions made for group annuities related in particular to agreements signed with groups, the value of which was higher than that signed in 2021, as previously mentioned.
  - Offset by the increase in benefits connected with business growth and the higher cost of prescription drugs and health care.

- **Non-interest expense of $2,653 million,** up $205 million, or 8.4%, mainly because of:
  - Higher employee expenses to improve services for members and clients.
  - Larger amounts invested, in particular for the digital shift and security.

[(1)] For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.

2.2.3 Property and Casualty Insurance

PROFILE

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

Desjardins General Insurance Group Inc., which has more than 3.7 million clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner.

SERVICES

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

2022 ACHIEVEMENTS

- Continued modernization and enhancement of the member and client experience as well as **digital transformation,** in particular by:
  - Continuing to focus on prevention in home insurance with the launch of version 2.0 of the Alert prevention program (a program to prevent damage caused by water, fire, the risk of freezing, and the risk of break-in).
  - Continuing to focus on prevention in automobile insurance by systematically adding the Ajusto program (telematics program with personalized feedback on driving habits) to our basic online offer in Ontario. Ajusto offers a customized rate based on the member's and client's driving habits and also encourages good driving habits by providing members and clients with personalized advice on their driving in order to improve road safety.
- Continuation of the **program to modernize IT systems** with implementation of key milestones, including:
  - Implementing omnichannel transactions in automobile insurance in Québec so that individual and business members and clients can do business with Desjardins and get the same quality of service no matter what channel they choose to use.
- **Overhauling information sites,** including:
  - Migrating the various property and casualty insurance information sites for individuals to Desjardins.com in order to put all the property and casualty insurance products offered by Desjardins on one platform, thereby providing users with a simplified, coherent and personalized experience based on their province.
  - Improving The Personal websites, in particular making navigation easier, adding quick access links to the main online solutions, and including a group search function that is easier to use.
- The segment is gradually rolling out its **ESG approach** in all of its operations, in particular by:
  - Committing $3.2 million over the next three years to supporting different organizations that encourage road safety in Québec and the rest of Canada [Parachute, Traffic Injury Research Foundation (TIRF), Arrive Alive, Operation Red Nose].
  - Adopting a new decarbonization target for the investment portfolio, which breaks down as follows:
    - Aligning the portfolio with the carbon neutrality objectives for 2040 in the following three segments: energy, transportation and real estate, as well as for 2050 for the entire portfolio (commitment to the global Business Ambition for 1.5°C initiative).
    - Aligning the portfolios with the intermediate targets: objective of reducing our financed emissions by 30% by 2025 and by 50% by 2030 compared with 2020.
  - ESG mapping of investments with a view to better integrating and disclosing ESG performance.
  - Decision to incorporate ESG considerations when selecting indemnity providers.
- **Maintained our ranking as the second largest P&C insurer in Canada and Québec and the third largest in Ontario,** based on gross direct premiums written in 2021.

INDUSTRY

- **Canadian market:**
  - The P&C insurance industry offers insurance coverage for motor vehicles, personal and commercial property, and public liability.
  - A mature market, with an average annual premium growth rate of 8.5% over the past five years.
  - In 2021, direct premiums written on the Canadian market totalled $68.9 billion, up 7.6%, particularly as a result of high rates in home insurance and in commercial insurance, which was partially offset by a slowdown in growth in automobile insurance due to changes in driving habits caused by the COVID-19 pandemic.
  - Individual insurance accounts for 58.4% of the market, and business insurance, for 41.6%.

- **State of the industry in 2022:**
  - The labour shortage in Canada was confirmed and it affected a number of sectors of the economy. The unemployment rate reached an all-time low, falling below 5.0% for the first time in over 45 years, while more than a million positions were vacant in the second quarter of 2022, a first in this country.
  - Combined with various external factors, this labour shortage was detrimental to stability and limited the global supply chain capacity of a number of products and services.
  - Strong post-pandemic economic growth, coupled with the above-mentioned factors, pushed inflation up. The growth in the consumer price index that began in 2021 picked up in 2022. Inflation in Canada stood at 8.1% in June, an almost 40-year high. This trend had an impact on claims costs.
  - While the COVID-19 pandemic generated a drop in the frequency of automobile insurance claims, the easing of restrictions and a gradual reinstatement of pre-pandemic lifestyles contributed to a certain normalization of claims frequency in 2022. This normalization picked up in the summer, even though it still had not reached pre-pandemic levels.
  - Consolidation in the insurance broker market picked up; established aggregators (insurers and brokerage firms) remained active while newer players were party to a number of mergers and acquisitions in the market in 2022.
  - Weather events all across Canada affected the industry. In 2022, according to Catastrophe Indices and Quantification Inc. (CatIQ), catastrophic events caused $3.1 billion in insurable losses for the Canadian P&C insurance industry, which makes 2022 the 3rd biggest year for extreme weather-related losses in Canada.

- **Industry trends:**
  - Insurers' proposals continue to be increasingly developed through digital channels.
  - The Canadian market has been continuing to develop quickly, 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 recent trends such as *InsurTech* or the sharing economy.
  - Since the beginning of the COVID-19 pandemic, Desjardins Group's P&C Insurance segment has seen a sharp increase in telematics programs in the industry.
  - Insurers are turning more and more towards artificial intelligence and advanced analytics, using them mainly in the areas of distribution, underwriting, claims and fraud prevention.
  - 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, working to speed up the digital shift and updating the ESG plan.

2023 STRATEGY AND PRIORITIES

The Property and Casualty Insurance segment's 2023 strategies and priorities fall within the scope of Desjardins Group's strategic orientations, and aim to help Desjardins Group attain its goal of being everyone's #1 choice. The seven strategic orientations of Desjardins Group, as presented in Section 1.4, "Strategic orientations and financial objectives", of this MD&A, are also the strategic orientations of the Property and Casualty Insurance segment.

The segment will continue to always work in the best interests of its members and clients, in particular by providing them with a simple and improved digital experience. The segment is also going to continue working on prevention in the automobile insurance industry through its Ajusto program and in the home insurance industry with the new version of the Alert program. It will also continue investing to improve its understanding of natural catastrophes and the impact of climate change, in an effort to develop programs and action plans for prevention as well as the protection of member and client assets. In addition, the P&C segment will continue to develop its competitive edge with a view to delivering strong, profitable growth, while maintaining control over its costs in an inflationary environment with supply chain disruptions. The segment will also continue to modernize its business systems (NeXT) to support its member- and client-centred developments, reduce operating risks and increase the agility of the organization. To pursue our objective of becoming a Canadian leader in the field of advanced analytics, in 2023, the segment will roll out several additional models in the area of claims and pricing. The segment will also continue its efforts to improve the employee experience (including talent management) in order to minimize the effects of the labour shortage in the market.

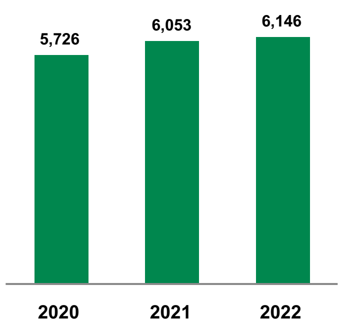
ANALYSIS OF FINANCIAL RESULTS

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

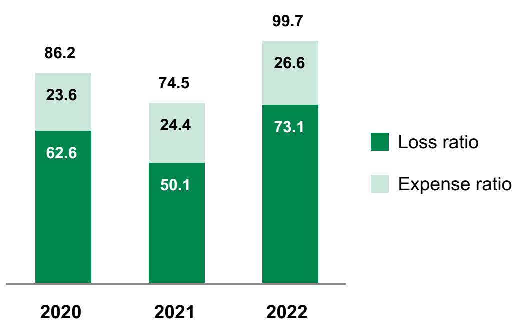
(in millions of dollars and as a percentage)	**2022**	2021	2020
Net premiums	**$ 6,005**	$ 5,909	$ 5,484
Other operating income (loss)[(1)]	**(36)**	(178)	(160)
Operating income[(1)]	**5,969**	5,731	5,324
Investment income[(1)]	**137**	120	497
Total income	**6,106**	5,851	5,821
Claims, benefits, annuities and changes in insurance contract liabilities	**3,911**	2,792	3,689
Non-interest expense	**1,612**	1,460	1,303
Income taxes on surplus earnings	**133**	402	207
Net surplus earnings for the year	**$ 450**	$ 1,197	$ 622
Of which:			
Group's share	**$ 383**	$ 1,055	$ 538
Non-controlling interests' share	**67**	142	84
Indicators			
Gross written premiums[(2)]	**$ 6,146**	$ 6,053	$ 5,726
Loss ratio[(3)]	**73.1 %**	50.1 %	62.6 %
Current year loss ratio[(3)]	**75.2**	60.8	65.4
Loss ratio related to catastrophes and major events[(3)]	**4.0**	1.4	2.5
Ratio of favourable changes in prior year claims[(3)]	**(6.1)**	(12.1)	(5.3)
Expense ratio[(3)]	**26.6**	24.4	23.6
Combined ratio[(3)]	**99.7**	74.5	86.2

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.
(2) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.
(3) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 3 to 7.

Gross written premiums
(in millions of dollars)



Combined ratio
(as a percentage of net premiums)



COMPARISON OF 2022 AND 2021

- **Net surplus earnings of $450 million,** down $747 million, or 62.4%, compared to 2021, due to the following:
  - Higher loss ratio compared to 2021, essentially in property insurance and automobile insurance. 2022 was affected by:
    - Higher frequency of claims compared to 2021, particularly in automobile insurance.
    - Impact of inflation.
    - One catastrophe, a rare weather phenomenon called a *derecho*, and five major events (flooding, windstorm, heavy rainfall, Hurricane Fiona and snowstorm), compared to one catastrophe and one major event in 2021.
  - Offset by an increase in investment income[(1)] excluding the change in the fair value of matched bonds.

- **Operating income[(1)] of $5,969 million,** up $238 million, or 4.2%.

- **Net premiums of $6,005 million,** up $96 million, or 1.6%, in particular as a result of business growth.

- **Loss of $36 million, presented under “Other operating income (loss)”[(1)]**, compared to loss of $178 million in 2021, due to:
  - The change in investment funds that benefited groups having signed agreements under The Personal banner. It should be mentioned that this change was offset by the results of these groups.
  - Smaller increase than in 2021, in the contingent consideration payable as part of the acquisition of State Farm’s Canadian operations, arising from favourable developments in claims taken over.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.

- **Investment income[(1)] of $137 million,** up $17 million, or 14.2% essentially because of:
  - Higher net gains on common shares compared to 2021.
  - Higher interest and dividend income than in 2021.
  - Higher results for derivative financial instruments than in 2021.

  This increase was partially mitigated by the following items:
  - A greater decrease in the fair value of matched bonds compared to 2021, on account of the greater increase in market interest rates in 2022 than in 2021. It should be mentioned that this change in the fair value of bonds was offset by a decrease in the cost of claims due to matching.
  - Net losses on disposal of fixed income securities compared to net gains in 2021.

- **Total income of $6,106 million,** up $255 million, or 4.4%.

- **Cost of claims totalling $3,911 million,** up $1,119 million, or 40.1%, as a result of:
  - Loss ratio of 73.1%, compared to 50.1% in 2021.
    - Higher current year loss ratio compared to 2021, namely, 75.2% vs. 60.8%, mainly in automobile insurance and in property insurance, reflecting the higher frequency of automobile insurance claims and the impact of inflation, among other things.
    - Less favourable ratio of changes in prior year claims than in 2021, i.e. (6.1%) vs. (12.1%), essentially in automobile insurance, particularly on account of recent inflationary pressures.
    - Higher loss ratio related to catastrophes and major events than in 2021, i.e. 4.0% vs. 1.4%. 2022 was marked by one catastrophe, a rare weather phenomenon called a *derecho*, in Ontario and in Québec, and five major events (flooding, windstorm, heavy rainfall, Hurricane Fiona and snowstorm), compared to one catastrophe, a hailstorm in Alberta, and one major event in 2021.
  - Offset by a higher favourable impact of the increase in the discount rates used to measure the provision for claims than in 2021. It should be mentioned that this favourable impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under “Investment Income (loss)”.

- **Non-interest expense of $1,612 million,** up $152 million, or 10.4%, due to:
  - Higher expenses related to remuneration on premiums.
  - Larger amounts invested, as expected, in particular for the digital shift and security.
  - Higher advertising expenses than in 2021.

2.2.4 Other category

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

Table 17 – Other category
For the years ended December 31

(in millions of dollars)	**2022**	2021	2020
Net interest income	**$ 692**	$ 781	$ 662
Net premiums	**(329)**	(298)	(275)
Other operating income (loss)[(1)]	**(787)**	(652)	(653)
Operating income (loss)[(1)]	**(424)**	(169)	(266)
Investment income (loss)[(1)]	**(501)**	(391)	(103)
Total income (loss)	**(925)**	(560)	(369)
Provision for (recovery of) credit losses	**3**	(6)	(4)
Claims, benefits, annuities and changes in insurance contract liabilities	**(45)**	(24)	(20)
Non-interest expense	**(487)**	(228)	(93)
Income taxes on surplus earnings	**(178)**	(125)	(126)
Net surplus earnings (deficit) for the year	**$ (218)**	$ (177)	$ (126)

[(1)] For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.

COMPARISON OF 2022 AND 2021

- **Net deficit of $218 million,** compared to a net deficit of $177 million in 2021.
  - Market rate fluctuations as well as changes in hedging positions had an overall unfavourable effect on net interest income and investment income[(1)].
  - Non-interest expense included amounts invested for the continued implementation of Desjardins-wide strategic projects, in particular for the digital shift and security. These initiatives enhanced the member and client experience, improved productivity and ensured the implementation of best practices in security. They also included commitments made with regard to the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions.

[(1)] For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.

2.3 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)	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	**$ 1,579**	$ 1,649	$ 1,596	$ 1,506	$ 1,455	$ 1,476	$ 1,452	$ 1,403
Net premiums	**3,812**	2,747	2,633	2,650	3,201	2,905	2,587	2,585
Other operating income(1)								
Deposit and payment service charges	**115**	115	114	104	111	109	105	99
Lending fees and credit card service revenues	**263**	276	225	227	168	198	182	187
Brokerage and investment fund services	**235**	235	251	268	267	283	285	273
Management and custodial service fees	**211**	182	200	193	201	185	177	169
Foreign exchange income	**42**	19	27	31	29	34	28	30
Other	**64**	72	86	71	71	60	53	37
Operating income(1)	**6,321**	5,295	5,132	5,050	5,503	5,250	4,869	4,783
Investment income (loss)(1)								
Net investment income (loss)	**78**	(38)	(2,209)	(2,336)	956	(90)	1,055	(1,602)
Overlay approach adjustment for insurance operations financial assets	**(1)**	224	371	153	(88)	(24)	(146)	(146)
Investment income (loss)(1)	**77**	186	(1,838)	(2,183)	868	(114)	909	(1,748)
Total income	**6,398**	5,481	3,294	2,867	6,371	5,136	5,778	3,035
Provision for (recovery of) credit losses	**80**	125	66	6	16	52	(3)	4
Claims, benefits, annuities and changes in insurance contract liabilities	**2,784**	2,204	(133)	(355)	3,185	1,713	2,191	(206)
Non-interest expense	**2,833**	2,565	2,712	2,528	2,736	2,288	2,377	2,165
Income taxes on surplus earnings	**125**	109	172	169	41	267	278	274
Surplus earnings before member dividends	**576**	478	477	519	393	816	935	798
Member dividends, net of tax recovery	**64**	78	80	75	86	66	66	66
Net surplus earnings for the period after member dividends	**$ 512**	$ 400	$ 397	$ 444	$ 307	$ 750	$ 869	$ 732
Of which:								
Group's share	**495**	386	381	424	267	716	830	702
Non-controlling interests' share	**17**	14	16	20	40	34	39	30
Contribution to surplus earnings by business segment								
Personal and Business Services	**214**	307	290	315	247	401	397	414
Wealth Management and Life and Health Insurance	**227**	155	173	137	(6)	109	235	125
Property and Casualty Insurance	**116**	83	104	147	330	289	330	248
Other	**19**	(67)	(90)	(80)	(178)	17	(27)	11
	$ 576	$ 478	$ 477	$ 519	$ 393	$ 816	$ 935	$ 798
Total assets	**$ 407,109**	$ 408,071	$ 404,070	$ 397,136	$ 397,085	$ 390,641	$ 389,278	$ 376,981
Indicators								
Return on equity(2)	**7.0 %**	5.8 %	5.8 %	6.2 %	4.3 %	9.6 %	11.5 %	10.3 %
Tier 1A capital ratio(3)	**20.2**	18.7	19.5	20.6	21.1	21.2	21.4	22.1
Total capital ratio(3)	**21.9**	20.2	20.4	21.5	22.1	22.4	22.6	22.6

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.
(2) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.
(3) In accordance with the base capital adequacy guideline for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, “Capital management”.

FOURTH QUARTER RESULTS

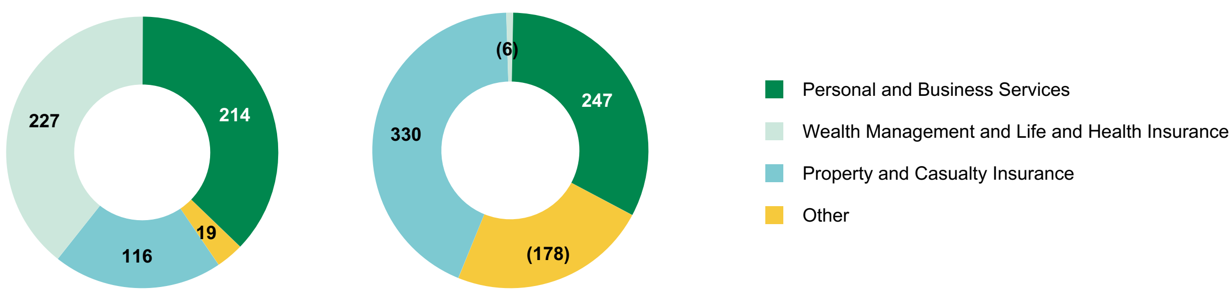
For the fourth quarter of 2022, Desjardins Group posted surplus earnings before member dividends of $576 million, up $183 million, or 46.6%, compared to the same period in 2021.

Surplus earnings before member dividends in fourth quarter of 2022
(in millions of dollars)

$576 million

Surplus earnings before member dividends in fourth quarter of 2021
(in millions of dollars)

$393 million



Contribution of business segments to surplus earnings:

- Personal and Business Services: **Surplus earnings of $214 million,** down $33 million, or 13.4%, compared to the same period in 2021, as a result of:
  - Increase in non-interest expense due primarily to the larger amounts invested in strategic projects, as expected, in particular for the digital shift and security, as well as higher employee expenses in order to support growth in operations and enhance the services offered to members and clients.
  - Higher provision for credit losses in the fourth quarter of 2022 than in the corresponding quarter of 2021, which reflected the decrease in the provision for credit losses resulting from the refinement of the methodology used to assess certain risk parameters.
  - Offset by an increase in net interest income, net of the decline in activities related to derivative financial instruments, and an increase in other operating income[1].
- Wealth Management and Life and Health Insurance: **Surplus earnings of $227 million** compared to a deficit of $6 million in the fourth quarter of 2021, due to:
  - Favourable effect of revisions of actuarial assumptions in the normal course of business, while they had a negative effect in the comparative quarter of 2021.
  - Positive effect of higher interest rates on actuarial liabilities.
  - Overall more favourable experience than for the comparative quarter of 2021, mainly in group insurance.
  - Offset by an increase in non-interest expense mainly as a result of higher employee expenses to enhance the services offered to members and clients as well as larger amounts invested in the digital shift and security.
- Property and Casualty Insurance: **Surplus earnings of $116 million,** down $214 million, or 64.8%, compared to the fourth quarter of 2021, due to:
  - Higher loss ratio compared to the corresponding quarter, essentially in property insurance and automobile insurance because the fourth quarter of 2022 was affected by:
    - Higher frequency of claims compared to the corresponding quarter of 2021, particularly in automobile insurance.
    - Impact of inflation.
  - Increase in non-interest expense on account of higher expenses related to remuneration on premiums.
  - Offset by an increase in investment income[1], excluding the change in the fair value of matched bonds.

- **Return on equity of 7.0%,** compared to 4.3% for the fourth quarter of 2021, due to the higher surplus earnings.

- **Operating income[1] of $6,321 million,** up $818 million, or 14.9%.

- **Net interest income of $1,579 million,** up $124 million, or 8.5%, on account of:
  - Increase in the average return on loans due to the higher interest rate environment.
  - Growth in average residential mortgages and business loans outstanding.
  - Higher interest income from liquidities and securities.
  - Offset by an increase in interest expense on deposits related to the higher interest rates.

- **Net premiums of $3,812 million,** up $611 million, or 19.1%, due to items from the following segments:
  - **Wealth Management and Life and Health Insurance segment:** Net insurance and annuity premiums of $2,373 million, up $607 million, or 34.4%, compared to the same period in 2021, as a result of:
    - Increase of $550 million essentially in group annuity premiums as a result of agreements signed with groups, the value of which was higher than what was signed in 2021. This growth is reflected in a similar change in actuarial liabilities included under “Claims, benefits, annuities and changes in insurance contract liabilities”.
    - Increase of $51 million in group insurance premiums and of $6 million in individual insurance premiums.

  - **Property and Casualty Insurance segment:** Net premiums of $1,524 million, up $11 million, or 0.7%, compared to the same period in 2021, due in particular to business growth.

[1] For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.

- **Other operating income[1] of $930 million,** up $83 million, or 9.8%, mainly due to higher business volumes from Desjardins Card Services payment activities.

- **Investment income[1] of $77 million,** down $791 million, or 91.1%, essentially as a result of:
  - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio primarily as a result of a slight increase in long-term market interest rates in the fourth quarter of 2022, while they were lower in the corresponding quarter of 2021.
    - It should be mentioned that this change in the fair value of bonds was offset by the decrease in the cost of claims due to matching.
  - Offset by higher interest and dividend income compared to the fourth quarter of 2021.

- **Total income of $6,398 million,** up $27 million, or 0.4%.

- **Provision for credit losses of $80 million,** up $64 million, compared to the same period in 2021. The provision for credit losses for the fourth quarter of 2022 reflected mainly the impact of the deterioration of the economic outlook on retail loan portfolios as well as the start of a deterioration in credit quality for business loan portfolios, as anticipated by the measurement of expected credit losses. It also reflected slightly higher net write-offs compared to the corresponding period of 2021. The provision for credit losses for the fourth quarter of 2021 mainly reflected decreases in the provision due to a refinement of the methodology used to assess certain risk parameters as well as historically low net write-offs.

  Desjardins Group continued to have a high quality loan portfolio in 2022.
  - Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio was 0.47%, the same ratio as at December 31,2021.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $2,784 million,** down $401 million, or 12.6%, due to items from the following segments:
  - **Wealth Management and Life and Health Insurance segment:** Cost of claims totalling $1,785 million, down $742 million, or 29.4%, compared to the same period in 2021, essentially as a result of:
    - Decrease of $878 million in actuarial liabilities included under “Insurance contract liabilities” on account of:
      - Decrease in the fair value of matched investments, presented under “Investment income (loss)”.
      - Favourable effect from revisions of actuarial assumptions in the normal course of business, while they had a negative effect in the comparative quarter of 2021.
      - Positive effect of higher interest rates on liabilities.
      - Overall more favourable experience, mainly in group insurance.
      - Partially offset by provisions made for group annuities related in particular to agreements signed with groups, the value of which was higher than that signed in 2021, as previously mentioned.
    - Offset by the increase in benefits related to business growth and the higher cost of prescription drugs and health care.

  - **Property and Casualty Insurance segment:** Cost of claims totalling $1,006 million, up $345 million, or 52.2%, due to the following:
    - Loss ratio of 68.2% for the fourth quarter of 2022, compared to 46.7% for the corresponding period of 2021.
      - Higher current year loss ratio compared to the corresponding period of 2021, namely, 79.4% vs. 57.5%, mainly in automobile insurance and in property insurance, reflecting in particular the higher frequency of automobile insurance claims and the impact of inflation.
      - Less favourable ratio of changes in prior year claims than in the comparative quarter of 2021, i.e., (12.1%) vs. (12.4%), essentially in automobile insurance.
      - Offset by a lower loss ratio related to catastrophes and major events than in the corresponding quarter of 2021, i.e., 0.9% vs. 1.6%. The fourth quarter of 2022 was marked by one major event, a snowstorm in Québec and Ontario, while the fourth quarter of 2021 had also been marked by one major event, high winds in Québec and Ontario.
    - Lower favourable impact of the increase in the discount rates used to measure the provision for claims compared to the fourth quarter of 2021. It should be mentioned that this impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under “Investment income (loss)”.

- **Non-interest expense of $2,833 million,** up $97 million, or 3.5%, compared to the fourth quarter of 2021, essentially due to:
  - A rise in spending on personnel and communications in order to support growth in operations and enhance the services offered to members and clients.
  - Higher expenses related to remuneration on premiums.
  - Offset by lower expenses in the quarter for the continued implementation of strategic projects related, in particular, to the digital shift and security.

- **Productivity index at 78.4% for the fourth quarter of 2022,** compared to 85.9% for the same period in 2021, due in particular to growth in income.

- **Income taxes on surplus earnings before member dividends of $125 million,** up $84 million compared to the corresponding period in 2021.
  - Effective tax rate[2] of 17.8% for the fourth quarter of 2022, up from 9.4% for the corresponding period of 2021. Lower favourable effect of tax savings on the effective tax rate in the fourth quarter of 2022 compared to the corresponding period of 2021, due to higher surplus earnings.

(1) For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 3 to 7.
(2) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

QUARTERLY TRENDS

Quarterly income, expenses and surplus earnings before member dividends are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the financial markets. Since the beginning of 2020, the quarters have been affected by the public health crisis related to the COVID-19 pandemic as well as by developments in financial markets, leading to significant fluctuations in quarterly results, compared to those normally recorded by Desjardins. The results of Desjardins Group's most recent eight quarters were therefore affected by developments in the global, U.S., Canadian and Québec economies as well as by inflation, with an expected rise of 3.6% and 2.7%, respectively, in Canadian and Québec real GDP in 2022, compared to an increase of 5.0% and 6.0% in 2021. After remaining at 0.25% throughout 2021, the Canadian key interest rate saw a significant rise during the quarters in 2022, increasing from 0.25% to 4.25% between March and December of 2022. Lastly, changes in actuarial assumptions as well as loss experience and weather conditions may also cause significant variations from quarter to quarter. In 2022, one catastrophe and five major events were recorded, while 2021 saw one catastrophe and one major event.

Surplus earnings

- Higher loss experience in property and casualty insurance mainly as a result of the higher frequency of claims in automobile insurance, the impact of inflation, as well as a greater number of catastrophes and major events in 2022 compared to 2021.
- Higher provision for credit losses in 2022 than in 2021, reflecting the impact of the improved macroeconomic outlook and borrower credit quality.
- Increase in non-interest expense, due primarily to the higher amounts invested in strategic orientation projects in particular, and to higher employee expenses to enhance the services offered to members and clients.
- Higher net interest income.

Results

- **Operating income – Upward trend for 2022 quarters, compared to 2021 quarters.**
  - Higher net interest income, in particular due to:
    - Increase in the average return on loans due to the higher interest rate environment.
    - Growth in average residential mortgages and business loans outstanding.
    - Higher interest income from liquidities and securities.
    - Offset by an increase in the interest expense on deposits related to higher interest rates.
  - Growth in property and casualty insurance, group insurance and individual insurance premiums during the past eight quarters.
  - Significant group annuity agreements signed in the fourth quarter of 2022 and in the fourth and third quarters of 2021.
  - Growth in business volumes because of Desjardins Card Services payment activities.

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

- **Provision for credit losses – 2022 quarters up compared to 2021 quarters.**
  - The downward trend in the provision for credit losses initiated by the improved macroeconomic outlook in the first half of 2022 was offset by the effect of the deteriorating macroeconomic outlook in the second half of 2022. In 2021, the improved macroeconomic outlook and borrowers' credit quality for all quarters of 2021 had led to significant declines in the loss allowance for expected credit losses.
  - Since the second quarter of 2021, the quarterly provision for credit losses has been reflecting, in particular, the impact of the increase in loans outstanding.
  - Net write-offs were historically low in the quarters of 2022 and 2021, but they started to climb slightly at the end of 2022.
  - Ratio for gross credit-impaired loans, as a percentage of the total portfolio of gross loans and acceptances, slightly down for the 2022 quarters compared to the 2021 quarters. Desjardins Group has continued to have a high-quality loan portfolio.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities – Quarterly fluctuations.**
  - 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.
  - **Life and health insurance**:
    - Overall more favourable experience for the 2022 quarters, mainly in group insurance.
    - Positive effect of higher interest rates on actuarial liabilities in the last and in the first two quarters of 2022.
    - Provisions made in the fourth quarter of 2022 as well as in the fourth and third quarters of 2021, for the significant group annuity agreements signed.
    - Favourable effect of revisions of actuarial assumptions in the normal course of business in the fourth quarter of 2022 and in second quarter of 2021, whereas the fourth quarter of 2021 was unfavourably affected.
  - **Property and casualty insurance**:
    - Higher current year loss experience, essentially in automobile insurance and in property insurance for the 2022 quarters, reflecting, among other things, the impact of an increase in road traffic, which had fallen considerably in the first half of 2021 as a result of the pandemic, as well as the impact of inflation.
    - Less favourable developments in prior year claims for the 2022 quarters, essentially in automobile insurance, particularly on account of recent inflationary pressures.
    - The second quarter of 2022 and the third quarter of 2021 were affected by one catastrophe.
    - 2022 was affected by five major events, compared to one in 2021.

- **Non-interest expense – Up when 2022 and 2021 quarters are compared.**
  - Increase in amounts invested, as expected, for the continued implementation of strategic projects, in particular for the digital shift and security.
  - Rise in spending on personnel, technology and communication in order to support growth in operations and enhance the services offered to members and clients.
  - Higher rewards program expenses on account of the growth in payment activity volumes.

Surplus earnings from business segments

- **Surplus earnings before member dividends in the Personal and Business Services segment – Down when 2022 and 2021 quarters are compared.**
  - Increase in non-interest expense, due primarily to the larger amounts invested, as expected, in strategic projects related, in particular, to the digital shift and security, as well as higher employee expenses in order to support growth in operations and enhance the services offered to members and clients.
  - Higher provision for credit losses in 2022 than in 2021, reflecting the impact of the improved macroeconomic outlook and borrowers' credit quality.
  - Increase in net interest income resulting mainly from the increase in the average return on loans due to higher interest rate environment, as well as the growth in average residential mortgages and business loans outstanding, partially offset by the increase in the interest expense on deposits related to the rise in interest rates.
  - Increase in business volumes from Desjardins Card Services payment activities.

- **Net surplus earnings of the Wealth Management and Life and Health Insurance segment fluctuating over the past eight quarters.**
  - Overall more favourable experience for the 2022 quarters, mainly in group insurance.
  - Positive effect of higher interest rates on actuarial liabilities in the last and in the first two quarters of 2022.
  - Higher gains on the disposal of securities and real estate investments in 2022 than in 2021, mainly in the third and first quarters of 2022.
  - Markets' more negative impact on guaranteed investment funds in 2022, while they had been positively impacted in the third and first quarters of 2021.
  - Higher surplus earnings in the fourth quarter of 2022 and in the second quarter of 2021 primarily due to the favourable effect of revisions of actuarial assumptions in the normal course of business, while the fourth quarter of 2021 had been unfavourably affected by such revisions.
  - Higher level of expenses in 2022 compared to 2021.

- **Net surplus earnings of the Property and Casualty Insurance segment - Down when 2022 and 2021 quarters are compared.**
  - Growth in net premiums over the past eight quarters, due in particular to business growth.
  - Higher current year loss experience, essentially in automobile insurance and in property insurance for the 2022 quarters, reflecting, among other things, the impact of an increase in road traffic, which had fallen considerably in the first half of 2021 as a result of the pandemic, as well as the impact of inflation.
  - Lower current year loss experience in automobile insurance for the first three quarters of 2021, as well as in property insurance in the second and third quarters of 2021.
  - Less favourable developments in prior year claims for the 2022 quarters, essentially in automobile insurance, particularly on account of recent inflationary pressures.
  - Impact of catastrophes and major events over the past eight quarters:
    - One major event, a snowstorm in Québec and Ontario, in the fourth quarter of 2022.
    - Two major events, namely heavy rainfall in Québec and Hurricane Fiona in the Atlantic Provinces and Québec, in the third quarter of 2022.
    - One catastrophe, a rare weather phenomenon called a *derecho*, and one major event characterized by a windstorm and flooding, in the second quarter of 2022.
    - One major event, flooding in Québec and Ontario, in the first quarter of 2022.
    - One major event, high winds in Québec and Ontario, in the fourth quarter of 2021.
    - One catastrophe, a hailstorm in Alberta, in the third quarter of 2021.
  - Investment income, excluding the change in the fair value of matched bonds:
    - Favourable impact on the four quarters of 2022.
    - Favourable impact on the first quarter of 2021.

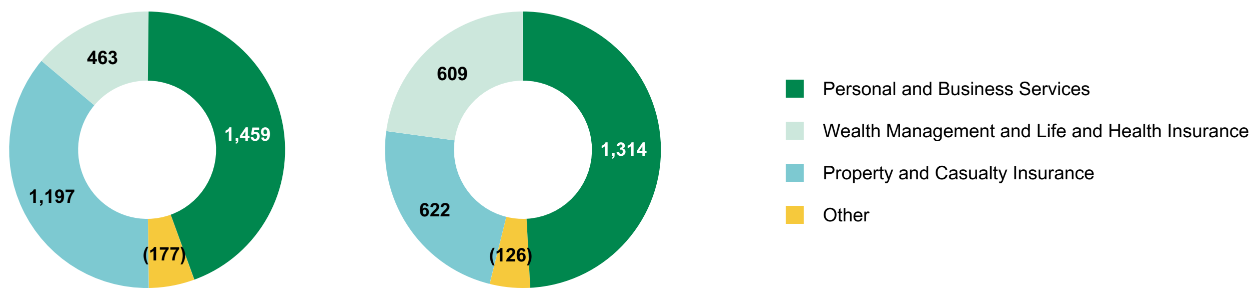
2.4 Comparison of 2021 and 2020

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

$2,942 million

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

$2,419 million



For 2021, Desjardins Group posted surplus earnings before member dividends of $2,942 million, compared to $2,419 million for 2020. Return on equity was 8.9%, compared to 8.3% in 2020.

Segment results

- **Personal and Business Services: Surplus earnings of $1,459 million in 2021,** up $145 million compared to 2020, essentially due to the following:
  - Lower provision for credit losses in 2021 than in 2020, reflecting the deterioration in the economic outlook as a result of the COVID-19 pandemic.
  - Higher net interest income and other operating income[1].
  - Offset by higher non-interest expense, due mainly to the larger amounts invested in Desjardins-wide strategic projects.

- **Wealth Management and Life and Health Insurance: Surplus earnings of $463 million in 2021,** down $146 million compared to 2020, essentially due to:
  - Overall unfavourable effect from revisions of actuarial assumptions in the normal course of business.
  - Lower gains on disposal of securities and real estate investments than in 2020.

  This decrease was partially offset by:
  - Impact of the provision and travel insurance claims in 2020, on the cost of claims due to the COVID-19 pandemic.
  - The markets' positive impact on guaranteed investment funds while they had been unfavourably affected in 2020.

- **Property and Casualty Insurance: Surplus earnings of $1,197 million in 2021,** up $575 million compared to 2020, due to:
  - Lower cost of claims, particularly on account of the favourable change in prior year claims, chiefly in automobile insurance.
  - Increase in net premiums, including the impact of the automobile insurance premium refunds of $155 million granted to members and clients as a relief measure to support them during the COVID-19 pandemic in 2020.

Results

- **Operating income[1] of $20,405 million in 2021,** up $2,006 million compared to 2020.
  - Net interest income of $5,786 million in 2021, up $146 million compared to 2020, mainly because of:
    - Growth in average residential mortgages outstanding.
    - Lower interest expense despite a larger deposit volume.

    This increase was offset in part by the following:
    - A drop in average consumer and credit card loans outstanding.
    - A decrease in the average return on loans due to lower interest rates.
- Net premiums rose $1,358 million in2021.
    - Wealth Management and Life and Health Insurance segment: Net insurance and annuity premiums up $956 million in 2021, due to the following:
      - Increase of $786 million in premiums essentially from group annuities related in particular to business growth, which was reflected by a similar increase in actuarial liabilities included in "Claims, benefits, annuities and changes in insurance contract liabilities".
      - Increase of $143 million in group insurance premiums and of $27 million in individual insurance premiums.
    - Property and Casualty Insurance segment: Net premiums up $425 million, as a result of:
      - Growth in the average premium, particularly in property insurance.
      - In the second quarter of 2020, automobile insurance premium refunds of $155 million were granted to members and clients as a relief measure to support them during the COVID-19 pandemic.
      - Business growth.

[1] For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.

- Other operating income[1] stood at $3,341 million, an increase of $502 million in 2021, essentially due to the following:
  - Increase in income from growth in assets under management for Wealth Management operations.
  - Increase in business volumes from Desjardins Card Services payment activities.
  - Higher income from deposit and payment service charges; relief measures had been granted to members in 2020.
  - Income from DuProprio and FairSquare operations.
  - Higher income from securities brokerage activities because of the growth in assets under management.
  - Income from the interest held in Aviso Wealth.
  - Offset by a change in investment funds that benefited groups having signed agreements under The Personal banner. It should be remembered that this change was offset by the results of these groups.

- **Loss of $85 million presented under "Investment income (loss)"[1] in 2021,** compared to income of $3,074 million in 2020, primarily due to:
  - Decrease in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio mainly as a result of higher market interest rates while they were lower in 2020.
    - It should be mentioned that this change in the fair value of bonds was offset by the change in the cost of claims due to matching.
  - Decrease in the fair value of matched bonds in the Property and Casualty Insurance segment, contrary to an increase in 2020, primarily because of higher market interest rates in 2021 versus lower interest rates in 2020. It should be mentioned that this fluctuation in the fair value of bonds was offset by the change in the cost of claims due to matching.
  - Lower gains on the disposal of securities and real estate investments compared to 2020.

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

  Desjardins Group continued to have a quality loan portfolio in 2021.
  - The credit loss provisioning rate was 0.03% for 2021, compared to 0.41% in 2020. The decline in this indicator was due to the fact that the 2021 provision for credit losses was significantly lower than the 2020 provision, reflecting the impact of a deteriorating economic outlook as a result of the COVID-19 pandemic.
  - The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.47% compared to 0.62% as at December 31, 2020.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $6,883 million,** down $2,350 million in 2021.
  - Wealth Management and Life and Health Insurance segment: Cost of claims down $1,449 million in 2021. This was the result of:
    - Decrease of $1,662 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, which is presented under "Investment income (loss)". This decrease was partially offset by the unfavourable effect of revisions of actuarial assumptions and by business growth.
    - Decrease related to the impact on the cost of claims by the provision and travel insurance claims in 2020, together with the COVID-19 pandemic.
    - Offset by an increase in benefits related to health care claims.
  - Property and Casualty Insurance segment: Cost of claims down $897 million in 2021. This was the result of:
    - Loss ratio of 50.1%, compared to 62.6% in 2020.
      - Ratio of changes in prior year claims more favourable than in the corresponding year, namely (12.1%) compared to (5.3%), essentially in automobile insurance.
      - Lower current year loss ratio than in 2020, namely 60.8% compared to 65.4%, essentially in automobile insurance and property insurance.
      - Loss ratio related to catastrophes and major events, lower than in 2020, namely a ratio of 1.4%, compared to 2.5%. 2021 was marked by one catastrophe and one major event while 2020 was marked by one catastrophe and three major events.
    - Favourable impact of an increase in the discount rates used to measure the provision for claims, while there was a negative impact in 2020. It should be mentioned that this impact on the cost of claims was partially offset by a change in the fair value of matched bonds, which is presented under "Investment income".
    - Offset by business growth leading to an increase in the cost of claims.

- **Non-interest expense totalling $9,566 million,** up $1,269 million in 2021, essentially as a result of:
  - Higher salaries due to growth in operations and indexing.
  - Increase in investments related to the continued implementation of Desjardins-wide strategic projects, in particular for creating innovative technology platforms, privacy, security and improving business processes.
  - Growth in payment activities, including expenses related to the rewards program.

- **Income taxes on surplus earnings before member dividends of $860 million,** up $199 million compared to 2020.
  - Effective tax rate[2] of 22.6% for the year ended December 31, 2021, compared to 21.5% for 2020.

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(1) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 3 to 7.

(2) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

3.0 Balance sheet review

3.1 Balance sheet management

Table 19 – Combined Balance Sheets
As at December 31

(in millions of dollars and as a percentage)	2022		2021		2020	
Assets						
Cash and deposits with financial institutions	**$ 8,913**	**2.2 %**	$ 16,328	4.1 %	$ 12,126	3.3 %
Securities	**85,333**	**21.0**	93,099	23.4	87,668	24.2
Securities borrowed or purchased under reverse repurchase agreements	**17,024**	**4.2**	12,019	3.0	9,658	2.7
Net loans and acceptances	**249,865**	**61.3**	230,779	58.2	211,749	58.5
Segregated fund net assets	**21,318**	**5.2**	22,804	5.7	19,093	5.3
Derivative financial instruments	**5,723**	**1.4**	5,828	1.5	5,820	1.6
Other assets	**18,933**	**4.7**	16,228	4.1	15,921	4.4
Total assets	**$ 407,109**	**100.0 %**	$ 397,085	100.0 %	$ 362,035	100.0 %
Liabilities and equity						
Deposits	**$ 259,836**	**63.9 %**	$ 238,355	60.0 %	$ 225,236	62.2 %
Commitments related to securities sold short	**9,859**	**2.4**	11,342	2.9	9,353	2.6
Commitments related to securities lent or sold under repurchase agreements	**24,565**	**6.0**	31,177	7.9	19,152	5.3
Derivative financial instruments	**6,554**	**1.6**	5,500	1.4	4,884	1.3
Insurance contract liabilities	**31,354**	**7.7**	34,762	8.8	34,827	9.6
Segregated fund net liabilities	**21,284**	**5.2**	22,796	5.7	19,089	5.3
Other liabilities	**18,281**	**4.5**	17,667	4.4	17,738	4.9
Subordinated notes	**2,928**	**0.7**	1,960	0.5	1,493	0.4
Equity	**32,448**	**8.0**	33,526	8.4	30,263	8.4
Total liabilities and equity	**$ 407,109**	**100.0 %**	$ 397,085	100.0 %	$ 362,035	100.0 %

ASSETS

As at December 31, 2022, Desjardins Group's total assets stood at $407.1 billion, up $10.0 billion, or 2.5%, since December 31, 2021.

Cash and deposits with financial institutions fell by $7.4 billion, or 45.4% due to a decrease in deposits with the Bank of Canada, while securities, including those borrowed or purchased under reverse repurchase agreements, declined by $2.8 billion, or 2.6%.

Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, grew by $19.1 billion, or 8.3%. Residential mortgages, as well as business and government loans, accounted for this growth.

Table 20 – Loans and acceptances
As at December 31

(in millions of dollars and as a percentage)	2022		2021		2020	
Residential mortgages	**$ 159,682**	**63.7 %**	$ 149,695	64.6 %	$ 136,208	64.0 %
Consumer, credit card and other personal loans	**24,381**	**9.7**	24,386	10.5	25,310	11.9
Business and government	**66,837**	**26.6**	57,668	24.9	51,343	24.1
	250,900	**100.0 %**	231,749	100.0 %	212,861	100.0 %
Allowance for credit losses	**(1,035)**		(970)		(1,112)	
Total loans and acceptances by borrower category	**$ 249,865**		$ 230,779		$ 211,749	

Desjardins Group's residential mortgages increased by $10.0 billion, or 6.7%, since December 31, 2021, because of the sustained growth in housing activity in the first half of 2022, particularly in Québec. Business and government loans outstanding, including acceptances, grew by $9.2 billion, or 15.9%. Consumer, credit card and other personal loans outstanding were stable compared to December 31, 2021.

Information on the quality of Desjardins Group's loan portfolio is presented in Section 4.2, "Risk management", on pages 75 to 79 of this MD&A.

Segregated fund net assets were down $1.5 billion, or 6.5%, due to the decline in the fair value of the portfolio caused by financial market developments, partially offset by a slight growth in contract holders.

Derivative financial instrument assets fell by $105 million, or 1.8%.

Other assets increased by $2.7 billion, or 16.7%, mainly because of the increase in amounts receivable from clients, brokers and financial institutions, deferred income tax assets and net assets under defined benefit plans.

LIABILITIES

Desjardins Group's total liabilities amounted to $374.7 billion as at December 31, 2022, up $11.1 billion, or 3.1%, since December 31, 2021.

Table 21 – Deposits
As at December 31

(in millions of dollars and as a percentage)	2022		2021		2020	
Individuals	**$ 145,377**	**56.0 %**	$ 136,332	57.2 %	$ 127,928	56.8 %
Business and government	**114,172**	**43.9**	101,644	42.6	96,853	43.0
Deposit-taking institutions	**287**	**0.1**	379	0.2	455	0.2
Total deposits	**$ 259,836**	**100.0 %**	$ 238,355	100.0 %	$ 225,236	100.0 %

Outstanding deposits grew by $21.5 billion, or 9.0%. The increase in business and government deposits, which accounted for 43.9% of Desjardins Group's total deposit portfolio, was partially responsible for this growth. In fact, these outstanding deposits were up $12.5 billion, or 12.3%. Various securities issued on U.S., Canadian and European markets, which made it possible to support the growth of Desjardins Group's funding requirements, contributed to this growth. Personal deposits outstanding, which accounted for 56.0% of the total deposit portfolio, were up $9.0 billion, or 6.6%, mainly as a result of growth in member deposits at the caisses. Deposits from deposit-taking institutions fell by $92 million.

Commitments related to securities sold short and lent or sold under repurchase agreements decreased by $8.1 billion, or 19.0%, to reach a volume of $34.4 billion.

Derivative financial instrument liabilities were up by $1.1 billion, or 19.2%, notably because of the rise in interest rates and fluctuating exchange rates, partially offset by a decrease in stock index options as a result of the downturn in the financial markets.

Desjardins Group's insurance contract liabilities fell by $3.4 billion, or 9.8%, as a result of a change in actuarial liabilities arising from life and health insurance operations.

Segregated fund net liabilities were down by $1.5 billion, or 6.6%, due to the decrease in the fair value of the portfolio caused by financial market developments, offset in part by a slight increase in contract holders.

Other liabilities grew by $0.6 billion, or 3.5%, due mainly to the higher amounts payable to clients, brokers and financial institutions, partially offset by the decrease in net defined benefit plan liabilities.

Subordinated notes increased by $1.0 billion, or 49.4%%, following an issue of $1.0 billion in Non-Viability Contingent Capital (NVCC)-eligible notes under the Canadian NVCC Subordinated Notes Program on August 23, 2022.

EQUITY

Equity has decreased by $1.1 billion, or 3.2%, since December 31, 2021 notably because of the $2.3 billion decline in other comprehensive income, mainly as a result of the decline in the value of the bond portfolio due to higher interest rates, offset in part by net surplus earnings after member dividends totalling $1.8 billion.

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

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

(in millions of dollars)	2022	2021	2020
Member dividends	**$ 403**	$ 387	$ 330
Remuneration on F capital shares	**262**	208	209
Remuneration on permanent shares	**—**	—	1
Dividends	**80**	25	25
	$ 745	$ 620	$ 565

Note 23, "Capital stock", and Note 24, "Share capital", to the Combined Financial Statements provide additional information about Desjardins Group's capital stock and share capital.

3.2 Capital management

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

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

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

Desjardins Group's Integrated Capital Management Framework

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

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

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

Regulatory framework and internal policies

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

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

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

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

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

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

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

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

Table 23 – Summary of ratios regulated by the AMF under Basel III

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[(1)(2)]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at December 31, 2022
Tier 1A capital ratio[(3)]	> 4.5 %	2.5 %	> 7.0 %	1.0 %	> 8.0 %	**20.2 %**
Tier 1 capital ratio[(3)]	> 6.0	2.5	> 8.5	1.0	> 9.5	**20.2**
Total capital ratio[(3)]	> 8.0	2.5	> 10.5	1.0	> 11.5	**21.9**
TLAC ratio[(4)]	> 21.5	N/A	> 21.5	N/A	> 21.5	**28.7**
Leverage ratio[(5)]	> 3.5	N/A	> 3.5	N/A	> 3.5	**7.6**
TLAC leverage ratio[(6)]	> 6.75	N/A	> 6.75	N/A	> 6.75	**10.6**

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

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

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

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

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

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

Regulatory developments

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

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

The AMF has published an update to the base capital adequacy guideline related to the Basel III regulatory reforms approved by the BCBS on December 7, 2017.

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

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

The updated *Capital Adequacy Guideline* has been in effect since January 1, 2023. The amendments, for their part, aimed at completing the incorporation of the new Basel III provisions relating to market risk requirements, and to increasing the robustness and risk sensitivity of the standardized approaches for credit valuation adjustment (CVA) risk, will come into effect on January 1, 2024.

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

Compliance with requirements

As at December 31, 2022, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 20.2%, 20.2% and 21.9%, respectively. The leverage ratio was 7.6%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

As at December 31, 2022, the Tier 1A capital ratio was down compared to December 31, 2021, due mainly to growth in risk-weighted assets as a result of business growth, as well as a decrease in the value of the bond portfolio due to rising interest rates. Additionally, the revision of some of the methodology aspects of risk-weighted assets had a positive effect on capital ratios in the fourth quarter of 2022.

The TLAC ratio and the TLAC leverage ratio were 28.7% and 10.6%, respectively, as at December 31, 2022.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at December 31, 2022.

Regulatory capital and other TLAC instruments

The following tables present Desjardins Group’s main capital and other TLAC instrument components, capital ratios, regulatory capital and other TLAC instruments, and their changes over the year.

Table 24 – Main capital components and other TLAC instruments

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

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

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

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

(4) On March 31, 2020, the AMF published transitional provisions stipulating the inclusion in Tier 1A capital of a portion of the loss allowance for expected credit losses that would otherwise have been included in Tier 2 capital. This adjustment of Tier 1A capital is measured dynamically each quarter as the increase in the Stage 1 and Stage 2 allowances compared to the level at December 31, 2019. The amount obtained is then adjusted for tax effects and subject to a scaling factor of 25% in 2022 (50% in 2021).

(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 25 – Regulatory capital and other TLAC instruments
As at December 31

(in millions of dollars and as a percentage)	2022	2021
Tier 1A capital		
F capital shares[(1)]	**$ 4,889**	$ 4,889
Permanent shares and surplus shares subject to phase-out[(2)]	**N/A**	84
Reserves and undistributed surplus earnings	**28,906**	26,813
Eligible accumulated other comprehensive income	**(2,154)**	773
Deductions[(3)]	**(3,485)**	(4,122)
Total Tier 1A capital	**28,156**	28,437
Total Tier 1 capital[(4)]	**28,156**	28,437
Tier 2 capital		
Eligible instruments[(5)]	**2,954**	1,985
General allowance	**161**	125
Deductions	**(826)**	(826)
Total Tier 2 capital	**2,289**	1,284
Total regulatory capital (Tiers 1 and 2)	**$ 30,445**	$ 29,721
Total regulatory capital for TLAC purposes[(6)]	**$ 29,543**	$ 28,997
TLAC senior notes	**9,179**	5,328
Total loss absorbing capacity (TLAC) available	**38,722**	34,325
Risk-weighted assets and leverage ratio exposure		
Risk-weighted assets	**139,311**	134,518
Risk-weighted assets for TLAC purposes[(6)]	**134,880**	129,311
Leverage ratio exposure[(7)]	**371,598**	336,136
TLAC Leverage Ratio Exposure[(6)(7)]	**364,519**	329,634
Ratios		
Tier 1A capital ratio	**20.2 %**	21.1 %
Tier 1 capital ratio	**20.2**	21.1
Total capital ratio	**21.9**	22.1
TLAC ratio[(6)]	**28.7**	26.5
Leverage ratio[(7)]	**7.6**	8.5
TLAC leverage ratio[(6)(7)]	**10.6**	10.4

(1) Including capital shares held in the Trust Fund of the Federation.
(2) As these capital instruments no longer meet the eligibility criteria for capital tiers, they have been excluded from them since January 1, 2022.
(3) Deductions from Tier 1A are comprised of regulatory adjustments ($899 million, $1,078 million in 2021), significant investments ($2,463 million, $2,913 million in 2021) and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers ($123 million, $131 million in 2021).
(4) No Tier 1B capital instrument has been issued to date.
(5) Corresponds to eligible qualifying shares and NVCC subordinated notes. For further information, see Note 20 "Subordinated notes" of the Combined Financial Statements and "Template CCA – Main features of regulatory capital instruments and other TLAC-eligible instruments" in the Pillar 3 Report.
(6) Data calculated at the resolution group level, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.
(7) As part of the temporary relief measures issued by the AMF since March 31, 2020, reserves with central banks and securities issued by sovereign borrowers that meet the eligibility criteria for high-quality liquid assets were excluded from the total exposure used when calculating the leverage ratio. Since January 1, 2022, eligible securities issued by sovereign borrowers have been reincorporated into the leverage ratio exposure measure, while reserves at central banks will remain excluded until further notice.

In the year ended December 31, 2022, the caisses redeemed for cancellation all permanent shares and all surplus shares for a cash consideration of $75 million and $18 million, respectively.

The Federation is able to issue eligible instruments as NVCC on Canadian, U.S. and European markets. Since this program was implemented, it has carried out issues of such securities for a total of $3.0 billion as at December 31, 2022. As a result, should there be a trigger event as defined in the base capital adequacy guideline applicable to financial services cooperatives, these notes would automatically and immediately be converted into Tier 1A capital of the Federation.

In addition, Desjardins Group has been issuing TLAC-eligible debt since October 1, 2019, for a total of $9.2 billion as at December 31, 2022, $3.9 billion of which were issued in fiscal 2022.

On December 15, 2022, the Board of Directors approved an interest payment of $262 million to holders of F capital shares.

Table 26 – Change in regulatory capital and other TLAC instruments
For the years ended December 31

(in millions of dollars)	2022	2021
Tier 1A capital		
Balance at beginning of year	**$ 28,437**	$ 26,317
Increase in reserves and undistributed surplus earnings[1]	**2,093**	3,681
Eligible accumulated other comprehensive income	**(2,927)**	(535)
Permanent shares and surplus shares subject to phase-out[2]	**(84)**	(41)
Deductions	**637**	(985)
Balance at end of year	**28,156**	28,437
Total Tier 1 capital[3]	**28,156**	28,437
Tier 2 capital		
Balance at beginning of year	**1,284**	797
Eligible instruments	**969**	962
Senior notes subject to phase-out	**—**	(495)
General allowance	**36**	20
Balance at end of year	**2,289**	1,284
Total capital	**$ 30,445**	$ 29,721
Total regulatory capital for TLAC purposes[4]	**$ 29,543**	$ 28,997
Other TLAC instruments		
Balance at beginning of the year	**5,328**	2,266
TLAC senior notes	**3,851**	3,062
Balance at end of year	**9,179**	5,328
Total loss absorbing capacity (TLAC) available[4]	**$ 38,722**	$ 34,325

(1) Amount including the change in defined benefit pension plans.
(2) As these capital instruments no longer meet the eligibility criteria for capital tiers, they have been excluded from them since January 1, 2022.
(3) No Tier 1B capital instrument has been issued to date.
(4) Data calculated at the resolution group level, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.

Risk-weighted assets (RWA)

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

Credit risk

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

Market risk

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

Operational risk

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

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

As indicated in the following table, risk-weighted assets totalled $139.3 billion as at December 31, 2022. Of this amount, $118.8 billion was for credit risk, $4.0 billion for market risk, $15.1 billion for operational risk, and $1.4 billion for the RWA floor adjustment. As at December 31, 2021, risk-weighted assets stood at $134.5 billion.

Table 27 – Risk-weighted assets

	Internal Ratings-Based Approach		Standardized Approach		Total as at December 31, 2022				Total as at December 31, 2021
(in millions of dollars and as a percentage)	Exposures (1)	Risk-weighted assets	Exposures (1)	Risk-weighted assets	Exposures (1)	Risk-weighted assets	Capital requirements (2)	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	$ 74,006	$ 7,213	$ 7,480	$ —	$ 81,486	$ 7,213	$ 577	8.9 %	$ 7,465
Financial institutions	5,904	1,989	11,618	2,400	17,522	4,389	351	25.0	3,659
Businesses	81,606	36,197	16,567	14,865	98,173	51,062	4,085	52.0	44,102
Securitizations	—	—	29	361	29	361	29	1250.0	327
Equities	—	—	482	2,787	482	2,787	223	577.8	1,962
SMEs similar to other retail client exposures	10,183	4,816	273	225	10,456	5,041	403	48.2	4,977
Mortgages[3]	118,969	11,290	177	131	119,146	11,421	914	9.6	17,198
Other retail client exposures (excluding SMEs)	10,903	4,583	1,942	1,463	12,845	6,046	484	47.1	5,996
Qualifying revolving retail client exposures	26,696	5,527	—	—	26,696	5,527	442	20.7	7,254
Subtotal - Credit risk other than counterparty risk	328,267	71,615	38,568	22,232	366,835	93,847	7,508	25.6	92,940
Counterparty risk									
Sovereign borrowers	—	—	—	—	—	—	—	—	2
Financial institutions	3,661	1,605	97	19	3,758	1,624	130	43.2	1,657
Businesses	—	—	480	330	480	330	27	68.6	172
Trading portfolio	1,292	581	688	549	1,980	1,130	90	57.1	1,106
Credit valuation adjustment (CVA) charge	—	—	5,036	2,429	5,036	2,429	194	48.2	1,873
Additional requirements for banking and trading portfolio	—	—	—	—	616	47	4	7.6	45
Subtotal - Counterparty risk	4,953	2,186	6,301	3,327	11,870	5,560	445	46.8	4,855
Other assets[4]	—	—	—	—	21,595	14,948	1,196	69.2	14,828
Scaling factor[5]	—	4,428	—	—	—	4,428	354	—	4,545
Total credit risk	333,220	78,229	44,869	25,559	400,300	118,783	9,503	29.7	117,168
Market risk									
Value at Risk (VaR)	—	714	—	—	—	714	57	—	426
Stressed Value at Risk (SVaR)	—	2,163	—	—	—	2,163	173	—	1,072
Incremental risk charge (IRC)[6]	—	760	—	—	—	760	61	—	907
Other[7]	—	14	—	308	—	322	26	—	469
Total market risk[8]	—	3,651	—	308	—	3,959	317	—	2,874
Operational risk	—	—	—	15,114	—	15,114	1,209	—	14,476
Total risk-weighted assets before the RWA floor	333,220	81,880	44,869	40,981	400,300	137,856	11,029	34.4	134,518
RWA floor adjustment[9]	—	—	—	—	—	1,455	116	—	—
Total risk-weighted assets	$ 333,220	$ 81,880	$ 44,869	$ 40,981	$ 400,300	$ 139,311	$ 11,145	34.8 %	$ 134,518

(1) Net exposure after credit risk mitigation [net of loss allowance for expected credit losses on credit-impaired loans other than retail clients (except for credit card loans) using the Standardized Approach, excluding those using the Internal Ratings-Based Approach, according to the base capital adequacy guideline for financial services cooperatives issued by the AMF].

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

(3) Changes in certain methodology aspects resulted in a decrease in RWA in the fourth quarter of 2022.

(4) 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 supplementary requirements for the banking and trading portfolios, which are disclosed in the counterparty credit risk section.

(5) The scaling factor is a 6% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the base capital adequacy guideline for financial services cooperatives issued by the AMF.

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

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

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

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

Movements in risk-weighted assets

In credit risk, fluctuations in RWA for 2022 were segmented into two items, namely credit risk other than counterparty risk and counterparty risk.

- In credit risk other than counterparty risk, the net increase of $0.9 billion in RWA is chiefly due to:
  - Growth in portfolio size, which resulted in a $9.7 billion increase in RWA.
  - Change in exchange rates leading to a $0.6 billion increase in RWA.
  - Changes in procedures and policies, which generated a $7.8 billion decrease in RWA.
  - Updating of models, which caused a $0.8 billion decrease in RWA.
  - Changes in portfolio quality, generating a decrease of $0.8 billion in RWA.
- For counterparty risk, changes in portfolio quality and size resulted in an increase of $0.7 billion.

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

In operational risk, a $0.6 billion increase in RWA resulted from the fluctuation in revenue generated.

The RWA floor adjustment as previously defined caused RWA to increase by $1.4 billion in 2022.

Table 28 – Change in risk-weighted assets
As at December 31

(in millions of dollars)	2022 Credit risk other than counterparty risk	2022 Counterparty risk	2022 Total	2021 Credit risk other than counterparty risk	2021 Counterparty risk	2021 Total
Credit risk						
Risk-weighted assets at beginning of year	**$ 112,182**	**$ 4,986**	**$ 117,168**	$ 99,252	$ 4,406	$ 103,658
Size of portfolio[1]	**9,696**	**(459)**	**9,237**	9,906	442	10,348
Quality of portfolio[2]	**(785)**	**1,080**	**295**	(3,184)	(460)	(3,644)
Updating of models[3]	**(803)**	**—**	**(803)**	548	594	1,142
Policies and procedures[4]	**(7,778)**	**—**	**(7,778)**	5,695	1	5,696
Acquisitions and transfers	**—**	**—**	**—**	—	—	—
Change in exchange rates	**580**	**84**	**664**	(35)	3	(32)
Total changes in risk-weighted assets	**910**	**705**	**1,615**	12,930	580	13,510
Risk-weighted assets at end of year	**$ 113,092**	**$ 5,691**	**$ 118,783**	$ 112,182	$ 4,986	$ 117,168

(in millions of dollars)	2022	2021
Market risk		
Risk-weighted assets at beginning of year	**$ 2,874**	$ 2,561
Change in risk levels[5]	**1,080**	(951)
Policies and procedures[4]	**5**	1,264
Total changes in risk-weighted assets	**1,085**	313
Risk-weighted assets at end of year	**$ 3,959**	$ 2,874
Operational risk		
Risk-weighted assets at beginning of year	**$ 14,476**	$ 13,705
Revenue generated	**638**	771
Acquisitions and transfers	**—**	—
Total changes in risk-weighted assets	**638**	771
Risk-weighted assets at end of year	**$ 15,114**	$ 14,476
RWA floor adjustment		
Risk-weighted assets at beginning of year	**$ —**	$ 177
Size of portfolio[1]	**(2)**	2,581
Quality of portfolio[2]	**—**	1,789
Updating of models[3]	**—**	(1,141)
Policies and procedures[4]	**1,457**	(3,441)
Acquisitions and transfers	**—**	—
Change in exchange rates	**—**	35
Other	**—**	—
Total changes in risk-weighted assets	**1,455**	(177)
Risk-weighted assets at end of year	**$ 1,455**	$ —

(1) Increase or decrease in underlying risk exposure.
(2) Change in risk mitigation factors and portfolio quality.
(3) Change in risk models and parameters.
(4) Regulatory changes and developments in the regulatory capital calculation methods. In accordance with a new AMF guideline, the Value at Risk multipliers by risk factor have automatically been increased since June 30, 2022 based on back-testing.
(5) Change in risk levels and fluctuation in exchange rates, which is not considered to be material.

3.3 Off-balance sheet arrangements

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

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

As at December 31, 2022, Desjardins Group administered, for the account of its members and clients, assets totalling $447.3 billion, for a decrease of $35.6 billion, or 7.4% since December 31, 2021. Financial assets placed with Desjardins Group as wealth manager amounted to $76.2 billion as at December 31, 2022, representing a decrease of $15.1 billion, or 16.5% since December 31, 2021. The decrease in assets under management and under administration is due mainly to the decline in assets on account of developments on financial markets.

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

Table 29 – Assets under management and under administration
As at December 31

(in millions of dollars)	2022	2021	2020
Assets under management[1]			
Institutions and individuals	**$ 17,744**	$ 23,901	$ 20,298
Investment funds	**58,425**	67,357	57,176
Total assets under management	**$ 76,169**	$ 91,258	$ 77,474
Assets under administration[1]			
Individual and institutional trust and custodial services	**$ 322,917**	$ 344,644	$ 335,610
Investment funds	**124,395**	138,267	122,567
Total assets under administration	**$ 447,312**	$ 482,911	$ 458,177

(1) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

CREDIT INSTRUMENTS

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

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

GUARANTEES

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

STRUCTURED ENTITIES

Desjardins Group enters into various financial transactions with structured entities in the normal course of operations to diversify its sources of funding and manage its capital. Structured entities are usually created for a unique and distinct purpose, and they frequently have limited activities. These entities may be included in Desjardins Group's Combined Balance Sheets if it has control over them. Detailed information concerning significant exposure to structured entities not included in Desjardins Group's Combined Balance Sheets is provided below. Note 14, "Interests in other entities", to the Combined Financial Statements provides more information about structured entities.

Securitization of Desjardins Group's financial assets

Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program to manage its liquidities and capital. Transactions carried out under this program sometimes require the use of a structured entity, the Canada Housing Trust (CHT), set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 9, "Derecognition of financial assets", to the Combined Financial Statements provides more information about the securitization of Desjardins Group's loans.

4.0 Risk management

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

4.1 Risk factors that could impact future results

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

4.1.1 Main risks and emerging risks

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

	Description
Security breaches	Risks related to cyber threats have been on the rise for a number of years and more specifically in the context of the geopolitical situation in Europe. Both the aggregation of new services for members and clients and the exposure of online services are becoming increasingly complex and gradually extending to more and more areas and products. Increased monitoring of Desjardins Group’s employees and infrastructures, including that of applications involving confidential data, has been set up in order to better meet the performance needs of teleworking and to mitigate the risks associated with service interruptions, information security and reputation. In addition, the perpetrators of cyber threats are using increasingly sophisticated methods and strategies for criminal purposes. Consequently, Desjardins Group has been investing in technology for many years, strengthening its cyber-defence capabilities in order to detect security incidents as quickly as possible by optimizing its processes to respond efficiently to incidents and by attracting and training new talent in order to continue to develop its defence methods. The Desjardins Group Security Office ensures the protection of members’ and clients’ assets.
Household and corporate indebtedness	With the rapid hikes in interest rates, debt service has considerably increased for many households and businesses. In such conditions, an increasing number of households and businesses could experience difficulties in assuming their financial obligations. As a result, their solvency could significantly deteriorate. The recession anticipated in 2023 could also lead to growth in insolvency cases. Desjardins Group has sound practices in granting and managing mortgage financing, including a stress test involving interest rates for mortgage financing, which should allow it to circumvent this risk.
Technological developments	Innovative technologies are being increasingly taken into consideration and adopted by financial institutions. These innovative technologies represent a crucial vector for transforming business processes and models. Use of these technologies exposes financial institutions to other risks relating to cyber threats, system stability, the modernizing of infrastructure, complex environments, systems interdependence, and digital transformation. The members’ and clients’ growing needs to access banking transactions remotely require pursuing the shift that is well underway at Desjardins. Regulatory authorities’ expectations will be increasingly demanding, and financial sector requirements will continue to grow in terms of managing technology risk. The growing presence of FinTech and InsurTech, which offer simple, innovative technology solutions that meet the expectations of members and clients, puts more pressure on traditional financial institutions to adapt. To meet the needs of its members and clients, Desjardins Group is in line with this trend and remains active in managing this operational and strategic risk, among others, by strengthening and rationalizing the technology ecosystem through investments and by reviewing and diversifying its products, services and distribution channels.
Regulatory developments	The financial services industry is one of the most tightly monitored and regulated, and industry regulation has been rapidly expanding for many years now. This trend is in response to a number of socio-economic phenomena: the development of new, increasingly complex financial products, ongoing volatility in the securities market, increasingly complex financial fraud, the fight against money laundering and terrorist financing, the fight against tax evasion, compliance with economic sanctions and the protection of personal information. Although Desjardins Group actively monitors and manages regulatory risk, changes in regulation, its complexity and its uncertainty could have an impact on the performance of its operations, its reputation, its strategies and its financial objectives. As an independent supervisory function, the Vice-President and Chief Compliance and Privacy Officer, Desjardins Group promotes a proactive approach to compliance by fully integrating it into the organization’s regular operations. Maintaining an effective compliance management framework mobilizes significant amounts of technical, human and financial resources.

	Description
Interest rate developments	The Bank of Canada has significantly increased its key interest rates in 2022 to curb the high inflation rate. The constraining effects on demand are being felt, and a recession is anticipated in 2023 in Canada (in particular in Québec and Ontario). However, disruptions in global supply chains are gradually subsiding. Supply and demand are progressively attaining a better equilibrium, which should ease the upward pressure on inflation. After reaching a cyclical high in late 2022 or early 2023, Canadian key interest rates should remain at the same level for a good portion of 2023. If inflation is under control, key interest rates could start to decrease towards the end of 2023 to bring the monetary policy to a less restrictive level. Our financial results are sensitive to interest rate fluctuations as indicated under "Structural interest rate risk management".
Climate change	In a context where the impact of climate change risks is widely recognized, Desjardins Group understands the importance of better identifying the various aspects of those risks (transition, physical or reputation) and measuring their current and future impact. This is challenging due to the complex and unpredictable nature of climate events and the developing scientific research on the topic. The close interrelations between these risks and the political and regulatory environment, the macroeconomic situation, certain industry innovations, the global geopolitical situation or the more pressing social expectations, to name only a few, impose continuous monitoring in this area. Desjardins Group continues its efforts in that regard with various ongoing initiatives in relation with its governance framework and aimed at integrating these risks into strategies and climate change risk management. Like our peers, we are working to obtain more granular and current data to support our initiatives.
Biodiversity loss	A hot topic, in particular with Montréal hosting COP15, biodiversity loss was ranked as the third most pressing global risk for the next ten years by the World Economic Forum in its 2021-2022 report, which is also an important issue in Canada. The decline of biodiversity could lead to significant economic and financial risks in addition to having an impact on our collectivities. Disclosure standards are expected in 2023-2024, in relation with the work of the Taskforce on Nature-related Financial Disclosures (TNFD) and the Partnership for Biodiversity Accounting Financials (PBAF) or the recent statements made by the International Sustainability Standards Board (ISSB), which expects to address soon this emerging risk. As it is the case with climate risks, there are three categories of risks: physical, transition and reputation. The first studies on the dependencies between the financial system and biodiversity have been published. New approaches and methodologies are however required to estimate the financial risks associated with biodiversity loss. Desjardins Group is developing an action plan to better factor in the management of these risks and strategies in its governance framework.
Geopolitical uncertainties	Everywhere in the world, the population now lives with COVID-19 and its variants. However, the pandemic is not over, and we are not immune to a new resurgence that would require introducing new restrictive measures in some countries. The war in Ukraine is also a significant risk. A more generalized conflict involving directly NATO (North Atlantic Treaty Organization) member countries would lead to serious humanitarian and economic consequences. The impact on the global economy of the sanctions imposed to Russia remains uncertain. Lastly, the relations between China and the United States over Taiwan are likely to remain tense.

4.1.2 Other risk factors that could impact future results

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

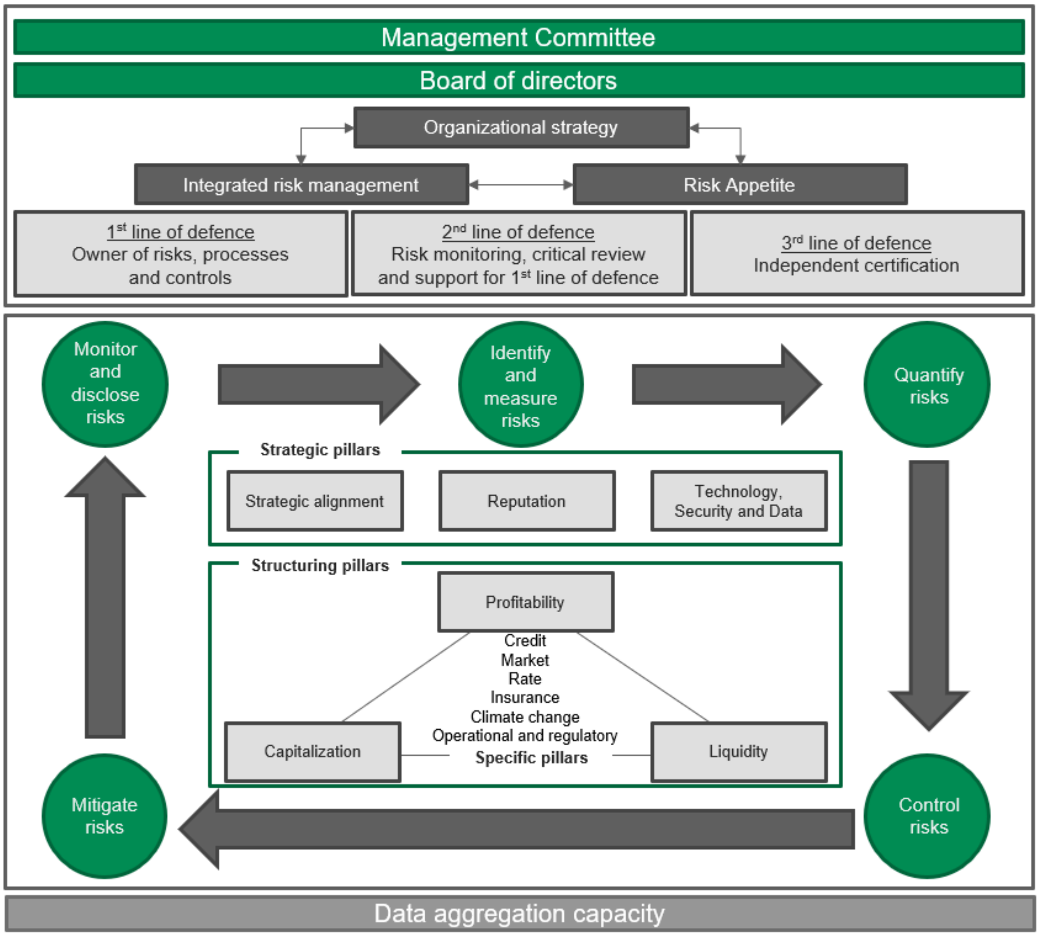
	Description
Geographic concentration	Although Desjardins Group is diversified through its insurance operations, its banking operations are heavily concentrated in Québec. As at December 31, 2022, its loans to Québec members and clients therefore accounted for 90.3% of its aggregate loan portfolio. As a result of this significant geographic concentration, its results largely depend on economic conditions in Québec. Any deterioration in these conditions could adversely impact: • past due loans; • problem assets and foreclosed property; • claims and lawsuits; • the demand for products and services; • the value of collateral available for loans, especially mortgages, and by extension, clients' and members' borrowing capacity, the value of assets associated with impaired loans and collateral coverage.
Acquisitions and joint arrangements	Desjardins Group has implemented a rigorous internal control environment for the acquisition and joint arrangement processes, which include risk management practices that involve identifying, analyzing, disclosing and monitoring all financial and non-financial risks created by acquisitions and joint arrangements.
Credit ratings	The credit ratings assigned to Desjardins Group by rating agencies are instrumental to its access to sources of wholesale funding and the cost of such funding. These ratings may be revised or withdrawn at any time by the agencies. In addition, a significant downgrade to various ratings could push up Desjardins Group's cost of funding, reduce its access to financial markets, and increase additional obligations required by its counterparties.
Dependency on third parties	We need to rely on third parties in order to provide top-quality, secure services. These third parties play a major role in supporting Desjardins Group's operations as well as in implementing technological innovations that allow Desjardins to improve the services it offers to members and clients (IT, office automation, telecommunications, cloud and other providers and suppliers). Using third parties can, however, generate certain risks. Desjardins recognizes the importance of these risks and is putting in place all the necessary measures to mitigate them. Inadequate management of third-party risk could affect Desjardins Group's ability to provide the services that members and clients need. This type of risk could have an impact on information security, business continuity, as well as on other types of risks, such as reputational risk. The oversight process used for outsourcing, together with the incident management process, allow Desjardins to adequately prevent and handle third-party risk.
Ability to recruit and retain talents	Desjardins Group's future performance is based in part on its ability to recruit key people, develop them and retain them. There is strong competition, partially fueled by a relatively low unemployment rate, to attract and retain the best qualified people in the finance sectors, in particular with the arrival of new players in some sectors and the adoption of the concept of global workforce. Consequently, this aspect is periodically monitored through the governance mechanisms of the Management Committee of the Human Resources function, quarterly to the Desjardins Group Management Committee and annually with filing a report with Desjardins Group's Human Resources Commission, to deploy the appropriate strategies to put in place the success factors that enhance Desjardins Group's competitiveness as an employer.
Taxation risk	The Canadian, provincial and foreign tax laws, and their interpretations by tax authorities and courts, are constantly evolving, like the tax policies of governments. These numerous changes and the complexity in interpreting and applying legislation may have a significant impact on the tax expense amounts, the deferred tax balances and the effective tax rate during the year when they occur and, consequently, on the calculation of Desjardins Group's surplus earnings.
COVID-19 pandemic	The COVID-19 pandemic as well as its associated risks are still being monitored by Desjardins Group. Many actions have been taken by Desjardins Group to address this issue, and active monitoring of the effects and evolution of the COVID-19 pandemic is 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.
Other factors	Other factors that may have an impact on Desjardins Group's future results include interest rate benchmark reform (for further information, see Note 3, "Interest rate benchmark reform", to the Combined Financial Statements), unexpected changes in consumer spending and saving habits, the possible impact on operations of international conflicts, public health crises, such as pandemics and epidemics or any other similar disease affecting the local, national or global economy, as well as Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment. Desjardins Group cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Group should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Group that could adversely impact its future results.

4.2 Risk management

4.2.1 Integrated Risk Management Framework

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

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

Credit	Market	Liquidity	Operational	Insurance	Strategic	Reputation	Environmental or social	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, which are involved in various aspects of risk management, play a central role in assessing risk at Desjardins Group and support decision-making in many situations. They are applied to various aspects of risk management. Quantitative models are used for modelling credit risk measurement parameters. Other quantitative models are also used in market risk measurement, economic capital calculations, asset valuation, pricing, technological obsolescence and cybercrime. Risks are quantified based on both the current economic context as well as on hypothetical stress-testing situations, which are measured for specific risks on a Desjardins-wide integrated basis.

Desjardins-wide integrated stress testing

Desjardins-wide sensitivity tests and crisis scenarios are used as additional risk analysis tools to measure the potential impact of exceptional but plausible events on, in particular, profitability, liquidity and capital levels. Organization-wide crisis scenarios are developed based on the anticipated economic outlook under unfavourable conditions.

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

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

The results of the exercise are presented to various internal committees consisting of Desjardins Group’s directors and senior management, 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.

During Desjardins-wide stress testing in 2022, the scenarios developed separately considered the possibility of a greater-than-expected rise in inflation and a recession with a sharp inversion of the interest rate curve. The results obtained from the assessment of these scenarios show that Desjardins Group’s current capitalization levels would be enough to withstand the economic deterioration considered and that its capital ratios would still exceed regulatory limits and its own risk appetite limits.

The exercise is tied in with Desjardins Group’s integrated financial planning and is an essential component of the Internal Capital Adequacy Assessment Program (ICAAP). The results of the stress testing exercise are used as a complement to the results of the economic capital quantification in determining capitalization targets. They are also used in updating risk appetite indicators.

The scenarios quantified in the integrated stress testing exercise are part of a range of scenarios used by Desjardins Group to identify, assess and manage risks. They include the stress testing scenarios on which is based the living will exercise as well as the regulatory scenario developed using the assumptions prescribed by the *Autorité des marchés financiers* (AMF). This latter exercise is performed according to the frequency set by the AMF, generally every two years. The last such regulatory scenario was carried out in 2021.

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

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;
- acting as a socio-economic leader in the development of a low greenhouse gas emission economy and supporting our members, clients and other stakeholders in the transition;
- taking the appropriate measures against internal and external threats to protect information, including personal information and the safety of our members' and clients' assets, as well as those of Desjardins Group;
- modernizing Desjardins Group technology to adjust to member, client and employee needs;
- balancing credit risk and long-term return with Desjardins Group's members and clients to support them and communities throughout our relationship;
- avoiding excessively large risk concentrations;
- maintaining an effective control environment and promoting sound management of operational and regulatory risks.

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

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

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, principles and rules 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

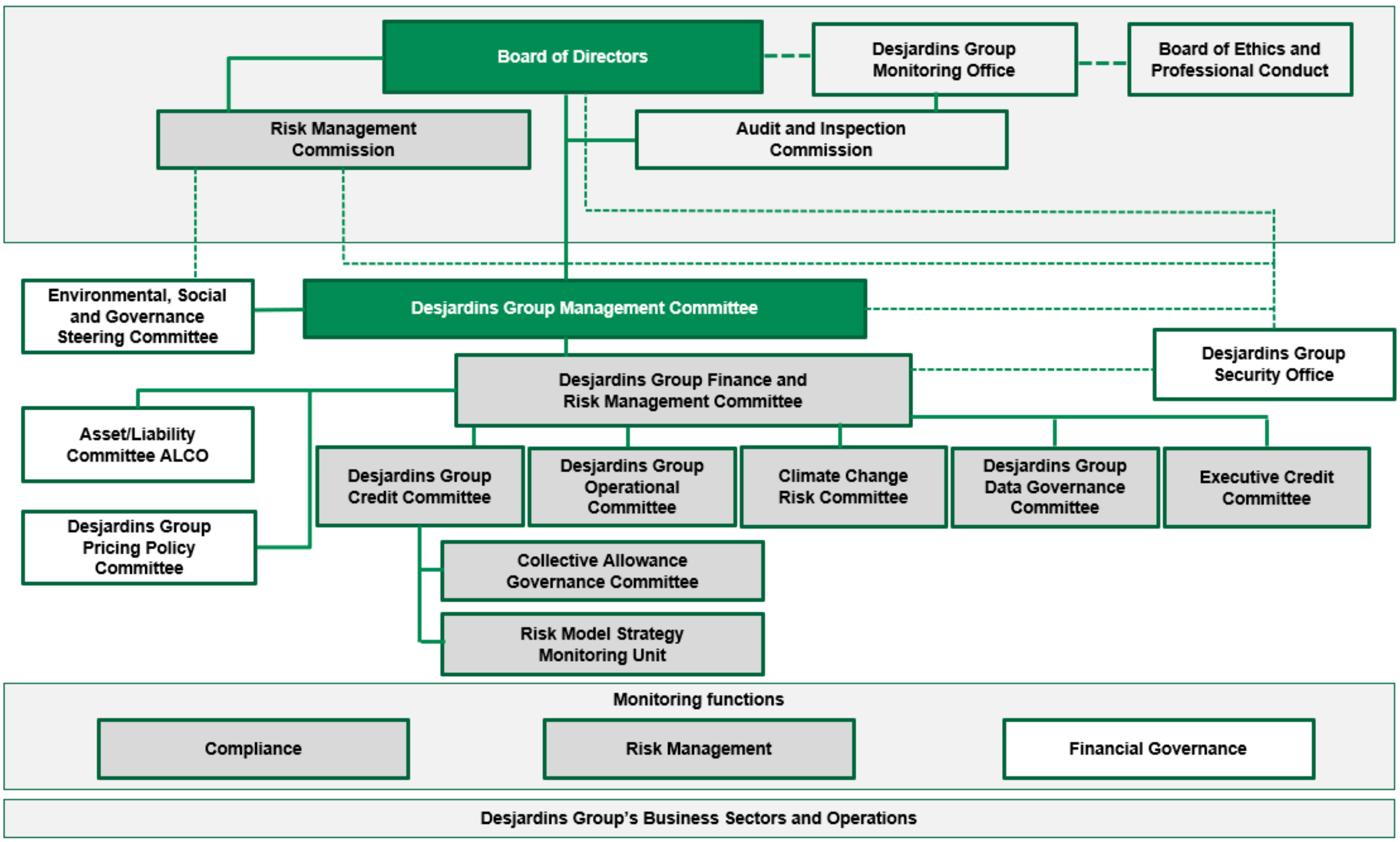
Desjardins Group has established strict governance with regard to total compensation. The Board of Directors, supported by the Human Resource Commission, is responsible for the annual changes in the total compensation of all employees and managers. In this regard, it establishes an annual salary review,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

Acting as a subcommittee of the Board of Directors, the Human Resources Commission is responsible for making recommendations to the Board of Directors with respect to all aspects of total compensation for all Desjardins Group employees, managers and senior executives other than the President and Chief Executive Officer. The Committee on the Aggregate Remuneration and Succession of the President and Chief Executive Officer of Desjardins Group is responsible for defining the compensation, working conditions, annual objectives and annual performance review of the President and Chief Executive Officer, and it recommends them to the Board of Directors.

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

Risk management governance

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



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

The Board is supported in this regard by the Risk Management Commission, the Audit and Inspection Commission, the Board of Ethics and Professional Conduct and the Desjardins Group Management Committee. Further information about these bodies is found in the Corporate Governance section of the 2022 Desjardins Group Annual Report.

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

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

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

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

- The Desjardins Group Credit Committee approves large credit commitments, taking into account ESG analysis, and monitors activities related to assessing and quantifying credit risk. In its monitoring role, the committee is supported by the risk model and strategy monitoring unit and by the collective allowance governance committee.
- The 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 Operational Risk Committee has a cross-sector view and monitors the different categories of operational and regulatory risks to which the Group is exposed.
- The Climate Change Risk Committee has a cross-sector view and monitors the climate change risks to which the Group is exposed.

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

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

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

Operations management approach based on the Three Lines of Defence model

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

THREE LINES OF DEFENCE MODEL	
First line	
Operationalization and control	• Identifies and analyzes its operational risks and manages gaps between its processes, practices and controls, and framework statements. • Coaches and trains employees on how to apply processes and controls and makes them accountable. • Establishes practices to ensure the sustainability of compliance maintenance capabilities over time. • Develops, deploys and validates processes and controls to close gaps. • Measures and monitors the performance of the processes and controls deployed. • Adjusts processes and controls as required. • Upon request, demonstrates compliance with frameworks, including risk appetite. • Triggers the escalation process defined in the framework if one of the triggers is activated. • Ensures that employees adopt and apply the processes and controls.
Second line	
Framework, monitoring and reporting	• Establishes the objectives, scope, principles and structure of the oversight framework. • Establishes expectations of the first line, the escalation processes and the triggers for its activation. • Has the framework approved by the appropriate organizational authority. • Provides complementary expertise, a cross-functional vision, assurance, monitoring and constructive criticism to risk management. • Monitors the risk levels of the processes and controls deployed. • Monitors compliance with the frameworks and reports to the various stakeholders (senior management, authorities and regulators) as set forth in the framework.
Third line	
Independent assurance	• Gives an independent and objective opinion on the effectiveness of governance, risk management and internal controls and issues findings to improve effectiveness. • Provides objective assurance to the Management Committee and the Board of Directors concerning the overall effectiveness of governance, risk management and internal controls.

1st Line of Defence

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

Consequently, the business sectors and several responsibilities of the Desjardins Group Security Office ensure day-to-day risk management in compliance with the risk appetite framework. They 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.

4.2.2 Basel capital accord

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

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

Credit risk

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

Market risk

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

Operational risk

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

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

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

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

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

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

Table 30 – Economic capital and risk-weighted assets by business segment and by risk type
As at December 31, 2022
(in millions of dollars and as a percentage)

Desjardins Group

Economic capital	
Banking activities	
Credit risk	43.4 %
Market risk	1.8
Operational risk	4.9
Other risks(1)	2.5
Total banking activities	52.6
Insurance activities	40.0
Risk related to goodwill and other intangible assets(2)	7.4

Risk-weighted assets	
Credit risk	$ 118,783
Market risk	3,959
Operational risk	15,114
RWA floor adjustment	1,455

Business segment	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other
Balance sheet(3)				
Assets	$ 321,357	$ 51,737	$ 15,473	$ 18,542
Economic capital				
Proportion of total for Desjardins Group	32.7 %	23.2 %	14.7 %	29.4 %
Banking activities				
Credit risk	67.5	6.5	—	37.1
Market risk	2.6	—	—	2.3
Operational risk	12.7	—	—	—
Other risks(4)	17.1	—	—	54.6
Total banking activities	99.9	6.5	—	94.0
Insurance activities(5)	—	88.4	91.3	—
Risk related to goodwill and other intangible assets(2)	0.1	5.1	8.7	6.0
Risk-weighted assets				
Credit risk	$ 91,811 (6)	$ 6,820	$ 4,363	$ 15,789
Market risk	1,889	41	—	2,029
Operational risk	11,887	255	—	2,972

Risk profile: Desjardins Group is exposed to credit risk, market risk, operational risk and other risks, including in particular liquidity risk, interest rate risk, strategic risk, reputation risk and insurance risk.

(1) Includes defined benefit plan risk, liquidity risk, interest rate risk, strategic risk, reputation risk and the diversification effect.
(2) The economic capital amount for the risk related to goodwill and other intangible assets is the carrying amount of these assets. It is considered that in a worst-case scenario for economic capital, the value of these assets would become nil.
(3) The different adjustments required to prepare the Combined Financial Statements as well as intersegment balance eliminations are classified in the asset amount of the Other category.
(4) Includes liquidity risk, interest rate risk, strategic risk and reputation risk. The risk related to other credit assets and deferred tax assets, defined benefit plan risk and the diversification effect are not allocated to business segments.
(5) For insurance operations, economic capital is the total amount of economic capital calculated for life and health and P&C insurance activities.
(6) Changes in certain methodology aspects resulted in a decrease in RWA in the fourth quarter of 2022.

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

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

4.2.3 Credit risk

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

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans, which represented 61.4% of the combined assets on the balance sheet as at December 31, 2022, compared to 58.1% at the end of 2021. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as securities transactions.

The current macroeconomic environment, characterized by increased inflationary pressures, rapid interest rate hikes, significant supply chain disruptions, labour shortages and growing geopolitical tensions, among others, continues to give rise to uncertainty.

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

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

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

Credit risk management

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

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

Framework

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

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

Assessment of regulatory capital

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

PD is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. Internal rating models, estimated using logistic regressions, produce risk levels monthly for retail personal and business clients as well as for some non-retail client portfolios. For retail clientele, behavioural scoring models are used, with predictive features related, in particular, to borrower and account-specific features such as account age, loan size and delinquency. These models allow proactive management of the portfolio credit risk. However, for regulatory purposes, the PD from rating models is:
- adjusted slightly upward (prudential margin) to compensate for the historical volatility of PD;
- calibrated by groups of products, for behavioural scoring models applicable to retail clientele, according to the following drivers: residential mortgages, loans and lines of credit, point-of-sale financing and credit cards.

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

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

Differences between the parameters used for accounting and regulatory capital purposes

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

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

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

As at December 31, 2022, the EAD was $402.2 billion before using CRM techniques and $373.1 billion after using CRM techniques. The complete results of the credit risk assessment by type of exposure, asset class and the calculation methods of the Standardized Approach and the Basel III Internal Ratings-Based Approach as required by the AMF are found in Table 31, “Risk Exposure by Asset Class (Exposure at default [EAD])”.

Desjardins Group uses the Internal Ratings-Based Approach on 85.5% of exposure at default. Consequently, 14.5% of exposure at default is, for now, assessed using the Standardized Approach. Desjardins Group periodically reviews portfolios subject to the Standardized Approach to determine whether the Advanced Internal Ratings-Based Approach should be applied.

Table 31 – Risk exposure by asset class (Exposure at default) [EAD])[(1)*]
As at December 31

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

(in millions of dollars and as a percentage)	2021 Used exposure	Unused exposure	Repo-style transactions	OTC derivatives	Off-balance sheet exposure	Total	Nets exposure[(2)]	EAD as a % of total
Standardized Approach								
Sovereign borrowers	$ 13,368	$ —	$ —	$ —	$ 254	$ 13,622	$ 13,622	3.5 %
Financial institutions	10,135	865	229	—	91	11,320	10,835	2.9
Businesses	11,176	2,701	327	281	473	14,958	14,609	3.9
SMEs similar to other retail client exposures	241	10	—	—	5	256	251	0.1
Mortgages	333	3	—	—	—	336	336	0.1
Other retail client exposures (excluding SMEs)	1,201	1,124	—	—	5	2,330	1,782	0.6
Securitization	26	—	—	—	—	26	26	—
Equities	356	—	—	—	—	356	356	0.1
Trading portfolio	—	—	15,699	172	—	15,871	680	4.1
Subtotal - Standardized Approach	36,836	4,703	16,255	453	828	59,075	42,497	15.2
Internal Ratings-Based Approach								
Sovereign borrowers	39,399	1,314	—	66	51	40,830	74,459	10.5
Financial institutions	3,666	526	2,288	3,181	407	10,068	7,536	2.6
Businesses	74,152	7,601	5	—	1,144	82,902	70,261	21.4
SMEs similar to other retail client exposures	7,494	3,099	—	—	78	10,671	9,831	2.8
Mortgages	110,969	18,518	—	—	—	129,487	110,585	33.4
Revolving retail client exposures	10,200	21,003	—	—	—	31,203	31,203	8.1
Other retail client exposures (excluding SMEs)	10,961	734	—	—	7	11,702	10,560	3.0
Trading portfolio	—	—	11,224	432	—	11,656	807	3.0
Subtotal - Internal Ratings-Based Approach	256,841	52,795	13,517	3,679	1,687	328,519	315,242	84.8
Total	$ 293,677	$ 57,498	$ 29,772	$ 4,132	$ 2,515	$ 387,594	$ 357,739	100.0 %

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

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

Table 32 – Exposure at default - Businesses, sovereign borrowers and financial institutions by industry*
As at December 31

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

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

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

Credit granting

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

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

Retail loans

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

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

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

Table 33 – Probabilities of default of retail clients by risk level*

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

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

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

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

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

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

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

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

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

Loans to businesses, sovereign borrowers and financial institutions

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

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

Table 34 – Probabilities of default of businesses, financial institutions and sovereign borrowers by risk level*

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

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

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

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

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

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

Other segments

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

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

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

Credit risk mitigation

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

For some portfolios, programs offered by various organizations, in particular Canada Mortgage and Housing Corporation (CMHC) and *La Financière agricole du Québec*, are used in addition to customary collateral. As at December 31, 2022, guaranteed or insured loans represented 19.7% of Desjardins Group's total gross loans, compared to 20.6% at the end of 2021. As a result of these additional measures, the residual credit risk is minimal for loan portfolios with such collateral. In order for enhanced credit offered by a guarantor to be considered a credit risk mitigation technique, the guarantor must meet certain specific criteria to allow this.

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

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

During the year ended December 31, 2022, no significant changes were made to the credit risk mitigation policies and no significant changes occurred in the quality of assets held as collateral.

Loan debt relief

In managing loan portfolios, Desjardins Group may, for 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: Desjardins Group believes that a borrower is unlikely to repay his debt in full unless the appropriate action is taken, such as realization on a collateral or guarantee, if any.

These criteria are applicable to all clients.

Impact of default

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

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

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

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

Removing default

When default is recognized in terms of the quantitative criterion, it may be removed immediately for clients that are retail businesses, small residential rental properties, small commercial rental properties and individuals, subject to certain conditions stipulated in the credit risk guidelines. If not, it is generally removed within a minimum of 3 to 6 months if certain conditions set out in the credit risk guidelines are met.

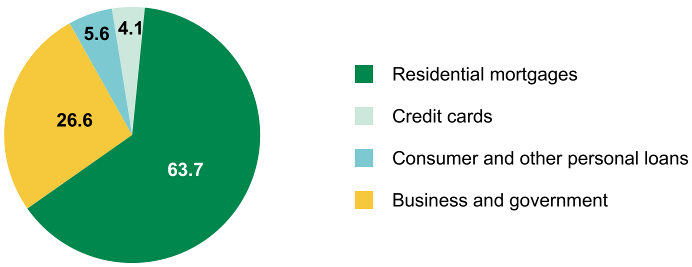
Monitoring of portfolio and reporting

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

Breakdown and quality of loan portfolio

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

Breakdown of loans and acceptances
As at December 31, 2022
(as a percentage)



Loans by borrower category and by industry are presented in the table below. As at December 31, 2022, the main sectors of the business loan portfolio were real estate, agriculture and construction. They accounted for 52.9% of the business loan portfolio, which amounted to $63.3 billion. As at December 31, 2021, the main industries were real estate, agriculture and construction.

Table 35 – Loans by borrower category and by industry
As at December 31

	2022		2021		2020	
(in millions of dollars)	Gross loans	Gross credit-impaired loans	Gross loans	Gross credit-impaired loans	Gross loans	Gross credit-impaired loans
Residential mortgages	$ 159,682	$ 245	$ 149,695	$ 209	$ 136,208	$ 374
Consumer, credit card and other personal loans	24,381	170	24,386	148	25,310	212
Public agencies[(1)]	3,520	—	3,246	—	3,017	—
Business						
Agriculture	11,270	158	10,534	108	9,738	125
Mining, oil and gas	354	1	338	34	389	44
Utilities	1,137	—	905	—	720	—
Construction	6,660	116	5,017	92	3,904	117
Manufacturing	5,745	160	4,686	90	4,324	111
Wholesale trade	2,623	23	2,097	16	1,568	35
Retail trade	4,337	27	3,744	64	3,389	73
Transportation	1,420	24	1,424	32	1,359	34
Information industry	305	2	239	4	312	14
Finance and insurance	1,627	—	945	1	855	1
Real estate	15,569	86	13,162	56	10,573	43
Professional services	1,586	6	1,285	4	887	8
Management of companies	1,454	3	1,148	12	993	9
Administrative services	393	12	397	24	353	13
Education	241	4	254	5	255	2
Health care	4,325	67	4,036	66	3,666	35
Arts and entertainment	779	6	808	16	786	19
Accommodation	2,025	71	1,902	103	1,834	48
Other services	1,435	10	1,195	4	1,133	6
Other businesses	7	—	38	—	960	—
Total business loans	$ 63,292	$ 776	$ 54,154	$ 731	$ 47,998	$ 737
Total loans	$ 250,875	$ 1,191	$ 231,481	$ 1,088	$ 212,533	$ 1,323

(1) Including loans to governments.

Loans by geographic distribution are presented in the following table. Desjardins Group's operations are highly concentrated in Québec. Therefore, as at December 31, 2022, the loans granted by Desjardins to members and clients in Québec accounted for 90.3% of the total loan portfolio, compared to 91.2% as at December 31, 2021.

Table 36 – Loans by geographic distribution
As at December 31

	2022		2021		2020	
(in millions of dollars)	**Gross loans**	**impaired loans**	Gross loans	impaired loans	Gross loans	impaired loans
Canada						
Québec	**$ 226,451**	**$ 1,074**	$ 211,082	$ 940	$ 193,489	$ 1,133
Other Canadian provinces	**24,103**	**117**	20,118	148	18,639	190
Total – Canada	**$ 250,554**	**$ 1,191**	$ 231,200	$ 1,088	$ 212,128	$ 1,323
Other countries	**321**	**—**	281	—	405	—
Total	**$ 250,875**	**$ 1,191**	$ 231,481	$ 1,088	$ 212,533	$ 1,323

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

Table 37 – Gross loans past due but no credit-impaired[1]
As at December 31

	2022			2021[2]		
(in millions of dollars)	**31 to 90 days**	**91 to or more**	**Total**	31 to 90 days	91 to or more	Total
Residential mortgages	**$ 139**	**$ 20**	**$ 159**	$ 95	$ 23	$ 118
Consumer, credit card and other personal loans	**134**	**38**	**172**	124	39	163
Business and government	**32**	**64**	**96**	20	40	60
	$ 305	**$ 122**	**$ 427**	$ 239	$ 102	$ 341

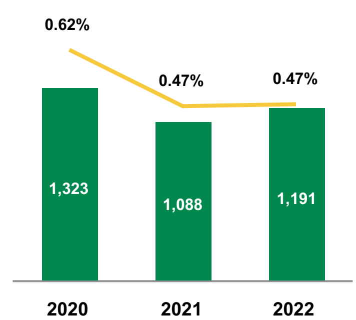
(1) Loans less than 31 days past due are not presented because, in general, they are not an indication that a borrower will not meet payment obligations.
(2) Data as at December 31, 2021 were restated to conform to the current year's presentation.

As at December 31, 2022, according to Note 8, "Loans and allowance for credit losses" to the Combined Financial Statements, the allowance for expected credit losses on loans stood at $1,035 million and the allowance for expected credit losses on off-balance sheet items was $53 million, for a total of $1,088 million, up $46 million compared to December 31, 2021.

This increase was essentially due to the growth in outstanding loans since December 31, 2021 and a certain deterioration in the credit quality of the credit card portfolios and, to a lesser extent, of the business loan portfolios. The impact of the improvement in the macroeconomic outlook that occurred in early 2022 was offset by the impact of the deterioration that arose in the second half of 2022. For more information on the methodology and assumptions used to estimate the loss allowance for expected credit losses, refer to Note 2, "Significant accounting policies", and Note 8, "Loans and allowance for credit losses", to the Combined Financial Statements.

Gross credit-impaired loans outstanding are the loans included in Stage 3 of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.47% as at December 31, 2022, unchanged from December 31, 2021. The allowance for credit losses on credit-impaired loans totalled $311 million as at December 31, 2022, for a provisioning rate on credit-impaired loans of 26.1%.

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



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

Table 38 – Gross credit-impaired loans by borrower category
As at December 31

(in millions of dollars and as a percentage)	2022 Gross carrying amount: Gross loans and acceptances	2022 Gross carrying amount: Gross credit-impaired loans[1]		2022 Allowance for credit losses on credit-impaired loans	2022 Net credit-impaired loans	2021 Gross credit-impaired loans	2021 Net credit-impaired loans	2020 Gross credit-impaired loans	2020 Net credit-impaired loans
Residential mortgages	**$ 159,682**	**$ 245**	**0.15 %**	**$ 16**	**$ 229**	$ 209	$ 189	$ 374	$ 345
Consumer, credit and other personal loans	**24,381**	**170**	**0.70**	**91**	**79**	148	68	212	86
Business and government	**66,837**	**776**	**1.16**	**204**	**572**	731	552	737	556
Total	**$ 250,900**	**$ 1,191**	**0.47 %**	**$ 311**	**$ 880**	$ 1,088	$ 809	$ 1,323	$ 987

(1) For more information on the gross credit-impaired loans/gross loans and acceptances ratio, which is a supplemental financial measure, see the Glossary on pages 113 to 120.

Table 39 – Change in gross credit-impaired loans
For the years ended December 31

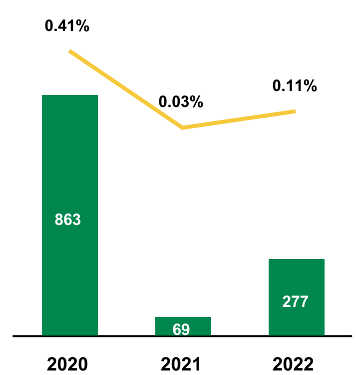
(in millions of dollars)	2022	2021	2020
Gross credit-impaired loans at the beginning loans	**$ 1,088**	$ 1,323	$ 1,142
Gross loans that became credit-impaired during the year	**2,411**	2,412	2,408
Loans returned to unimpaired status	**(2,083)**	(2,467)	(1,870)
Write-offs and recoveries	**(226)**	(216)	(396)
Other changes	**1**	36	39
Gross credit-impaired loans at the end of the year	**$ 1,191**	$ 1,088	$ 1,323

Desjardins Group's provision for credit losses totalled $277 million for 2022, up $208 million compared to 2021. The provision for 2022 was affected in particular by an increase in outstandings and a certain deterioration in the credit quality of the credit card portfolios and, to a lesser extent, of the business loan portfolios. The provision for 2021 primarily reflected the impact of an improved macroeconomic outlook and better borrower credit quality. Net write-offs in 2022 and 2021 remained historically low for all the portfolios.

The credit loss provisioning rate was 0.11% at the end of fiscal 2022, compared to 0.03% recorded as at December 31, 2021.

Additional information about the credit risk related to the recognition and measurement of the allowance for credit losses is presented in Note 2, "Significant accounting policies", and Note 8, "Loans and allowance for credit losses", to the Combined Financial Statements.

Provision for credit losses and credit loss provisioning rate[1]
(in millions of dollars and as a percentage)



(1) For more information on supplemental financial measures, see the Glossary on pages 113 to 120.

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

Table 40 – Residential mortgage portfolio[1]
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[2]
As at December 31

	2022							
(in millions of dollars and as a percentage)	**Guaranteed or insured loans**[3]		**Uninsured loans**[4]		**Home equity lines of credit**[5]		**Total**	
Québec	**$ 28,737**	**97.7 %**	**$ 88,790**	**95.2 %**	**$ 5,706**	**94.8 %**	**$ 123,233**	**95.8 %**
Ontario	**662**	**2.2**	**4,486**	**4.8**	**314**	**5.2**	**5,462**	**4.2**
Other[6]	**19**	**0.1**	**44**	**—**	**—**	**—**	**63**	**—**
All geographic areas	**$ 29,418**	**100.0 %**	**$ 93,320**	**100.0 %**	**$ 6,020**	**100.0 %**	**$ 128,758**	**100.0 %**

	2021							
(in millions of dollars and as a percentage)	Guaranteed or insured loans[3]		Uninsured loans[4]		Home equity lines of credit[5]		Total	
Québec	$ 27,650	97.4 %	$ 82,443	95.3 %	$ 5,463	94.7 %	$ 115,556	95.8 %
Ontario	724	2.5	4,029	4.7	304	5.3	5,057	4.2
Other[6]	20	0.1	36	—	1	—	57	—
All geographic areas	$ 28,394	100.0 %	$ 86,508	100.0 %	$ 5,768	100.0 %	$ 120,670	100.0 %

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

(1) Represents all loans secured by a property with up to four units. Residential mortgages on properties with up to four units held outside of the caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc. totalled $207 million as at December 31, 2022, $151 million as at December 31, 2021 and $131 million as at December 31, 2020.
(2) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is instead subject to the Financial Services Regulatory Authority of Ontario (FSRAO) rules.
(3) Term mortgages and amortized portion of home equity lines of credit for which Desjardins Group has a full or partial guarantee or insurance from a mortgage insurer (public or private) or a government.
(4) Conventional term mortgages including the conventional amortized portion of home equity lines of credit and amortized consumer loans secured by a property with up to four units.
(5) Unamortized portion of home equity lines of credit and consumer lines of credit secured by a property with up to four units.
(6) Represents the geographic areas of Canada other than Québec and Ontario.

Table 41 – Average loan-to-value (LTV) ratio for uninsured residential mortgage loans granted during the quarter
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[1]
For the years ended December 31

	2022			2021			2020		
(average loan to value ratio, by geographic area)	**Uninsured loans**[2]	**Home equity lines of credit and related**[3]	**Total uninsured**	Uninsured loans[2]	Home equity lines of credit and related[3]	Total uninsured	Uninsured loans[2]	Home equity lines of credit and related[3]	Total uninsured
Québec	**65.0 %**	**66.8 %**	**66.4 %**	65.9 %	70.7 %	69.5 %	67.1 %	71.4 %	70.1 %
Ontario	**66.0**	**64.7**	**65.3**	69.0	69.0	69.0	68.5	69.4	69.0
Other[4]	**71.0**	**67.4**	**69.1**	72.3	79.9	75.7	70.8	73.9	72.5
All geographic areas	**65.0 %**	**66.7 %**	**66.3 %**	66.1 %	70.7 %	69.5 %	67.2 %	71.3 %	70.1 %

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

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

Table 42 – Remaining amortization period for residential mortgage loans[(1)]
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[(2)]
As at December 31

(in millions of dollars in gross loans and as a percentage of the total by remaining amortization category)	Total amortized loans					
	2022		2021		2020	
0 to 10 years	**$ 3,608**	**2.9 %**	$ 3,615	3.1 %	$ 3,293	3.1 %
10 to 20 years	**23,226**	**18.9**	22,472	19.6	20,024	19.1
20 to 25 years	**83,592**	**68.1**	78,666	68.5	71,785	68.6
25 to 30 years	**10,820**	**8.8**	9,010	7.8	8,187	7.8
30 to 35 years	**1,050**	**0.9**	895	0.8	1,108	1.1
35 years and more	**442**	**0.4**	244	0.2	282	0.3
All amortization periods	**$ 122,738**	**100.0 %**	$ 114,902	100.0 %	$ 104,679	100.0 %

(1) The variable rate mortgage loans of the caisse network represented 29.1% as at December 31, 2022 (24.8% as at December 31, 2021 and 22.2% as at December 31, 2020).

(2) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is subject instead to the FSRAO rules.

Counterparty and issuer risk

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

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

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

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

Desjardins Group uses derivative financial instruments primarily for asset and liability management purposes. Derivative financial instruments are contracts whose value is based on an underlying asset, such as interest rates, exchange rates or financial indices. The vast majority of Desjardins Group's derivative financial instruments are traded over the counter with a counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, and currency, interest rate and stock index options. Other instruments are exchange-traded contracts, consisting mainly of futures and swaps traded through a clearing house. They are standard contracts executed on established stock exchanges or well-capitalized clearing houses for which the counterparty risk is very low. The proportion of contracts via clearing houses increased in 2022 because existing and forthcoming regulations are definitely in favour of clearing.

The credit risk associated with derivative financial instruments traded over the counter refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins. This risk normally represents a small fraction of the notional amount. It is quantified using two measurements, namely replacement cost and the credit risk equivalent. Replacement cost refers to the current replacement cost of all contracts with a positive fair value. Credit risk equivalent is equal to the sum of this replacement cost and the potential credit exposure. Desjardins Group limits counterparty risk exposure by entering into master agreements called International Swaps and Derivatives Association (ISDA) agreements, which define the terms and conditions for the transactions. These agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreement in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold. The value of these different measures and the impact of the master netting agreements is presented in Note 21, "Derivative financial instruments and hedging activities", to the Combined Financial Statements.

Desjardins Group also limits its risk by doing business with counterparties that have a high credit rating. Note 21, "Derivative financial instruments and hedging activities", to the Combined Financial Statements presents derivative financial instruments by credit risk rating and type of counterparty. Based on replacement cost, this note indicates that substantially all of Desjardins Group's counterparties have credit ratings ranging from AAA to A-.

Securities lending transactions are governed by standard industry agreements. To mitigate its credit risk exposure, Desjardins Group also requires a percentage of collateralization (a pledge) on these transactions. Furthermore, some of these transactions are settled through a clearing house.

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

Additional information about credit risk is presented in Note 6, "Offsetting financial assets and liabilities", Note 21, "Derivative financial instruments and hedging activities", and Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

4.2.4 Market risk

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

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

Governance

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

Link between market risk and the Combined Balance Sheets

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

Table 43 – Link between market risk and the Combined Balance Sheets
As at December 31, 2022

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities(1)(2)	Exposed to market risk: Non-trading activities(3)	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 8,913	$ —	$ 8,913	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	34,025	9,801	24,224	—	Interest rate
Securities at fair value through other comprehensive income	51,258	—	51,258	—	Interest rate, FX, price
Securities at amortized cost	50	—	50	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	17,024	14,677	2,347	—	Interest rate
Net loans and acceptances	249,865	—	249,865	—	Interest rate
Segregated fund net assets	21,318	—	21,318	—	Interest rate, price
Derivative financial instruments	5,723	635	5,088	—	Interest rate, FX, price
Other assets	18,933	—	—	18,933	
Total assets	$ 407,109	$ 25,113	$ 363,063	$ 18,933	
Liabilities and equity					
Deposits	$ 259,836	$ —	$ 259,836	$ —	Interest rate
Commitments related to securities sold short	9,859	9,611	248	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	24,565	23,893	672	—	Interest rate
Derivative financial instruments	6,554	689	5,865	—	Interest rate, FX, price
Insurance contract liabilities	31,354	—	31,354	—	Interest rate
Segregated fund net liabilities	21,284	—	21,284	—	Interest rate, price
Other liabilities	18,281	—	654	17,627	Interest rate
Subordinated notes	2,928	—	2,928	—	Interest rate
Total equity	32,448	—	—	32,448	
Total liabilities and equity	$ 407,109	$ 34,193	$ 322,841	$ 50,075	

See next page for footnotes.

Table 43 – Link between market risk and the Combined Balance Sheets (continued)
As at December 31, 2021

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

(1) Trading activity positions for which the risk measure is VaR and SVaR.
(2) The amounts reported in trading activities reflect intercompany eliminations.
(3) Positions mainly related to non-trading banking activities and insurance activities.

Management of market risk related to trading activities - Value at risk

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

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

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

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

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

Table 44 – Market risk measures for the trading portfolio*

(in millions of dollars)	**As at December 31, 2022**	**For the year ended December 31, 2022**			As at December 31, 2021	For the year ended December 31, 2021		
		Average	**High**	**Low**		Average	High	Low
Equities	**$ 0.8**	**$ 0.6**	**$ 0.9**	**$ 0.3**	$ 0.4	$ 0.5	$ 1.2	$ 0.1
Foreign exchange	**0.9**	**0.7**	**3.0**	**0.05**	0.2	0.6	3.3	0.1
Interest rate	**6.6**	**4.4**	**7.8**	**2.2**	3.4	4.0	7.2	2.2
Specific interest rate risk(1)	**0.9**	**2.3**	**6.0**	**0.7**	3.1	2.1	4.5	1.2
Diversification effect(2)	**(2.1)**	**(3.4)**	**N/A(3)**	**N/A(3)**	(3.7)	(3.0)	N/A(3)	N/A(3)
Aggregate VaR	**$ 7.1**	**$ 4.6**	**$ 9.0**	**$ 2.4**	$ 3.4	$ 4.2	$ 8.0	$ 2.4
Aggregate SVaR	**$ 11.3**	**$ 12.0**	**$ 25.2**	**$ 6.0**	$ 7.7	$ 12.7	$ 25.3	$ 6.6
Incremental risk charge (IRC)	**$ 57.1**	**$ 69.3**	**$ 97.2**	**$ 49.7**	$ 72.5	$ 71.7	$ 108.9	$ 50.0

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

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

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

The average of the trading portfolio's aggregate VaR was $4.6 million for 2022, up $0.4 million compared to 2021. As for the average of the aggregate SVaR, it was $12.0 million for 2022, down $0.7 million compared to 2021. The average of the incremental risk charge was $69.3 million, down $2.4 million compared to 2021.

It should be noted that the volatility observed during fiscal 2022 had an impact on market data and, consequently, on the VaR results as the model uses historical data for one year.

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

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

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

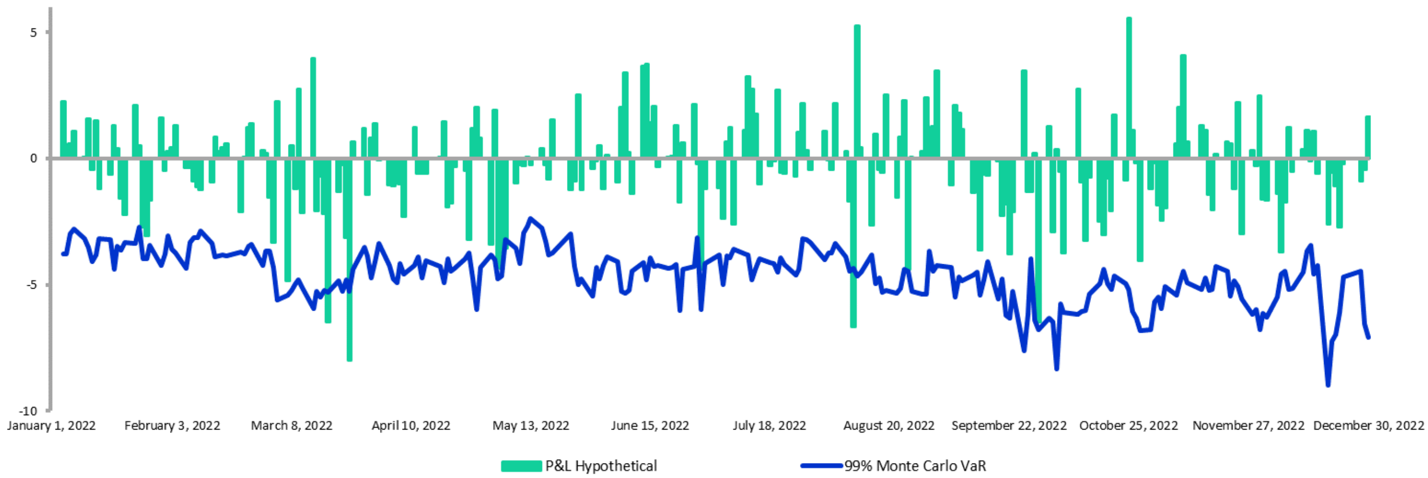
Back testing

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

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

The following chart presents changes in VaR for trading activities as well as hypothetical P&L related to these activities for 2022. During fiscal 2022, four hypothetical P&L overages compared to VaR were observed for Desjardins Group. However, no actual P&L overages compared to VaR were observed for Desjardins Group.

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



Stress testing

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

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

Structural interest rate risk management

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

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

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

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

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

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

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

Table 45 – Interest rate sensitivity (before income taxes)[(1)]*
As at December 31

	2022		2021	
(in millions of dollars)	**Net interest income[(2)]**	**Economic value of equity[(3)]**	Net interest income[(2)]	Economic value of equity[(3)]
Impact of a 100-basis-point increase in interest rates	**$ (100)**	**$ (402)**	$ 17	$ (160)
Impact of a 100-basis-point decrease in interest rates (25-basis-point decrease as at December 31, 2021)[(4)]	**108**	**382**	(1)	37

(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 $45 million decrease in the economic value of equity before taxes as at December 31, 2022, and a $218 million decrease as at December 31, 2021. A 100-basis-point decrease in interest rates would result in a $65 million increase in the economic value of equity before taxes as at December 31, 2022. A 25-basis-point decrease in interest rates would result in an increase of $53 million in the economic value of equity before taxes as at December 31, 2021. Additional information is provided in the "Interest rate risk management" section of Note 17, "Insurance contract liabilities", to the Combined Financial Statements.

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

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

(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates. Due to the current interest level, the impact of a decrease in interest rates was calculated using a 100-basis-point decrease as at December 31, 2022 compared to a 25-basis-point decrease as at December 31, 2021.

Foreign exchange risk management

Foreign exchange risk corresponds to the potential loss arising from a change in exchange rates liabilities denominated in the same currency.

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

Price risk management

In its non-trading activities, Desjardins Group is exposed to price risk, related mainly to components that operate in insurance and their investment portfolios. Price risk is the risk of potential loss resulting from a change in the fair value of assets (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 fair value may fluctuate. They manage this risk using policies that set out diversification limits such as geographic limits and limits for real estate property categories. Each real estate investment is subject to an annual professional appraisal to determine its fair value in accordance with the standards prescribed by regulatory authorities.

Management of price risk related to stock markets

The insurance components may also be exposed to price risk related to stock markets, particularly through the equity securities and derivative financial instruments they hold as well as the minimum guarantees provided under segregated fund contracts, whose value is affected by market fluctuations. They manage this risk using the different limits set in policies and a hedging program to mitigate the effect of market volatility. For additional information, see Note 17, "Insurance contract liabilities", to the Combined Financial Statements.

4.2.5 Liquidity risk

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

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

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

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

Furthermore, Desjardins Group issues covered bonds and securitizes 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.

The AMF announced that it has revised its base capital adequacy guideline. The changes, which will come into effect during fiscal 2023, deal mainly with the requirements related to the NCCF supervisory tool to improve the risk sensitivity of the metric. The changes to this guideline do not have a material impact on Desjardins Group's liquidity practices.

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 (BCBS) in *Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring*. The scenarios make it possible to:

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

Liquid assets

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

Table 46 – Liquid assets[(1)]
As at December 31, 2022

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivative trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposit with financial institutions	**$ 7,751**	**$ —**	**$ 7,751**	**$ 589**	**$ 7,162**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**50,469**	**16,651**	**67,120**	**34,407**	**32,713**
Other securities in Canada	**5,813**	**557**	**6,370**	**798**	**5,572**
Issued or guaranteed by foreign issuers	**567**	**3**	**570**	**6**	**564**
Loans					
Insured residential mortgage-backed securities	**9,564**	**—**	**9,564**	**3,065**	**6,499**
Total	**$ 74,164**	**$ 17,211**	**$ 91,375**	**$ 38,865**	**$ 52,510**

As at December 31, 2021

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivative trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposit with financial institutions	$ 15,250	$ —	$ 15,250	$ 535	$ 14,715
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	54,112	11,780	65,892	39,947	25,945
Other securities in Canada	4,648	754	5,402	2,304	3,098
Issued or guaranteed by foreign issuers	505	1	506	7	499
Loans					
Insured residential mortgage-backed securities	7,213	—	7,213	2,839	4,374
Total	$ 81,728	$ 12,535	$ 94,263	$ 45,632	$ 48,631

(1) Excluding assets held by insurance subsidiaries.

Table 47 – Unencumbered liquid assets by entity[(1)]
As at December 31

(in millions of dollars)	**2022**	2021
Fédération	**$ 27,381**	$ 30,934
Caisse network	**20,858**	15,638
Other entities	**4,271**	2,059
Total	**$ 52,510**	$ 48,631

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

Liquidity risk indicators

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

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

Encumbered assets

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

Table 48 – Encumbered assets
As at December 31, 2022

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 8,913	$ —	$ 8,913	$ —	$ 589	$ 7,162	$ 1,162
Securities	85,333	23,686	109,019	41,121	545	38,869	28,484
Securities borrowed or purchased under reverse repurchase agreements	17,024	—	17,024	—	—	—	17,024
Net loans and acceptances	249,865	—	249,865	28,097	—	65,501	156,267
Segregated fund net assets	21,318	—	21,318	—	—	—	21,318
Other assets	24,656	—	24,656	—	—	—	24,656
Total	$ 407,109	$ 23,686	$ 430,795	$ 69,218	$ 1,134	$ 111,532	$ 248,911

As at December 31, 2021

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 16,328	$ —	$ 16,328	$ —	$ 535	$ 14,715	$ 1,078
Securities	93,099	17,968	111,067	46,436	1,315	29,482	33,834
Securities borrowed or purchased under reverse repurchase agreements	12,019	—	12,019	—	—	—	12,019
Net loans and acceptances[3]	230,779	—	230,779	26,809	—	63,449	140,521
Segregated fund net assets	22,804	—	22,804	—	—	—	22,804
Other assets	22,056	—	22,056	—	—	—	22,056
Total	$ 397,085	$ 17,968	$ 415,053	$ 73,245	$ 1,850	$ 107,646	$ 232,312

(1) Assets that cannot be used for legal or other reasons.
(2) "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form. Some of these other assets could eventually be pledged to the central bank.
(3) Comparative data have been adjusted to conform to the current year's presentation because of a refinement in methodology.

Liquidity coverage ratio

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

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

Desjardins Group's average LCR was 140% for the quarter ended December 31, 2022, compared to 136% for the previous quarter. The AMF stipulates that this ratio is not to be less than the minimum requirements of 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

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

Table 49 – Liquidity coverage ratio[1]

	For the quarter ended December 31, 2022		For the quarter ended September 30, 2022
(in millions of dollars and as a percentage)	**Total non-weighted[2] value (average[4])**	**Total weighted[3] value (average[4])**	Total weighted[3] value (average[4])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 44,768**	$ 43,784
Cash outflows			
Retail deposits and small business deposits, including:	**$ 104,349**	**6,576**	6,801
Stable deposits	**55,114**	**1,653**	1,728
Less stable deposits	**49,235**	**4,923**	5,073
Unsecured wholesale funding, including:	**39,939**	**19,383**	18,927
Operational deposits (all counterparties) and deposits in cooperative bank networks	**11,639**	**2,760**	3,308
Non-operational deposits (all counterparties)	**19,782**	**8,105**	7,794
Unsecured debt	**8,518**	**8,518**	7,825
Secured wholesale funding	**N/A**	**83**	84
Additional requirements, including:	**18,063**	**3,591**	4,055
Outflows related to exposures on derivatives and other collateral required	**1,290**	**1,172**	1,262
Outflows related to funding loss on debt products	**182**	**182**	752
Credit and liquidity facilities	**16,591**	**2,237**	2,041
Other contractual funding liabilities	**3,699**	**2,094**	2,317
Other contingent funding liabilities	**89,056**	**2,320**	2,254
Total cash outflows	**N/A**	**$ 34,047**	$ 34,438
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 7,308**	**$ 451**	$ 523
Inflows related to completely effective exposures	**3,209**	**1,604**	1,549
Other cash inflows	**48**	**48**	6
Total cash inflows	**$ 10,565**	**$ 2,103**	$ 2,078

	Total adjusted value[5]	Total adjusted value[5]
Total high-quality liquid assets	**$ 44,768**	$ 43,784
Total net cash outflows	**31,944**	32,360
Liquidity coverage ratio	**140 %**	136 %

(1) Excluding the insurance subsidiaries.
(2) The non-weighted values of cash inflows and outflows represent unpaid balances either maturing or falling due and payable within 30 days.
(3) Weighted values are calculated after the "haircuts" prescribed for high quality liquid assets and the rates prescribed for cash inflows and outflows have been applied.
(4) The ratio is presented based on the average of daily data for the quarter.
(5) The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

Net stable funding ratio

The net stable funding ratio (NSFR) was developed by the BCBS to promote the medium- and long-term resilience of the liquidity risk profile of financial institutions and was integrated into the AMF's *Liquidity Adequacy Guideline*. The NSFR requires financial institutions to maintain a stable funding and capitalization profile in relation to the composition of their assets and off-balance sheet activities. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. This ratio presents the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF).

The amount of ASF designates the portion of capital and liabilities considered stable over a one-year horizon. Liabilities with the longest contractual maturities are the most significant contributors to the increase in the ratio. The amount of RSF is measured based on the broad characteristics of the liquidity risk profile of assets and off-balance sheet exposures. The amounts of ASF and RSF are weighted to reflect the degree of stability of liabilities and the liquidity of assets. According to the AMF's *Liquidity Adequacy Guideline*, this ratio should be equal to at least 100% on an on-going basis.

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

Table 50 – Net Stable Funding Ratio[1]

	As at December 31, 2022					As at September 30, 2022
	Unweighted value by residual maturity					
(in millions of dollars and as a percentage)	No maturity	< 6 months	From 6 months to < 1 year	≥ 1 year	Weighted value	Weighted value
Available Stable Funding (ASF) item						
Capital	$ 31,537	$ —	$ —	$ —	$ 31,537	$ 31,403
Regulatory capital	31,537	—	—	—	31,537	31,403
Other capital instruments	—	—	—	—	—	—
Retail deposits and deposits from small business customers	86,426	36,708	17,266	36,883	164,951	162,813
Stable deposits	48,905	7,449	4,754	10,777	68,830	68,917
Less stable deposits	37,521	29,259	12,512	26,106	96,121	93,896
Wholesale funding	22,465	46,620	2,803	22,346	36,373	35,803
Operational deposits	8,107	—	—	—	4,053	4,655
Other wholesale funding	14,358	46,620	2,803	22,346	32,320	31,148
Liabilities with matching interdependent assets	—	946	1,313	10,875	—	—
Other liabilities	22,947	8,882	6,397	—	—	—
NSFR derivative liabilities	N/A	—	6,397	—	N/A	N/A
All other liabilities and equity not included in the above categories	22,947	8,882	—	—	—	—
Total ASF	N/A	N/A	N/A	N/A	$ 232,861	$ 230,019
Required Stable Funding (RSF) item						
Total NSFR high-quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	$ 973	$ 901
Deposits held by other financial institutions for operational purposes	$ —	$ —	$ —	$ —	—	—
Performing loans and securities	19,471	46,824	20,704	168,592	164,965	163,438
Performing loans to financial institutions secured by Level 1 HQLA	—	16,073	—	—	804	834
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	—	1,308	70	785	951	928
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	13,522	21,641	11,071	61,449	77,353	76,473
Loans with a risk weight of less than than or equal to 35% under the Basel II Standardized Approach for credit risk	—	7,476	6,441	13,642	8,868	8,484
Performing residential mortgages, of which:	5,917	5,528	9,166	104,050	82,533	81,886
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	5,917	5,528	9,166	104,050	82,533	81,886
Securities that are not in default and do not quality as HQLA, including exchange-traded equities	32	2,274	397	2,308	3,324	3,317
Assets with matching interdependent liabilities	—	946	1,313	10,875	—	—
Other assets[2]	—	—	27,781	—	16,019	15,125
Physical traded commodities, including gold	—	N/A	N/A	N/A	—	—
Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties[2]	N/A	—	360	—	306	287
NSFR derivative assets[2]	N/A	—	5,631	—	320	307
NSFR derivative liabilities before deduction of variation margin posted[2]	N/A	—	6,397	—	—	—
All other assets not included in the above categories	—	—	—	15,393	15,393	14,531
Off-balance sheet items	N/A	—	108,363	—	2,709	2,546
Total RSF	N/A	N/A	N/A	N/A	$ 184,666	$ 182,010
Net Stable Funding Ratio	N/A	N/A	N/A	N/A	126 %	126 %

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

Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. For more information on contractual maturities, see the table "Contractual maturities of on-balance sheet items and off-balance sheet commitments" in Note 30, "Financial instrument risk management" to the Combined Financial Statements. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $259.8 billion as at December 31, 2022, up $21.5 billion since December 31, 2021. Additional information on deposits is presented in Section 3.1, "Balance sheet management", of this MD&A.

Funding programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, and these strategies are regulated by policies. In 2022, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional funding and the contribution of the caisse network. Short-term wholesale funding is used to finance very liquid assets while long-term wholesale funding is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

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

Table 51 – Main financing programs

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

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

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

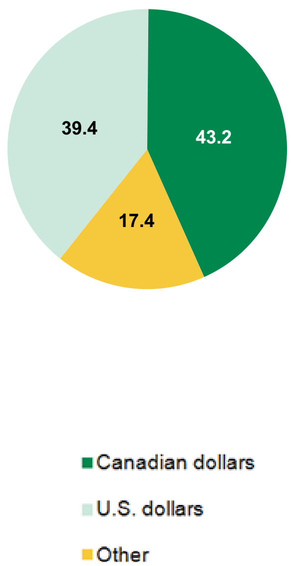
Table 52 – Remaining contractual term to maturity of wholesale funding
As at December 31

	2022								2021
(in millions of dollars)	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Total - Less than 1 year**	**1 to 2 years**	**Over 2 years**	**Total**	Total
Bearer discount notes	**$ 2,541**	**$ 436**	**$ 16**	**$ 12**	**$ 3,005**	**$ —**	**$ —**	**$ 3,005**	$ 2,414
Commercial paper	**5,702**	**7,241**	**2,099**	**—**	**15,042**	**—**	**—**	**15,042**	10,270
Medium-term notes	**—**	**—**	**—**	**800**	**800**	**2,689**	**6,490**	**9,979**	8,414
Mortgage securitization	**—**	**339**	**606**	**1,316**	**2,261**	**1,807**	**9,007**	**13,075**	12,431
Covered bonds	**—**	**—**	**1,086**	**1,014**	**2,100**	**2,170**	**6,714**	**10,984**	8,460
Subordinated notes	**—**	**—**	**—**	**—**	**—**	**—**	**2,928**	**2,928**	1,960
Total	**$ 8,243**	**$ 8,016**	**$ 3,807**	**$ 3,142**	**$ 23,208**	**$ 6,666**	**$ 25,139**	**$ 55,013**	$ 43,949
Including:									
Secured	**$ —**	**$ 339**	**$ 1,693**	**$ 2,330**	**$ 4,362**	**$ 3,977**	**$ 18,649**	**$ 26,988**	$ 22,851
Unsecured	**8,243**	**7,677**	**2,114**	**812**	**18,846**	**2,689**	**6,490**	**28,025**	21,098

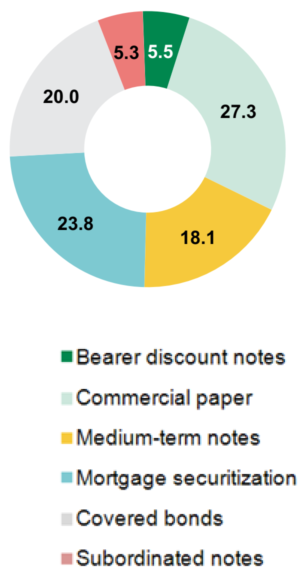
Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation. Total wholesale funding increased by $11.1 billion compared to December 31, 2021. This increase was primarily due to the increase in commercial paper, covered bonds and medium-term notes. Desjardins Group does not foresee any event, commitment or requirement that could have a major impact on its ability to raise funds through wholesale funding or its members' deposits.

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

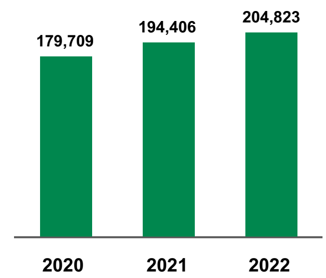
Wholesale funding by currency
As at December 31, 2022
(as a percentage)



Wholesale funding by category
As at December 31, 2022
(as a percentage)



Member deposits
As at December 31, 2022
(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 in 2022. During the same period and at the beginning of 2023, the Federation also made the following issues:

- On February 8, 2022, an issue totalling €750 million under its legislative covered bond program;
- On May 19, 2022, an issue totalling $1.0 billion, subject to the bail-in regime, under its Canadian medium-term note program;
- On August 23, 2022, an issue totalling US$1,250 million, subject to the bail-in regime, under its multi-currency medium-term note program;
- On August 23, 2022, an issue of $1.0 billion in notes eligible as Non-Viability Contingent Capital under its Canadian NVCC subordinated notes program;
- On August 31, 2022, an issue totalling €750 million under its legislative covered bond program.
- On October 14, 2022, an issue totalling US$1.0 billion under its legislative covered bond program.
- On November 16, 2022, an issue totalling $1.0 billion, subject to the bail-in regime, under its Canadian medium-term note program;
- On November 28, 2022, an issue totalling €750 million under its legislative covered bond program;
- On January 23, 2023, an issue totalling US$600 million, subject to the bail-in regime, under its multi-currency medium-term note program;
- On January 31, 2023, an issue totalling 325 million Swiss francs under its legislative covered bond program.

Outstanding notes issued under the Federation's medium-term funding programs amounted to $34.0 billion as at December 31, 2022, compared to $29.3 billion as at December 31, 2021. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Combined Balance Sheets.

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

Credit rating of securities issued and outstanding

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

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

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

Highlights of decisions by the rating agencies concerning Desjardins Group's instruments:

- On July 14, 2022, DBRS affirmed the ratings of the instruments issued by the Federation while maintaining the outlook as stable. This reflects Desjardins Group's strong presence in Québec, with leading market shares for deposits, residential mortgages and insurance.
- On September 19, 2022, Standard & Poor's affirmed the ratings of the instruments issued by the Federation while maintaining the outlook as stable. This assessment reflects the strength of Desjardins Group's balance sheet.
- On November 30, 2022, Fitch affirmed the ratings of the instruments issued by the Federation while maintaining the outlook as stable.
- On December 12, 2022, Moody's affirmed the ratings of the instruments issued by the Federation while maintaining the outlook as stable. This assessment reflects the strong capitalization level of Desjardins Group, and the stability of its income thanks to its retail banking operations.

A list of the various credit ratings assigned to the instruments of the *Fédération des caisses Desjardins du Québec* are found in the following table.

Table 53 – Credit ratings of securities issued and outstanding

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

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

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

4.2.6 Operational risk

Operational risk is the risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses or failure to achieve objectives, and takes into consideration the impact of failures to achieve the strategic objectives of the component concerned or Desjardins Group, if applicable.

Operational risk is inherent to all of Desjardins Group's activities, including management and control practices in other risk areas (credit, market, liquidity, etc.) as well as activities carried out by a third party. This risk may, in particular, lead to losses 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 its members and clients, as well as on its operations. These two risks are at the very core of risk management activities. Modernization programs to ensure that disruptions to its critical assets and environments are prevented or contained and that preventive and reactive security controls are added to address internal and external threats make up our core and ongoing activities. In order to effectively monitor these risks, scenario analysis, analysis of major changes and monitoring of operational events are examples of activities allowing the identification of these risks and their management within the organization. Governance that follows industry sound practices is implemented to monitor and contain these risks at set acceptable tolerance levels. The Desjardins Group Security Office protects members and clients, their assets and their personal information.

Third party risk

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

Through its operational risk management program, Desjardins Group monitors its third parties with proactive mechanisms to ensure efficient management of third party risks and to comply with changing regulatory requirements. In addition, each major acquisition is subject to enhanced governance to continuously ensure that its performance is aligned with the needs of the organization.

Business continuity risk

Business continuity risk refers to the risk related to the interruption of one or several activities having an impact on the ability to adequately serve members and clients or the ability to operate normally. It includes 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.

Model risk

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

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

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

It should be noted that, over the 2021-2024 strategic planning horizon, Desjardins Group has undertaken to increase model risk governance in order to broaden its scope to all models used in Desjardins Group’s operations. This initiative will also be an opportunity for a Desjardins-wide roll-out of the model risk management practices with which all major financial institutions in Canada must comply. In fact, the importance of using quantitative models to support the business decision-making process in a number of areas of operation, and not only in the area of risk management, justifies that Desjardins develop its model risk governance and management practices. In that regard, new Desjardins-wide frameworks were adopted in 2022 and will be gradually operationalized by 2024 to cover all models.

Approaches to identifying, measuring and monitoring operational risk

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

	Description
Risk and control identification and measurement	A standard inventory of operational risks to which Desjardins Group is exposed has been prepared and is used as the basis for determining the most significant operational risks and evaluating the effectiveness of the mitigation measures in place to reduce them. The risk and control assessments, carried out on a periodic basis, can be related to projects, products, systems, processes and activities, as well as to strategic initiatives and important new products. Consideration of various internal and external factors (losses, audit findings, etc.) is an integral part of these assessments. When the results indicate operational risk exposures that exceed the established tolerance level, action plans are prepared to reduce exposure to an acceptable level.
Collection and analysis of internal events	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. Contingent liabilities, including the impact of litigation, are presented in Note 29, “Commitments, guarantees and contingent liabilities”, to the Combined Financial Statements.
Risk indicators	To monitor their risk profile and track developments in it, the business segments and support functions establish operational risk indicators to help them proactively monitor any increase in their exposure to the most significant risks and act accordingly when the tolerance level is reached.
Risk disclosure	The nature and levels of operational risks are frequently disclosed to senior management as well as the various committees overseeing risk management. This promotes an effective management of operational risk that enables taking action quickly when required and establish the various priorities based on the importance of the risks involved.
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 risks within the organization in order to apply the required mitigation measures.
Risk-sharing and insurance programs	Desjardins Group has developed insurance programs to give itself additional protection against material operational losses. These programs offer protection based on the business segment’s needs, the institution’s risk tolerance, as well as emerging risks on the market.
Calculation of capital exposed to operational risk	Since second quarter of 2017, Desjardins Group has used the Standardized Approach to calculate its operational risk in the form of regulatory capital exposed to operational risk. It should be noted that a revised version of the base capital adequacy guideline is effective as of January 1, 2023. Desjardins Group will calculate regulatory capital for operational risk in accordance with the Basel III methodology following this update.

4.2.7 Insurance risk

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

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

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

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

Property and casualty insurance risk is composed of the following elements:
- Underwriting risk: Financial consequence resulting from an increase in the frequency or severity of losses (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.

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

The activities specific to the insurance subsidiaries expose them, in addition to insurance risk, to other types of risk, notably the risks identified in Note 17, “Insurance contract liabilities”, to the Combined Financial Statements, as well as other risk factors identified in Section 4.1, “Risk factors that could impact future results”.

4.2.8 Strategic risk

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

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

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

4.2.9 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 also helps manage reputation risks.

4.2.10 Environmental or social risk

Environmental or social risk results from an environmental or social event or issue in connection with Desjardins Group's operations or its financing, investment or insurance activities, which could result in financial losses or harm its reputation. This risk may also materialize indirectly through business relations with other entities whose operations could involve Environmental, Social or Governance (ESG) issues.

Environmental or social risk includes climate change risks, including both the negative impact that they may cause to the organization through its vulnerabilities and those of its members and clients and the negative impact the organization could have on them. In a context where the impact of climate change risks is widely recognized, Desjardins Group understands the importance of better identifying the various aspects of those risks (transition, physical or reputation) and measuring their current and future impact. The environmental or social risk also includes biodiversity loss risk.

Desjardins Group has long recognized the importance of social and environmental issues, and sees this as a key part of its values and business decision-making processes. In the interest of transparency, Desjardins Group publishes its Social and Cooperative Responsibility Report, prepared in accordance with the guidelines of the Global Reporting Initiative (GRI), and also responds to the Climate Change Questionnaire provided by CDP and produces a report entitled "Climate action at Desjardins". These two public disclosures address the risks and opportunities associated with climate change and are aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Here follows a discussion of key aspects of these disclosures.

Governance

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

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

The Climate Change Risk Committee, which is a sub-committee of the Desjardins Group Finance and Risk Management Committee, aims to obtain a cross-sector view of Desjardins Group's exposure to climate change risks and monitor them. It ensures that a harmonized approach is maintained throughout the various Desjardins Group components and legal entities, in particular by implementing policies and guidelines, clarifying the principles on which climate change risk management is based throughout the organization as well as the roles and responsibilities. It also ensures that the strategic orientations and initiatives that are proposed contribute effectively and efficiently to managing climate change risks.

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

Strategy

Sustainable development is a priority for Desjardins Group. It has developed a sustainable development policy for all its operations, incorporating orientations for the development of a sustainable and responsible economy as part of its risk appetite framework. It is also a signatory to several international United Nations frameworks for integrating ESG criteria into its business model: the Principles for Responsible Investment (since 2009), the Principles for Responsible Insurance (2019) and the Responsible Banking Principles (2019).

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

In line with its ambitions, Desjardins Group was the first North American institution to join the Powering Past Coal Alliance to exit the thermal coal industry.

Desjardins Group's strategic orientations with respect to climate change and its resulting commitments are based on identifying climate change risks and assessing exposures and potential impacts for Desjardins Group, its members and its clients.

The consequences of climate change risks include the impairment of certain assets or the loss of income or profitability that could reduce the value of investments or the credit rating of a business. The transition support we offer our members and clients takes various forms, including increasing the financing of renewable energies, supporting businesses in carbon-intensive sectors, defining science-based targets using the current SBTi approach or offering sustainable finance products to better face the impact of climate change.

Risk management

In order to mitigate environmental or social risk, and to be consistent with its commitment towards a sustainable and responsible economy, Desjardins Group has incorporated ESG factors into its business decision-making processes. In accordance with our Integrated Risk Management Framework, a frontline team specialized in sustainable development and responsible finance supports the segments as they consider climate change risks in relation to how they manage their specific risks. Tools and reference materials are also being developed to support the business sectors in that respect.

In addition, a dedicated climate-related risk team, in collaboration with the other second-line defence teams (insurance, credit, etc.), is in place to oversee and monitor how this cross-sector risk is included and managed. Desjardins Group identifies and assesses its climate change risks in a multidisciplinary, organization-wide process.

Business segments and support functions work with professionals from Risk Management and the Sustainable Development and Responsible Finance team to identify the main risks affecting their operations, as well as their impact.

In 2022, the work to improve climate change risk management and further integrate those risks into the organization's risk appetite framework continued and accelerated. The climate change risk management approach was revised, and the methodology for the qualitative analysis of risk was once again enhanced. An ESG risk management policy and a climate change risk management statement of appetite and guideline were developed to define and oversee these risks, identify the transmission channels of these risks to the organization's operations and highlight the expectations of the Desjardins Group's Board of Directors with respect to risk management.

Metrics and targets

Desjardins Group maintains its leadership in sustainable development through varied initiatives that are integrated into its Strategic Plan and performance management. In particular, this is achieved by monitoring the carbon footprint of its operational and financial activities, the exposures of its financings and investments in carbon-intensive sectors, namely energy, transportation and real estate, and its business volume in renewable energies, as well as by implementing targets related to reductions in its greenhouse gas (GHG) emissions. When considered relevant, these indicators and targets are gradually integrated into performance objectives.

In 2021, Desjardins Group implemented a net zero 2040 target for the energy, transportation and real estate sectors. This year, the target for reductions in operational GHG emissions was updated. Work is underway to set intermediate science-based targets and improve the methodologies used to monitor exposures to carbon-intensive sectors. In connection with Desjardins Group's statement of appetite for climate change risks, a first appetite indicator was developed in 2022. Others are currently being developed.

In addition, we would like to highlight the second public disclosure of our financed emissions (investing and lending) as per the methodology of the Partnership for Carbon Accounting Financials (PCAF).

4.2.11 Regulatory risks

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

Regulatory authorities and bodies

This evolution is in response to numerous socio-economic phenomena such as the development of new, increasingly complex financial products, the continuing volatility in the securities industry, increasingly complex financial fraud, the fight against money laundering and terrorist financing, and the fight against tax evasion, to mention but a few. In addition to federal (Canada and the U.S.) and provincial government requirements, due consideration must be given to the requirements of the *Autorité des marchés financiers* (AMF), the Canadian Securities Administrators (CSA), the Office of the Superintendent of Financial Institutions (OSFI), the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Mutual Fund Dealers Association of Canada (MFDA), and the Investment Industry Regulatory Organization of Canada (IIROC). Complying with important legislative and regulatory provisions, such as those on the protection of personal information, laws and regulations governing insurance, the *Foreign Account Tax Compliance Act*, the Standard for Automatic Exchange of Financial Account Information in Tax Matters, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the Basel accords, requires considerable technical, human and financial resources and also affects the way Desjardins Group manages its current operations and implements its business strategies.

Compliance management framework

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

The management framework applies to legal and regulatory risks, including the fight against financial crimes and corruption as well as fraud and privacy risks. It is based on identifying and monitoring of regulatory obligations and overseeing the functional units subject to them. The compliance management framework provides for the following:
- developing frameworks and documentation to comply with the regulatory requirements in effect;
- implementing training programs and coaching initiatives (advisory role);
- deploying operations oversight and inspection programs;
- reporting on the compliance status to the Company's Board of Directors and senior management.

To maintain its reputation for integrity as well as the confidence of its members and clients, the market and the general public, Desjardins Group has also adopted a code of professional conduct applicable to the officers and employees of all its components.

This compliance management framework provides reasonable assurance that Desjardins Group's operations are carried out in compliance with applicable regulations. Despite all these efforts, Desjardins Group may not be able to predict the exact impact of regulatory developments and appropriately implement strategies to respond. It could then sustain an adverse impact on its financial performance, its operations and its reputation. For further information, refer to the "Regulatory environment" section of this MD&A.

Compliance organizational structure

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

Legal and regulatory

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

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

During fiscal 2022, the *Autorité des marchés financiers* (AMF) worked on the *Regulation respecting complaint processing and dispute resolution in the financial sector* and a draft *Incentive Management Guideline*. At the federal level, the Office of the Superintendent of Financial Institutions Canada (OSFI), one of the regulatory authorities governing certain Desjardins Group components, held several legislative consultations.

Privacy

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

An Act to modernize legislative provisions as regards the protection of personal information came into force gradually as of September 2022 and provides for increased powers for the Commission on Access to Information (CAI) and the use of more significant sanctions against businesses as of September 2023. Desjardins Group complies fully with the provisions that came into force on September 22, 2022, namely the designation of a person in charge of the protection of personal information, the handling of confidentiality incidents and the frameworks for disclosing personal information for study, research or statistical purposes and as part of a commercial transaction. The federal bill C-27, *An Act to enact the Consumer Privacy Protection Act, the Personal Information and Data Protection Tribunal Act and the Artificial Intelligence and Data Act and to make consequential and related amendments to other Acts*, was also tabled in June 2022 and is being analyzed by Desjardins Group.

Fraud and financial crimes

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

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

5.0 Additional information

5.1 Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

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

As at December 31, 2022, Desjardins Group management, in collaboration with the President and CEO, and the CFO, assessed the design and effectiveness of its DCPs. Based on the results of this assessment, the President and CEO, and the CFO concluded that the DCPs were adequately designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

Based on the results of the assessment, the President and CEO, and the CFO, concluded that as at December 31, 2022, ICFR was adequately designed and effective.

The DCPs and ICFR set forth in Regulation 52-109 are applied in the Federation's Annual Information Form prepared in accordance with Regulation 51-102, and for the purposes of certifying Desjardins Group under Regulation 52-109, the Federation's information form is considered to be Desjardins Group's Annual Information Form.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2022, Desjardins Group did not make any changes to its policies, procedures and other processes with regard to internal control that had materially affected, or may materially affect, ICFR.

Various other aspects of corporate governance are examined in more detail in the "Corporate governance" section of the 2022 Desjardins Group Annual Report.

5.2 Related party disclosures

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

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

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

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

Additional information about related party transactions is presented in Note 32, "Related party disclosures", to the Combined Financial Statements.

5.3 Critical accounting policies and estimates

A description of the accounting policies used by Desjardins Group is essential to understanding the Combined Financial Statements as at December 31, 2022. The significant accounting policies are described in Note 2, "Significant accounting policies", to the Combined Financial Statements. Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

The economic environment continues to generate sources of uncertainty that have an impact on judgments as well as significant estimates and assumptions made by management in preparing the Combined Financial Statements. This particularly affects the loss allowance for expected credit losses. For more information about significant judgments made to estimate the loss allowance for expected credit losses, see Note 8, "Loans and allowance for credit losses", to the Combined Financial Statements.

STRUCTURED ENTITIES

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

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 14, "Interests in other entities", to the Combined Financial Statements.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Loans

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

Deposits

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

Subordinated notes

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

Derivative financial instruments

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

Financial instruments whose fair value equals their carrying amount

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

Additional information on the fair value of financial instruments is presented in Note 5, “Fair value of financial instruments”, to the Combined Financial Statements. Note 2, “Significant accounting policies” to the Combined Financial Statements provides information on the classification and measurement of financial assets and financial liabilities.

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Group bases its assessment on the change in default risk over the expected life of the financial instrument, which requires significant judgment.

To this end, Desjardins Group compares the PD of the financial instrument at the reporting date with its PD at the date of initial recognition. In addition, it considers reasonable and supportable information indicating a significant increase in credit risk since initial recognition, including qualitative information and information about future economic conditions to the extent that it affects the assessment of the instrument's PD. The criteria used to determine a significant increase in credit risk vary depending on the groups of financial instruments having credit risk characteristics in common and are mainly based on a relative change combined with an absolute change in the PD. They also include absolute PD thresholds and certain other criteria. All instruments that are more than 30 days past due are transferred to Stage 2 of the impairment model.

Definition of default and credit impaired financial asset

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes and for regulatory purposes. It considers relevant quantitative and qualitative factors. In particular, a loan is in default when contractual payments are over 90 days past due. A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant.

Measurement of the loss allowance for expected credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the loss allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of the contract, and total cash flows that Desjardins Group expects to receive. For credit- impaired financial assets, expected credit losses are calculated based on the difference between the gross carrying amount of the asset and estimated cash flows.

The measurement of the loss allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. It may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters.

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

Key data and assumptions

Estimating the 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.

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

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

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

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

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

Determination of significant increases in credit risk

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

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

Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine the loss allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios are reviewed quarterly.

The incorporation of forward-looking information may increase or decrease the loss allowance for expected credit losses. Generally, an improvement in the outlook will give rise to a decrease in the allowance, while a deterioration will result in an increase in the allowance.

Estimated life of revolving credit facilities

The expected life of most financial instruments is equal to the maximum contractual term during which Desjardins Group is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans, for which their life must be estimated. To determine the life of revolving credit facilities, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions. This estimate takes into account the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

The determination of the estimated life of revolving credit facilities has a significant impact on estimating the loss allowance for expected credit losses, mainly for revolving credit facilities in Stage 2 of the impairment model. Generally, an increase in the estimated life of revolving credit facilities gives rise to an increase in expected credit losses.

Additional information about loans and the allowance for credit losses, in particular a sensitivity analysis of the allowance for credit losses, is presented in Note 8, "Loans and allowance for credit losses" to the Combined Financial Statements.

IMPAIRMENT OF "AVAILABLE-FOR-SALE" SECURITIES UNDER IAS 39 CONSIDERED FOR THE OVERLAY APPROACH

Desjardins Group elected to designate certain eligible insurance operations financial assets for the overlay approach permitted by IFRS 4, "Insurance Contracts", to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, "Financial Instruments", and IFRS 17, "Insurance Contracts".

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported if Desjardins Group had continued to apply IAS 39. As a result, net surplus earnings related to designated financial assets reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39.

In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers, in particular, the impairment of "Available-for-sale" securities under IAS 39, which requires the significant use of judgment.

Under IAS 39, "Available-for-sale" securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring the impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, major financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring and the disappearance of an active market for the asset in question. Debt securities are assessed individually to determine whether there is any objective evidence of impairment. For equity securities, objective evidence of impairment would also include a significant or prolonged decline in fair value below cost.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires that management make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provisions for dividends and experience refunds as well as policyholder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiary's commitments regarding estimated future benefits, policyholder dividends and related expenses. The appointed actuary of the subsidiary is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM), in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums, provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Combined Statements of Income for the year in which the revision occurs. The provision for claims and adjustment expenses is reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Note 17, "Insurance contract liabilities", to the Combined Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. A provision is recognized when Desjardins Group has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant risks and uncertainties. Management must use significant judgment in determining whether a current obligation exists and in estimating the likelihood, timing and amount of any outflow of resources. Desjardins Group regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ significantly from forecasts.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Desjardins Group or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably. In the normal course of its business, Desjardins Group is involved in various litigation and legal proceedings.

Additional information is presented in Note 29, "Commitments, guarantees and contingent liabilities", to the Combined Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of these income taxes, management must make judgments to establish assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond to the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

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

MEMBER DIVIDENDS

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends take into consideration the financial framework for the appropriation of surplus earnings related to the Desjardins Group Integrated Financial Plan, which provides for member dividends based on Desjardins Group's financial capacity and capitalization. The difference between the amount of member dividends actually paid following the general meetings held by the caisses and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

Member dividends are calculated on the basis of average balances maintained in the following product families: Accounts, Loans and lines of credit, Savings and investments, and Funds. For credit card volumes, the dividend calculation is based on net purchases for the year concerned. For the Insurance product family, member dividends are calculated based on the premium paid for the relevant year Lastly, for certain Desjardins Securities Inc. operations (Signature Service, Securities Brokerage and Online Brokerage), the calculation is based on the commissions and fees covering the year concerned. The provision for member dividends is allocated to the Personal and Business Services segment.

EMPLOYEE BENEFITS

Desjardins Group offers the majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. For employees meeting certain criteria based on age and the number of years of participation in the plan, it also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

Group pension plans are plans whose risks are shared by entities under common control. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a pro rata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the Consumer Price Index, up to a maximum of 3% for years of service accumulated before 2013, and of 1% for a period of 10 years starting at age 65 for years of service accumulated after 2013.

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

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

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

Note 18, "Employee benefits – Pension and post-retirement benefit ", to the Combined Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2022 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", for annual reporting periods beginning on or after January 1, 2023. 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 the premium allocation approach for contracts with a period of one year or less as well as the variable fee approach for insurance contracts with direct participation features.

The general measurement model and the variable fee approach are based on the discounted value of estimated expected future cash flows for the duration of the contract. Insurance profits resulting from issuing insurance contracts measured using these two methods are recorded separately in the insurance liability for contractual service margin. These deferred profits will be recognized in profit and loss as services are rendered. For contracts measured using the premium allocation approach, insurance revenue is recognized as services are rendered, while insurance expenses are recognized when they are incurred. In all cases, when insurance contracts are onerous upon issuance, a loss is immediately recognized in profit or loss.

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

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

As part of its application, IFRS 17 allows for certain choices to be made. Desjardins Group made the following choices:
- Amortize insurance acquisition cash flows for insurance contracts measured using the premium allocation approach over the duration of the related contracts.
- Apply the accounting offset measure allowed in the statement of income as part of using the strategy for mitigating the financial risks associated with segregated fund contracts.
- Recognize insurance finance income and insurance finance expenses solely in the Combined Statements of Income.
- Not discount the liability for remaining coverage for insurance contracts measured using the premium allocation approach that do not exceed one year.

Desjardins Group has evaluated that adopting IFRS 17 will have an impact on its restated Combined Balance Sheet as at January 1, 2022, including the establishment of a contractual service margin of $2,850 million to $2,950 million arising from the insurance contracts of the life and health insurance subsidiary in force as at that date. Undistributed surplus earnings and reserves will increase by an aggregate amount of $550 million to $575 million, which is mainly explained by an amount of $448 million from accumulated other comprehensive income following the discontinuation of the overlay approach. Overall, adopting IFRS 17 will have a favorable net impact of up to $200 million on equity.

Desjardins Group continues to assess the impact of adopting IFRS 17 on its Combined Financial Statements as at December 31, 2022.

Lastly, the requirements in IFRS 17 allow revising the designation or classification of insurance operations financial assets recognized under IFRS 9 at the date of the initial application of IFRS 17. Desjardins Group chose to not restate comparative figures in its Combined Financial Statements to reflect changes in designation or classification for these financial assets that were made as at January 1, 2023. The impact of such changes is still being assessed.

5.5 Additional information required pursuant to the AMF's decision No. 2021-FS-0091

In addition to the entities comprising the Desjardins Cooperative Group (as defined in Section 1.1, “Profile and structure”) and the subsidiaries of such entities, Desjardins Group’s Combined Financial Statements include Caisse Desjardins Ontario Credit Union Inc. (CDO). The CDO’s financial information is compared to that of Desjardins Group in the table below.

Table 54 - CDO's financial information

As at December 31 or for the years ended December 31

	2022			2021			2020		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Balance Sheets**	**% proportion**	CDO	Desjardins Group Combined Balance Sheets	% proportion	CDO	Desjardins Group Combined Balance Sheets	% proportion
Total assets	**$10,756**	**$ 407,109**	**2.6 %**	$ 9,864	$ 397,085	2.5 %	$ 8,463	$ 362,035	2.3 %
Total liabilities	**9,936**	**374,661**	**2.7**	9,047	363,559	2.5	7,803	331,772	2.4
Total equity	**820**	**32,448**	**2.5**	817	33,526	2.4	660	30,263	2.2

	2022			2021			2020		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Statements of Income**	**% proportion**	CDO	Desjardins Group Combined Statements of Income	% proportion	CDO	Desjardins Group Combined Statements of Income	% proportion
Total income	**$ 286**	**$ 18,040**	**1.6 %**	$ 268	$ 20,320	1.3 %	$ 181	$ 21,473	0.8 %
Surplus earnings before member dividends	**35**	**2,050**	**1.7**	133	2,942	4.5	59	2,419	2.4
Net surplus earnings for the period after member dividends	**26**	**1,753**	**1.5**	125	2,658	4.7	51	2,174	2.3

5.6 Five-year statistical review

Table 55 – Combined Balance Sheets
As at December 31

(in millions of dollars)	2022	2021	2020	2019	2018[1]
ASSETS					
Cash and deposits with financial institutions	**$ 8,913**	$ 16,328	$ 12,126	$ 3,709	$ 3,384
Securities					
Securities at fair value through profit of loss	**34,025**	39,772	34,960	35,168	36,916
Securities at fair value through other comprehensive income	**51,258**	53,286	52,679	22,909	21,395
Securities at amortized cost	**50**	41	29	1,616	1,621
	85,333	93,099	87,668	59,693	59,932
Securities borrowed or purchased under reverse repurchase agreements	**17,024**	12,019	9,658	10,032	11,934
Loans					
Residential mortgage	**159,682**	149,695	136,208	126,757	120,113
Consumer, credit card and other personal loans	**24,381**	24,386	25,310	27,022	26,210
Business and government	**66,812**	57,400	51,015	49,988	44,906
	250,875	231,481	212,533	203,767	191,229
Allowance for credit losses	**(1,035)**	(970)	(1,112)	(685)	(719)
	249,840	230,511	211,421	203,082	190,510
Segregated fund net assets	**21,318**	22,804	19,093	17,026	13,234
Other assets					
Clients' liability under acceptances	**25**	268	328	380	160
Premiums receivable	**2,925**	2,839	2,803	2,686	2,376
Derivative financial instruments	**5,723**	5,828	5,820	4,246	3,743
Amounts receivable from clients, brokers and financial institutions	**3,486**	2,557	2,499	2,229	1,315
Reinsurance assets	**1,175**	1,582	1,962	2,001	1,958
Right-of-use assets	**543**	530	565	566	N/A
Investment property	**929**	926	924	957	958
Property, plant and equipment	**1,587**	1,531	1,541	1,471	1,424
Goodwill	**157**	157	156	121	121
Intangible assets	**692**	497	424	381	389
Investments in companies accounted for using the equity method	**1,465**	1,380	1,189	1,034	907
Net defined benefits plan assets[2]	**679**	62	—	—	—
Deferred tax assets	**1,440**	789	1,154	1,292	1,174
Other[2]	**3,855**	3,378	2,704	2,090	1,946
	24,681	22,324	22,069	19,454	16,471
TOTAL ASSETS	**$ 407,109**	$ 397,085	$ 362,035	$ 312,996	$ 295,465

Footnotes to this table are presented on the next page.

Table 55 – Combined Balance Sheets (continued)
As at December 31

(in millions of dollars)	2022	2021	2020	2019	2018[1]
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 145,377**	$ 136,332	$ 127,928	$ 111,665	$ 105,298
Business and government	**114,172**	101,644	96,853	81,556	77,574
Deposit-taking institutions	**287**	379	455	697	286
	259,836	238,355	225,236	193,918	183,158
Other liabilities					
Acceptances	**25**	268	328	380	160
Commitments related to securities sold short	**9,859**	11,342	9,353	10,615	10,829
Commitments related to securities lent or sold under repurchase agreements	**24,565**	31,177	19,152	10,562	16,845
Derivative financial instruments	**6,554**	5,500	4,884	4,278	2,816
Amounts payable to clients, brokers and financial institutions	**8,978**	7,938	6,810	5,552	4,105
Lease liabilities	**622**	596	633	624	N/A
Insurance contract liabilities	**31,354**	34,762	34,827	31,595	28,740
Segregated fund net liabilities	**21,284**	22,796	19,089	17,002	13,212
Net defined benefit plan liabilities	**654**	1,048	3,107	3,068	2,537
Deferred tax liabilities	**433**	301	372	281	214
Other	**7,569**	7,516	6,488	6,294	5,822
	111,897	123,244	105,043	90,251	85,280
Subordinated notes	**2,928**	1,960	1,493	1,398	1,378
TOTAL LIABILITIES	**374,661**	363,559	331,772	285,567	269,816
EQUITY					
Capital stock	**4,786**	4,982	5,021	5,134	5,350
Share capital	**—**	—	—	—	5
Undistributed surplus earnings	**8,429**	1,546	1,874	2,352	3,649
Accumulated other comprehensive income	**(2,166)**	765	1,302	211	(23)
Reserves	**20,552**	25,321	21,316	18,959	15,920
Equity - Group's share	**31,601**	32,614	29,513	26,656	24,901
Non-controlling interest	**847**	912	750	773	748
TOTAL EQUITY	**32,448**	33,526	30,263	27,429	25,649
TOTAL LIABILITIES AND EQUITY	**$ 407,109**	$ 397,085	$ 362,035	$ 312,996	$ 295,465

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

(2) Data as at December 31, 2021 were reclassified to conform to the current year's presentation.

Table 56 – Combined Statements of Income
For the years ended December 31

(in millions of dollars)	2022	2021	2020	2019	2018[1]
INTEREST INCOME					
Loans	**$ 8,278**	$ 6,928	$ 7,278	$ 7,709	$ 6,862
Securities	**1,107**	473	488	412	390
	9,385	7,401	7,766	8,121	7,252
INTEREST EXPENSE					
Deposits	**2,829**	1,508	2,010	2,618	2,195
Subordinated notes	**78**	65	57	72	70
Other	**148**	42	59	135	93
	3,055	1,615	2,126	2,825	2,358
NET INTEREST INCOME	**6,330**	5,786	5,640	5,296	4,894
NET PREMIUMS	**11,842**	11,278	9,920	9,412	8,823
OTHER INCOME					
Deposit and payment service charges	**448**	424	388	431	433
Lending fees and credit card service revenues	**991**	735	628	774	697
Brokerage and investment fund services	**989**	1,108	954	886	905
Management and custodial service fees	**786**	732	617	582	545
Net investment income (loss)	**(4,505)**	319	3,116	3,087	206
Overlay approach adjustment for insurance operations financial assets	**747**	(404)	(42)	(192)	523
Foreign exchange income	**119**	121	103	64	91
Other	**293**	221	149	417	195
	(132)	3,256	5,913	6,049	3,595
TOTAL INCOME	**18,040**	20,320	21,473	20,757	17,312
PROVISION FOR CREDIT LOSSES	**277**	69	863	365	384
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	**4,500**	6,883	9,233	9,111	6,557
NON-INTEREST EXPENSE[2]					
Salaries and employee benefits	**5,066**	4,437	3,902	3,655	3,417
Professional fees	**1,159**	1,013	664	633	570
Technology	**978**	893	791	736	680
Commissions	**929**	881	788	837	750
Occupancy costs	**403**	406	419	389	353
Communications	**417**	329	290	344	319
Business and capital taxes	**482**	459	418	389	369
Other	**1,204**	1,148	1,025	1,049	1,051
	10,638	9,566	8,297	8,032	7,509
OPERATING SURPLUS EARNINGS	**2,625**	3,802	3,080	3,249	2,862
Income taxes on surplus earnings	**575**	860	661	651	536
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	**2,050**	2,942	2,419	2,598	2,326
Member dividends	**403**	387	330	317	253
Tax recovery on member dividends	**(106)**	(103)	(85)	(85)	(68)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	**$ 1,753**	$ 2,658	$ 2,174	$ 2,366	$ 2,141
Of which:					
Group's share	**$ 1,686**	$ 2,515	$ 2,090	$ 2,320	$ 2,100
Non-controlling interests' share	**67**	143	84	46	41

(1) In accordance with the standards in effect before the adoption by Desjardins Group of IFRS 16, “Leases”, on January 1, 2019, on a retrospective basis without restatement of comparative periods.
(2) Data for 2021 and prior years were reclassified to conform to the current year’s presentation.

Table 57 – Selected financial measures
As at December 31 or for the years ended December 31

(in millions of dollars and as a percentage)	2022	2021	2020	2019	2018[1]
Tier 1A capital ratio[2]	**20.2 %**	21.1 %	21.9 %	21.6 %	17.3 %
Tier 1 capital ratio[2]	**20.2**	21.1	21.9	21.6	17.3
Total capital ratio[2]	**21.9**	22.1	22.6	21.6	17.6
TLAC ratio[3]	**28.7**	26.5	24.7	22.6	17.6
Leverage ratio[2]	**7.6**	8.5	8.5	8.8	8.3
TLAC leverage ratio[3]	**10.6**	10.4	9.5	9.1	8.4
Liquidity coverage ratio[4]	**140**	140	157	130	122
Net Stable Funding Ratio[4]	**126**	129	N/A	N/A	N/A
Net interest margin[5]	**2.13**	2.06	2.38	2.47	2.45
Return on equity[6]	**6.2**	8.9	8.3	9.9	9.3
Productivity index[5]	**78.6**	71.2	67.8	69.0	69.8
Credit loss provisioning rate[6]	**0.11**	0.03	0.41	0.18	0.21
Gross credit-impaired loans/gross loans and acceptances[6]	**0.47**	0.47	0.62	0.56	0.54
Assets under administration[6]	**$ 447,312**	$ 482,911	$ 458,177	$ 437,000	$ 374,178
Assets under management[6]	**76,169**	91,258	77,474	67,553	57,448
Average assets[6]	**402,694**	383,204	342,354	307,220	287,593
Average net loans and acceptances[6]	**240,756**	221,317	207,727	196,628	183,822
Average deposits[6]	**249,801**	234,571	214,148	189,889	178,658
Risk-weighted assets[2]	**139,311**	134,518	120,101	113,861	129,474

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

(2) In accordance with the base capital adequacy guideline for financial services cooperatives issued by the AMF and taking into account the applicable relief measures introduced by the AMF in response to the COVID-19 pandemic. See Section 3.2, “Capital Management”.

(3) In accordance with the *Total Loss Absorbing Capacity Guideline* (TLAC Guideline) issued by the AMF and based on risk-weighted assets and exposures for purposes of the leverage ratio at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc. See Section 3.2 “Capital management”.

(4) In accordance with the *Liquidity Adequacy Guideline* issued by the AMF. See Section 4.0, “Risk Management”.

(5) For more information about non-GAAP ratios, see “Non-GAAP and other financial measures” on pages 3 to 7.

(6) For further information about supplementary financial measures, see the Glossary on pages 113 to 120.

5.7 Supplementary information

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

Table 58 – Summary of the FCDQ's combined investments and loans
As at December 31

(unaudited, in millions of dollars and as a percentage)	Contractual maturities: Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	No stated maturity	Total: 2022	2021	Average return[1]: 2022	2021
Securities	**$ 1**	**$ 14**	**$ 140**	**$ 816**	**$ 94**	**$ 2,138**	**$ 13,100**	**$ 12,356**	**$ 66**	**$ 28,725**	$ 33,188	**2.83 %**	1.03 %
Securities borrowed or purchased under reverse repurchase agreements	**5,753**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,753**	2,926	**1.93**	0.24
Loans	**12,826**	**2,289**	**716**	**595**	**481**	**1,704**	**4,318**	**314**	**2,923**	**26,166**	20,522	**4.12**	2.47
Loans to member caisses	**642**	**1,264**	**1,435**	**1,063**	**987**	**3,720**	**8,207**	**—**	**6,138**	**23,456**	22,410	**2.78**	0.98
Consumer, credit card and other personal loans	**11**	**36**	**118**	**149**	**192**	**1,020**	**4,169**	**5,781**	**5,995**	**17,471**	17,022	**6.46**	6.74
Allowance for credit losses	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(623)**	**(623)**	(508)	**—**	—
Total investments and loans	**$ 19,233**	**$ 3,603**	**$ 2,409**	**$ 2,623**	**$ 1,754**	**$ 8,582**	**$ 29,794**	**$ 18,451**	**$ 14,499**	**$100,948**	$ 95,560	**3.75 %**	2.31 %

(1) Excluding the impact of derivative financial instruments.

Table 59 – Summary of combined deposits by member caisses
As at December 31

(unaudited, in millions of dollars and as a percentage)	Contractual maturities: Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	No stated maturity	Total: 2022	2021	Average return: 2022	2021
Demand deposits	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 5,066**	**$ 5,066**	$ 7,412	**1.72 %**	0.10 %
Term deposits	**491**	**546**	**1,010**	**835**	**856**	**2,695**	**4,106**	**5**	**—**	**10,544**	9,678	**1.96**	1.14
Securitization issue	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	7	**—**	2.56
Total deposits by member caisses	**$ 491**	**$ 546**	**$ 1,010**	**$ 835**	**$ 856**	**$ 2,695**	**$ 4,106**	**$ 5**	**$ 5,066**	**$ 15,610**	$ 17,097	**1.88 %**	0.69 %

Table 60 – General and other reserves
For the years ended December 31

(in millions of dollars)	General reserve	Capital gains reserve	Community Development Funds	Total
Balance as at December 31, 2020	$ 15,269	$ 3,917	$ 176	$ 19,362
Transfer	1,091	2,846	15	3,952
Balance as at December 31, 2021	$ 16,360	$ 6,763	$ 191	$ 23,314
Transfer	**1,675**	**842**	**21**	**2,538**
Equity transactions	**—**	**(7,347)**	**—**	**(7,347)**
Balance as at December 31, 2022	**$ 18,035**	**$ 258**	**$ 212**	**$ 18,505**

Glossary

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

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

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

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

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

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

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

***Autorité des marchés financiers* (AMF)**
Organization whose mission is to enforce the laws governing the financial industry in Québec, particularly in the areas of insurance, securities, deposit-taking institutions and financial product and service distribution.

Average assets
Average of assets presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average deposits
Average of deposits presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average equity before non-controlling interests
Average of equity before non-controlling interests presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average gross loans and acceptances
Average of loans, including clients' liability under acceptances, presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

Average interest-bearing assets
Include securities, cash and deposits with financial institutions, as well as loans, and exclude insurance assets as well as all other assets not generating net interest income. The average is calculated based on month-end balances for the year.

Average net loans and acceptances
Average of loans, including clients' liability under acceptances, net of the allowance for credit losses presented in the Combined Financial Statements at the end of the last five quarters calculated as of December 31.

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

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

Capital ratios

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

Capital share

Equity security offered to Desjardins caisse members.

Catastrophe and notable event

– Catastrophe
In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the cost is deemed significant since it reaches a minimum threshold, established annually Desjardins Group's management, for the reinsurance program retention.
  - Natural catastrophes can take many forms and include, but are not limited to, hurricanes, tornados, windstorms, hailstorms, heavy rainfalls, ice storms, floods, extreme weather conditions and wildfires.
  - Catastrophes other than natural catastrophes include, but are not limited to, terrorist acts, riots, explosions, crashes, train wrecks, large-scale cyber attacks.

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

Commitment

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

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

Countercyclical buffer

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

Covered bond

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

Credit commitment

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

Credit instrument

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

Credit loss provisioning rate

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

Credit risk

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

Credit valuation adjustment

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

Defined benefit pension plan

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

Derivative financial instrument, or derivative

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

Desjardins Group (Desjardins) component

Cooperative or subsidiary that is part of Desjardins Group.

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

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

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

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

Environmental or social risk
Risk that the impact of an environmental or social event or issue in connection with Desjardins Group's operations or its financing, investing or insurance activities, which could result in financial losses or harm its reputation. This risk may also materialize indirectly through business relations with other entities whose operations could involve Environmental, Social or Governance (ESG) issues.

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

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

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

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

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

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

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

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

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

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

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

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

Guarantee and standby letter of credit

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

Hedge fund

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

Hedging

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

Incremental risk charge (IRC)

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

Indemnification commitment related to securities lending

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

Individual insurance premium

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

Insurance contract liabilities

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

Insurance premium

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

Insurance risk

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

Insurance sales

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

Internal Models Method

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

Internal Ratings-Based Approach

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

Large loss

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

Legal and regulatory risk

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

Leverage ratio

Ratio calculated as the capital measure, which is Tier 1 capital, divided by the exposure measure. The exposure measure includes:

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

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

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

Loss given default (LGD)
Economic loss that may be incurred should the borrower default, expressed as a percentage of exposure at default.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

Ratio of employee benefits to total base compensation
Employee benefits expressed as a percentage of salaries.

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

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

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

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

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

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

Return on equity

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

Reverse repurchase agreement

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

Risk-weighted assets

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

Scaling factor

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

Securitization

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

Security borrowed or purchased

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

Security lent or sold

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

Security sold short

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

Segregated fund

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

Segregated fund deposits

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

Standardized Approach

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

Strategic risk

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

Stressed Value at Risk (VaR)

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

Structural interest rate risk

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

Structured entity

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

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

Subsidiary
Company controlled by the Federation.

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

TLAC leverage ratio
Ratio determined by dividing the total loss absorbing capacity by the exposure measure. The exposure measure is independent from risk and includes:
- on-balance sheet exposures;
- securities financing transaction exposures;
- derivative exposures; and
- off-balance sheet items.

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

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

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

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

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

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

COMBINED FINANCIAL STATEMENTS

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Management's Responsibility for Financial Reporting

The Combined Financial Statements of Desjardins Group and all information included in its annual Management's Discussion and Analysis are the responsibility of the management of the *Fédération des caisses Desjardins du Québec* (the Federation), which is responsible for ensuring reporting integrity and accuracy.

These Combined Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. The IFRS represents Canada's generally accepted accounting principles. These Combined Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include valuations of insurance contract liabilities performed by the actuaries of the relevant segments. All financial information in the annual Management's Discussion and Analysis is consistent with these audited Combined Financial Statements.

Federation management is responsible for the accuracy of Desjardins Group's Combined Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. These controls are designed to provide reasonable assurance that the financial accounts are complete and accurate, assets are protected and records are kept appropriately. They include an organizational structure that ensures effective segregation of duties, a code of professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices. In our capacities as Chief Executive Officer and Chief Financial Officer of Desjardins Group, we have overseen the process to assess financial information communication procedures and controls as well as internal control over financial reporting. As at December 31, 2022, we concluded that information communication procedures and controls and internal control over financial reporting were effective.

The AMF examines the affairs of Desjardins Group using a risk-based oversight approach.

For the purposes of approving the financial information contained in the Desjardins Group Annual Report, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The commission is mandated by the Board of Directors to review Desjardins Group's Combined Financial Statements and its Management's Discussion and Analysis. The Audit and Inspection Commission has five independent directors who are members of the Board of Directors of the Federation. In addition, it has two representatives of the insurance subsidiaries and one observer, who help ensure the necessary alignment with the insurance subsidiaries and the caisse network. The Audit and Inspection Commission exercises an oversight role for management to develop and implement adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The Combined Financial Statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the Federation's General Meeting, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any related issues, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Alain Leprohon, CPA
Executive Vice-President Finance and
Chief Financial Officer
Desjardins Group

Lévis, Québec
February 22, 2023

Independent auditor's report

To the members of the Fédération des caisses Desjardins du Québec

Our opinion

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Desjardins Group as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Desjardins Group's combined financial statements comprise:

- the combined balance sheets as at December 31, 2022 and 2021;
- the combined statements of income for the years then ended;
- the combined statements of comprehensive income for the years then ended;
- the combined statements of changes in equity for the years then ended;
- the combined statements of cash flows for the years then ended; and
- the notes to the combined financial statements, which include significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Management's Discussion and Analysis, rather than in the notes of the combined financial statements. These disclosures are cross-referenced from the combined financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the combined financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Desjardins Group in accordance with the ethical requirements that are relevant to our audit of the combined financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the combined financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the combined financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Measurement of the allowance for expected credit losses on loans
 	
Refer to note 2 – Significant accounting policies, and note 8 – Loans and allowance for credit losses, to the combined financial statements
 	
The allowance for expected credit losses on loans amounted to $1,035 million as at December 31, 2022 and represented management's estimate of the allowance for expected credit losses (ECL) at the reporting date.
 	
The measurement of the allowance for ECL is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely probability of default (PD), loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. 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. Desjardins Group uses three scenarios to determine the allowance for ECL, namely a base scenario, an upside scenario and a downside scenario. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the allowance for ECL. Desjardins Group may also make adjustments to take into account the relevant information that affects the measurement of the allowance for credit losses and that has not been incorporated into the credit risk parameters.
 	
To take into account relevant risk factors related to the macroeconomic environment, management applied expert credit judgment in measuring the allowance for ECL.
 	
For credit-impaired loans that are individually material, the measurement of the allowance for ECL is based on an extensive review of the borrower's situation and the realization of collateral held.
 	
We considered this a key audit matter due to:
• the inherent complexity of the calculations of the allowance for ECL as well as the significant judgments made by management in:
  • establishing the three scenarios, including projecting macroeconomic variables;
  • determining the probabilities of occurrence of the three scenarios;
  • determining significant increases in credit risk; and
  • applying expert credit judgment to reflect, among other things, the relevant risk factors related to the macroeconomic environment.
	Our approach to addressing the matter included the following procedures, among others:
	• Testing the operating effectiveness of certain internal controls relating to the measurement of the allowance for ECL, including controls relating to:
	  • the periodic monitoring and valuation of certain models;
	  • the review of the macroeconomic variable projections and the probability of occurrence of the scenarios;
	  • the assignment of borrower credit risk ratings; and
	  • management's review and approval of the application of expert credit judgment and the allowance for ECL.
	• Testing management's process for measuring the allowance for ECL on loans by performing the following, among other things:
	  • Evaluating, with the assistance of professionals having an expertise in credit risk and economics:
	    • the appropriateness of the methodologies used in calculating the allowance for ECL, including the independent recalculation of ECL on loans;
	    • the appropriateness of the three scenarios and the reasonableness of macroeconomic variables as well as the probability of occurrence assigned to the scenarios by considering publicly available economic data, forecasts from independent sources and sensitivity analyses to changes in some of these assumptions;
	    • the reasonableness of the establishment of credit risk parameters (PD, LGD, EAD);
	    • the reasonableness of the significant increases in credit risk determined by management; and
	    • the reasonableness of the application by management of expert credit judgment.
	  • For a sample of credit-impaired loans that are individually material, evaluating the appropriateness of the methodology used in calculating the allowance for ECL and the reasonableness of assumptions.
	  • Testing the data used in measuring the allowance for ECL.

- the evaluation of audit evidence, which required increase audit effort and significant judgments by the auditor, as the measurement of the allowance for ECL is a complex calculation that involves a large volume of interrelated inputs and assumptions, some of which are model-based; and
- the audit effort involved the use of professionals with specialized skills and knowledge in credit risk and economics.

Measurement of insurance contract liabilities

Refer to note 2 – Significant accounting policies, and note 17 – Insurance contract liabilities, to the combined financial statements

Insurance contract liabilities for Desjardins Group as a whole comprised a) actuarial liabilities – Life and health insurance of $20,236 million and b) provisions for claims and adjustment expenses – Property and casualty insurance of $6,907 million as at December 31, 2022. These amounts are estimated by management in accordance with Canadian accepted actuarial practices.

Management determined that a) actuarial liabilities for life and health insurance are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency, with a margin considering the risk of adverse deviation; and b) provisions for claims and adjustment expenses related to property and casualty insurance policies are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated, adjusted by a margin considering the risk of adverse deviation.

Measuring insurance contract liabilities requires management to develop significant assumptions, including: a) with respect to actuarial liabilities for life and health insurance, assumptions for mortality, morbidity, contract cancellation rates, investment return and operating expenses and taxes; and b) with respect to provisions for claims and adjustment expenses related to property and casualty insurance policies, past claims development, average settlement cost per claim, the average number of claims and claims severity and frequency trends.

We considered this a key audit matter due to:

- the significant judgments made by management in determining insurance contract liabilities;
- the high degree of auditor judgment, subjectivity and effort in evaluating audit evidence related to the appropriateness of actuarial projection methods and models as well as the reasonableness of significant assumptions used by management; and
- the audit effort involved the use of professionals with specialized skill and knowledge in actuarial sciences.

Our approach to addressing the matter included the following procedures, among others:

Testing management's process for measuring the actuarial liabilities – Life and health insurance by performing the following, among other things:

- Testing the operating effectiveness of certain internal controls over the completeness and accuracy of data used in measuring the actuarial liabilities – Life and health insurance;
- Evaluating the appropriateness of calculations performed;
- Testing data used in the projection of cash flows; and
- Evaluating, with the assistance of professionals having specialized skills and knowledge in actuarial science, the appropriateness of the actuarial projection methods and models and the reasonableness of the assumptions for mortality, morbidity, contract cancellation rates, investment return and operating expenses and taxes used in measuring actuarial liabilities for life and health insurance.

For measuring the provisions for claims and adjustment expenses – Property and casualty insurance:

- Testing the operating effectiveness of certain internal controls over the completeness and accuracy of data used in measuring the provisions for claims and adjustment expenses – Property and casualty insurance;
- Developing, with the assistance of professionals having specialized skills and knowledge in actuarial science, an independent point estimate of the provisions for claims and adjustment expenses – Property and casualty insurance;
- Testing the underlying data used in developing the independent point estimate; and
- Comparing the independent point estimate with management's estimate to evaluate the reasonableness of management's estimate.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor’s report and the information, other than the combined financial statements and our auditor’s report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the combined financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the combined financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the combined financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the combined financial statements and our auditor’s report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the combined financial statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is responsible for assessing the Desjardins Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Desjardins Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Desjardins Group’s financial reporting process.

Auditor’s responsibilities for the audit of the combined financial statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Desjardins Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Desjardins Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Desjardins Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Desjardins Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the combined financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michel Larouche.

PricewaterhouseCoopers LLP[(1)]
(1) CPA auditor, public accountancy permit No. A111799

Montréal, Québec
February 22, 2023

Combined Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2022	As at December 31, 2021
ASSETS			
Cash and deposits with financial institutions		**$ 8,913**	$ 16,328
Securities	7		
Securities at fair value through profit or loss		**34,025**	39,772
Securities at fair value through other comprehensive income		**51,258**	53,286
Securities at amortized cost		**50**	41
		85,333	93,099
Securities borrowed or purchased under reverse repurchase agreements		**17,024**	12,019
Loans	8 and 9		
Residential mortgages		**159,682**	149,695
Consumer, credit card and other personal loans		**24,381**	24,386
Business and government		**66,812**	57,400
		250,875	231,481
Allowance for credit losses	8	**(1,035)**	(970)
		249,840	230,511
Segregated fund net assets	10	**21,318**	22,804
Other assets			
Clients' liability under acceptances		**25**	268
Premiums receivable		**2,925**	2,839
Derivative financial instruments	21	**5,723**	5,828
Amounts receivable from clients, brokers and financial institutions		**3,486**	2,557
Reinsurance assets		**1,175**	1,582
Right-of-use assets	11	**543**	530
Investment property	12	**929**	926
Property, plant and equipment	12	**1,587**	1,531
Goodwill		**157**	157
Intangible assets	13	**692**	497
Investments in companies accounted for using the equity method	14	**1,465**	1,380
Net defined benefit plan assets	18	**679**	62
Deferred tax assets	28	**1,440**	789
Other	15	**3,855**	3,378
		24,681	22,324
TOTAL ASSETS		**$ 407,109**	$ 397,085
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	16		
Individuals		**$ 145,377**	$ 136,332
Business and government		**114,172**	101,644
Deposit-taking institutions		**287**	379
		259,836	238,355
Other liabilities			
Acceptances		**25**	268
Commitments related to securities sold short		**9,859**	11,342
Commitments related to securities lent or sold under repurchase agreements		**24,565**	31,177
Derivative financial instruments	21	**6,554**	5,500
Amounts payable to clients, brokers and financial institutions		**8,978**	7,938
Lease liabilities	11	**622**	596
Insurance contract liabilities	17	**31,354**	34,762
Segregated fund net liabilities	10	**21,284**	22,796
Net defined benefit plan liabilities	18	**654**	1,048
Deferred tax liabilities	28	**433**	301
Other	19	**7,569**	7,516
		111,897	123,244
Subordinated notes	20	**2,928**	1,960
TOTAL LIABILITIES		**374,661**	363,559
EQUITY			
Capital stock	23	**4,786**	4,982
Undistributed surplus earnings		**8,429**	1,546
Accumulated other comprehensive income	25	**(2,166)**	765
Reserves		**20,552**	25,321
Equity – Group's share		**31,601**	32,614
Non-controlling interests	14	**847**	912
TOTAL EQUITY		**32,448**	33,526
TOTAL LIABILITIES AND EQUITY		**$ 407,109**	$ 397,085

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

On behalf of the Board of Directors of the *Fédération des caisses Desjardins du Québec*,

Guy Cormier
Chair of the Board

Johanne Charbonneau, FCPA
Vice-Chair of the Board

Combined Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	2022	2021
INTEREST INCOME			
Loans		**$ 8,278**	$ 6,928
Securities		**1,107**	473
		9,385	7,401
INTEREST EXPENSE			
Deposits		**2,829**	1,508
Subordinated notes		**78**	65
Other		**148**	42
		3,055	1,615
NET INTEREST INCOME	27	**6,330**	5,786
NET PREMIUMS	17	**11,842**	11,278
OTHER INCOME			
Deposit and payment service charges		**448**	424
Lending fees and card service revenues		**991**	735
Brokerage and investment fund services		**989**	1,108
Management and custodial service fees		**786**	732
Net investment income (loss)	27	**(4,505)**	319
Overlay approach adjustment for insurance operations financial assets		**747**	(404)
Foreign exchange income		**119**	121
Other		**293**	221
		(132)	3,256
TOTAL INCOME		**18,040**	20,320
PROVISION FOR CREDIT LOSSES	8	**277**	69
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	17	**4,500**	6,883
NON-INTEREST EXPENSE			
Salaries and employee benefits		**5,066**	4,437
Professional fees		**1,159**	1,013
Technology		**978**	893
Commissions		**929**	881
Occupancy costs		**403**	406
Communications		**417**	329
Business and capital taxes		**482**	459
Other		**1,204**	1,148
		10,638	9,566
OPERATING SURPLUS EARNINGS		**2,625**	3,802
Income taxes on surplus earnings	28	**575**	860
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS		**2,050**	2,942
Member dividends		**403**	387
Tax recovery on member dividends	28	**(106)**	(103)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		**$ 1,753**	$ 2,658
of which:			
Group's share		**$ 1,686**	$ 2,515
Non-controlling interests' share	14	**67**	143

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

Combined Statements of Comprehensive Income

For the years ended December 31

(in millions of Canadian dollars)	2022	2021
Net surplus earnings for the year after member dividends	**$ 1,753**	$ 2,658
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan assets and liabilities	**691**	1,381
Share of associates and joint ventures accounted for using the equity method	**—**	6
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(1)**	(1)
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**7**	2
	697	1,388
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized losses	**(1,672)**	(454)
Reclassification of net losses to the Combined Statements of Income	**189**	10
	(1,483)	(444)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	**(331)**	422
Reclassification of net gains to the Combined Statements of Income	**(264)**	(114)
	(595)	308
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	**(897)**	(321)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(2)**	(61)
	(899)	(382)
Share of associates and joint ventures accounted for using the equity method	**(5)**	(1)
	(2,982)	(519)
Total other comprehensive income, net of income taxes	**(2,285)**	869
COMPREHENSIVE INCOME FOR THE YEAR	**$ (532)**	$ 3,527
of which:		
Group's share	**$ (556)**	$ 3,348
Non-controlling interests' share	**24**	179

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

Income taxes on other comprehensive income

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

For the years ended December 31

(in millions of Canadian dollars)	2022	2021
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan assets and liabilities	**$ 249**	$ 493
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**	1
	252	494
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized losses	**(596)**	(160)
Reclassification of net losses to the Combined Statements of Income	**67**	5
	(529)	(155)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	**(83)**	123
Reclassification of net gains to the Combined Statements of Income	**(69)**	(27)
	(152)	96
Net change in cash flow hedges		
Net losses on derivative financial instruments designated as cash flow hedges	**(324)**	(114)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(1)**	(20)
	(325)	(134)
	(1,006)	(193)
Total income tax expense (recovery)	**$ (754)**	$ 301

Combined Statements of Changes in Equity

For the years ended December 31

				Reserves						
(in millions of Canadian dollars)	Capital stock (Note 23)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 25)	Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves	Equity - Group's share	Non-controlling interests (Note 14)	Total equity
BALANCE AS AT DECEMBER 31, 2020	$ 5,021	$ 1,874	$ 1,302	$ 795	$ 1,159	$ 19,362	$ 21,316	$ 29,513	$ 750	$ 30,263
Net surplus earnings for the year after member dividends	—	2,515	—	—	—	—	—	2,515	143	2,658
Other comprehensive income for the year	—	1,370	(537)	—	—	—	—	833	36	869
Comprehensive income for the year	—	3,885	(537)	—	—	—	—	3,348	179	3,527
Redemption of shares of capital stock	(39)	—	—	—	—	—	—	(39)	—	(39)
Transactions related to non-controlling interests	—	—	—	—	—	—	—	—	8	8
Remuneration on capital stock	—	(208)	—	—	—	—	—	(208)	—	(208)
Dividends	—	—	—	—	—	—	—	—	(25)	(25)
Transfer between surplus earnings to be distributed and reserves	—	(4,005)	—	—	53	3,952	4,005	—	—	—
BALANCE AS AT DECEMBER 31, 2021	$ 4,982	$ 1,546	$ 765	$ 795	$ 1,212	$ 23,314	$ 25,321	$ 32,614	$ 912	$ 33,526
Net surplus earnings for the year after member dividends	**—**	**1,686**	**—**	**—**	**—**	**—**	**—**	**1,686**	**67**	**1,753**
Other comprehensive income for the year	**—**	**689**	**(2,931)**	**—**	**—**	**—**	**—**	**(2,242)**	**(43)**	**(2,285)**
Comprehensive income for the year	**—**	**2,375**	**(2,931)**	**—**	**—**	**—**	**—**	**(556)**	**24**	**(532)**
Redemption of shares of capital stock	**(196)**	**—**	**—**	**—**	**—**	**—**	**—**	**(196)**	**—**	**(196)**
Transactions related to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(9)**	**(9)**
Remuneration on capital stock	**—**	**(262)**	**—**	**—**	**—**	**—**	**—**	**(262)**	**—**	**(262)**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(80)**	**(80)**
Transfer between surplus earnings to be distributed and reserves	**—**	**(2,578)**	**—**	**(452)**	**492**	**2,538**	**2,578**	**—**	**—**	**—**
Equity transactions[(1)]	**—**	**7,347**	**—**	**—**	**—**	**(7,347)**	**(7,347)**	**—**	**—**	**—**
Other	**—**	**1**	**—**	**—**	**—**	**—**	**—**	**1**	**—**	**1**
BALANCE AS AT DECEMBER 31, 2022	**$ 4,786**	**$ 8,429**	**$ (2,166)**	**$ 343**	**$ 1,704**	**$ 18,505**	**$ 20,552**	**$ 31,601**	**$ 847**	**$ 32,448**

(1) The increase in undistributed surplus earnings for the year results from equity transactions between Desjardins Group entities. Undistributed surplus earnings arising from such transactions will be included in the surplus earnings distribution plans for the next fiscal year. These transactions had no impact on Desjardins Group's equity as at December 31, 2022.

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

Combined Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)	2022	2021
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 2,625**	$ 3,802
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment and investment property, and amortization of intangible assets	**408**	385
Amortization of premiums and discounts	**334**	447
Net change in insurance contract liabilities	**(3,408)**	(65)
Provision for credit losses	**277**	69
Net realized losses on securities classified as at fair value through other comprehensive income	**157**	24
Net (gains) losses on disposal of property, plant and equipment, intangible assets and investment property	**(2)**	10
Overlay approach adjustment for insurance operations financial assets	**(747)**	404
Other	**(132)**	(59)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**5,747**	(4,812)
Securities borrowed or purchased under reverse repurchase agreements	**(5,005)**	(2,361)
Loans	**(19,606)**	(19,159)
Derivative financial instruments, net amount	**1,591**	953
Net amounts receivable from and payable to clients, brokers and financial institutions	**111**	1,070
Deposits	**21,481**	13,119
Commitments related to securities sold short	**(1,483)**	1,989
Commitments related to securities lent or sold under repurchase agreements	**(6,612)**	12,025
Other	**634**	925
Payment of the contingent consideration	**(87)**	(105)
Income taxes paid on surplus earnings	**(859)**	(1,107)
Payment of member dividends	**(386)**	(333)
	(4,962)	7,221
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	**997**	998
Repayment of subordinated notes	**—**	(500)
Sale (purchase) of debt securities and subordinated notes from third parties on the market	**17**	(13)
Repayment of lease liabilities	**(61)**	(92)
Redemption of shares of capital stock	**(196)**	(39)
Remuneration on capital stock	**(208)**	(208)
Transactions related to non-controlling interests	**(9)**	8
Dividends paid	**(80)**	(25)
	460	129
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(36,789)**	(31,901)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**22,300**	23,553
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**12,294**	5,799
Acquisitions of property, plant and equipment, intangible assets and investment property	**(613)**	(436)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	**21**	30
Acquisitions of joint ventures and associates accounted for using the equity method	**(126)**	(193)
	(2,913)	(3,148)
Net increase (decrease) in cash and cash equivalents	**(7,415)**	4,202
Cash and cash equivalents at beginning of year	**16,328**	12,126
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 8,913**	$ 16,328
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 2,658**	$ 1,643
Interest received	**9,949**	8,320
Dividends received	**253**	234

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Nature of operations

Desjardins Group is made up of the Desjardins caisses in Québec, Caisse Desjardins Ontario Credit Union Inc. (CDO), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries and the *Fonds de sécurité Desjardins*. A number of the subsidiaries are active across Canada. The various business segments in which Desjardins Group operates are described in Note 31, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

Combined Financial Statements

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

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

Statement of compliance

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

The Combined Financial Statements for the year ended December 31, 2022 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 22, 2023.

The significant measurement and presentation rules applied to prepare these Combined Financial Statements are described below.

Significant judgments, estimates and assumptions

The preparation of combined financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, determination of the fair value of financial instruments, derecognition of financial assets, impairment of financial instruments, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, member dividends, employee benefits as well as intangible assets. Consequently, actual results could differ from those estimates and assumptions.

The economic environment continues to give rise to sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Combined Financial Statements. This specifically affects the allowance for expected credit losses. For more information on significant judgments made to estimate the allowance for expected credit losses, see Note 8, "Loans and allowance for credit losses".

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Scope of the Group

The Combined Financial Statements of Desjardins Group include the assets, liabilities, operating results and cash flows of the Desjardins caisses in Québec, CDO, the Federation and its subsidiaries and the *Fonds de sécurité Desjardins*. The financial statements of all Group entities have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give Desjardins Group control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities.

Subsidiaries

An entity is considered as a subsidiary when it is controlled by a Group entity. A Group entity controls an investee if and only if it has all the following:
- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of its returns.

Structured entities

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

Non-controlling interests

Non-controlling interests represent the share in profit or loss as well as net assets not held by Desjardins Group. They are presented separately in the Combined Statements of Income, the Combined Statements of Comprehensive Income and in equity, in the Combined Balance Sheets.

Associates

An associate is an entity over which Desjardins Group exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. Desjardins Group's investments in associates are presented under "Investments in companies accounted for using the equity method" in the Combined Balance Sheets and are accounted for using the equity method. Under this method, investments are initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in Desjardins Group's share in the relevant entities' equity.

Joint arrangements

A joint arrangement is an arrangement of which Desjardins Group has joint control, which is the contractually agreed sharing of control of such arrangement with one or more other parties. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:
- A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party must recognize its assets, liabilities, revenue and expenses, including its share of the assets held jointly and of the liabilities incurred jointly as well as its share of the revenue generated and expenses incurred in connection with the joint operation.
- A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This type of joint arrangement is accounted for using the equity method. Desjardins Group's investments in joint ventures are presented under "Investments in companies accounted for using the equity method" in the Combined Balance Sheets.

Presentation and functional currency

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date Desjardins Group becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

Classification and measurement

Financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

Contractual cash flow characteristics

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset, the cash flows from this asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally the fair value of the financial asset at initial recognition. Interest consists mainly of consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, but it may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, as well as a certain profit margin.

Business models

Desjardins Group's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how Desjardins Group manages its financial assets in order to generate cash flows. They therefore reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence that is available to Desjardins Group at the date of the assessment.

Desjardins Group's business models are defined as follows:
- Held to collect contractual cash flows: The objective of holding financial assets is achieved by collecting contractual cash flows.
- Held to collect contractual cash flows and sell: The objective is achieved by both collecting contractual cash flows and selling financial assets.
- Other business models: The objective is not consistent with any of the above-mentioned business models.

The classification and measurement of financial assets can be summarized as follows:

<table>
<tr><th colspan="2" rowspan="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 (loss)" in the Combined Statements of Income.
- Interest income calculated using the effective interest method and dividend income from securities included in the "At fair value through profit or loss" class of the Personal and Business Services segment and the Other category are recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net investment income (loss)".

(ii) Financial assets "Classified as at fair value through profit or loss" include the following:
- Debt instruments that are managed for trading purposes or on a fair value basis or do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- Equity instruments.
- Derivative financial instruments.

Section n), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

Certain financial assets "Classified as at fair value through profit or loss" are designated for the overlay approach. For more information, see the "Application of the overlay approach to insurance operations financial assets" section of this note.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iii) Financial assets “Designated as at fair value through profit or loss” are debt securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset.

Desjardins Group’s financial assets included in this measurement category comprise mainly securities (debt instruments) that back the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims.

(iv) Financial assets included in the “At fair value through other comprehensive income” class comprise financial assets “Classified as at fair value through other comprehensive income” and “Designated as at fair value through other comprehensive income”. Therefore:

- Changes in fair value of financial assets included in this class, except for changes related to the allowance for expected credit losses and exchange gains and losses on financial assets “Classified as at fair value through other comprehensive income”, are recorded in the Combined Statements of Comprehensive Income as net unrealized gains and losses. For financial assets “Classified as at fair value through other comprehensive income”, gains and losses are reclassified to the Combined Statements of Income when the asset is derecognized, while for financial assets “Designated as at fair value through other comprehensive income”, gains and losses are never reclassified subsequently to the Combined Statements of Income and are reclassified immediately to undistributed surplus earnings.
- Premiums and discounts on the purchase of financial assets “At fair value through other comprehensive income” are amortized over the life of the securities using the effective interest method and recognized under “Interest income – Securities” for the Personal and Business Services segment and the Other category. For the other segments, they are mainly recognized under “Net investment income (loss)”.

(v) Financial assets “Classified as at fair value through other comprehensive income” include debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

(vi) Financial assets “Designated as at fair value through other comprehensive income” include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that are held on a long-term basis.

(vii) Securities included in the “Amortized cost” class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

Securities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the “Amortized cost” class is presented under “Interest income – Loans” in the Combined Statements of Income when it is recognized by the Personal and Business Services segment and the Other category. For the other segments, it is recognized mainly under “Net investment income (loss)”.

Financial assets are not reclassified following their initial recognition, except when the business model for managing those financial assets is changed.

Application of the overlay approach to insurance operations financial assets

Desjardins Group elected to designate certain eligible financial assets for the overlay approach to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, “Financial Instruments”, and IFRS 17, “Insurance Contracts”. To be eligible, a financial asset must meet the following criteria:

- It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39, “Financial Instruments: Recognition and Measurement”.
- It is held in respect of an activity connected with contracts within the scope of IFRS 4, “Insurance Contracts”.

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported if Desjardins Group had continued to apply IAS 39. As a result, net surplus earnings related to designated financial instruments reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39.

Reclassifications under the overlay approach are presented under “Overlay approach adjustment for insurance operations financial assets” in the Combined Statements of Income and under “Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets” in the Combined Statements of Comprehensive Income. The overlay approach may be used for the years beginning before January 1, 2023.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers the following accounting policies as well as foreign currency fair value hedge accounting for equity instruments under IAS 39:

“Available-for-sale” securities under IAS 39

Under IAS 39, “Available-for-sale” securities are initially recognized at fair value. They are subsequently measured at fair value, and gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Combined Statements of Comprehensive Income until the financial asset is derecognized. Premiums and discounts on the purchase of “Available-for-sale” securities as well as transaction costs are amortized using the effective interest method and recognized in the Combined Statements of Income. Foreign exchange gains and losses on securities included in this class are recognized in the Combined Statements of Income, except for unrealized foreign exchange gains and losses on non-monetary financial instruments, which are recognized in the Combined Statements of Comprehensive Income.

Impairment of “Available-for-sale” securities under IAS 39

Under IAS 39, “Available-for-sale” securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring an impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring, and the disappearance of an active market for the asset.

Debt securities are assessed individually to determine whether there is any objective evidence of impairment. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss has been recognized in the Combined Statements of Income, the impairment loss is reversed through the Combined Statements of Income.

For equity securities, when evidence of impairment exists, the cumulative loss is transferred out of other comprehensive income and recognized in the Combined Statements of Income. Impairment losses on equity securities are not reversed to the Combined Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded in other comprehensive income. Any impairment loss on securities previously impaired is directly recognized in the Combined Statements of Income.

Financial liabilities are classified based on their characteristics and the intention of management upon their issuance.

The classification and measurement of financial liabilities can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial liabilities	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Amortized cost (iv)		Fair value	Amortized cost

(i) Financial liabilities included in the “At fair value through profit or loss” class comprise financial liabilities “Classified as at fair value through profit or loss” and “Designated as at fair value through profit or loss”. Therefore:
- Changes in fair value of financial liabilities included in this class are mainly recorded under “Net investment income (loss)” in the Combined Statements of Income. However, for financial liabilities designated as at fair value, the change in fair value that is attributable to Desjardins Group’s own credit risk is recognized in other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and is reclassified immediately to undistributed surplus earnings.
- Interest expense related to financial liabilities included in the “At fair value through profit or loss” class is recognized under “Interest expense” in the Combined Statements of Income for the Personal and Business Services segment and the Other category. For the other segments, interest expense is recognized under “Net investment income (loss)” in the Combined Statements of Income.

(ii) Financial liabilities “Classified as at fair value through profit or loss” are securities held for trading and include debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments are also classified as held for trading.

Section n), “Derivative financial instruments and hedging activities”, of this note specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iii) Financial liabilities “Designated as at fair value through profit or loss” are designated as such by management upon initial recognition, on an instrument-by-instrument basis, and are essentially debt securities. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial liability, if a group of financial liabilities is managed and its performance is evaluated on a fair value basis, or if the liabilities are hybrid financial liabilities containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Financial liabilities included in this measurement category comprise deposits containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

(iv) Financial liabilities that are not in the “At fair value through profit or loss” class are included in the “Amortized cost” class.

Financial liabilities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the “Amortized cost” class is recognized under “Interest expense” in the Combined Statements of Income for the Personal and Business Services segment and the Other category. Interest expense for the other segments is recognized mainly under “Net investment income (loss)” in the Combined Statements of Income.

Determination of the fair value of financial instruments

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

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

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

Loans

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

Deposits

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

Subordinated notes

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

Derivative financial instruments

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments whose fair value equals their carrying amount

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

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method. However, for financial instruments classified or designated as “At fair value through profit or loss”, these costs are expensed as incurred.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and Desjardins Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

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

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

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

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

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

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Combined Statements of Income.

b) Cash and deposits with financial institutions

“Cash and deposits with financial institutions” includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions–including net amounts receivable related to cheques and other items in the clearing process–as well as certain fixed-income securities. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

c) Securities

The classification and measurement of securities are determined using the criteria stated in section a), “Financial assets and liabilities”, above.

Securities purchased under reverse repurchase agreements and securities borrowed

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under “Securities borrowed or purchased under reverse repurchase agreements” in the Combined Balance Sheets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

As part of securities borrowings, Desjardins Group pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Combined Balance Sheets. When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of ownership of these securities are retained.

Securities sold under repurchase agreements and securities lent

Securities sold under repurchase agreements and securities lent are not derecognized from the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets.

As part of securities loans, Desjardins Group receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets. When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Securities sold short

Securities sold short as part of trading activities, which represent Desjardins Group's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized under "Net investment income (loss)" in the Combined Statements of Income.

d) Loans

Loans are recorded at "Amortized cost", net of the allowance for credit losses, using the effective interest method.

Fees collected and direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loans. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities, equity securities, etc.) or cash.

Restructured loans are loans for which Desjardins Group renegotiated the initial terms by granting concessions to the borrower in the context of financial difficulties or to prevent a failure by the borrower to meet its initial obligations. Once the terms of the loan have been renegotiated and accepted by the borrower, the loan is considered as restructured.

When the modification of the terms of a loan has no significant impact on contractual cash flows, the renegotiated loan is not derecognized. At the date of restructuring, the loan is reduced to the amount of the estimated net cash flows receivable under the modified terms, discounted at the effective interest rate (prior to the restructuring), which may result in a gain or loss on modification.

When the modification of the terms of a loan has a significant impact on contractual cash flows, the initial loan should be derecognized, which may result in a gain or loss on derecognition. In addition, a new loan should be recognized based on the new contractual terms.

When the modification of the terms of a loan does not result in the derecognition of such loan, the date of initial recognition of the loan remains unchanged for purposes of applying the impairment model. The default risk based on the modified contractual terms is then compared to the default risk based on the initial terms to determine whether there has been a significant increase in credit risk since initial recognition.

When the modification of the terms of a loan results in the derecognition of such loan and the recognition of a new loan, the date of the modification should become the date of initial recognition of the new loan for purposes of applying the impairment model. A new loan is usually considered as being in Stage 1 of the impairment model, but it may have to be considered as credit-impaired upon origination.

e) Impairment of financial instruments

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the change in credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Group bases its assessment on the change in default risk over the expected life of the financial instrument, which requires significant judgment.

To this end, Desjardins Group compares the probability of default (PD) of the financial instrument at the reporting date with its PD at the date of initial recognition. In addition, it considers reasonable and supportable information indicating a significant increase in credit risk since initial recognition, including qualitative information and information about future economic conditions to the extent that it affects the assessment of the instrument's PD. The criteria used to determine a significant increase in credit risk vary depending on the groups of financial instruments with shared credit risk characteristics and are mainly based on a relative change combined with an absolute change in the PD. They also include absolute PD thresholds and certain other criteria. All instruments that are more than 30 days past due are transferred to Stage 2 of the impairment model.

For securities at "Amortized cost" or "Classified as at fair value through other comprehensive income", Desjardins Group elected to use the low credit risk exemption. Consequently, when credit risk is equivalent to the credit risk of the "investment grade" category at the reporting date, the credit risk on the securities is deemed to not have significantly increased since initial recognition.

Definition of default and credit-impaired financial asset

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes and for regulatory purposes. It considers relevant quantitative and qualitative factors. In particular, a loan is in default when contractual payments are over 90 days past due. A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant.

Measurement of the allowance for expected credit losses

The allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of the contract, and total cash flows that Desjardins Group expects to receive. For credit-impaired financial assets, expected credit losses are calculated based on the difference between the gross carrying amount of the asset and estimated cash flows.

The measurement of the allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. The LGD of certain loans and off-balance sheet items is estimated at 0% due to the nature of the credit enhancement obtained. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics. The following table presents the main aggregation variables for the applicable parameters.

PD	LGD	EAD[1]
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:* • Type of clients • Type of product *Loan commitments and financial guarantees:* • Type of clients • Risk level • Utilization rate • Authorized amount • Type of product

[1] To determine EAD, a credit conversion factor is applied.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios (base, upside and downside) to determine the allowance for expected credit losses and assigns to each scenario a probability of occurrence. Desjardins Group may also make adjustments to take into account the relevant information that affects the measurement of the allowance for credit losses and that has not been incorporated into the credit risk parameters. Incorporating forward-looking information is based on a set of assumptions and methodologies specific to credit risk and economic projections and therefore requires a high degree of judgment.

For credit-impaired financial assets that are individually material, measuring the allowance for expected credit losses is based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions. In some cases, Desjardins Group may not recognize any allowance for credit losses when the probability of the collateral realization scenario is 100% and the estimated realizable value of the collateral exceeds the gross carrying amount of the loan.

Expected life

The expected life of most financial instruments is equal to the maximum contractual term during which Desjardins Group is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans. Their life is estimated as being the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions.

Recognition of the allowance for expected credit losses

The allowance for expected credit losses on loans is recorded under "Allowance for credit losses" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The allowance for expected credit losses on loan commitments and financial guarantees is recorded under "Other liabilities – Other" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The allowance for expected credit losses on securities at "Amortized cost" is recorded against "Securities – Securities at amortized cost" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income. The allowance for expected credit losses on securities "Classified as at fair value through other comprehensive income" is recognized under "Net unrealized losses on debt securities classified as at fair value through other comprehensive income" in the Combined Statements of Comprehensive Income and under "Provision for credit losses" in the Combined Statements of Income.

Foreclosed assets

Assets foreclosed to settle credit-impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount of the loan and the fair value recorded for the foreclosed assets is recognized under "Provision for credit losses".

Loan write-off

A loan is written off, in whole or in part, when recovery is no longer reasonably expected, which is when all attempts at restructuring or collection have been made and, based on an assessment of the file in its entirety, there are no other means to recover the loan. For secured loans, balances are generally written off once the collateral has been realized. Loans for which a consumer proposal or bankruptcy proceedings are ongoing but for which Desjardins Group has no reasonable expectation of recovery are written off, but they may continue to be subject to recovery measures by an insolvency trustee. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days. These balances could however still be subject to enforcement activity during a certain period after they have been written off. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Combined Statements of Income.

f) Leases

Desjardins Group analyzes contracts newly entered into or modified to assess whether they are, or contain, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The manner in which a lease is accounted for differs depending on whether Desjardins Group is the lessee or the lessor.

Lessee

Desjardins Group mainly leases premises that are used in the normal course of its operations. A right-of-use asset and a lease liability are recognized in the Combined Balance Sheets at the commencement date of the lease, except for short-term and low-value leases. Accordingly, lease payments associated with those leases are recognized as a lease expense in the Combined Statements of Income based on the terms of the lease. In addition, Desjardins Group applies the practical expedient which allows not to separate non-lease components from lease components for a contract.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liability, plus prepaid lease payments less lease incentives received. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shortest of the lease term and the useful life of the underlying asset. The lease term is the non-cancellable period and includes any renewal options if Desjardins Group is reasonably certain to exercise those options and any termination options if Desjardins Group is reasonably certain not to exercise those options. The right-of-use asset is periodically adjusted to reflect certain reassessments of the lease liability.

"Right-of-use assets" are presented in the Combined Balance Sheets and the depreciation of right-of-use assets is recognized under "Non-interest expense – Occupancy costs" in the Combined Statements of Income.

The lease liability is initially measured at the present value of the lease payments for the lease term that have not yet been paid, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, Desjardins Group uses its incremental borrowing rate as discount rate. Payments included in the measurement of the lease liability comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, based on the index or the rate as at the commencement date of the lease, an estimated amount for any guaranteed residual value as well as amounts Desjardins Group is reasonably certain to pay for the exercise price of a purchase option or a termination penalty.

The lease liability is subsequently adjusted to reflect interest on the lease liability and lease payments made. It is remeasured when there is a change in future lease payments mainly as a result of a change in an index or a rate, or a change in the amounts expected to be payable by Desjardins Group under a residual value guarantee, when there are lease modifications, or when Desjardins Group revises its assessment of the potential exercise of a purchase, renewal or termination option.

"Lease liabilities" are presented in the Combined Balance Sheets and interest expense on lease liabilities is recognized under "Interest expense" in the Combined Statements of Income.

Lessor

Leases in which Desjardins Group is the lessor are leases for premises. Desjardins Group classifies the leases in which it is the lessor as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not. Desjardins Group mainly enters into operating leases.

When Desjardins Group is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under "Net investment income (loss)" and the leased asset remains recognized in the Combined Balance Sheets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent is recognized in profit or loss in the year during which it is earned.

g) Property, plant and equipment and investment property

Property, plant and equipment

Property, plant and equipment consists of land, buildings, computer hardware, furniture, fixtures and other items as well as leasehold improvements. They are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under "Non-interest expense – Occupancy costs" in the Combined Statements of Income.

Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the "Investment property" category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the "Investment property" category to the "Buildings" category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by Desjardins Group becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

The depreciation expense for investment properties is recognized under "Net investment income (loss)" in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Depreciation

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	3 to 10 years
Furniture, fixtures and other	1 to 20 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

Derecognition

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains and losses on the disposal or sale of buildings are recognized in the Combined Statement of Income for the year in which they are realized under "Non-interest expense – Occupancy costs" for property, plant and equipment and under "Net investment income (loss)" for investment property.

h) Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method.

At the acquisition date, each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

Intangible assets

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

Desjardins Group assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and client relationships and are amortized using the straight-line method over their estimated useful lives, which do not exceed 40 years.

Gains or losses resulting from the derecognition of an intangible asset correspond to the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under "Non-interest expense – Other" in the Combined Statements of Income upon derecognition of the asset.

i) Impairment of non-financial assets

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Combined Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Combined Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill is tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill is performed based on the recoverable amount of each CGU (or each group of CGUs) to which goodwill is allocated. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each CGU.

When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statement of Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of the impairment loss to the assets of the CGU (or group of CGUs) must however not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

j) Acceptances and clients' liability under acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our clients and that we guarantee for a fee. The potential liability of Desjardins Group under acceptances is recognized under "Acceptances", in "Other liabilities". Desjardins Group has equivalent offsetting claims against its clients in the event of a call on these commitments, which are recognized under "Clients' liability under acceptances", in "Other assets". Fees are recognized under "Other income – Other".

k) Insurance contract liabilities

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by these subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries. They are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM) in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

Under CALM, actuarial liabilities of the life and health insurance subsidiaries are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Combined Statement of Income for the year in which the revision occurs. The provisions for claims and adjustment expenses are reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiary 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 subsidiary elected not to recognize the participating portion of these contracts separately.

Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Combined Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under “Reinsurance assets” in the Combined Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These assets comprise the reinsurers’ share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers’ share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

l) Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by the life and health insurance subsidiary for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Combined Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section a), “Financial assets and liabilities”. In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to contract holders’ rights to the segregated fund net assets is also recognized separately.

m) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing or amount. A provision is recognized when Desjardins Group has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management’s best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant uncertainties and risks. Management must make significant judgments in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflow of resources. Desjardins Group regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in profit or loss under the items corresponding to the nature of the expenditures covered.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Desjardins Group or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably.

n) Derivative financial instruments and hedging activities

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of Desjardins Group’s derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 21, “Derivative financial instruments and hedging activities”.

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recognized at fair value on the Combined Balance Sheets. Changes in fair value of embedded derivatives required to be accounted for separately are recognized under “Net investment income (loss)” in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Hybrid financial instruments

When a hybrid contract contains a host that is an asset within the scope of IFRS 9, the entire hybrid contract is classified and recognized based on the characteristics of the hybrid contract.

An embedded derivative is separated from the host and accounted for separately as a derivative when the host is not an asset within the scope of IFRS 9 and the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid contract is not measured at fair value with changes in fair value recognized in the Combined Statements of Income.

Objectives of holding derivatives

Desjardins Group uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of members and clients, and to allow Desjardins Group to generate income on its own trading activities. These instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under “Net investment income (loss)” in the Combined Statements of Income.

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. They enable Desjardins Group to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Combined Balance Sheets, as well as firm commitments and forecasted transactions.

Hedging activities

Desjardins Group elected to continue applying the requirements of IAS 39 for hedge accounting (including the requirements related to the interest rate benchmark reform) instead of adopting the provisions of IFRS 9.

Desjardins Group mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, Desjardins Group must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows of the hedged item attributable to the risk being hedged.

Desjardins Group may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting.

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or Desjardins Group terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

Fair value hedges

In a fair value hedge transaction, changes in fair value of the hedging derivative financial instrument are recognized under “Net investment income (loss)” in the Combined Statements of Income, as are changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized under “Net investment income (loss)” in the Combined Statements of Income.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Previously recorded adjustments to the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Combined Statements of Income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under “Net investment income (loss)” in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash flow hedges

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized under "Net losses on derivative financial instruments designated as cash flow hedges", in other comprehensive income, until the hedged item is recognized in the Combined Statements of Income, at which time such changes are recognized in net interest income in the Combined Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized under "Net investment income (loss)" in the Combined Statements of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues hedge accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Combined Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under "Net investment income (loss)".

Interest rate benchmark reform ("IRBR")

Desjardins Group applies the relief measures, which allow maintaining hedge accounting during the period of uncertainty preceding the replacement of current interest rate benchmarks by an alternative rate. The application of these relief measures is based on the presumption that current interest rate benchmarks designated in hedging relationships remain unchanged and the use of the exception to the requirement to cease hedge accounting when a hedging relationship does not meet the ranges established to determine the effectiveness of hedging relationships. The application of these relief measures will end at the earlier of: when the uncertainty arising from interest rate benchmark reform is no longer present; and when the hedging relationship is discontinued.

o) Financial guarantees

A financial guarantee is a contract that could contingently require Desjardins Group to make specified payments to the guaranteed party to repay a loss that such party incurred as a result of a default by a specified third party to make a payment upon maturity in accordance with the original or modified terms and conditions of a debt security.

Financial guarantees are initially recognized as liabilities in the Combined Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, except in cases where it must be measured at fair value through profit or loss, the guarantee is measured at the higher of the following amounts:
(i) The amount initially recorded less, when appropriate, accumulated amortization recognized in the Combined Statements of Income;
(ii) The amount of the allowance for credit losses.

If a financial guarantee meets the definition of a derivative, it is measured at fair value through profit or loss at each reporting date and presented as a derivative financial instrument. Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument.

The carrying amount of guarantees does not reflect the maximum potential amount of future payments under guarantees. Desjardins Group considers the difference between these two amounts as off-balance sheet credit instruments.

p) Reserves

Reserves included in equity are mainly from the caisses. They are based on the balance of the reserves as at December 31 of the prior year and the surplus earnings distribution plans for such year, which must be approved by the general meeting of each caisse within the first four months following year-end.

The stabilization reserve of a caisse and the Federation's stabilization reserve consist of amounts appropriated from the surplus earnings for the year by the caisse or the Federation, as appropriate. Amounts appropriated to the stabilization reserve of a caisse are essentially used to pay interest on permanent shares issued by that caisse. Amounts appropriated to the Federation's stabilization reserve are essentially used to pay interest on F capital shares it issued.

The reserve for future member dividends is made up of amounts appropriated by the caisses. Amounts appropriated to this reserve are used to pay member dividends and to appropriate amounts to the Community Development Fund.

The general reserve is essentially made up of amounts appropriated by the caisses, the Federation and the *Fonds de sécurité Desjardins*. This reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on permanent shares, surplus shares and capital shares.

Other reserves are mainly made up of amounts appropriated by the caisses that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized by the caisses.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

q) Revenue recognition

In addition to the items mentioned in section a), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

Recognition criteria

Revenue is recognized when Desjardins Group has transferred control of a good or service (the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

Net interest income

Interest income and expense are mainly earned or incurred by the Personal and Business Services segment and the Other category. They are recognized using the effective interest method for all financial instruments measured at "Amortized cost", for interest-bearing financial assets "Classified as at fair value through other comprehensive income" and for financial instruments included in the "At fair value through profit or loss" class.

The effective interest method is used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

When calculating the effective interest rate, Desjardins Group estimates cash flows considering all contractual terms of the financial instruments, but it does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders' fees, are assimilated to supplemental interest.

For financial assets that are not considered credit-impaired (Stages 1 and 2), interest income is calculated on the gross carrying amount of the financial instrument. For credit-impaired financial assets (Stage 3), interest income is calculated by applying the effective interest rate to the amortized cost of the asset, which corresponds to the gross carrying amount less the allowance for expected credit losses.

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as they are recognized, an actuarial provision is established and recognized under "Insurance contract liabilities". Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Combined Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. They are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Combined Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under "Insurance contract liabilities" in the Combined Balance Sheets.

Service charges, commissions, brokerage fees and other

Desjardins Group earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its members and clients.

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under "Deposit and payment service charges" and "Brokerage and investment fund services" in the Combined Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by Desjardins Group is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under "Lending fees and credit card service revenues" in the Combined Statements of Income.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party—such as the arrangement of share or other securities acquisitions or business purchases or sales—are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under "Brokerage and investment fund services" in the Combined Statements of Income. Income from lending fees and credit card service revenue is recorded under "Lending fees and credit card service revenues" in the Combined Statements of Income.

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under "Management and custodial service fees" in the Combined Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under "Management and custodial service fees" in the Combined Statements of Income.

Dividend income is recognized when Desjardins Group's right to receive payment of the dividend is established.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Combined Balance Sheets of Desjardins Group. Income from these management services is recognized under "Management and custodial service fees" in the Combined Statements of Income when the service is provided.

s) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized under "Foreign exchange income" in the Combined Statements of Income. However, the following items are presented in other comprehensive income in the Combined Statements of Comprehensive Income:
- Translation gains and losses on financial assets "Designated as at fair value through other comprehensive income".
- Gains and losses on derivatives designated as cash flow hedging instruments.

t) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish the assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that Desjardins Group expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting dates.

Deferred income taxes

Deferred taxes are recognized, using the balance sheet liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Combined Balance Sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:
(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).
(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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

u) Member dividends

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends take into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Capitalization Plan, which provides for member dividends based on Desjardins Group's financial capacity and capitalization. The difference between the amount of member dividends actually paid following the general meetings held by the caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

Member dividends are calculated based on average balances maintained in the following product families: Accounts, Loans and Lines of Credit, Savings and Investments and Funds. For credit card volumes, member dividends are calculated based on net purchases for the relevant year. For the Insurance product family, member dividends are calculated based on the premium paid for the relevant year. Lastly, for certain activities relating to Desjardins Securities Inc., (Desjardins Signature Service, Securities Brokerage, Desjardins Online Brokerage), the calculation is based on commissions and fees for the relevant year. Member dividends are recognized under "Member dividends" in the Combined Statements of Income.

v) Employee benefits

Short-term benefits

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

Post-employment benefits

Pension and post-retirement benefit plans

Desjardins Group offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Combined Statements of Income and includes current service cost, past service cost and net interest on net defined benefit plan assets and liabilities. Past service cost resulting from a plan amendment or curtailment is immediately recognized in the Combined Statements of Income.

Remeasurements of net defined benefit plan assets and liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and are immediately reclassified to undistributed surplus earnings. These remeasurements include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Combined Statements of Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets and liabilities are equal to the present value of the plans' obligation, calculated using the projected unit credit method, less the fair value of plan assets. The value of any net defined benefit plan asset is, when appropriate, limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

The net assets of certain pension plans are recognized under "Net defined benefit plan assets" in the Combined Balance Sheets. The net liabilities of certain pension plans and the net liabilities of other post-retirement benefit plans are recognized under "Net defined benefit plan liabilities" in the Combined Balance Sheets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FUTURE ACCOUNTING CHANGES

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2022 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", for annual reporting periods beginning on or after January 1, 2023. 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 the premium allocation approach for contracts with a period of one year or less as well as the variable fee approach for insurance contracts with direct participation features.

The general measurement model and the variable fee approach are based on the discounted value of estimated expected future cash flows for the duration of the contract. Insurance profits resulting from issuing insurance contracts measured using these two methods are recorded separately in the insurance liability for contractual service margin. These deferred profits will be recognized in profit and loss as services are rendered. For contracts measured using the premium allocation approach, insurance revenue is recognized as services are rendered, while insurance expenses are recognized when they are incurred. In all cases, when insurance contracts are onerous upon issuance, a loss is immediately recognized in profit or loss.

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

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

As part of its application, IFRS 17 allows for certain choices to be made. Desjardins Group made the following choices:
- Amortize insurance acquisition cash flows for insurance contracts measured using the premium allocation approach over the duration of the related contracts.
- Apply the accounting offset measure allowed in the statement of income as part of using the strategy for mitigating the financial risks associated with segregated fund contracts.
- Recognize insurance finance income and insurance finance expenses solely in the Combined Statements of Income.
- Not discount the liability for remaining coverage for insurance contracts measured using the premium allocation approach that do not exceed one year.

Desjardins Group has evaluated that adopting IFRS 17 will have an impact on its restated Combined Balance Sheet as at January 1, 2022, including the establishment of a contractual service margin of $2,850 million to $2,950 million arising from the insurance contracts of the life and health insurance subsidiary in force as at that date. Undistributed surplus earnings and reserves will increase by an aggregate amount of $550 million to $575 million, which is mainly explained by an amount of $448 million from accumulated other comprehensive income following the discontinuation of the overlay approach. Overall, adopting IFRS 17 will have a favorable net impact of up to $200 million on equity.

Desjardins Group continues to assess the impact of adopting IFRS 17 on its Combined Financial Statements as at December 31, 2022.

Lastly, the requirements in IFRS 17 allow revising the designation or classification of insurance operations financial assets recognized under IFRS 9 at the date of the initial application of IFRS 17. Desjardins Group chose to not restate comparative figures in its Combined Financial Statements to reflect changes in designation or classification for these financial assets that were made as at January 1, 2023. The impact of such changes is still being assessed.

NOTE 3 – INTEREST RATE BENCHMARK REFORM

Progress and risks arising from the interest rate benchmark reform

The IRBR is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. The objective is to improve benchmark indexes by making sure they comply with robust international standards. Interest rate benchmarks are used in transactions on over-the-counter derivative financial instruments, securities, loans and other variable-rate instruments, among others.

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

Desjardins Group is exposed to several risks in relation to IRBR, including interest, market, reputation and operational risks, which mainly arise from updating systems and processes, modifying contractual clauses and managing the transition with respect to members' and clients' needs.

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

The Desjardins IRBR Working Group also monitors closely the evolution of the expected timeframe for the cessation of certain interest rate benchmarks, in particular the USD LIBOR, which will ceased to be published after June 30, 2023. On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), the administrator of the Canadian Dollar Offered Rate (CDOR), announced that it would cease publishing all tenors of CDOR after June 28, 2024. This announcement triggered the two-stage transition period recommended by the Canadian Alternative Reference Rate (CARR) Working Group in its December 2021 White Paper. By June 30, 2023, the end of the first stage of the transition plan, CDOR will have to be replaced by the Canadian Overnight Repo Rate Average (CORRA) for new derivative products (except in certain specific circumstances) and for securities. By June 28, 2024, the end of the second stage of the transition plan, CDOR-based loan contracts will have to have transitioned to the CORRA rate or any alternative reference rate available at the cessation date. On January 11, 2023, the CARR's working group confirmed the development of the Term CORRA rate following the strong interest demonstrated by Canadian businesses regarding the need for a forward-looking term. The use of the Term CORRA for certain maturities, which is expected to be available for use by the end of the third quarter of 2023, will be restricted to loans and derivative financial instruments associated to hedging strategies. The discontinuation of CDOR, including the impact on hedging relationships, is also managed by the Desjardins IRBR Working Group.

The work of the Desjardins IRBR Working Group continues to progress in accordance with the timeline set out in the Desjardins Group's transition plan.

The following table presents quantitative information about exposures for financial instruments and commitments subject to the reform that have yet to transition to risk-free benchmark rates and mature after June 30, 2023 or June 28, 2024[(1)].

	USD LIBOR	CDOR
As at December 31, 2022	**Maturing after June 30, 2023**	**Maturing after June 28, 2024**
Non-derivative financial assets[(2)]	$ 980	$ 5,316
Non-derivative financial liabilities[(3)]	—	3,585
Derivative financial instruments[(4)(5)]	10,444	290,055
Loan commitments[(6)]	1,061	7,713

(1) This table excludes exposures to interest rate benchmarks for which no cessation plans have been announced, including EURIBOR (Euro Interbank Offered Rate) and BBSW (Australian Bank Bill Swap Rate).
(2) Non-derivative assets include the gross carrying amount of loans and the carrying amount of securities.
(3) Non-derivative financial liabilities include the carrying amount of deposits, commitments related to securities sold short and subordinated notes.
(4) Derivative financial instruments include the notional amount of interest rate contracts, foreign exchange contracts and other derivative contracts.
(5) Includes $36,920 million of derivative financial instruments designated as part of fair value hedging relationships and $57,239 million of derivative financial instruments designated as part of cash flow hedging relationships.
(6) Includes loan commitments for which it is possible to draw amounts in several currencies.

NOTE 4 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2022	**Classified as at fair value through profit or loss(1)**	**Designated as at fair value through profit or loss**	**Classified as at fair value through other comprehensive income(2)**	**Designated as at fair value through other comprehensive income**	**Amortized cost(2)**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ —	$ 949	$ 258	$ —	$ 7,706	$ 8,913
Securities	16,063	17,962	51,193	65	50	85,333
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	17,024	17,024
Loans	—	—	—	—	249,840	249,840
Other financial assets						
Clients' liability under acceptances	—	—	—	—	25	25
Derivative financial instruments(3)	5,723	—	—	—	—	5,723
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	3,486	3,486
Other	—	—	—	—	2,008	2,008
Total financial assets	**$ 21,786**	**$ 18,911**	**$ 51,451**	**$ 65**	**$ 280,139**	**$ 372,352**
Financial liabilities						
Deposits(4)(5)(6)	$ —	$ 745	$ —	$ —	$ 259,091	$ 259,836
Other financial liabilities						
Acceptances	—	—	—	—	25	25
Commitments related to securities sold short	9,859	—	—	—	—	9,859
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	24,565	24,565
Derivative financial instruments(3)	6,554	—	—	—	—	6,554
Amounts payable to clients, brokers and financial institutions	—	—	—	—	8,978	8,978
Other	95	—	—	—	3,969	4,064
Subordinated notes	—	—	—	—	2,928	2,928
Total financial liabilities	**$ 16,508**	**$ 745**	**$ —**	**$ —**	**$ 299,556**	**$ 316,809**

(1) An amount of $3,905 million corresponds to financial assets designated for the overlay approach.

(2) As at December 31, 2022, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $10 million. Detailed information on the allowance for credit losses on loans is presented in Note 8, "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $198 million in assets and $967 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 21, "Derivative financial instruments and hedging activities".

(4) The maturity amount that Desjardins Group will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

(5) As at December 31, 2022, 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 $(7) million.

(6) The amount recognized in other comprehensive income attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss that was realized at derecognition during the year was $1 million.

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

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2021	Classified as at fair value through profit or loss(1)	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income(2)	Designated as at fair value through other comprehensive income	Amortized cost(2)	Total
Financial assets						
Cash and deposits with financial institutions	$ 1	$ 353	$ 735	$ —	$ 15,239	$ 16,328
Securities	18,890	20,882	53,214	72	41	93,099
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	12,019	12,019
Loans	—	—	—	—	230,511	230,511
Other financial assets						
Clients' liability under acceptances	—	—	—	—	268	268
Derivative financial instruments(3)	5,828	—	—	—	—	5,828
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	2,557	2,557
Other	—	—	—	—	1,895	1,895
Total financial assets	$ 24,719	$ 21,235	$ 53,949	$ 72	$ 262,530	$ 362,505
Financial liabilities						
Deposits(4)(5)(6)	$ —	$ 351	$ —	$ —	$ 238,004	$ 238,355
Other financial liabilities						
Acceptances	—	—	—	—	268	268
Commitments related to securities sold short	11,342	—	—	—	—	11,342
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	31,177	31,177
Derivative financial instruments(3)	5,500	—	—	—	—	5,500
Amounts payable to clients, brokers and financial institutions	—	—	—	—	7,938	7,938
Other	147	—	—	—	3,660	3,807
Subordinated notes	—	—	—	—	1,960	1,960
Total financial liabilities	$ 16,989	$ 351	$ —	$ —	$ 283,007	$ 300,347

(1) An amount of $3,767 million corresponds to financial assets designated for the overlay approach.

(2) As at December 31, 2021, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $4 million. Detailed information on the allowance for credit losses on loans is presented in Note 8, "Loans and allowance for credit losses".

(3) Include derivative financial instruments designated as hedging instruments amounting to $126 million in assets and $105 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 21, "Derivative financial instruments and hedging activities".

(4) The maturity amount that Desjardins Group will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

(5) As at December 31, 2021, the cumulative amount of change in fair value attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss was $3 million.

(6) The amount recognized in other comprehensive income attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss that was realized at derecognition during the year was $1 million.

During the years ended December 31, 2022 and 2021, there were no material reclassifications of financial instruments.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

Fair value measurement is determined using the following three-level fair value hierarchy:
- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based primarily on observable market data;
- Level 3 – Valuation techniques not based primarily on observable market data.

Transfers between levels

Transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at December 31, 2022	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 71	$ 878	$ —	$ 949
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,426	—	—	7,426
Provincial governmental entities and municipal corporations in Canada	12,389	595	—	12,984
School or public corporations in Canada	11	69	—	80
Foreign public administrations	629	—	—	629
Other debt securities	1	6,810	504	7,315
Equity securities	3,589	99	1,903	5,591
	24,045	7,573	2,407	34,025
Derivative financial instruments				
Interest rate contracts	—	662	—	662
Foreign exchange contracts	—	924	—	924
Other contracts	—	4,137	—	4,137
	—	5,723	—	5,723
Total financial assets at fair value through profit or loss	24,116	14,174	2,407	40,697
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	9	249	—	258
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,074	6,076	—	13,150
Provincial governmental entities and municipal corporations in Canada	26,753	3,550	—	30,303
Foreign public administrations	25	—	—	25
Other debt securities	—	7,664	51	7,715
Equity securities	—	—	65	65
	33,852	17,290	116	51,258
Total financial assets at fair value through other comprehensive income	33,861	17,539	116	51,516
Financial instruments of segregated funds	6,814	13,907	598	21,319
Total financial assets	$ 64,791	$ 45,620	$ 3,121	$ 113,532
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 745	$ —	$ 745
Other liabilities				
Commitments related to securities sold short	8,836	1,023	—	9,859
Other	—	—	95	95
	8,836	1,768	95	10,699
Derivative financial instruments				
Interest rate contracts	—	1,460	—	1,460
Foreign exchange contracts	—	1,192	—	1,192
Other contracts	—	3,902	—	3,902
	—	6,554	—	6,554
Total financial liabilities	$ 8,836	$ 8,322	$ 95	$ 17,253

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

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

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ —	$ 354	$ —	$ 354
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	8,321	—	—	8,321
Provincial governmental entities and municipal corporations in Canada	16,944	684	—	17,628
School or public corporations in Canada	15	84	—	99
Foreign public administrations	567	—	—	567
Other debt securities	1	6,335	600	6,936
Equity securities	4,764	29	1,428	6,221
	30,612	7,132	2,028	39,772
Derivative financial instruments				
Interest rate contracts	—	950	—	950
Foreign exchange contracts	—	350	—	350
Other contracts	—	4,528	—	4,528
	—	5,828	—	5,828
Total financial assets at fair value through profit or loss	30,612	13,314	2,028	45,954
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	—	735	—	735
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,761	7,370	—	15,131
Provincial governmental entities and municipal corporations in Canada	28,131	3,642	—	31,773
School or public corporations in Canada	—	28	—	28
Foreign public administrations	16	—	—	16
Other debt securities	19	6,183	64	6,266
Equity securities	—	3	69	72
	35,927	17,226	133	53,286
Total financial assets at fair value through other comprehensive income	35,927	17,961	133	54,021
Financial instruments of segregated funds	7,685	14,760	360	22,805
Total financial assets	$ 74,224	$ 46,035	$ 2,521	$ 122,780
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 351	$ —	$ 351
Other liabilities				
Commitments related to securities sold short	10,617	725	—	11,342
Other	—	—	147	147
	10,617	1,076	147	11,840
Derivative financial instruments				
Interest rate contracts	—	594	—	594
Foreign exchange contracts	—	643	—	643
Other contracts	—	4,263	—	4,263
	—	5,500	—	5,500
Total financial liabilities	$ 10,617	$ 6,576	$ 147	$ 17,340

During the years ended December 31, 2022 and 2021, no material transfers attributable to changes in the observability of market data were made between Level 1 and Level 2 of the hierarchy for instruments measured at fair value. Transfers of financial instruments into or out of Level 3 reflect changes in the availability of observable inputs due to changes in market conditions.

NOTE 5 – 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, 2022	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Securities	**$ 50**	**$ 44**	**$ —**	**$ 44**	**$ —**
Loans	**249,840**	**241,328**	**—**	**—**	**241,328**
Financial liabilities					
Deposits	**259,091**	**255,831**	**—**	**255,831**	**—**
Subordinated notes	**2,928**	**2,859**	**—**	**2,859**	**—**

As at December 31, 2021	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	$ 41	$ 41	$ —	$ 41	$ —
Loans	230,511	229,566	—	—	229,566
Financial liabilities					
Deposits	238,004	238,465	—	238,465	—
Subordinated notes	1,960	2,009	—	2,009	—

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

The most significant financial instruments categorized within Level 3 that are held by Desjardins Group are mortgage bonds, equity securities and the financial liability related to contingent considerations resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

For mortgage bonds, Desjardins Group developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

Desjardins Group measures the majority of equity securities and other debt securities based on net values or published by the fund administrator. If needed, these values are adjusted based on more recent information, when such information is available and appropriate. Certain equity securities are measured using a model based on expected future cash flow discounting. These models are examined and approved by Desjardins Group.

In connection with the acquisition of the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), Desjardins Group recognized a contingent consideration resulting from the price adjustment clause of the agreement. Under such clause, State Farm will compensate Desjardins Group for 95% of the unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contracts transferred as part of the acquisition, while Desjardins Group will give State Farm 90% of the favourable development of such provision.

Sensitivity of financial instruments categorized within Level 3

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

The majority of mortgage bonds and equity securities measured using a model based on expected future cash flow discounting are backing actuarial liabilities. The impact of the sensitivity of the fair value measurement of these financial instruments is offset by the corresponding changes in actuarial liabilities. In addition, no sensitivity analysis is presented when the input value range is not presented due to the nature of the valuation technique used.

For an equity security having a fair value of $156 million ($78 million as at December 31, 2021), the change in discount rate could give rise to an increase or a decrease in the fair value of that security of $8 million as at December 31, 2022. As at December 31, 2021, the sensitivity analysis for this security is considered immaterial.

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

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

Changes in fair value of financial instruments categorized within Level 3

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

For the year ended December 31, 2022	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)]	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other debt securities							
Mortgage bonds	$ 508	$ —	$ (33)	$ —	$ —	$ (78)	$ 397
Other	92	—	6	—	24	(15)	107
Equity securities	1,428	9	124	—	460	(118)	1,903
Total financial assets at fair value through profit or loss	2,028	9	97	—	484	(211)	2,407
Financial assets at fair value through other comprehensive income							
Securities							
Other debt securities							
Mortgage bonds	64	—	—	(2)	—	(11)	51
Equity securities	69	—	—	(4)	—	—	65
Total financial assets at fair value through other comprehensive income	133	—	—	(6)	—	(11)	116
Financial instruments of segregated funds	360	1	8	—	263	(34)	598
Total financial assets	$ 2,521	$ 10	$ 105	$ (6)	$ 747	$ (256)	$ 3,121
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	$ 147	$ —	$ 35	$ —	$ —	$ (87)	$ 95
Total financial liabilities	$ 147	$ —	$ 35	$ —	$ —	$ (87)	$ 95

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

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

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

NOTE 5 – 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, 2021	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 debt securities								
Mortgage bonds	$ 678	$ —	$ (27)	$ —	$ —	$ —	$ (143)	$ 508
Other	67	—	3	—	—	29	(7)	92
Equity securities	964	—	136	—	—	361	(33)	1,428
Total financial assets at fair value through profit or loss	1,709	—	112	—	—	390	(183)	2,028
Financial assets at fair value through other comprehensive income								
Securities								
Other debt securities								
Mortgage bonds	69	—	—	(2)	—	—	(3)	64
Equity securities	64	—	—	(1)	—	6	—	69
Total financial assets at fair value through other comprehensive income	133	—	—	(3)	—	6	(3)	133
Financial instruments of segregated funds	127	1	7	—	142	115	(32)	360
Total financial assets	$ 1,969	$ 1	$ 119	$ (3)	$ 142	$ 511	$ (218)	$ 2,521
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	$ 155	$ (10)	$ 96	$ —	$ —	$ 11	$ (105)	$ 147
Total financial liabilities	$ 155	$ (10)	$ 96	$ —	$ —	$ 11	$ (105)	$ 147

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

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

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

NOTE 5 – 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, 2022	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
Mortgage bonds	**$ 448**	Discounted cash flows	Credit spread(A,B) Comparable inputs(A,B)	**0 bp** **10 bp**	**to** **to**	**15 bp** **141 bp**	
Equity securities and other debt securities	**91**	Discounted cash flows	Discount rate(A,B)	**6.4%**	**to**	**8.8%**	
	1,760	Adjusted net value	Adjusted net value	**-**		**-**	(1)
	65	Market price of comparable instruments	Enterprise value/revenues ratios	**-**		**-**	(1)
	156	Discounted cash flows	Discount rate(A,B) Liquidity premium(A,B)	**9.5%** **10.0%**	**to** **to**	**12.5%** **40.0%**	
Financials instruments of segregated funds	**598**	Adjusted net value	Adjusted net value	**-**		**-**	(1)
Other financial assets	**3**						
Total financial assets	**$ 3,121**						
Financial liabilities							
Other liabilities – Other							
Financial liability related to the contingent consideration	**95**	Actuarial techniques(2)	Provision for claims and adjustment expenses	**-**		**-**	(1)
Total financial liabilities	**$ 95**						

As at December 31, 2021	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
Mortgage bonds	$ 572	Discounted cash flows	Credit spread(A,B) Comparable inputs(A,B)	0 bp 10 bp	to to	15 bp 155 bp	
Equity securities and other debt securities	93	Discounted cash flows	Discount rate(A,B)	3.4%	to	8.8%	
	1,344	Adjusted net value	Adjusted net value	-		-	(1)
	69	Recent transactions	Paid bid price	-		-	(1)
	78	Discounted cash flows	Discount rate(A,B) Liquidity premium(A,B)	9.0% 10.0%	to to	9.8% 40.0%	
Financial instruments of segregated funds	360	Adjusted net value	Adjusted net value	-		-	(1)
Other financial assets	5						
Total financial assets	$ 2,521						
Financial liabilities							
Other liabilities – Other							
Financial liability related to the contingent consideration	147	Actuarial techniques(2)	Provision for claims and adjustment expenses	-		-	(1)
Total financial liabilities	$ 147						

(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 17, “Insurance contract liabilities”.

Fair value sensitivity to changes in unobservable inputs

(A) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
(B) There is no predictable relationship between this input and other material unobservable inputs.

NOTE 6 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Combined Balance Sheets when, and only when, Desjardins Group has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Desjardins Group has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements that do not meet the criteria for offsetting in the Combined Balance Sheets as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Combined Balance Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Combined Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, Desjardins Group pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Combined Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the normal course of business.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Combined Balance Sheets.

The following tables present information about financial assets and liabilities that are set off and not set off in the Combined Balance Sheets and are subject to a master netting agreement or a similar agreement.

			Net amounts presented in the	Associated amounts not set off in the Combined Balance Sheets[(1)]		
As at December 31, 2022	**Gross recognized amounts**	**Set off amounts**	**Combined 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	**$ 24,233**	**$ 7,209**	**$ 17,024**	**$ 5,767**	**$ 11,218**	**$ 39**
Derivative financial instruments	**5,663**	**—**	**5,663**	**1,452**	**3,960**	**251**
Amounts receivable from clients, brokers and financial institutions and other	**66**	**28**	**38**	**5**	**—**	**33**
Total financial assets	**$ 29,962**	**$ 7,237**	**$ 22,725**	**$ 7,224**	**$ 15,178**	**$ 323**
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	**$ 31,774**	**$ 7,209**	**$ 24,565**	**$ 5,767**	**$ 18,788**	**$ 10**
Derivative financial instruments	**2,725**	**—**	**2,725**	**1,452**	**783**	**490**
Amounts payable to clients, brokers and financial institutions and other	**66**	**28**	**38**	**5**	**—**	**33**
Total financial liabilities	**$ 34,565**	**$ 7,237**	**$ 27,328**	**$ 7,224**	**$ 19,571**	**$ 533**

(1) Any over-collateralization is excluded from the table.
(2) The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.
(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 6 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

As at December 31, 2021	Gross recognized amounts	Set off amounts	Net amounts presented in the Combined Balance Sheets[2]	Associated amounts not set off in the Combined Balance Sheets[1] – Financial instruments[3]	Associated amounts not set off in the Combined Balance Sheets[1] – Financial collateral held / pledged	Residual amounts not set off
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 17,716	$ 5,697	$ 12,019	$ 7,816	$ 4,203	$ —
Derivative financial instruments	5,819	—	5,819	1,061	4,570	188
Amounts receivable from clients, brokers and financial institutions and other	41	34	7	4	—	3
Total financial assets	$ 23,576	$ 5,731	$ 17,845	$ 8,881	$ 8,773	$ 191
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 36,874	$ 5,697	$ 31,177	$ 7,816	$ 23,342	$ 19
Derivative financial instruments	1,380	—	1,380	1,061	1	318
Amounts payable to clients, brokers and financial institutions and other	149	34	115	4	—	111
Total financial liabilities	$ 38,403	$ 5,731	$ 32,672	$ 8,881	$ 23,343	$ 448

(1) Any over-collateralization is excluded from the table.

(2) The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 7 – SECURITIES

MATURITIES OF SECURITIES

The following tables present an analysis of the maturities of Desjardins Group's securities.

	Terms to maturity						
As at December 31, 2022	**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	$ 2,053	$ 1,505	$ 1,133	$ 2,000	$ 735	$ —	$ 7,426
Provincial governmental entities and municipal corporations in Canada	904	2,102	1,527	2,312	6,139	—	12,984
School or public corporations in Canada	—	2	6	—	72	—	80
Foreign public administrations	234	3	17	338	37	—	629
Other debt securities	537	948	940	1,361	3,527	2	7,315
Equity securities	—	—	—	42	—	5,549	5,591
Total financial assets at fair value through profit or loss	3,728	4,560	3,623	6,053	10,510	5,551	34,025
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	1,793	6,418	4,589	350	—	—	13,150
Provincial governmental entities and municipal corporations in Canada	1,510	7,384	7,683	13,182	544	—	30,303
Foreign public administrations	20	5	—	—	—	—	25
Other debt securities	2,999	1,101	2,705	867	43	—	7,715
Equity securities	—	—	—	—	—	65	65
Total financial assets at fair value through other comprehensive income	6,322	14,908	14,977	14,399	587	65	51,258
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by:							
Provincial governmental entities and municipal corporations in Canada	1	2	2	4	1	—	10
Foreign public administrations	—	—	1	1	34	—	36
Other debt securities	—	1	1	2	—	—	4
Total financial assets at amortized cost	1	3	4	7	35	—	50
Total securities	$ 10,051	$ 19,471	$ 18,604	$ 20,459	$ 11,132	$ 5,616	$ 85,333

NOTE 7 – SECURITIES *(continued)*

MATURITIES OF SECURITIES *(continued)*

As at December 31, 2021	Terms to maturity 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	$ 1,916	$ 1,196	$ 1,169	$ 2,442	$ 1,598	$ —	$ 8,321
Provincial governmental entities and municipal corporations in Canada	752	1,887	1,649	2,851	10,489	—	17,628
School or public corporations in Canada	1	—	5	5	88	—	99
Foreign public administrations	289	5	17	1	255	—	567
Other debt securities	313	867	864	1,296	3,592	4	6,936
Equity securities	—	—	—	32	—	6,189	6,221
Total financial assets at fair value through profit or loss	3,271	3,955	3,704	6,627	16,022	6,193	39,772
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	607	6,586	7,425	513	—	—	15,131
Provincial governmental entities and municipal corporations in Canada	813	4,756	9,291	16,085	828	—	31,773
School or public corporations in Canada	28	—	—	—	—	—	28
Foreign public administrations	16	—	—	—	—	—	16
Other debt securities	1,699	2,820	838	852	57	—	6,266
Equity securities	—	—	—	—	—	72	72
Total financial assets at fair value through other comprehensive income	3,163	14,162	17,554	17,450	885	72	53,286
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by:							
Provincial governmental entities and municipal corporations in Canada	2	2	2	5	1	—	12
Foreign public administrations	—	—	1	2	26	—	29
Total financial assets at amortized cost	2	2	3	7	27	—	41
Total securities	$ 6,436	$ 18,119	$ 21,261	$ 24,084	$ 16,934	$ 6,265	$ 93,099

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which Desjardins Group estimates an allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. For more information on credit quality according to risk levels, see table 33, "Probabilities of default of retail clients by risk level", and Table 34, "Probabilities of default businesses, financial institutions and sovereign borrowers by risk level", in section 4.0, "Risk Management", of the 2022 Annual Management's Discussion and Analysis.

Loans

	Non-credit impaired		Credit-impaired(1)	
As at December 31, 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 53,229	$ 11	$ —	$ 53,240
Very low	67,594	783	—	68,377
Low	29,688	2,997	—	32,685
Moderate	1,741	2,460	—	4,201
High	1	809	—	810
Default	—	124	245	369
Total gross residential mortgages	$ 152,253	$ 7,184	$ 245	$ 159,682
Allowance for credit losses	(58)	(43)	(16)	(117)
Total net residential mortgages	$ 152,195	$ 7,141	$ 229	$ 159,565
Consumer, credit card and other personal loans				
Excellent	$ 5,717	$ 1	$ —	$ 5,718
Very low	6,576	9	—	6,585
Low	7,544	1,243	—	8,787
Moderate	975	852	—	1,827
High	8	1,218	—	1,226
Default	—	68	170	238
Total gross consumer, credit card and other personal loans	$ 20,820	$ 3,391	$ 170	$ 24,381
Allowance for credit losses	(140)	(302)	(91)	(533)
Total net consumer, credit card and other personal loans	$ 20,680	$ 3,089	$ 79	$ 23,848
Business and government loans(2)				
Acceptable risk				
Investment grade	$ 22,624	$ 189	$ —	$ 22,813
Other than investment grade	35,686	4,286	—	39,972
Under watch	1,475	1,700	—	3,175
Default	—	101	776	877
Total gross business and government loans	$ 59,785	$ 6,276	$ 776	$ 66,837
Allowance for credit losses	(114)	(67)	(204)	(385)
Total net business and government loans	$ 59,671	$ 6,209	$ 572	$ 66,452
Total gross loans and acceptations	$ 232,858	$ 16,851	$ 1,191	$ 250,900
Allowance for credit losses	(312)	(412)	(311)	(1,035)
Total net loans and acceptances	$ 232,546	$ 16,439	$ 880	$ 249,865

(1) As at December 31, 2022, 94.5% 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 8 – 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, 2021	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 50,281	$ 27	$ —	$ 50,308
Very low	65,459	2,391	—	67,850
Low	18,139	8,916	—	27,055
Moderate	1,200	2,285	—	3,485
High	5	652	—	657
Default	—	131	209	340
Total gross residential mortgages	$ 135,084	$ 14,402	$ 209	$ 149,695
Allowance for credit losses	(72)	(70)	(20)	(162)
Total net residential mortgages	$ 135,012	$ 14,332	$ 189	$ 149,533
Consumer, credit card and other personal loans				
Excellent	$ 5,731	$ —	$ —	$ 5,731
Very low	6,429	14	—	6,443
Low	7,724	1,268	—	8,992
Moderate	1,011	756	—	1,767
High	7	1,229	—	1,236
Default	—	69	148	217
Total gross consumer, credit card and other personal loans	$ 20,902	$ 3,336	$ 148	$ 24,386
Allowance for credit losses	(113)	(251)	(80)	(444)
Total net consumer, credit card and other personal loans	$ 20,789	$ 3,085	$ 68	$ 23,942
Business and government loans[2]				
Acceptable risk				
Investment grade	$ 20,307	$ 616	$ —	$ 20,923
Other than investment grade	27,475	4,747	—	32,222
Under watch	1,453	2,258	—	3,711
Default	—	81	731	812
Total gross business and government loans	$ 49,235	$ 7,702	$ 731	$ 57,668
Allowance for credit losses	(105)	(80)	(179)	(364)
Total net business and government loans	$ 49,130	$ 7,622	$ 552	$ 57,304
Total gross loans and acceptances	$ 205,221	$ 25,440	$ 1,088	$ 231,749
Allowance for credit losses	(290)	(401)	(279)	(970)
Total net loans and acceptances	$ 204,931	$ 25,039	$ 809	$ 230,779

(1) As at December 31, 2021, 94.9% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

(2) Includes clients' liability under acceptances.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

Off-balance sheet items[(1)]

As at December 31, 2022	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 49,665	$ 5	$ —	$ 49,670
Very low	21,946	40	—	21,986
Low	6,511	931	—	7,442
Moderate	315	576	—	891
High	5	262	—	267
Default	—	—	44	44
Total	$ 78,442	$ 1,814	$ 44	$ 80,300
Allowance for credit losses	(31)	(9)	—	(40)
Total, net of allowance for credit losses	$ 78,411	$ 1,805	$ 44	$ 80,260
Business and government				
Acceptable risk				
Investment grade	$ 30,908	$ 150	$ —	$ 31,058
Other than investment grade	12,894	1,134	—	14,028
Under watch	300	248	—	548
Default	—	9	118	127
Total	$ 44,102	$ 1,541	$ 118	$ 45,761
Allowance for credit losses	(11)	(2)	—	(13)
Total, net of allowance for credit losses	$ 44,091	$ 1,539	$ 118	$ 45,748
Total off-balance sheet items	$ 122,544	$ 3,355	$ 162	$ 126,061
Allowance for credit losses	(42)	(11)	—	(53)
Total off-balance sheet items, net of allowance for credit losses	$ 122,502	$ 3,344	$ 162	$ 126,008

(1) Loan commitments for which Desjardins Group estimates an allowance for expected credit losses comprise credit commitments, documentary letters of credit and standby letters of credit for which payment depends on meeting a performance obligation, while financial guarantees for which it estimates an allowance for expected credit losses comprise other guarantees and standby letters of credit.

As at December 31, 2021	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 51,740	$ 1	$ —	$ 51,741
Very low	22,326	75	—	22,401
Low	6,334	2,336	—	8,670
Moderate	417	642	—	1,059
High	5	460	—	465
Default	—	2	47	49
Total	$ 80,822	$ 3,516	$ 47	$ 84,385
Allowance for credit losses	(46)	(17)	—	(63)
Total, net of allowance for credit losses	$ 80,776	$ 3,499	$ 47	$ 84,322
Business and government				
Acceptable risk				
Investment grade	$ 31,397	$ 120	$ —	$ 31,517
Other than investment grade	9,611	1,899	—	11,510
Under watch	198	448	—	646
Default	—	4	119	123
Total	$ 41,206	$ 2,471	$ 119	$ 43,796
Allowance for credit losses	(7)	(2)	—	(9)
Total, net of allowance for credit losses	$ 41,199	$ 2,469	$ 119	$ 43,787
Total off-balance sheet items	$ 122,028	$ 5,987	$ 166	$ 128,181
Allowance for credit losses	(53)	(19)	—	(72)
Total off-balance sheet items, net of allowance for credit losses	$ 121,975	$ 5,968	$ 166	$ 128,109

(1) Loan commitments for which Desjardins Group estimates an allowance for expected credit losses comprise credit commitments, documentary letters of credit and standby letters of credit for which payment depends on meeting a performance obligation, while financial guarantees for which it estimates an allowance for expected credit losses comprise other guarantees and standby letters of credit.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES

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

	Non-credit impaired		Credit-impaired	Allowance for
For the year ended December 31, 2022	**Stage 1**	**Stage 2**	**Stage 3**	**credit losses**
Residential mortgages				
Balance at beginning of year	$ 73	$ 73	$ 20	$ 166
Provision for credit losses				
Transfers to(1):				
Stage 1	74	(71)	(3)	—
Stage 2	(15)	20	(5)	—
Stage 3	—	(3)	3	—
Net remeasurement due to transfers(2)	(34)	23	13	2
Changes in risks, parameters and models(3)	(69)	17	(2)	(54)
New originations or acquisitions(4)	40	—	—	40
Derecognition and maturities(5)	(12)	(14)	(7)	(33)
Net drawdowns (repayments)(6)	2	(1)	—	1
Other	—	—	(2)	(2)
	(14)	(29)	(3)	(46)
Write-offs and recoveries	—	—	(1)	(1)
Balance at end of year	$ 59	$ 44	$ 16	$ 119
Consumer, credit card and other personal loans				
Balance at beginning of year	$ 158	$ 265	$ 80	$ 503
Provision for credit losses				
Transfers to(1):				
Stage 1	304	(295)	(9)	—
Stage 2	(131)	169	(38)	—
Stage 3	(1)	(46)	47	—
Net remeasurement due to transfers(2)	(35)	62	156	183
Changes in risks, parameters and models(3)	(192)	217	143	168
New originations or acquisitions(4)	119	—	—	119
Derecognition and maturities(5)	(43)	(56)	(69)	(168)
Net drawdowns (repayments)(6)	(9)	(6)	(2)	(17)
	12	45	228	285
Write-offs and recoveries	—	—	(217)	(217)
Balance at end of year	$ 170	$ 310	$ 91	$ 571
Business and government				
Balance at beginning of year	$ 112	$ 82	$ 179	$ 373
Provision for credit losses				
Transfers to(1):				
Stage 1	73	(66)	(7)	—
Stage 2	(42)	56	(14)	—
Stage 3	(1)	(7)	8	—
Net remeasurement due to transfers(2)	(13)	31	69	87
Changes in risks, parameters and models(3)	(113)	(13)	27	(99)
New originations or acquisitions(4)	127	—	—	127
Derecognition and maturities(5)	(39)	(21)	(43)	(103)
Net drawdowns (repayments)(6)	21	7	(7)	21
	13	(13)	33	33
Write-offs and recoveries	—	—	(8)	(8)
Balance at end of year	$ 125	$ 69	$ 204	$ 398
Total balances at end of year	$ 354	$ 423	$ 311	$ 1,088
Composed of:				
Loans	$ 312	$ 412	$ 311	$ 1,035
Off-balance sheet items(7)	42	11	—	53

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risks levels, parameters and models, after transfers between stages.
(4) Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(7) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES *(continued)*

For the year ended December 31, 2021	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	$ 65	$ 102	$ 29	$ 196
Provision for credit losses				
Transfers to[1]:				
Stage 1	71	(66)	(5)	—
Stage 2	(28)	40	(12)	—
Stage 3	—	(4)	4	—
Net remeasurement due to transfers[2]	(19)	32	13	26
Changes in risks, parameters and models[3]	(75)	(1)	(5)	(81)
New originations or acquisitions[4]	71	—	—	71
Derecognition and maturities[5]	(14)	(26)	(11)	(51)
Net drawdowns (repayments)[6]	2	(4)	1	(1)
Other	—	—	3	3
	8	(29)	(12)	(33)
Write-offs and recoveries	—	—	3	3
Balance at end of year	$ 73	$ 73	$ 20	$ 166
Consumer, credit card and other personal loans				
Balance at beginning of year	$ 177	$ 306	$ 126	$ 609
Provision for credit losses				
Transfers to[1]:				
Stage 1	268	(252)	(16)	—
Stage 2	(108)	173	(65)	—
Stage 3	(1)	(32)	33	—
Net remeasurement due to transfers[2]	(37)	61	144	168
Changes in risks, parameters and models[3]	(212)	80	105	(27)
New originations or acquisitions[4]	112	—	—	112
Derecognition and maturities[5]	(33)	(57)	(52)	(142)
Net drawdowns (repayments)[6]	(8)	(14)	(8)	(30)
	(19)	(41)	141	81
Write-offs and recoveries	—	—	(187)	(187)
Balance at end of year	$ 158	$ 265	$ 80	$ 503
Business and government				
Balance at beginning of year	$ 76	$ 128	$ 181	$ 385
Provision for credit losses				
Transfers to[1]:				
Stage 1	54	(52)	(2)	—
Stage 2	(45)	58	(13)	—
Stage 3	—	(9)	9	—
Net remeasurement due to transfers[2]	(7)	10	35	38
Changes in risks, parameters and models[3]	(85)	(30)	42	(73)
New originations or acquisitions[4]	131	—	—	131
Derecognition and maturities[5]	(27)	(29)	(48)	(104)
Net drawdowns (repayments)[6]	16	6	7	29
Other	(1)	—	—	(1)
	36	(46)	30	20
Write-offs and recoveries	—	—	(32)	(32)
Balance at end of year	$ 112	$ 82	$ 179	$ 373
Total balances at end of year	$ 343	$ 420	$ 279	$ 1,042
Composed of:				
Loans	$ 290	$ 401	$ 279	$ 970
Off-balance sheet items[7]	53	19	—	72

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance due to changes in risk resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.
(4) Represent the increase in the allowance for new originations or acquisitions during the year, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(7) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS

Estimating the allowance for expected credit losses is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

- Changes in the borrowers' credit risk rating (or PD);
- Determination of significant increases in credit risk;
- Incorporation of forward-looking information;
- Estimated life of revolving credit facilities.

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

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

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. For more information about these models, see section 4.0, "Risk Management", of the Management's Discussion and Analysis. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the allowance for expected credit losses.

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

Determination of significant increases in credit risk

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

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

Incorporation of forward-looking information

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

The incorporation of forward-looking information may increase or decrease the allowance for expected credit losses. Generally, an improvement in the outlook will give rise to a decrease in the allowance, while a deterioration will result in an increase in the allowance.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

Incorporation of forward-looking information *(continued)*

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

	Base scenario		Upside scenario		Downside scenario	
As at December 31, 2022	**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)	**(0.5)%**	**1.8 %**	**1.6 %**	**2.1 %**	**(3.0)%**	**1.4 %**
Unemployment rate (average)	**5.1 %**	**4.5 %**	**4.0 %**	**3.2 %**	**7.3 %**	**7.3 %**
Consumer Price Index (annualized change)	**2.4 %**	**2.0 %**	**4.0 %**	**2.1 %**	**2.0 %**	**1.9 %**
Housing prices (annualized change)	**(8.6)%**	**2.1 %**	**(2.3)%**	**2.9 %**	**(27.6)%**	**4.1 %**
Corporate credit spread[(2)] (average)	**171 bp**	**123 bp**	**121 bp**	**95 bp**	**260 bp**	**161 bp**
S&P/TSX stock index[(2)] (annualized change)	**2.4 %**	**5.1 %**	**29.0 %**	**7.0 %**	**(16.2)%**	**6.7 %**

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

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

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

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

In the downside scenario, economic growth would be more severely affected by the increase in interest rates. Central banks would announce additional interest rate hikes in the coming months to ensure that inflation returns to its target in a short-term horizon. Under that scenario, the discount rate would be raised to 5.0% in the first quarter of 2023, which would contribute to deepening the recession. The unemployment rate would increase more significantly, possibly to 8.5% in Québec. The downside scenario also assumes a more significant correction in average house prices of approximately 35% compared to the previous peak. Interest rate decreases would be announced in the second quarter of 2023 as a result of greater economic difficulties than in the base scenario that would push down inflation more quickly.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

Incorporation of forward-looking information *(continued)*

The upside scenario essentially assumes that a stronger economic than in the base scenario, helped among others by a faster and more sustainable reduction in supply constraints. This would imply that the war in Ukraine would come to an end more quickly. More significant productivity gains could also occur, and this would help economic growth while limiting inflationary pressures. In this scenario, the unemployment rate could decrease to 3% in the next few years. Inflation would still be more persistent than in the base scenario. The return to the 2% inflation target would take longer and prompt the Bank of Canada to reduce interest rates more gradually in 2024. The Bank rate would then remain at 3.25%, which is the upper end of the neutral rate range estimated by the Bank of Canada. Slightly higher interest rates under this scenario would contribute to limiting the growth in house prices, which would still be mildly stronger than under the base scenario.

The development of the economic outlook after December 31, 2022 will be considered in estimating the allowance for expected credit losses in future periods.

Estimated life of revolving credit facilities

To determine the life of revolving credit facilities, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management action. In making this estimate, Desjardins Group considers the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

The determination of the estimated life of revolving credit facilities has a significant impact on estimating the allowance for expected credit losses, mainly for revolving credit facilities in Stage 2 of the impairment model. Generally, an increase in the estimated life of revolving credit facilities gives rise to an increase in expected credit losses.

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

Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2022	As at December 31, 2021
Under IFRS 9	**$ 777**	$ 763
Weighting of 100% assigned to the scenario:		
Base	**$ 653**	$ 650
Upside	**523**	610
Downside	**1,122**	1,156

Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2022	As at December 31, 2021
Under IFRS 9	**$ 777**	$ 763
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 714**	$ 675

NOTE 9 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of its liquidity and capital management strategy, Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program. Under this program, Desjardins Group creates pools of residential mortgage loans insured by Canada Mortgage and Housing Corporation (CMHC) that back mortgage-backed securities. These mortgage-backed securities are issued under the *National Housing Act* (NHA MBSs). Desjardins Group originates from time to time such securities and retains them as holder or transfers them from time to time to the Canada Housing Trust (CHT). NHA MBSs gives their holders a property right on the pools of loans backing them.

The terms and conditions of the program giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and Desjardins Group to allow the monthly receipt of all cash flows related to the mortgage loans underlying the NHA MBSs. Desjardins Group pays the CHT an amount corresponding to the interest payable to the holders of Canada Mortgage Bonds (CMBs), the difference between these amounts being considered as excess interest margin. As part of these swaps, Desjardins Group must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

However, in these transactions, Desjardins Group retains substantially all the risks, including prepayment and interest rate risks. These loans therefore continue to be recognized in the Combined Balance Sheets. Furthermore, Desjardins Group treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Combined Balance Sheets. The CHT funds these purchases by issuing CMBs to investors.

Securities lent or sold under repurchase agreements

As part of transactions involving securities lent or sold under repurchase agreements, Desjardins Group transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Combined Balance Sheets as Desjardins Group retains substantially all the risks and rewards related to these assets.

The following table presents the carrying amount and the fair value of financial assets transferred by Desjardins Group but not derecognized as well as the related liabilities recognized in the Combined Balance Sheets.

	As at December 31, 2022		As at December 31, 2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 13,767**	**$ 13,293**	$ 12,945	$ 13,062
Securities sold under repurchase agreements	**3,294**	**3,294**	4,694	4,694
Securities lent	**1**	**1**	8	8
	$ 17,062	**$ 16,588**	$ 17,647	$ 17,764
Related liabilities	**$ 16,443**	**$ 15,330**	$ 17,124	$ 17,007

NOTE 10 – SEGREGATED FUNDS

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	As at December 31, 2022	As at December 31, 2021
Investments		
Bonds	**$ 602**	$ 628
Equity securities	**20,654**	22,139
Money market securities	**63**	38
Securities borrowed or purchased under reverse repurchase agreements	**3**	14
Other assets	**190**	129
Commitments related to securities lent or sold under repurchase agreements	**(10)**	(6)
Other liabilities	**(146)**	(96)
Net assets held for segregated fund contract holders	**$ 21,356**	$ 22,846
Assets held for the insurer	**(38)**	(42)
Total segregated fund net assets[1]	**$ 21,318**	$ 22,804

[1] The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Group scope of Desjardins Group. These eliminations amounted to $34 million as at December 31, 2022 ($8 million as at December 31, 2021).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. Desjardins Group classifies these instruments using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 5, “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, 2022	Level 1	Level 2	Level 3	Total
Investments				
Bonds	**$ 310**	**$ 292**	**$ —**	**$ 602**
Equity securities	**6,446**	**13,610**	**598**	**20,654**
Money market securities	**58**	**5**	**—**	**63**
Total financial instruments recognized at fair value	**$ 6,814**	**$ 13,907**	**$ 598**	**$ 21,319**

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 345	$ 283	$ —	$ 628
Equity securities	7,307	14,472	360	22,139
Money market securities	33	5	—	38
Total financial instruments recognized at fair value	$ 7,685	$ 14,760	$ 360	$ 22,805

NOTE 10 – SEGREGATED FUNDS *(continued)*

Derecognition of financial assets

As part of transactions involving securities lent or sold under repurchase agreements, the segregated funds transfer financial assets under terms and conditions providing for their future repurchase. These assets remain recognized in the Combined Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2022, the carrying amount of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets was $10 million ($6 million as at December 31, 2021) and their fair value was the same.

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 $10 million as at December 31, 2022 ($6 million as at December 31, 2021). 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 $7 million ($2 million as at December 31, 2021). No significant financial assets held as collateral had been sold or repledged in 2022 and 2021. These financial assets were received as collateral in transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

Desjardins Group is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	As at December 31, 2022	As at December 31, 2021
Balance at beginning – Net liabilities to segregated fund contract holders	**$ 22,838**	$ 19,127
Additions		
Amounts received from contract holders	**3,665**	4,338
Net investment income	**—**	2,407
	3,665	6,745
Deductions		
Withdrawals and redemptions	**2,750**	2,869
Net investment loss	**2,279**	—
Management fees	**152**	165
	5,181	3,034
Balance at end – Net liabilities to segregated fund contract holders	**$ 21,322**	$ 22,838
Liabilities to the insurer	**(38)**	(42)
Total segregated fund net liabilities	**$ 21,284**	$ 22,796

NOTE 11 – 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, 2022	As at December 31, 2021
Buildings	$ 536	$ 521
Other[(1)]	7	9
	$ 543	$ 530

(1) The "Other" category mainly comprises vehicles.

During fiscal 2022, Desjardins Group entered into leases that increased right-of-use assets by $128 million ($116 million in 2021).

The following table presents the depreciation of right-of-use assets by class of underlying asset.

	2022	2021
Buildings	$ 71	$ 62
Other[(1)]	3	3
	$ 74	$ 65

(1) The "Other" category mainly comprises vehicles.

The following table presents amounts recognized in the Combined Statements of Income for the years ended December 31.

	2022	2021
Interest expense on lease liabilities	$ 19	$ 19
Short-term leases	17	18
Variable lease payments not included in the measurement of the lease liability	26	29

LEASES – AS LESSOR

Operating leases

Lease income is presented in Note 12, "Property, plant and equipment and investment property", and includes mainly fixed lease payments.

For the years ended December 31, lease payments to be received under non-cancellable operating leases for premises and equipment are as follows:

	2022	2021
Under 1 year	$ 88	$ 79
1 to 2 years	75	70
Over 2 to 3 years	69	64
Over 3 to 4 years	51	56
Over 4 to 5 years	33	39
Over 5 years	244	260
Total future lease payments	$ 560	$ 568

NOTE 12 – 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, 2020	$ 100	$ 1,442	$ 503	$ 493	$ 677	$ 3,215	$ 237	$ 1,013	$ 1,250
Additions	—	42	86	26	65	219	5	41	46
Disposals	—	(11)	(57)	(56)	(44)	(168)	(4)	(9)	(13)
Other	(1)	(5)	(8)	(1)	(9)	(24)	—	(3)	(3)
As at December 31, 2021	$ 99	$ 1,468	$ 524	$ 462	$ 689	$ 3,242	$ 238	$ 1,042	$ 1,280
Additions	**—**	**44**	**143**	**26**	**51**	**264**	**—**	**48**	**48**
Disposals	**—**	**(14)**	**(44)**	**(24)**	**(26)**	**(108)**	**(2)**	**(25)**	**(27)**
Other	**(2)**	**(20)**	**5**	**5**	**—**	**(12)**	**—**	**—**	**—**
As at December 31, 2022	**$ 97**	**$ 1,478**	**$ 628**	**$ 469**	**$ 714**	**$ 3,386**	**$ 236**	**$ 1,065**	**$ 1,301**

	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, 2020	$ —	$ 673	$ 287	$ 384	$ 330	$ 1,674	$ —	$ 326	$ 326
Depreciation	—	45	83	22	43	193	—	34	34
Disposals	—	(9)	(56)	(51)	(35)	(151)	—	(3)	(3)
Other	—	(5)	—	—	—	(5)	—	(3)	(3)
As at December 31, 2021	$ —	$ 704	$ 314	$ 355	$ 338	$ 1,711	$ —	$ 354	$ 354
Depreciation	**—**	**47**	**88**	**19**	**46**	**200**	**—**	**34**	**34**
Disposals	**—**	**(11)**	**(42)**	**(23)**	**(25)**	**(101)**	**—**	**(16)**	**(16)**
Other	**—**	**(12)**	**—**	**1**	**—**	**(11)**	**—**	**—**	**—**
As at December 31, 2022	**$ —**	**$ 728**	**$ 360**	**$ 352**	**$ 359**	**$ 1,799**	**$ —**	**$ 372**	**$ 372**

	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, 2022	**$ 97**	**$ 750**	**$ 268**	**$ 117**	**$ 355**	**$ 1,587**	**$ 236**	**$ 693**	**$ 929**
As at December 31, 2021	$ 99	$ 764	$ 210	$ 107	$ 351	$ 1,531	$ 238	$ 688	$ 926

As at December 31, 2022, an amount of $14 million ($10 million as at December 31, 2021) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $95 million ($110 million as at December 31, 2021) related to buildings.

As at December 31, 2022, the fair value of investment property was $1,925 million ($1,907 million as at December 31, 2021). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 5, "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, 2022, lease income from investment property amounted to $143 million ($139 million in 2021). Amounts recognized in profit or loss for operating expenses related to investment property that generated lease income during the year totalled $99 million ($97 million in 2021), while no amount has been recognized for those that did not generate lease income. These amounts are presented under "Net investment income (loss)" in the Combined Statements of Income.

NOTE 13 – INTANGIBLE ASSETS

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software[1]	Client relationships	Other[2]	Total
Cost				
As at December 31, 2020	$ 862	$ 17	$ 122	$ 1,001
Acquisitions / Additions	162	8	2	172
Disposals / Retirements	(105)	(9)	—	(114)
Other	9	—	—	9
As at December 31, 2021	$ 928	$ 16	$ 124	$ 1,068
Acquisitions / Additions	**279**	**1**	**21**	**301**
Disposals / Retirements	**(7)**	**—**	**(1)**	**(8)**
Other	**(7)**	**—**	**—**	**(7)**
As at December 31, 2022	**$ 1,193**	**$ 17**	**$ 144**	**$ 1,354**

	Software[1]	Client relationships	Other[2]	Total
Accumulated amortization				
As at December 31, 2020	$ 532	$ 10	$ 35	$ 577
Amortization	86	2	5	93
Disposals / Retirements	(100)	(1)	—	(101)
Other	2	—	—	2
As at December 31, 2021	$ 520	$ 11	$ 40	$ 571
Amortization	**98**	**1**	**1**	**100**
Disposals / Retirements	**(7)**	**—**	**—**	**(7)**
Other	**(2)**	**—**	**—**	**(2)**
As at December 31, 2022	**$ 609**	**$ 12**	**$ 41**	**$ 662**

	Software[1]	Client relationships	Other[2]	Total
Net carrying amount				
As at December 31, 2022	**$ 584**	**$ 5**	**$ 103**	**$ 692**
As at December 31, 2021	$ 408	$ 5	$ 84	$ 497

(1) Software includes purchased software amounting to $378 million ($206 million in 2021) and internally developed software amounting to $206 million ($202 million in 2021).
(2) The “Other” category mainly includes the amount related to the acquisition of insurance contract portfolios and a distribution network.

NOTE 14 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries included in the Group scope of Desjardins Group have been incorporated in Canada and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held by Desjardins Group in each of them.

	Nature of operations	As at December 31, 2022[1]	As at December 31, 2021[1]
Desjardins Financial Holding Inc.	Holding company	**100 %**	100 %
Desjardins Financial Corporation Inc.	Holding company	**100**	100
Desjardins Global Asset Management Inc.	Asset management	**100**	100
Desjardins General Insurance Group Inc.	Property and casualty insurance	**90**	90
Property and casualty insurance subsidiaries[2]	Property and casualty insurance	**100**	100
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	**100**	100
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	**100**	100
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.	Real estate services	**100**	100

(1) Represents also the proportion of voting rights held by Desjardins Group in these subsidiaries.
(2) Represents a group of six property and casualty insurance subsidiaries.

Subsidiary that has material non-controlling interest

As at December 31, 2022 and 2021, Desjardins General Insurance Group Inc. is a subsidiary that has material non-controlling interest.

The following tables present summarized financial information about the subsidiary that has material non-controlling interest. 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, 2022	As at December 31, 2021
Assets	**$ 15,434**	$ 16,528
Liabilities	**10,993**	11,533
Equity	**$ 4,441**	$ 4,995
Non-controlling interests	**$ 847**	$ 903

For the years ended December 31	**2022**	2021
Total income	**$ 6,091**	$ 5,836
Net surplus earnings for the year after member dividends	**451**	1,199
Comprehensive income for the year	**25**	1,556
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	**$ 67**	$ 142
Dividends / distributions paid to holders of non-controlling interests	**$ 80**	$ 25

For the years ended December 31	**2022**	2021
Cash flows from (used in) operating activities	**$ (409)**	$ 1,519
Cash flows from (used in) financing activities	**(719)**	(33)
Cash flows from (used in) investing activities	**983**	(1,634)
Net decrease in cash and cash equivalents	**$ (145)**	$ (148)

NOTE 14 – INTERESTS IN OTHER ENTITIES *(continued)*

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, a structured entity, is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as this entity is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted it financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bonds issued. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by this structured entity. The assets, totalling $13,216 million as at December 31, 2022 ($12,687 million as at December 31, 2021), are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to $10,985 million as at December 31, 2022 ($7,481 million as at December 31, 2021), are presented under "Deposits – Business and government".

IMMATERIAL JOINT VENTURES AND ASSOCIATES

The following table presents the carrying amount as well as the share of net income and other comprehensive income of joint ventures and associates that are considered individually immaterial.

As at and for the years ended December 31	2022		2021	
	Joint ventures	Associates	Joint ventures	Associates
Carrying amount	$ 1,254	$ 203	$ 1,185	$ 164
Share of net income	57	5	47	6
Share of other comprehensive income	(5)	—	(2)	—

UNCONSOLIDATED STRUCTURED ENTITIES

Mutual funds

Desjardins Group holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns as a result of the units it holds in these funds, these units do not give Desjardins Group power over the relevant activities of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

The investments of these funds are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. Desjardins Group's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

NOTE 15 – OTHER ASSETS – OTHER

The following table presents the breakdown of "Other assets – Other".

	As at December 31, 2022	As at December 31, 2021
Accounts receivable	**$ 1,024**	$ 1,199
Interest receivable	**914**	641
Prepaid expenses	**388**	290
Taxes receivable	**799**	474
Other	**730**	774
	$ 3,855	$ 3,378

NOTE 16 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at December 31, 2022				As at December 31, 2021			
	Payables on demand	Payables upon notice	Payables on a fixed date	Total	Payables on demand	Payables upon notice	Payables on a fixed date	Total
Individuals	**$ 72,071**	**$ 5,495**	**$ 67,811**	**$ 145,377**	$ 70,756	$ 5,536	$ 60,040	$ 136,332
Business and government	**51,422**	**327**	**62,423**	**114,172**	52,563	524	48,557	101,644
Deposit-taking institutions	**193**	**—**	**94**	**287**	344	—	35	379
	$ 123,686	**$ 5,822**	**$ 130,328**	**$ 259,836**	$ 123,663	$ 6,060	$ 108,632	$ 238,355

NOTE 17 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2022			2021		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Gross premiums	$ 6,135	$ 6,061	$ 12,196	$ 5,643	$ 5,938	$ 11,581
Premiums ceded under reinsurance treaties	(253)	(101)	(354)	(231)	(72)	(303)
Net premiums	$ 5,882	$ 5,960	$ 11,842	$ 5,412	$ 5,866	$ 11,278

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2022	As at December 31, 2021
Insurance contract liabilities		
Actuarial liabilities — Life and health insurance	$ 20,236	$ 23,693
Provisions for claims and adjustment expenses — Property and casualty insurance	6,907	6,973
Unearned premiums	3,102	3,062
Policyholder deposits	641	621
Provisions for benefits, policyholder dividends and experience refunds	439	384
Other	29	29
	$ 31,354	$ 34,762

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts.

	As at December 31, 2022	As at December 31, 2021
Gross actuarial liabilities		
Non-participating policies	$ 16,427	$ 18,859
Participating policies	3,809	4,834
	20,236	23,693
Amounts ceded to reinsurers	(842)	(1,132)
Net actuarial liabilities	$ 19,394	$ 22,561

	As at December 31, 2022	As at December 31, 2021
Composition of assets backing net actuarial liabilities		
Bonds	$ 11,802	$ 15,017
Mortgage and business loans	2,328	2,275
Investment property	1,062	1,068
Equity securities	1,109	2,032
Other	3,093	2,169
	$ 19,394	$ 22,561

The fair value of assets backing net actuarial liabilities was $20,096 million as at December 31, 2022 ($23,579 million as at December 31, 2021).

Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by Canadian accepted actuarial practices. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Combined Statements of Income.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE *(continued)*

Actuarial assumptions *(continued)*

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in the Combined Statements of Income.

Mortality

The life and health insurance subsidiary determines its mortality assumptions based on the annual studies of its recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, it also takes 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 subsidiary uses industry-developed morbidity tables modified based on current data provided by its studies of its underwriting experience and those of the industry.

Contract cancellation rates

The life and health insurance subsidiary carries out an annual study of its 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 this subsidiary's recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiary 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 subsidiary manages the investments backing its actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in its 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, it mitigates its sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, cash flows from these assets are matched with cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the allowance for expected credit losses recognized through a write-down of the carrying amount of the assets, a provision amounting to $305 million as at December 31, 2022 ($318 million as at December 31, 2021) 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 subsidiary carries out an annual study of operating expenses by major product line, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE *(continued)*

Actuarial assumptions *(continued)*

Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on “Net surplus earnings for the year after member dividends” of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2022	2021
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (51)**	$ (56)
Products for which a rate decrease increases actuarial liabilities	**(27)**	(28)
5% increase in future morbidity rates	**(84)**	(94)
10% negative change in future contract cancellation rates	**(165)**	(178)
5% increase in future operating expenses	**(53)**	(55)

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:

	2022			2021		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 23,693**	**$ (1,132)**	**$ 22,561**	$ 23,356	$ (1,227)	$ 22,129
Change due to:						
Passage of time	**(4,762)**	**(72)**	**(4,834)**	(867)	(47)	(914)
New business	**1,861**	**(54)**	**1,807**	1,481	(34)	1,447
Changes in actuarial assumptions	**(303)**	**154**	**(149)**	(60)	87	27
	(3,204)	**28**	**(3,176)**	554	6	560
Other changes	**(253)**	**262**	**9**	(217)	89	(128)
Balance at end of year	**$ 20,236**	**$ (842)**	**$ 19,394**	$ 23,693	$ (1,132)	$ 22,561

Changes in actuarial assumptions

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact of changes made to assumptions on “Net surplus earnings for the year after member dividends” for the years ended December 31.

	2022	2021
Changed assumptions		
Mortality	**$ 65**	$ 153
Morbidity	**28**	(11)
Contract cancellation rates	**5**	(205)
Investment return	**39**	109
Operating expenses	**(16)**	(59)
Methods and other	**(13)**	(7)
	$ 108	$ (20)

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE

Methodology and assumptions

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Methodology and assumptions *(continued)*

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the rate of return for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

Change in provisions for claims and adjustment expenses

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2022			2021		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 6,973**	**$ (444)**	**$ 6,529**	$ 7,379	$ (729)	$ 6,650
Claims incurred during the year	**4,877**	**(58)**	**4,819**	3,696	(1)	3,695
Development of claims incurred in prior years	**(552)**	**58**	**(494)**	(903)	143	(760)
Changes in discount rates	**(432)**	**18**	**(414)**	(153)	9	(144)
Claims paid during the year	**(3,959)**	**101**	**(3,858)**	(3,046)	134	(2,912)
Balance at end of year	**$ 6,907**	**$ (325)**	**$ 6,582**	$ 6,973	$ (444)	$ 6,529

In the normal course of its activities, the property and casualty insurance subsidiaries revise certain actuarial assumptions. As at December 31, 2022 and 2021, changes were made as part of the annual revision process for actuarial assumptions, more specifically on the estimate of claims incurred but not reported for contracts covering civil liability and accidents in Ontario, the change in discount rate and the change in margins for adverse deviations. For the year ended December 31, 2022, actuarial liabilities for future costs related to inflation were added. Besides these changes, there were no unusual changes having a material impact on the Combined Financial Statements as at December 31, 2022 and 2021.

Assumption sensitivity analysis

The following table shows the impact on the Combined Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the "Interest rate risk management" section of this note.

	Changes in actuarial assumptions	**Impact on "Net surplus earnings for the year after member dividends"**	
		2022	2021
Average claims settlement cost	+ 5 %	**$ (332)**	$ (308)

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE *(continued)*

Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2012 and before	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**	Total
Estimated ultimate claims amount												
At the end of the accident year		$1,471	$1,536	$2,186	$2,417	$3,158	$3,691	$4,107	$3,758	$3,684	**$4,681**	
1 year later		1,447	2,453	2,168	2,387	3,121	3,656	4,122	3,443	3,466		
2 years later		2,186	2,349	2,165	2,365	3,086	3,705	4,009	3,313			
3 years later		2,086	2,272	2,117	2,349	3,090	3,590	3,916				
4 years later		1,977	2,184	2,089	2,361	2,993	3,483					
5 years later		1,910	2,105	2,050	2,303	2,924						
6 years later		1,872	2,099	2,040	2,277							
7 years later		1,843	2,042	2,022								
8 years later		1,808	2,022									
9 years later		1,793										
Cumulative payments to date		1,718	1,925	1,911	2,112	2,632	2,999	3,133	2,406	2,285	**2,448**	
Net provisions for claims and adjustment expenses	$ 254	$ 75	$ 97	$ 111	$ 165	$ 292	$ 484	$ 783	$ 907	$1,181	**$2,233**	$6,582
Reinsurers' share in provisions for claims and adjustment expenses	2	—	—	60	88	47	31	48	1	—	**48**	325
Gross provisions for claims and adjustment expenses	$ 256	$ 75	$ 97	$ 171	$ 253	$ 339	$ 515	$ 831	$ 908	$1,181	**$2,281**	$6,907

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 subsidiary is exposed to insurance risk through the products it sells. Depending on the insurance product, this subsidiary may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose this subsidiary 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 subsidiary, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims. With respect to catastrophes, the property and casualty insurance subsidiaries have established a governance structure to monitor the various risks caused by such events and use sophisticated tools to simulate the related financial losses and operational impact. Given the unpredictable nature of large-scale catastrophic events, the property and casualty insurance subsidiaries have a catastrophe reinsurance treaty, which is reviewed at least annually.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

Insurance risk management *(continued)*

Use of reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. This reinsurance structure takes into account their respective risk profile and appetite. In addition, these subsidiaries purchase additional reinsurance protection with respect to large-scale catastrophic events. The retention and limit amounts selected for the property and casualty insurance subsidiaries' catastrophe treaty are subject to a detailed annual review based on these subsidiaries' various catastrophe models and the positioning of their competitors in the industry.

In connection with the acquisition of the Canadian businesses of State Farm, the property and casualty insurance subsidiaries signed a share reinsurance treaty under which, over a five-year period, all premiums and claims from new business and renewals to the acquired businesses occurring after the acquisitions are ceded using percentages decreasing from 90% for the 2015 accident year to 10% for the 2019 accident year. The development of these claims continues to be ceded based on the ceded percentage at the time the claim occurred until the final settlement of the claim. Pursuant to the terms and conditions of the reinsurance treaty, amounts payable and receivable under the treaty will be settled on a net basis.

In order to reduce reinsurance risk, the insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release these subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investments in trust so that it can fulfill its reinsurance obligations.

For the years ended December 31, the impact of reinsurance reduced the Combined Statements of Income items presented in the table below by the following amounts:

	2022			2021		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 253**	**$ 101**	**$ 354**	$ 231	$ 72	$ 303
Claims, benefits, annuities and changes in insurance contract liabilities	**129**	**(18)**	**111**	141	(152)	(11)

Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimum guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimum guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of stock market, exchange rate and interest rate fluctuations on the future cost of guarantees. This program covers all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

Interest rate risk management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Combined Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiary 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. Desjardins Group's management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Combined Statements of Income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Combined Statements of Income of the life and health insurance subsidiary. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Combined Statements of Income. However, the subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Combined Statements of Income.

NOTE 17 – INSURANCE CONTRACT LIABILITIES *(continued)*

Insurance risk management *(continued)*

The following table shows, for the years ended December 31, the estimated impact on “Net surplus earnings for the year after member dividends” of a change in interest rates on the life and health insurance subsidiary’s actuarial liabilities and the assets backing these actuarial liabilities.

	2022	2021
1% increase in interest rates	**$ 132**	$ 88
1% decrease in interest rates	**(143)**	(116)

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. Desjardins Group's management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

The following table shows, for the years ended December 31, the estimated impact on “Net surplus earnings for the year after member dividends” of a change in interest rates on the property and casualty insurance subsidiaries’ provisions for claims and adjustment expenses and the assets backing these provisions.

	2022	2021
1% increase in interest rates	**$ 3**	$ 4
1% decrease in interest rates	**(2)**	(8)

Liquidity risk management

The life and health insurance subsidiary manages liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations.

For this subsidiary, 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. The insurance subsidiaries are responsible, among other things, for measuring, monitoring and controlling the main liquidity indicators that apply to them. This responsibility involves quarterly liquidity monitoring to identify a potential or actual lack of liquidity within the insurance subsidiaries.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Combined Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2022	As at December 31, 2021
Less than 1 year	**$ 3,558**	$ 3,089
1 to 5 years	**7,126**	6,648
Over 5 years	**45,630**	42,622
Total	**$ 56,314**	$ 52,359

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS

Group pension plans

Group pension plans are plans whose risks are shared by entities under common control. Desjardins Group offers a majority of its employees group pension plans and group supplemental pension plans, which provide pension benefits in excess of statutory limits. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a prorata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee’s five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the consumer price index, up to a maximum of 3% for years of service accumulated before 2013 and 1% for a period of 10 years starting at age 65 for years of service accumulated subsequently.

The DGPP is governed by the *Supplemental Pension Plans Act* (SPPA). The SPPA requires that a retirement committee that assumes the role of administrator and trustee for the plan be formed. The Federation, through its Board of Directors, assumes the responsibilities of the DGPP’s sponsor and ensures that the plan is well administered in accordance with the laws and regulations in effect. In addition, the Federation guarantees the obligations resulting from the participation in the plan of all the Desjardins Group employers. The Federation’s Board of Directors, acting as the representative for all Desjardins Group employers, is the only governing body with the authority to amend or terminate the plan.

Group post-retirement benefit plan

For employees meeting certain criteria based on age and the number of years of participation in the plan, Desjardins Group also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents through an unfunded defined benefit group plan.

Other plans

The other defined benefit plans offered are pension plans as well as another post-retirement benefit plan that provides medical, dental and life insurance plans whose risks are not shared by entities under common control.

Pension and post-retirement benefit plan risks

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

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

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

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS *(continued)*

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS *(continued)*

Risk management

To properly manage the DGPP's risks, the retirement Committee adopted a risk management policy to formalize the framework within which the DGPP's risks are managed and clarify the roles and responsibilities of the parties involved. In addition, delegated to its Investment Management Committee ("IMC") certain powers and responsibilities. The content and accuracy of the risk register is reviewed at least once a year and presented to the IMC and the Retirement Committee, which make comments on them where applicable. The indicators included in the DGPP's risk register are subject to an ongoing oversight and quarterly disclosure through the risk management dashboard, which enables the IMC and the Retirement Committee to ensure that risks are effectively managed and controlled.

The IMC is also responsible for reviewing the investment policy and recommending any changes to it to the Retirement Committee, as well as for adopting any specific investment frameworks. It ensures that such frameworks, including the investment policy, are complied with. Each year, the IMC recommends the asset allocation strategy, adopts the corresponding investment plan and monitors it. It also analyzes investment opportunities presented to it and the related risks. The asset allocation strategy is developed based on strategic indicators representing risk factors, including interest rate risk. A risk factor-based allocation enables complying with risk tolerance in the short term, ensuring adequate risk taking considering the target return and satisfying systematically the plan's obligations.

The investment policy may be amended based on the long-term risk/return relationship on the markets, the DGPP's commitments and financial position, risk tolerance or the legislative environment. This policy provides for market risk mitigation mechanisms. Among other things, the policy establishes limits for each type of investments and limits for the allocation of assets between the various classes, as well as risk parameters for asset allocation. The actual mix of asset portfolios is regularly reviewed, and the rebalancing rules of the investment policy are applied when the actual allocation is outside the allowed limits. Foreign exchange risk is also controlled by the investment policy, which specifies hedging rules.

Funding requirements

The DGPP is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employers' contributions must be equal to the amount that, added to the employees' contributions, is sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan as well as special contributions required to amortize any deficit and cover the stabilization provision. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan. The plan's annual cost comprises contributions for current service, administrative management fees and special contributions required to fund the plans' stabilization provision and deficit, if any.

Pursuant to the SPPA requirements, the DGPP's minimum funding is determined on a going-concern basis. A stabilization provision must be funded through special current service contributions and special amortization payments. Funding and stabilization deficits must be funded over a maximum period of 10 years.

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS *(continued)*

RECOGNIZED AMOUNTS

Change in net defined benefit plan assets and liabilities

Net defined benefit plan assets and liabilities are as follows:

	Group pension plans			Group post-retirement benefit plan	Other plans			
	Obligation	Fair value of assets	Total	Obligation	Obligation	Fair value of assets	Total	Total
As at December 31, 2020	$ 19,079	$ 17,154	$ 1,925	$ 839	$ 1,123	$ 780	$ 343	$ 3,107
Amounts recognized in the Combined Statements of Income								
Current service cost	433	—	433	6	39	—	39	478
Net interest expense/income	432	380	52	17	25	18	7	76
Past service cost	(1)	—	(1)	—	1	—	1	—
	864	380	484	23	65	18	47	554
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	—	490	(490)	—	—	3	(3)	(493)
Actuarial losses (gains) arising from changes in demographic assumptions	5	—	5	(8)	(3)	—	(3)	(6)
Actuarial gains arising from changes in financial assumptions	(1,572)	—	(1,572)	(83)	(114)	—	(114)	(1,769)
Experience losses	382	—	382	6	6	—	6	394
	(1,185)	490	(1,675)	(85)	(111)	3	(114)	(1,874)
Other changes								
Participants' contributions	236	236	—	—	—	—	—	—
Employers' contributions	—	581	(581)	—	—	186	(186)	(767)
Benefits paid	(624)	(624)	—	(23)	(33)	(20)	(13)	(36)
Other changes	(16)	(18)	2	—	—	—	—	2
	(404)	175	(579)	(23)	(33)	166	(199)	(801)
As at December 31, 2021	$ 18,354	$ 18,199	$ 155	$ 754	$ 1,044	$ 967	$ 77	$ 986
Amounts recognized in the Combined Statements of Income								
Current service cost	**430**	**—**	**430**	**4**	**35**	**—**	**35**	**469**
Net interest expense/income	**537**	**523**	**14**	**20**	**30**	**28**	**2**	**36**
Past service cost	**1**	**—**	**1**	**—**	**4**	**—**	**4**	**5**
	968	**523**	**445**	**24**	**69**	**28**	**41**	**510**
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	**—**	**(3,552)**	**3,552**	**—**	**—**	**(208)**	**208**	**3,760**
Actuarial losses (gains) arising from changes in demographic assumptions	**19**	**—**	**19**	**(34)**	**(3)**	**—**	**(3)**	**(18)**
Actuarial gains arising from changes in financial assumptions	**(4,959)**	**—**	**(4,959)**	**(174)**	**(289)**	**—**	**(289)**	**(5,422)**
Experience losses	**723**	**—**	**723**	**4**	**13**	**—**	**13**	**740**
	(4,217)	**(3,552)**	**(665)**	**(204)**	**(279)**	**(208)**	**(71)**	**(940)**
Other changes								
Participants' contributions	**280**	**280**	**—**	**—**	**—**	**—**	**—**	**—**
Employers' contributions	**—**	**522**	**(522)**	**—**	**—**	**21**	**(21)**	**(543)**
Benefits paid	**(652)**	**(645)**	**(7)**	**(24)**	**(33)**	**(20)**	**(13)**	**(44)**
Other changes	**(19)**	**(21)**	**2**	**2**	**3**	**1**	**2**	**6**
	(391)	**136**	**(527)**	**(22)**	**(30)**	**2**	**(32)**	**(581)**
As at December 31, 2022	**$ 14,714**	**$ 15,306**	**$ (592)**	**$ 552**	**$ 804**	**$ 789**	**$ 15**	**$ (25)**

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS *(continued)*

RECOGNIZED AMOUNTS *(continued)*

For purposes of reporting on the balance sheet, net defined benefit plan assets and liabilities are presented separately.

	As at December 31, 2022	As at December 31, 2021
Net defined benefit plan assets	**$ 679**	$ 62
Net defined benefit plan liabilities	**654**	1,048
	$ (25)	$ 986

Allocation of the main group pension plan assets

The fair value of the main group pension plan assets is detailed as follows:

	As at December 31, 2022[1]		As at December 31, 2021[1]	
	Non-quoted in an active market	Quoted in an active market	Non-quoted in an active market	Quoted in an active market
Bonds				
Government of Canada	**$ —**	**$ 136**	$ —	$ 172
Provinces, municipal corporations and other public administrations	**94**	**4,777**	48	7,866
Other issuers	**2,991**	**—**	4,448	—
Shares	**261**	**3,486**	348	4,002
Real estate investments	**2,239**	**—**	1,778	—
Infrastructure investments	**2,206**	**—**	1,882	—
Cash and money market securities	**143**	**200**	233	220
Other	**2,106**	**26**	2,143	316
Total	**$ 10,040**	**$ 8,625**	$ 10,880	$ 12,576

(1) Commitments related to securities lent or sold under repurchase agreements deducted from the main group pension plan assets are excluded from the table.

As at December 31, 2022, the DGPP held eligible investments in money market securities issued by Desjardins Group entities and foreign exchange contracts having a total fair value of $9 million ($55 million as at December 31, 2021).

NOTE 18 – EMPLOYEE BENEFITS – PENSION AND POST-RETIREMENT BENEFIT PLANS *(continued)*

IMPACT ON CASH FLOWS

Principal actuarial assumptions

The principal actuarial assumptions used to measure the defined benefit plan obligation and cost are as follows:

	As at December 31, 2022		As at December 31, 2021	
	Group pension plans	**Group post-retirement benefit plan**	Group pension plans	Group post-retirement benefit plan
Discount rate for the obligation(1)	**5.30 %**	**5.25 %**	3.30 %	3.20 %
Discount rate for service cost(1)	**5.25**	**5.25**	3.40	3.30
Expected rate of salary increases	**3.00**	**3.00**	3.00	3.00
Rate used to calculate interest expense on the obligation and assets(1)	**2.86**	**2.71**	2.21	2.02
Rate used to calculate interest expense on service cost(1)	**3.12**	**2.98**	2.53	2.33
Estimated annual growth rate for covered healthcare cost	**—**	**3.50**	—	3.50

(1) Weighted average rate for all plans.

Sensitivity of key assumptions

Because of the long-term nature of employee benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used. The following table shows the impact of a one percentage point change in key assumptions on the defined benefit plan obligation and cost, with all other assumptions remaining constant. In reality, there may be correlations between these assumptions. However, to show the impact of changes in assumptions, they have been modified on an individual basis.

	As at December 31, 2022		As at December 31, 2021	
	Change in obligation	**Change in cost recognized**	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	**$ (1,655)**	**$ (209)**	$ (2,763)	$ (174)
1% decrease	**2,423**	**222**	3,787	247
Expected rate of salary increases				
1% increase	**432**	**55**	696	89
1% decrease	**(348)**	**(67)**	(590)	(55)
Group post-retirement benefit plan				
Discount rate				
1% increase	**(58)**	**3**	(95)	4
1% decrease	**71**	**(5)**	119	(6)
Expected rate of salary increases				
1% increase	**1**	**—**	3	—
1% decrease	**(1)**	**—**	(3)	—
Healthcare costs				
1% increase	**30**	**2**	51	2
1% decrease	**(26)**	**(2)**	(43)	(2)

Expected contributions for 2023

Desjardins Group expects to contribute $541 million to its defined benefit pension plans in the next year.

Pension plan obligation maturity profile

For fiscal 2022, the weighted average financial duration was approximately 14 years (18 years in 2021) for the main group pension plan and approximately 12 years (14 years in 2021) for the group post-retirement benefit plan.

NOTE 19 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of "Other liabilities – Other".

	As at December 31, 2022	As at December 31, 2021
Accounts payable and other accrued liabilities	**$ 3,589**	$ 3,350
Interest payable	**1,237**	855
Client contract liabilities	**523**	560
Member dividends payable	**404**	387
Provisions for risks and expenses	**288**	374
Taxes payable	**153**	462
Borrowings from financial institutions	**14**	17
Other	**1,361**	1,511
	$ 7,569	$ 7,516

NOTE 20 – SUBORDINATED NOTES

The subordinated notes presented in Desjardins Group's Combined Balance Sheets comprise subordinated notes issued by the Federation. The subordinated notes of the Federation are direct unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors of the Federation. These claims extend to other entities included in the Desjardins Cooperative Group (as defined in the Act) 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, 2022(2)	As at December 31, 2021(2)(3)
Subordinated notes of the Federation (par value of $1 billion) issued on May 26, 2020, maturing in May 2030, bearing interest at an annual rate of 2.856% for the first 5 years, and for the following 5 years, at an annual rate equal to the 3-month bankers' acceptance plus 2.11%, redeemable at the option of the issuer starting in 2025(1)	**$ 964**	$ 963
Subordinated notes of the Federation (par value of $1 billion) issued on May 28, 2021, maturing in May 2031, bearing interest at an annual rate of 1.992% for the first 5 years, and for the following 5 years, at an annual rate equal to the 3-month bankers' acceptance plus 0.60%, redeemable at the option of the issuer starting in 2026(1)	**998**	997
Subordinated notes of the Federation (par value of $1 billion) issued on August 23, 2022, maturing in August 2032, bearing interest at an annual rate of 5.035% for the first 5 years, and for the following 5 years, at an annual rate equal to the Canadian Overnight Repo Rate Average (CORRA), compounded daily, plus 2.29%, redeemable at the option of the issuer starting in 2027(1)	**966**	—
	$ 2,928	$ 1,960

(1) These subordinated notes qualify as Non-Viability Contingent Capital (NVCC). Upon the occurrence of a trigger event, as defined in the regulations governing capital, these notes are automatically and immediately convertible into Class Z-Contingent capital shares of the Federation, the number of which will be equal to (i) the note value multiplied by 1.50 divided by (ii) the conversion price.

(2) The carrying amount of subordinated notes includes fair value adjustments when hedge accounting is applied.

(3) On December 15, 2021, Desjardins Capital Inc. redeemed all Series J senior notes for $500 million.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

DERIVATIVE FINANCIAL INSTRUMENTS

Desjardins Group's derivative financial instruments include the following types of contracts:

Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. Desjardins Group uses interest rate contracts primarily for asset and liability management purposes.

Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. Desjardins Group uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

Other financial derivative contracts

Other derivative financial contracts used by Desjardins Group include total return swaps and stock index options, which are related to financial index transactions, as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2022	**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	$ 286	$ 1,164	$ 304	$ 433	$ 2,187	$ 26	$ 91
Interest rate swaps traded through a clearing house	1,878	13,712	16,454	16,710	48,754	—	—
Average rate	*3.3 %*	*3.6 %*	*2.9 %*	*1.7 %*			
	2,164	14,876	16,758	17,143	50,941	26	91
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	1,015	—	—	—	1,015	—	30
CAD-US average rate	*1.3539*	—	—	—			
	1,015	—	—	—	1,015	—	30
Total – Fair value hedges	3,179	14,876	16,758	17,143	51,956	26	121
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	577	2,172	8	294	3,051	24	98
Interest rate swaps traded through a clearing house	5,538	15,653	22,976	5,111	49,278	—	—
Average rate	*2.3 %*	*2.8 %*	*2.9 %*	*2.8 %*			
	6,115	17,825	22,984	5,405	52,329	24	98
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	2,217	13,329	10,420	—	25,966	148	748
CAD-US average rate	*1.4494*	*1.4494*	*1.4494*	—			
CAD-EUR average rate	—	*1.3539*	*1.3539*	—			
	2,217	13,329	10,420	—	25,966	148	748
Total – Cash flow hedges	8,332	31,154	33,404	5,405	78,295	172	846
Total – Designated as hedging instruments	$ 11,511	$ 46,030	$ 50,162	$ 22,548	$ 130,251	$ 198	$ 967

(1) Hedging instruments are presented under “Derivative financial instruments” in the Combined Balance Sheets.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2022	**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	$ 24,571	$ 17,330	$ 3,283	$ 4,095	$ 49,279	$ 567	$ 1,217
Forward rate agreements	2,064	—	—	—	2,064	13	20
Options purchased	3,231	338	140	15	3,724	29	—
Options written	3,196	364	137	15	3,712	—	32
Contracts traded through a clearing house							
Interest rate swaps	117,404	116,420	67,172	29,504	330,500	—	—
Exchange-traded contracts							
Futures	12,521	2,763	—	—	15,284	—	—
Options purchased	4,695	—	—	—	4,695	2	—
Options written	5,616	—	—	—	5,616	—	1
	173,298	137,215	70,732	33,629	414,874	611	1,270
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	47,004	1,747	99	—	48,850	514	320
Currency swaps	8,196	432	52	500	9,180	229	63
Options purchased	1,030	332	—	—	1,362	34	—
Options written	1,502	345	53	—	1,900	—	32
Exchange-traded contracts							
Futures	—	—	—	—	—	—	—
	57,732	2,856	204	500	61,292	777	415
Other contracts[2]							
Over-the-counter contracts							
Swaps	—	—	60	75	135	—	—
Options purchased	8,325	20,116	11,643	1,191	41,275	4,137	—
Options written	8,049	19,365	10,910	944	39,268	—	3,902
Contracts traded through a clearing house							
Swaps	—	1	34	—	35	—	—
Exchange-traded-contracts							
Futures	975	—	—	—	975	—	—
Options purchased	1	1	—	—	2	—	—
	17,350	39,483	22,647	2,210	81,690	4,137	3,902
Total – Trading purposes	$ 248,380	$ 179,554	$ 93,583	$ 36,339	$ 557,856	$ 5,525	$ 5,587
Total derivative financial instruments before impact of master netting agreements	$ 259,891	$ 225,584	$ 143,745	$ 58,887	$ 688,107	$ 5,723	$ 6,554
Less:							
Impact of master netting agreements[3]	—	—	—	—	—	1,452	1,452
Total derivative financial instruments after impact of master netting agreements	$ 259,891	$ 225,584	$ 143,745	$ 58,887	$ 688,107	$ 4,271	$ 5,102

(1) As at December 31, 2022, include derivatives with notional amounts totalling $857 million that would have been designated as hedging instruments if Desjardins Group had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Significant accounting policies".

(2) Include contracts related to indexed term savings products.

(3) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2021	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	$ 193	$ 1,541	$ 412	$ 515	$ 2,661	$ 29	$ 27
Interest rate swaps traded through a clearing house	152	3,666	5,841	15,372	25,031	—	—
Average rate	*0.8 %*	*1.5 %*	*1.2 %*	*1.2 %*			
	345	5,207	6,253	15,887	27,692	29	27
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	—	948	—	—	948	—	61
CAD-US average rate	—	*1.2645*	—	—			
	—	948	—	—	948	—	61
Total – Fair value hedges	345	6,155	6,253	15,887	28,640	29	88
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	556	6,056	14	303	6,929	97	17
Interest rate swaps traded through a clearing house	4,780	19,034	10,929	4,000	38,743	—	—
Average rate	*1.0 %*	*1.5 %*	*1.6 %*	*1.6 %*			
	5,336	25,090	10,943	4,303	45,672	97	17
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	2,262	4,430	7,181	2,045	15,918	—	325
CAD-US average rate	*1.2645*	—	*1.2645*	—			
CAD-EUR average rate	—	*1.4386*	*1.4386*	*1.4386*			
	2,262	4,430	7,181	2,045	15,918	—	325
Total – Cash flow hedges	7,598	29,520	18,124	6,348	61,590	97	342
Total – Designated as hedging instruments	$ 7,943	$ 35,675	$ 24,377	$ 22,235	$ 90,230	$ 126	$ 430

(1) Hedging instruments are presented under "Derivative financial instruments" in the Combined Balance Sheets.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Combined Balance Sheets *(continued)*.

	Terms to maturity					Carrying amount of derivative financial instruments	
As at December 31, 2021	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	$ 28,653	$ 35,502	$ 4,266	$ 3,711	$ 72,132	$ 741	$ 477
Forward rate agreements	3,009	—	—	—	3,009	32	27
Options purchased	2,690	311	195	—	3,196	16	—
Options written	3,350	283	215	—	3,848	—	17
Contracts traded through a clearing house							
Interest rate swaps	69,771	73,133	63,075	22,314	228,293	—	—
Exchange-traded contracts							
Futures	16,104	3,140	253	—	19,497	—	—
Options purchased	45,197	316	—	—	45,513	34	—
Options written	44,319	316	—	—	44,635	—	30
	213,093	113,001	68,004	26,025	420,123	823	551
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	35,737	1,424	12	—	37,173	259	191
Currency swaps	3,924	523	1	1,178	5,626	71	31
Options purchased	1,364	166	5	—	1,535	21	—
Options written	1,696	155	3	—	1,854	—	35
Exchange-traded contracts							
Futures	5	—	—	—	5	—	—
	42,726	2,268	21	1,178	46,193	351	257
Other contracts(2)							
Over-the-counter contracts							
Swaps	39	156	313	—	508	3	3
Options purchased	7,142	18,375	10,903	2,302	38,722	4,525	—
Options written	6,928	17,813	10,146	1,696	36,583	—	4,259
Contracts traded through a clearing house							
Swaps	—	—	1,024	171	1,195	—	—
Exchange-traded-contracts							
Futures	818	—	—	—	818	—	—
Options purchased	1	2	—	—	3	—	—
	14,928	36,346	22,386	4,169	77,829	4,528	4,262
Total – Trading purposes	$ 270,747	$ 151,615	$ 90,411	$ 31,372	$ 544,145	$ 5,702	$ 5,070
Total derivative financial instruments before impact of master netting agreements	$ 278,690	$ 187,290	$ 114,788	$ 53,607	$ 634,375	$ 5,828	$ 5,500
Less:							
Impact of master netting agreements(3)	—	—	—	—	—	1,061	1,061
Total derivative financial instruments after impact of master netting agreements	$ 278,690	$ 187,290	$ 114,788	$ 53,607	$ 634,375	$ 4,767	$ 4,439

(1) As at December 31, 2021, include derivatives with notional amounts totalling $636 million that would have been designated as hedging instruments if Desjardins Group had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Significant accounting policies".

(2) Include contracts related to indexed term savings products.

(3) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The manner in which Desjardins Group assesses market risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, “Risk Management”, of the Management’s Discussion and Analysis.

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. In addition, when a financial instrument is denominated in a foreign currency, Desjardins Group may enter into fair value hedges by using currency swaps or cross-currency interest rate swaps. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. Desjardins Group uses fair value hedge strategies for its loan, deposit and securities portfolios.

Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. Desjardins Group uses cash flow hedge strategies for its loan, deposit and securities portfolios.

Effectiveness assessment and sources of hedging relationship ineffectiveness

Desjardins Group assesses the effectiveness of a hedging relationship by comparing the change in fair value or cash flows of the hedging instrument with that of the hedged item attributable to the hedged risk to demonstrate the existence of a highly effective correlation between the two instruments. When derivative financial instruments are designated as hedging instruments for a currency risk, only the change in currency risk is taken into account to assess hedge effectiveness.

There is ineffectiveness when the change in fair value of the hedged item attributable to the hedged risk differs from the change in fair value of the hedging instrument. The main sources of ineffectiveness are a difference between the actual and expected repricing dates, a difference between the discounting factors used and a difference between the payment dates for the hedging instrument and the hedged item.

The following table presents information on the ineffectiveness of fair value hedges.

	As at December 31, 2022		As at December 31, 2021	
	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	**$ (72)**	**$ —**	$ (55)	$ —
Interest rate swaps traded through a clearing house	**1,253**	**(11)**	686	(13)
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	**40**	**—**	(368)	14
Total – Fair value hedges	**$ 1,221**	**$ (11)**	$ 263	$ 1

(1) The hedge ineffectiveness is recognized under “Net investment income (loss)”.

NOTE 21 – 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.

2022	**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	**$ (394)**	**$ (12)**	**$ (629)**	**$ (77)**
Interest rate swaps traded through a clearing house	**(854)**	**(19)**	**(339)**	**75**
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	**126**	**3**	**(253)**	**—**
Total – Cash flow hedges	**$ (1,122)**	**$ (28)**	**$ (1,221)**	**$ (2)**

(1) The hedge ineffectiveness and reclassification adjustment are recognized under “Net investment income (loss)”.
(2) The reclassification adjustment is included under “Interest income – Loans” and “Interest expense – Deposits”.

2021	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss[(1)]	Hedging gains (losses) recognized in other comprehensive income	Gains (losses) reclassified from the cash flow hedge reserve into profit or loss – Active hedges[(2)]
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	$ (174)	$ (4)	$ (178)	$ (45)
Interest rate swaps traded through a clearing house	(268)	4	(275)	(36)
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	(3)	2	18	—
Total – Cash flow hedges	$ (445)	$ 2	$ (435)	$ (81)

(1) The hedge ineffectiveness and reclassification adjustment are recognized under “Net investment income (loss)”.
(2) The reclassification adjustment is included under “Interest income – Loans” and “Interest expense – Deposits”.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES *(continued)*

Effectiveness assessment and sources of hedging relationship ineffectiveness *(continued)*

The following tables present the impact of hedge accounting on balances recognized in the Combined Balance Sheets and in accumulated other comprehensive income.

	Cash flow hedges			Fair value hedges			
As at December 31, 2022	**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	**$ (5)**	**$ —**	**$ 8**	**$ 22,425**	**$ —**	**$ —**	**$ (1,747)**
Loans	**(1,260)**	**(278)**	**1,597**	**1,044**	**(57)**	**—**	**(56)**
Liabilities							
Deposits	**$ 396**	**$ 276**	**$ (634)**	**$ 26,097**	**$ 586**	**$ (58)**	**$ 562**
Subordinated notes	**—**	**—**	**—**	**1,371**	**61**	**4**	**49**
Currency risk							
Liabilities							
Deposits	**$ (234)**	**$ —**	**$ (120)**	**$ 971**	**$ 37**	**$ (23)**	**$ (40)**

	Cash flow hedges			Fair value hedges			
As at December 31, 2021	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	$ 4	$ 12	$ 20,645	$ —	$ —	$ (838)
Loans	(118)	144	699	1,283	(3)	—	(33)
Liabilities							
Deposits	$ 103	$ (36)	$ (247)	$ 6,571	$ 63	$ (122)	$ 210
Subordinated notes	—	—	—	362	12	6	18
Currency risk							
Liabilities							
Deposits	$ 18	$ —	$ 8	$ 938	$ 11	$ (57)	$ 382

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins Group. The manner in which Desjardins Group assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Combined Financial Statements.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
Credit risk equivalent	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by Basel III.
Risk-weighted balance	The balance weighted by the risks related to the creditworthiness of counterparties, determined using methods prescribed by Basel III.

The following table gives an overview of Desjardins Group's derivative financial instruments portfolio and related credit risk, before and after the impact of master netting agreements.

	As at December 31, 2022				As at December 31, 2021			
	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	**$ 483,049**	**$ 617**	**$ 340**	**$ 737**	$ 373,789	$ 867	$ 406	$ 510
Forward rate agreements	**2,064**	**—**	**32**	**18**	3,009	—	64	64
Futures	**15,284**	**13**	**1**	**—**	19,497	32	1	—
Options purchased	**8,419**	**31**	**15**	**45**	48,709	50	5	13
Options written	**9,328**	**—**	**—**	**—**	48,483	—	—	—
	518,144	**661**	**388**	**800**	493,487	949	476	587
Foreign exchange contracts								
Forward agreements	**48,850**	**514**	**836**	**741**	37,173	259	390	372
Futures	**—**	**—**	**—**	**—**	5	—	—	—
Currency swaps	**36,161**	**377**	**361**	**229**	22,492	71	166	165
Options purchased	**1,362**	**34**	**61**	**85**	1,535	21	54	93
Options written	**1,900**	**—**	**—**	**—**	1,854	—	—	—
	88,273	**925**	**1,258**	**1,055**	63,059	351	610	630
Other contracts								
Swaps	**170**	**—**	**2**	**3**	1,703	3	91	40
Futures	**975**	**—**	**—**	**—**	818	—	—	—
Options purchased	**41,277**	**4,137**	**3,554**	**3,054**	38,725	4,525	3,300	2,972
Options written	**39,268**	**—**	**—**	**—**	36,583	—	—	—
	81,690	**4,137**	**3,556**	**3,057**	77,829	4,528	3,391	3,012
Total derivative financial instruments before impact of master netting agreements	**$ 688,107**	**$ 5,723**	**$ 5,202**	**$ 4,912**	$ 634,375	$ 5,828	$ 4,477	$ 4,229
Less:								
Impact of master netting agreements(1)	**—**	**1,452**	**—**	**36**	—	1,061	—	50
Total derivative financial instruments after impact of master netting agreements	**$ 688,107**	**$ 4,271**	**$ 5,202**	**$ 4,876**	$ 634,375	$ 4,767	$ 4,477	$ 4,179

(1) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – 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, 2022		As at December 31, 2021	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating[(1)]				
AAA, AA+, AA, AA-	$ 2,299	$ 972	$ 2,069	$ 811
A+, A, A-	2,501	1,257	3,491	2,243
BBB, B, BB-, BBB-	635	1,330	125	377
CCC, CC, C	—	—	—	—
Not rated	288	1,353	143	798
	5,723	4,912	5,828	4,229
Less:				
Impact of master netting agreements[(2)]	1,452	36	1,061	50
Total after impact of master netting agreements	$ 4,271	$ 4,876	$ 4,767	$ 4,179
Type of counterparty				
Financial institutions	$ 5,233	$ 2,928	$ 5,541	$ 3,010
Other	490	1,984	287	1,219
	5,723	4,912	5,828	4,229
Less:				
Impact of master netting agreements[(2)]	1,452	36	1,061	50
Total after impact of master netting agreements	$ 4,271	$ 4,876	$ 4,767	$ 4,179

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group. Although the table presents information by external rating, risk-weighted assets have been calculated using internal ratings.

(2) Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 22 – SIGNIFICANT TRANSACTIONS

Year ended December 31, 2022

Acquisition of the independent insurance and individual savings distribution networks of Guardian Capital Group Limited

On November 30, 2022, through 9479-5176 Québec inc., a wholly-owned indirect subsidiary of the Federation, Desjardins Group undertook to acquire the independent insurance and individual savings distribution networks of Guardian Capital Group Limited, notably by acquiring all the shares of IDC Worldsource Insurance Network Inc., Worldsource Financial Management Inc. and Worldsource Securities Inc., for an amount totalling $750 million, subject to customary purchase price adjustments.

The transaction is expected to close in the first quarter of 2023, subject to obtaining the required regulatory approvals and satisfying customary closing conditions.

Acquisition of an interest in The Insurance Company of Prince Edward Island

On December 9, 2022, 1000379969 Ontario Limited, an entity representing a consortium of acquirers comprising Desjardins General Insurance Group Inc., an indirect subsidiary of the Federation, certain key members of management of The Insurance Company of Prince Edward Island (ICPEI), certain other employees of ICPEI and shareholders of ICPEI Holdings Inc., the parent company of ICPEI (ICPEI Holdings), as well as certain other investors, submitted a bid to the shareholders of ICPEI Holdings to acquire all the shares of ICPEI Holdings.

At the date of closing of the transaction, Desjardins Group, through its interest in 1000379969 Ontario Limited, will hold a minority interest in ICPEI Holdings acquired for a cash consideration of $17 million.

The transaction is expected to close in the first quarter of 2023, subject to satisfying closing conditions.

Year ended December 31, 2021

On September 1, 2021, Desjardins Group, through Desjardins Global Asset Management Inc., a wholly-owned indirect subsidiary of the Federation, acquired the assets of investment firm Hexavest Inc., which serves a primarily institutional clientele located mainly in Canada and also internationally. The transaction represents a business combination, and the purchase price allocation was completed during the year ended December 31, 2021. Closing fees directly attributable to the acquisition were recognized under “Non-interest expenses – Other”.

NOTE 23 – CAPITAL STOCK

AUTHORIZED

Capital stock comprises qualifying shares and capital shares.

The caisses may issue an unlimited number of qualifying shares with a par value of $5, redeemable at the option of the caisses in the cases set forth in the Act. Qualifying shares give their member holder one vote for the caisse that issued them, regardless of the number of qualifying shares of such caisse held.

The Federation may issue an unlimited number of F capital shares and contingent Z-capital shares (Z capital shares) with a par value of $10. These shares do not carry any voting rights. F capital shares may be issued only to members of Desjardins caisses in Québec, including their auxiliary members. Z capital shares may be issued to any person in accordance with the Act, but only for converting non-viability contingent capital instruments of the Federation or at the discretion of the Federation after such conversion. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, F and Z capital shares if any, at any time. The Federation may also purchase, in whole or in part, F and Z capital shares, if any, by private agreement, at any time, with the authorization of the AMF. The interest rate on F and Z capital shares, if any, is determined by the Federation's Board of Directors, which approves annually the surplus earnings that may be allocated to the payment of interest on these capital shares. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2022	As at December 31, 2021
Qualifying shares	**$ 26**	$ 25
F capital shares	**4,760**	4,864
Permanent shares	**—**	75
Surplus shares	**—**	18
	$ 4,786	$ 4,982

REDEMPTION OF SHARES

During the year ended December 31, 2022, the caisses redeemed for cancellation all permanent shares and surplus shares for a cash consideration of $75 million and $18 million, respectively.

NOTE 24 – SHARE CAPITAL

AUTHORIZED

There is an unlimited number of Class A preferred shares, offered only to members of CDO, non-voting, without par value, redeemable at the option of the issuer, i.e. CDO, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative.

There is an unlimited number of Class B preferred shares, non-voting, without par value, redeemable at the option of the issuer, i.e. CDO, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

NOTE 25 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2022		As at December 31, 2021	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains (losses) on debt securities classified as at fair value through other comprehensive income(1)	**$ (1,237)**	**$ (13)**	$ 234	$ (1)
Net unrealized gains (losses) related to the overlay approach adjustment for insurance operations financial assets	**(108)**	**(6)**	448	33
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(815)**	**—**	84	—
Share of associates and joint ventures accounted for using the equity method	**(6)**	**—**	(1)	—
Accumulated other comprehensive income	**$ (2,166)**	**$ (19)**	$ 765	$ 32

(1) Reflects an allowance for credit losses of $10 million as at December 31, 2022 ($4 million as at December 31, 2021) on securities classified as at fair value through other comprehensive income.

NOTE 26 – CAPITAL MANAGEMENT

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

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The regulatory capital adequacy and composition of Desjardins Group as a whole are evaluated using the base capital adequacy guideline applicable to financial services cooperatives 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. This guideline requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components. The holding company Desjardins Financial Corporation Inc. is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF. Consequently, for purposes of calculating capital, the holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and partly deducted from capital, in accordance with the significant investments rules set out in the base capital adequacy guideline applicable to financial services cooperatives.

Some subsidiaries included in the scope of Desjardins Group are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements. Desjardins Group monitors and manages these entities' capital requirements to ensure capital is effectively used and regulations are complied with on an ongoing basis.

Desjardins Group's capital ratios are calculated according to the base capital adequacy guideline applicable to financial services cooperatives and are expressed as regulatory capital as a percentage of risk-weighted assets (RWA). As it was designated by the AMF as a domestic systemically important financial institution, Desjardins Group is subject to an additional capital surcharge of 1% and must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. These ratios include a 2.5% capital conservation buffer. Desjardins Group is also subject to an RWA floor. When modeled RWA is less that RWA calculated using the Standardized Approach multiplied by a factor determined by the AMF, the difference is added to the denominator for regulatory capital ratios.

Desjardins Group is also 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.

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

NOTE 26 – CAPITAL MANAGEMENT *(continued)*

REGULATORY CAPITAL

The regulatory capital of Desjardins Group differs from the equity disclosed in the Combined Balance Sheets. It comprises the following components:

(i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1A (core capital) and Tier 1B (additional capital). Tier 1A capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings and accumulated other comprehensive income. Tier 1B capital consists of non-controlling interests. Non-controlling interests are determined, in particular, based on the nature of the operations and the capitalization of the investee.

(ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It comprises subordinated notes qualified as Non-Viability Contingent Capital (NVCC), eligible qualifying shares and the eligible portion of the collective allowance.

The following table presents the regulatory capital and available total loss absorbing capital (TLAC) balances, risk-weighted assets and regulatory ratios.

(in millions of dollars and as a percentage)	As at December 31, 2022	As at December 31, 2021
Capital and TLAC		
Tier 1A capital	**$ 28,156**	$ 28,437
Tier 1 capital	**28,156**	28,437
Total capital	**30,445**	29,721
Available total loss absorbing capacity (TLAC)[1]	**38,722**	34,325
Risk-weighted assets		
Credit risk	**118,783**	117,168
Market risk	**3,959**	2,874
Operational risk	**15,114**	14,476
Total risk-weighted assets before the capital floor	**137,856**	134,518
Transitional capital floor adjustment	**1,455**	—
Total risk-weighted assets	**$ 139,311**	$ 134,518
Total risk-weighted assets for TLAC ratio purposes[1]	**134,880**	129,311
Leverage ratio exposure	**371,598**	336,136
TLAC leverage ratio exposure[1]	**364,519**	329,634
Ratios		
Tier 1A capital	**20.2 %**	21.1 %
Tier 1 capital	**20.2**	21.1
Total capital	**21.9**	22.1
TLAC[1]	**28.7**	26.5
Leverage	**7.6**	8.5
TLAC leverage[1]	**10.6**	10.4

(1) Data calculated at the resolution group level that is deemed to be Desjardins Group excluding Caisse Desjardins Ontario Credit Union Inc.

COMPLIANCE WITH REQUIREMENTS

Desjardins Group and all its components that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2022, as they were in the previous year.

NOTE 27 – NET INTEREST INCOME AND NET INVESTMENT INCOME (LOSS)

NET INTEREST INCOME

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

For the years ended December 31	2022	2021
Interest income on financial assets		
At amortized cost	$ 8,403	$ 6,967
At fair value through other comprehensive income	972	420
At fair value through profit or loss	10	14
	9,385	7,401
Interest expense on financial liabilities		
At amortized cost	3,038	1,599
At fair value through profit or loss	17	16
	3,055	1,615
	$ 6,330	$ 5,786

NET INVESTMENT INCOME (LOSS)

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	2022			2021		
	Interest income and expense	Change in fair value and other	Total	Interest income and expense	Change in fair value and other	Total
Net investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	$ 167	$ (1,307)	$ (1,140)	$ 333	$ 525	$ 858
Designated as at fair value through profit or loss	605	(4,122)	(3,517)	516	(1,300)	(784)
Classified as at fair value through other comprehensive income	148	(157)	(9)	109	(24)	85
At amortized cost and other	103	58	161	129	31	160
	$ 1,023	$ (5,528)	$ (4,505)	$ 1,087	$ (768)	$ 319

NOTE 28 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense recognized in the Combined Financial Statements for the years ended December 31 is detailed as follows:

	2022	2021
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 897**	$ 963
Adjustments for current tax of prior years	**14**	(14)
Current tax recovery on remuneration on capital stock	**(69)**	(55)
Tax recovery on member dividends	**(106)**	(103)
	736	791
Deferred income taxes		
Origination and reversal of temporary differences	**(256)**	(36)
Change in tax rates	**12**	—
Adjustments for deferred tax of prior years	**(23)**	2
	(267)	(34)
	$ 469	$ 757
Combined Statements of Comprehensive Income		
Current income taxes	**$ (504)**	$ (26)
Deferred income taxes	**(250)**	327
	(754)	301
Total income tax expense	**$ (285)**	$ 1,058

Income taxes on surplus earnings presented in the Combined Statements of Income for the years ended December 31 are detailed as follows:

	2022	2021
Income taxes on surplus earnings	**$ 575**	$ 860
Tax recovery on member dividends	**(106)**	(103)
Income taxes on surplus earnings	**$ 469**	$ 757

NOTE 28 – INCOME TAXES ON SURPLUS EARNINGS *(continued)*

TAX RATE RECONCILIATION

The income tax expense on surplus earnings recognized in the Combined Statements of Income for the years ended December 31 differs from the income tax expense determined using the Canadian statutory rate for the following reasons:

	2022	2021
Income taxes at the combined Canadian federal and provincial statutory rate of 26.75% (26.36% in 2021)	**$ 702**	$ 1,003
Tax recovery on member dividends	**(106)**	(103)
Small business deduction	**(7)**	(12)
Non-taxable investment income and other items	**(65)**	(92)
Change in tax rates	**12**	—
Non-deductible expenses	**17**	19
Adjustment for current and deferred tax of prior years	**(9)**	(12)
Tax recovery on remuneration on capital stock	**(69)**	(55)
Other	**(6)**	9
	$ 469	$ 757

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		Combined Statements of Income	
	As at December 31, 2022	As at December 31, 2021	**2022**	2021
Deferred tax assets				
Lease liabilities	**$ 162**	$ 155	**$ (7)**	$ 10
Allowance for credit losses	**200**	194	**(6)**	20
Net defined benefit plan liabilities	**170**	274	**19**	38
Tax losses	**410**	209	**(201)**	(52)
Securities and other financial instruments	**483**	—	**(31)**	—
Other	**171**	107	**(64)**	(25)
	1,596	939	**(290)**	(9)
Deferred tax liabilities				
Property, plant and equipment, intangible assets and investment property	**164**	131	**33**	(27)
Right-of-use assets	**152**	148	**4**	(11)
Securities and other financial instruments	**—**	47	**—**	(16)
Insurance contract liabilities	**95**	109	**(14)**	29
Net defined benefit plan assets	**178**	16	**—**	—
	589	451	**23**	(25)
Net deferred income tax assets	**$ 1,007**	$ 488	**$ (267)**	$ (34)

For the purposes of presenting the Combined Balance Sheets, deferred tax assets and liabilities are measured by legal entities and presented as follows:

	As at December 31, 2022	As at December 31, 2021
Deferred tax assets[(1)]	**$ 1,440**	$ 789
Deferred tax liabilities[(1)]	**433**	301
	$ 1,007	$ 488

(1) Deferred income taxes will reverse mainly in the long term.

The amount of deductible temporary differences, undue tax losses and tax credits for which no deferred tax assets have been recognized in the Combined Balance Sheets was $111 million ($20 million as at December 31, 2021).

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND GUARANTEES

In the normal course of operations, Desjardins Group uses credit instruments and off-balance sheet guarantees to meet the financing needs of its members and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that Desjardins Group granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that Desjardins Group could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that Desjardins Group could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater than the amount recognized in the Combined Balance Sheets.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Combined Balance Sheets expose Desjardins Group to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2022	As at December 31, 2021
Commitments		
Credit commitments	**$ 124,533**	$ 126,763
Indemnification commitments related to securities lending	**3,385**	2,382
Documentary letters of credit	**18**	18
Guarantees		
Guarantees and standby letters of credit	**1,510**	1,400
Credit default swaps	**—**	645

Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Indemnification commitments related to securities lending

As part of its asset custody operations, Desjardins Group enters into securities lending agreements with clients. Desjardins Group makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount. There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

Documentary letters of credit

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

Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by Desjardins Group to make payments in the event that a member or client cannot meet financial or performance obligations to third parties. Desjardins Group’s policy with respect to collateral received for these instruments is generally the same as for loans. Guarantees and standby letters of credit for which payment depends on meeting a performance obligation are considered non-financial guarantees as the payment does not depend on a credit default on a debt security. Other guarantees and standby letters of credit are financial guarantees.

Credit default swaps

In the normal course of its investment operations, Desjardins Group entered into credit default swaps and undertook to assume the credit risk for the bonds that constitute the underlying assets for these swaps. The guarantee given, which is a financial guarantee, is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

COMMITMENTS AND GUARANTEES *(continued)*

Other indemnification agreements

In the normal course of its operations, Desjardins Group enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, Desjardins Group may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that Desjardins Group could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, Desjardins Group enters into asset pledge agreements and receives from its members and clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor’s right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of Desjardins Group’s financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	As at December 31, 2022	As at December 31, 2021
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	**$ 589**	$ 535
Securities	**21,507**	31,357
Loans	**26,681**	25,563
	48,777	57,455
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**23,667**	17,968
Less: Assets not sold or not repledged	**1,980**	636
	21,687	17,332
	$ 70,464	$ 74,787
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 30,670**	$ 35,806
Transactions involving commitments related to securities sold short	**9,972**	10,827
Securitization transactions	**13,767**	12,945
Covered bonds	**13,216**	12,687
Transactions on derivative financial instruments	**603**	138
Clearing systems, payment systems and depositories(1)	**1,523**	1,523
Transactions involving provisions for claims and adjustment expenses(2)	**533**	671
Caisse network money supply from the Bank of Canada	**180**	190
	$ 70,464	$ 74,787

(1) In the normal course of its operations, Desjardins Group must pledge intraday collateral to the Bank of Canada for the use of the Large Value Transfer System. Such collateral is excluded as it is released back at the end of the daily settlement cycle.

(2) Represent securities pledged as collateral in connection with the reinsurance treaty that transferred, at the date of acquisition, the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to Desjardins Group.

NOTE 29 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

PRIVACY BREACH

On June 14, 2022, the Superior Court of Québec approved the settlement agreement between Desjardins Group and the plaintiffs concluded on December 16, 2021 after class actions were filed in connection with the privacy breach announced in June 2019. The Combined Financial Statements reflect the financial impact of this settlement.

LITIGATION

In the normal course of its business, Desjardins Group is involved in various litigation matters and legal proceedings. It is not currently possible to predict the outcome of certain of these litigation matters and legal proceedings, the timing of such outcomes, or the potential impact on Desjardins Group's financial position. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and legal proceedings, to the extent that it can be measured, could have an impact on Desjardins Group's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which Desjardins Group assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas and tables marked with an asterisk (*) presented in that section are an integral part of these Combined Financial Statements. In addition, information on credit risk related to the recognition and measurement of expected credit losses are presented in these Combined Financial Statements, mainly in Note 2, "Significant accounting policies", and in Note 8, "Loans and allowance for credit losses".

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS

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

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

Note 17, "Insurance contract liabilities", provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2022	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	$ 7,900	$ 974	$ —	$ —	$ —	$ —	$ —	$ —	$ 39	$ 8,913
Securities										
Securities at fair value through profit or loss(1)	108	866	1,064	902	788	2,252	5,931	16,563	5,551	34,025
Securities at fair value through other comprehensive income(1)	554	1,646	1,613	1,640	869	5,792	24,093	14,986	65	51,258
Securities at amortized cost	—	—	—	—	1	1	6	42	—	50
Securities borrowed or purchased under reverse repurchase agreements	13,766	970	2,288	—	—	—	—	—	—	17,024
Loans										
Residential mortgages(2)	2,438	3,102	6,683	6,622	8,303	18,951	99,544	7,015	7,024	159,682
Consumer, credit card and other personal loans(2)	55	84	168	199	241	1,156	4,841	8,222	9,415	24,381
Business and government(2)	17,166	5,922	5,697	5,028	5,668	6,042	11,878	2,335	7,076	66,812
Allowance for credit losses	—	—	—	—	—	—	—	—	(1,035)	(1,035)
Segregated fund net assets	—	—	—	—	—	—	—	—	21,318	21,318
Clients' liability under acceptances	25	—	—	—	—	—	—	—	—	25
Premiums receivable	179	70	15	2	—	—	—	—	2,659	2,925
Derivative financial instruments	274	539	758	300	493	1,259	1,894	206	—	5,723
Amounts receivable from clients, brokers and financial institutions	2,771	5	—	—	—	—	—	—	710	3,486
Reinsurance assets	24	42	48	43	40	98	204	676	—	1,175
Right-of-use assets	—	—	—	—	—	—	—	—	543	543
Investment property	—	—	—	—	—	—	—	—	929	929
Property, plant and equipment	—	—	—	—	—	—	—	—	1,587	1,587
Goodwill	—	—	—	—	—	—	—	—	157	157
Intangible assets	—	—	—	—	—	—	—	—	692	692
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,465	1,465
Net defined benefit plan assets	—	—	—	—	—	—	—	—	679	679
Deferred tax assets	—	—	—	—	—	—	—	—	1,440	1,440
Other assets – Other	851	827	242	16	19	19	45	7	1,829	3,855
Total assets	$ 46,111	$ 15,047	$ 18,576	$ 14,752	$ 16,422	$ 35,570	$ 148,436	$ 50,052	$ 62,143	$ 407,109

For footnotes see next page.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2022	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)	$ 3,627	$ 3,817	$ 8,936	$ 6,750	$ 9,148	$ 19,852	$ 15,422	$ 260	$ 77,565	$ 145,377
Business and government(3)	11,216	8,919	4,938	2,447	2,845	8,220	19,852	3,963	51,772	114,172
Deposit-taking institutions(3)	61	12	7	4	3	6	2	—	192	287
Acceptances	25	—	—	—	—	—	—	—	—	25
Commitments related to securities sold short(4)	146	1,009	331	54	45	1,114	2,944	4,208	8	9,859
Commitments related to securities lent or sold under repurchase agreements	23,994	571	—	—	—	—	—	—	—	24,565
Derivative financial instruments	131	381	737	302	566	1,641	2,375	421	—	6,554
Amounts payable to clients, brokers and financial institutions	4,846	4	—	—	—	—	—	—	4,128	8,978
Lease liabilities	6	12	18	21	19	69	189	288	—	622
Insurance contract liabilities	527	898	1,093	999	921	2,200	4,736	16,879	3,101	31,354
Segregated fund net liabilities	—	—	—	—	—	—	—	—	21,284	21,284
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	654	654
Deferred tax liabilities	—	—	—	—	—	—	—	—	433	433
Other liabilities – Other	3,019	968	697	196	119	122	97	27	2,324	7,569
Subordinated notes	—	—	—	—	—	—	—	2,928	—	2,928
Total equity	—	—	—	—	—	—	—	—	32,448	32,448
Total liabilities and equity	**$ 47,598**	**$ 16,591**	**$ 16,757**	**$ 10,773**	**$ 13,666**	**$ 33,224**	**$ 45,617**	**$ 28,974**	**$ 193,909**	**$ 407,109**
Off-balance sheet commitments										
Credit commitments(5)	$ 1,223	$ 93	$ 574	$ 866	$ 885	$ 6,053	$ 10,994	$ 773	$ 103,072	$ 124,533
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	3,385	3,385
Documentary letters of credit	5	1	3	4	5	—	—	—	—	18
Guarantees and standby letters of credit	267	263	393	217	235	43	42	1	49	1,510

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

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2021	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 15,867	$ 461	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 16,328
Securities										
Securities at fair value through profit or loss(1)	60	591	1,196	319	1,105	1,726	5,933	22,649	6,193	39,772
Securities at fair value through other comprehensive income(1)	403	665	265	683	1,147	7,353	24,363	18,335	72	53,286
Securities at amortized cost	—	—	1	1	—	1	4	34	—	41
Securities borrowed or purchased under reverse repurchase agreements	10,859	1,103	57	—	—	—	—	—	—	12,019
Loans										
Residential mortgages(2)	2,688	3,460	6,964	6,040	7,046	20,561	86,855	9,318	6,763	149,695
Consumer, credit card and other personal loans(2)	61	89	186	253	308	1,375	5,450	7,730	8,934	24,386
Business and government(2)	12,516	5,665	5,399	4,880	5,341	4,735	10,774	2,527	5,563	57,400
Allowance for credit losses	—	—	—	—	—	—	—	—	(970)	(970)
Segregated fund net assets	—	—	—	—	—	—	—	—	22,804	22,804
Clients' liability under acceptances	233	35	—	—	—	—	—	—	—	268
Premiums receivable	169	64	14	2	—	—	—	—	2,590	2,839
Derivative financial instruments	238	206	421	204	381	1,879	2,207	292	—	5,828
Amounts receivable from clients, brokers and financial institutions	1,769	3	—	—	—	—	—	—	785	2,557
Reinsurance assets	27	48	58	50	47	124	255	973	—	1,582
Right-of-use assets	—	—	—	—	—	—	—	—	530	530
Investment property	—	—	—	—	—	—	—	—	926	926
Property, plant and equipment	—	—	—	—	—	—	—	—	1,531	1,531
Goodwill	—	—	—	—	—	—	—	—	157	157
Intangible assets	—	—	—	—	—	—	—	—	497	497
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,380	1,380
Net defined benefit plan assets	—	—	—	—	—	—	—	—	62	62
Deferred tax assets	—	—	—	—	—	—	—	—	789	789
Other assets – Other	710	362	185	13	20	21	50	12	2,005	3,378
Total assets	$ 45,600	$ 12,752	$ 14,746	$ 12,445	$ 15,395	$ 37,775	$ 135,891	$ 61,870	$ 60,611	$397,085

For footnotes see next page.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS *(continued)*

As at December 31, 2021	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals(3)	$ 4,858	$ 4,425	$ 10,317	$ 4,962	$ 7,389	$ 14,429	$ 13,352	$ 390	$ 76,210	$ 136,332
Business and government(3)	7,622	8,001	2,366	3,411	1,597	6,334	15,431	3,823	53,059	101,644
Deposit-taking institutions(3)	20	1	1	3	2	5	4	—	343	379
Acceptances	233	35	—	—	—	—	—	—	—	268
Commitments related to securities sold short(4)	147	536	133	40	8	1,240	2,637	6,597	4	11,342
Commitments related to securities lent or sold under repurchase agreements	31,177	—	—	—	—	—	—	—	—	31,177
Derivative financial instruments	155	187	377	260	348	1,822	2,198	153	—	5,500
Amounts payable to clients, brokers and financial institutions	1,040	2	—	—	—	—	—	—	6,896	7,938
Lease liabilities	6	10	16	15	15	60	162	303	9	596
Insurance contract liabilities	462	807	1,036	911	856	2,219	4,681	20,728	3,062	34,762
Segregated fund net liabilities	—	—	—	—	—	—	—	—	22,796	22,796
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	1,048	1,048
Deferred tax liabilities	—	—	—	—	—	—	—	—	301	301
Other liabilities – Other	2,933	1,013	677	57	52	149	109	29	2,497	7,516
Subordinated notes	—	—	—	—	—	—	—	1,960	—	1,960
Total equity	—	—	—	—	—	—	—	—	33,526	33,526
Total liabilities and equity	$ 48,653	$ 15,017	$ 14,923	$ 9,659	$ 10,267	$ 26,258	$ 38,574	$ 33,983	$ 199,751	$ 397,085
Off-balance sheet commitments										
Credit commitments(5)	$ 744	$ 81	$ 739	$ 1,002	$ 742	$ 2,596	$ 10,408	$ 126	$ 110,325	$ 126,763
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	2,382	2,382
Documentary letters of credit	7	2	6	1	2	—	—	—	—	18
Guarantees and standby letters of credit	219	224	337	303	200	25	34	41	17	1,400
Credit default swaps	—	—	—	—	—	—	645	—	—	645

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

NOTE 31 – SEGMENTED INFORMATION

Desjardins Group's financial reporting is grouped by activities, which are defined based on the needs of its members and clients and the markets in which Desjardins Group operates and reflect Desjardins Group's internal management method. Accordingly, Desjardins Group's financial results are grouped in three business segments, namely Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty insurance, plus an "Other" category.

The Personal and Business Services segment offers Desjardins Group's members and clients a comprehensive, integrated offering designed to meet the needs of individuals, businesses, institutions, not-for-profit organizations and cooperatives through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. This offering meets a range of needs including day-to-day transactions, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice and, through its distribution network, life and health and property and casualty insurance products. This segment also offers its products and services through complementary distribution networks and mortgage representatives, by phone, online and via applications for mobile devices, as well as ATMs.

The Wealth Management and Life and Health Insurance segment provides various categories of service offerings aimed at increasing the wealth of members and clients of Desjardins Group and helping them protect their financial security. These offerings are intended for individuals or 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 Desjardins 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.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in Québec and outside Québec, online and via applications for mobile devices.

The "Other" category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities and activities related to financial intermediation between surplus liquidity and the liquidity needs of the caisses. This category also includes the results of the support functions provided by the Federation to Desjardins Group. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments necessary to prepare the Combined Financial Statements, the intersegment balance eliminations are classified in this category.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Combined Financial Statements of Desjardins Group.

NOTE 31 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of Desjardins Group's financial results by business segment for the years ended December 31.

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Net interest income	**$ 5,631**	$ 5,005	**$ 7**	$ —	**$ —**	$ —	**$ 692**	$ 781	**$ 6,330**	$ 5,786
Net premiums	**—**	—	**6,166**	5,667	**6,005**	5,909	**(329)**	(298)	**11,842**	11,278
Other income	**3,027**	2,925	**(1,972)**	1,432	**101**	(58)	**(1,288)**	(1,043)	**(132)**	3,256
Total income	**8,658**	7,930	**4,201**	7,099	**6,106**	5,851	**(925)**	(560)	**18,040**	20,320
Provision for credit losses	**274**	75	**—**	—	**—**	—	**3**	(6)	**277**	69
Claims, benefits, annuities and changes in insurance contract liabilities	**—**	—	**634**	4,115	**3,911**	2,792	**(45)**	(24)	**4,500**	6,883
Non-interest expense	**6,860**	5,886	**2,653**	2,448	**1,612**	1,460	**(487)**	(228)	**10,638**	9,566
Operating surplus earnings	**1,524**	1,969	**914**	536	**583**	1,599	**(396)**	(302)	**2,625**	3,802
Income taxes on surplus earnings	**398**	510	**222**	73	**133**	402	**(178)**	(125)	**575**	860
Surplus earnings before member dividends	**1,126**	1,459	**692**	463	**450**	1,197	**(218)**	(177)	**2,050**	2,942
Member dividends, net of income tax recovery	**297**	284	**—**	—	**—**	—	**—**	—	**297**	284
Net surplus earnings for the year after member dividends	**$ 829**	$ 1,175	**$ 692**	$ 463	**$ 450**	$ 1,197	**$ (218)**	$ (177)	**$ 1,753**	$ 2,658
of which:										
Group's share	**$ 829**	$ 1,175	**$ 692**	$ 463	**$ 383**	$ 1,055	**$ (218)**	$ (178)	**$ 1,686**	$ 2,515
Non-controlling interests' share	**—**	—	**—**	—	**67**	142	**—**	1	**67**	143

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at December 31, 2022	**$ 321,357**	**$ 51,737**	**$ 15,473**	**$ 18,542**	**$ 407,109**
As at December 31, 2021	$ 306,878	$ 56,891	$ 16,574	$ 16,742	$ 397,085

NOTE 32 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and employee benefit plans, as well as certain entities for which the substance of the relationship indicates that they are related to Desjardins Group, including the Desjardins Funds. They also include Desjardins Group's key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH DESJARDINS GROUP'S RELATED PARTIES

Transactions with Desjardins Group's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The main transactions are associated with fund management and custody fees. They are also associated with management income from pension plans and interest expense paid to the Desjardins Group Pension Plan.

These transactions and balances as at the reporting dates are as follows:

	2022			2021		
	Associates / Joint ventures	**Other related parties**	**Total**	Associates / Joint ventures	Other related parties	Total
Combined Statements of Income						
Brokerage and investment fund services	**$ 1**	**$ 635**	**$ 636**	$ 1	$ 686	$ 687
Net investment income (loss)	**10**	**41**	**51**	3	(14)	(11)
Other income	**20**	**143**	**163**	13	58	71
Other expenses	**(6)**	**—**	**(6)**	(7)	(2)	(9)
Combined Balance Sheets						
Securities	**$ 51**	**$ 29**	**$ 80**	$ 60	$ 58	$ 118
Securities borrowed or purchased under reverse repurchase agreements	**—**	**226**	**226**	—	635	635
Loans	**114**	**3**	**117**	122	—	122
Segregated fund net assets	**—**	**3,308**	**3,308**	—	3,357	3,357
Other assets	**11**	**76**	**87**	6	24	30
Deposits	**97**	**132**	**229**	173	280	453
Commitments related to securities lent or sold under repurchase agreements	**—**	**12**	**12**	—	300	300
Other liabilities	**3**	**100**	**103**	1	99	100
Other						
Commitments given	**$ 142**	**$ 571**	**$ 713**	$ 103	$ 568	$ 671
Guarantees given	**40**	**143**	**183**	40	921	961
Guarantees received	**—**	**216**	**216**	—	642	642

KEY MANAGEMENT PERSONNEL COMPENSATION

Desjardins Group's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of Desjardins Group. In the normal course of operations, Desjardins Group carries out financial transactions with its management personnel. In addition to the compensation paid to key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance, and property and casualty insurance transactions with the various Desjardins Group entities. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of Desjardins Group's key management personnel was as follows:

	2022	2021
Short-term benefits	**$ 19**	$ 16
Other long-term and post-employment benefits	**11**	8
	$ 30	$ 24

Strong and effective governance practices

The values and democratic structure of Desjardins Group (Desjardins) are central to the organization's strategic vision and initiatives to create value for our members and clients through an exceptional product and service lineup that contributes to their financial empowerment. Representatives acting on behalf of caisse members contribute to the organization's governance. The rules for electing and appointing directors are set out in the *Bylaws of the Groupe coopératif Desjardins* (group bylaws) or the *Desjardins Group Policy on the Composition of Boards of Directors of Subsidiaries and Other Components*. A combination of caisse directors and co-opted directors from outside the caisse network sit on the boards of directors of the *Fédération des caisses Desjardins du Québec* (the Federation) and some of its subsidiaries. Only caisse directors attend the Federation's general meetings. The Federation's Board of Directors (Board) also has six co-opted members who are not elected caisse directors (but who are caisse members) to enrich the decision-making process with new perspectives and experiences. The same principles apply to members of some of our subsidiaries' boards. Most directors are from the caisse network, but the boards also benefit from the contribution of directors who aren't.

To prepare for their decision-making responsibilities, caisse directors regularly participate in team-building exercises and they attend the Congress, which is generally held every four years. As representatives of their caisse, these directors delve into the local needs of their members and communities and make sure we're always doing what's best for them. The boards of the Federation and our subsidiaries are also always responsible for making sure we're supporting and doing what's best for Desjardins clients and subsidiary shareholders across Canada, the United States and Europe.

We strive to continue 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 pursued our commitments to fight and adapt to climate change and have begun to reflect on the biodiversity conservation, topics that are increasingly important for our board. Our goals to be everyone's #1 choice and to enrich the lives of people and communities depend on collective efforts to protect resources and the environment. We work with other key players in the civil sector and in government to contribute to a sustainable, responsible economy.

Governance highlights

In 2022, the Federation made changes to the Board's governance practices to address its needs and to continue to align with regulatory guidelines.

The main highlights are:

1. Gathering for the 24th Desjardins Group Congress

On October 15 and 16, 2022, Desjardins Group held its 24th Congress at the Palais des congrès de Montreal under the theme "Working together to be everyone's #1 choice." In total, 1,041 delegates (caisse board members and general managers) came together for this important democratic event. These delegates discussed and weighed in on directions affecting our organization's governance.

2. Holding an advisory vote on total compensation directions at Desjardins Group

As part of the 5-year review of the *Total Compensation Policy* that applies to all employees, managers and members of senior management, including the President and CEO of Desjardins Group, the delegates voted in favour of the orientations proposed to them during a consultative vote at the Federation's annual general meeting on March 25 and 26, 2022.

The *Total Compensation Policy* reflects our cooperative nature and values. The guiding principles outlined in this policy help ensure sound management in the organization and:

- Attract, engage and retain the talent needed to fulfill our purpose and deliver quality service to our members and clients.
- Align all employees, managers and members of senior management, including the President and CEO of Desjardins Group, toward achieving the organization's cultural target of always doing what's best for our members and clients.
- Comply with environmental, social and governance factors, including pay equity for senior management and other employees, which is more important than ever and reflects Desjardins's cooperative values.

3. Holding caisse and Federation annual general meetings

In 2022, Desjardins Group annual general meetings introduced hybrid mode, which combines in-person and online attendance. Between March 28 and April 25, 2022, 212 Desjardins caisses in Quebec and Ontario successfully held online or hybrid annual general meetings. Since we introduced deferred voting in 2020, member participation in decision-making has climbed sharply. This year, 21,000 members attended their caisse's annual general meeting live or listened to the recording, and 138,000 members voted. That's an increase of 345% over the in-person annual general meetings in 2019. For the Federation, 1,069 registered voting delegates from Desjardins caisses across Quebec and Ontario attended the annual general meeting.

4. Pursuing commitments and rolling out initiatives for responsible finance, climate action and climate change adaptation

Highlights of the year:

- We joined the *UN Principles for Responsible Investment's collaborative Advance initiative*, where institutional investors commit to work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision-makers to drive positive outcomes for workers, communities and society.
- Along with more than 60 other organizations, we signed the Action Declaration on climate policy engagement, an initiative of Corporate Knights. The declaration is a clear promise from companies that are committed to sustainable development to take strides toward meeting the new climate policy standards from the Paris Agreement.
- We signed the Finance for Biodiversity Pledge, which will have more than 120 signatories by the end of 2022, with assets under management totalling over $20,000 billion. This initiative aims to use financial activities to protect and restore biodiversity.
- We launched sustainable development and responsible finance training for our 58,000 Desjardins employees, and 93% have completed it by the end of 2022.

When it comes to integrating environmental, social and governance factors into our strategic objectives and management practices, including climate change risk management, we've actively pursued our commitment to responsible finance as shown in our *Social and Cooperative Responsibility Report*, available on Desjardins.com and follows internationally recognized best practices for reporting.

Governance structure

At Desjardins, the primary purpose of our governance practices is to support our purpose of contributing to improving the economic and social well-being of people and communities. The Federation oversees the development and application of the Desjardins-wide governance framework, which takes into account our cooperative nature, our sustainable development and responsible finance objectives, the complexity of our operations and the AMF's guidelines and other regulatory requirements. This framework covers the activities of the Federation, the Desjardins Security Fund, our subsidiaries, Quebec caisses and Caisse Desjardins Ontario Credit Union Inc. As certain components are subject to specific laws and regulations, the structure largely complies with all applicable rules, including those of the Canadian Securities Administrators and the Office of the Superintendent of Financial Institutions, as well as industry best practices.

Mandate of the Board of Directors

1. Administration of the Federation

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Board is responsible for managing the affairs of the Federation, with support from its commissions and committees. It ensures that the necessary mechanisms and structures are in place for the Federation to fulfill its role as the organization that guides, plans, coordinates, monitors and controls all Desjardins operations. As part of its responsibilities, it makes the necessary decisions and coordinates the components' actions to support our organization over the long term. The organizational structure, which is built around the business segments and support functions, serves to optimize overall performance, streamline the organization and improve financial and risk management. The Board's responsibilities include the following:

a. Corporate culture

The Board is responsible for promoting the corporate culture based on Desjardins's values: money at the service of human development, democratic action, personal commitment, integrity and rigour in the cooperative enterprise, solidarity with the community and intercooperation, with a view to earning the trust of the public and ensuring members and clients have confidence in their financial services cooperative. The Board is responsible for respecting and enforcing the *Desjardins Code of Professional Conduct* while the Board of Ethics and Professional Conduct is responsible for ensuring that ethical rules are followed and for obtaining the required accountability.

At the heart of this ever-evolving culture is the strategic framework defined by the Board, which is based on Desjardins's purpose: *At Desjardins, we enrich the lives of people and communities through our members and clients*. All our decision-making and actions regarding our strategic priorities are guided by our goal of becoming everyone's #1 choice by always doing what's best for our members and clients.

The Federation has a Board of Ethics and Professional Conduct (BEPC) whose members are independent from management and from the Board. We also have a policy for reporting violations of regulations and of the *Desjardins Code of Professional Conduct*. This policy is combined with a confidential reporting mechanism that protects the anonymity of those who use it. We regularly remind employees of the existence of this governance mechanism.

The *Desjardins Code of Professional Conduct*, which is available to the public on Desjardins.com, applies to all Desjardins components. It includes a section on ethics and Desjardins's mission and values, and a section that describes the principles and all the rules of professional conduct. In relation to the first principle of *Desjardins Code of Professional Conduct*, the information regarding the respect of others is available to the public in Section 3 of the *Social and Cooperative Responsibility Report*. All Desjardins employees and directors must sign an annual acknowledgement that they have read and agree to uphold the Desjardins Code of Professional Conduct. The BEPC obtains a report and follows up on this.

b. Strategic and financial planning process

The Board has an ongoing strategic and financial planning process for Desjardins that includes a financial plan, crisis scenarios, a funding plan and a capitalization plan. This process is the basis for all other plans for Desjardins components and focuses on maintaining continuity, setting priorities and fostering commitment. The Board adopts a strategic plan that is updated periodically. For this process, it requests the participation of the caisses, Desjardins Group's democratic bodies and business segments, as well as the decision-making bodies of its subsidiaries.

The strategic planning process periodically calls on the Congress, which is an assembly of more than 1,000 caisse delegates. Mechanisms are in place to ensure that all components are aligned with key strategic directions. For example, the general incentive plan is used to set shared objectives that revolve around always doing what's best for members and clients and promoting unity, equity and synergy within the organization. These shared objectives encourage all managers and employees to put members and clients first.

The Board plays a supervisory, monitoring and control role in this process, with support from the Desjardins Group Management Committee (DGMC). The DGMC produces regular reports using a variety of mechanisms and tools such as the performance review so the Board can monitor the progress made on Desjardins's strategic plan and business plans, and make changes as needed.

c. Identification and management of main risks

The Board is responsible for identifying the main risks facing Desjardins, approving the organization's appetite for these risks and ensuring that management sets up the required systems to manage these risks in a sound and prudent manner. The Board is supported in these tasks by the Risk Management Executive Division and the Desjardins Group Monitoring Office. Backed by the Risk Management Commission (RMC), the Board works with the Audit and Inspection Commission (AIC), which is responsible for risks related to the financial reporting process. The DGMC also supports the Board in carrying out its responsibilities in this area. All RMC sessions include closed-door meetings with the Risk Management Executive Division, as well as closed-door meetings which are not attended by management.

A detailed presentation of the risk management principles applied at Desjardins can be found in the "Risk Management" section of the Management's Discussion and Analysis on page 58.

The mandates and lists of members of the commissions and committees that support the Federation's Board of Directors are available on Desjardins.com. There is also a report (in French only) detailing the annual highlights of the Risk Management Commission regarding its mandate and operations.

d. Succession planning

The Board oversees the senior management succession and development program with the support of the Human Resources Commission (HRC), which is chaired by an independant director, and the Human Resources and Communications Executive Division. The HRC runs the program and reports to the Board, making recommendations as needed. This program is an important tool for the DGMC, as it promotes personal development, supports succession planning and helps protect the organization against human resources-related risks.

Talent development, succession planning and hiring processes promote professional competency and diversity among Desjardins staff.

President and CEO

In keeping with Desjardins's cooperative nature, the President and CEO is chosen by an electoral college made up of representatives from all caisses in Quebec and Ontario, meaning the successful candidate is backed by the majority, ensuring their ability to lead, align and unite the organization. The maximum tenure is eight years (two four-year terms). The Board of Directors and its CEO Total Compensation and Succession Planning Committee(1) do not have the power to appoint the President and CEO. However, they do play a role in succession planning, compensation, working conditions, annual objectives and the assessment of annual objectives. The Board is also responsible for ensuring smooth transitions between mandates by adopting the major parameters of each four-year plan, which becomes the base for the next strategic plan, and by updating the President and CEO profile based on Desjardins's status as a domestic systemically important financial institution.

The electoral process is governed by the group bylaws and the Desjardins Code of Professional Conduct and is overseen by the Nomination and Election Committee, made up of at least five members appointed by the Board who reflect the enhanced group profile the Board has adopted. The committee is responsible for establishing the rules of the electoral process and the rules of conduct applicable to the electoral college, candidates, employees and directors from Desjardins caisses, assessing how the candidates fit the profile and recommending that the Board of Directors remove candidates who do not meet the minimum requirements for the position. 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 Nomination and Election Committee.

Considering the fact that risk management for Desjardins's leadership transition process is the responsibility of the Federation's Board, the bylaws also allow for the following: when someone new assumes the role of President and CEO, this is done immediately following the Annual General Meeting and there is a structured transition process lasting up to six months, under the Board's supervision.

Senior Executive Vice-President and COO

To bolster independence, stability and succession planning, the Board approves the appointment of the Senior Executive Vice-President and COO, who assumes, for the purposes of the law and the group bylaws, the role of general manager of the Federation. The Senior Executive Vice-President and COO also recommends a working organizational structure for Federation and Desjardins senior management to the President and CEO. The Board of Directors plays a role in succession planning through the senior management succession program overseen by the HRC.

(1) The "succession" aspect of his mandate was formalized in December 2022.

e. Integrity of internal control and management reporting systems

The Board, backed by the AIC, ensures the implementation of effective control systems and processes and obtains the required reporting information from management. The Board is supported in this responsibility by Desjardins's Chief Monitoring Officer, whose internal audit charter and audit plan are approved by the AIC. A rigorous financial governance process is applied throughout Desjardins to properly support the Executive Vice-President of Finance and CFO who, together with Desjardins's President and CEO, is responsible for certifying Desjardins's Combined Financial Statements.

Desjardins discloses financial information in compliance with CSA *National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109).* However, unlike the Federation, Desjardins is not, on a combined basis, a reporting issuer according to the National Instrument or any other applicable securities regulations. In accordance with the decision issued by the Autorité des marches financiers (AMF) on April 23, 2021, Desjardins Group's combined financial statements and management report are now submitted by the Federation instead of the Federation's combined financial statements and management report in order to satisfy the financial disclosure obligations that apply to the Federation as a reporting issuer. Further, the Federation maintains controls and procedures for Desjardins Group's combined financial statements and management report in accordance with *NI 52-109*. Since April 23, 2021, in accordance with the decisions of the AMF and the CSAs, the Federation has been using Desjardins Group's combined financial statements and management report for all relevant purposes as set out in the applicable securities regulations. Information about the controls and procedures for Desjardins Group's combined financial statements and management report is presented in section 5.0 "Additional Information" of the 2022 management report.

We continuously monitor our internal control system to make sure it's effective, efficient and tailored to our organization's needs. This system is designed to provide the boards of directors of Desjardins subsidiaries and components with reasonable assurance that the components are achieving their business objectives in compliance with regulatory requirements.

The Board of Directors ensures that the DGMC provides the Board and its commissions and committees with information that is accurate, timely and adapted to the specific needs of its directors so they can take advantage of business opportunities and measure the risks involved. Board members are invited to assess the quality of documents used in the decision-making process. This is a recurring segment on the agenda to ensure continuous improvement.

The Board benefits from the information used by each business segment to effectively monitor key performance indicators, meaning the Board can quickly obtain strategic information pertinent to the decision-making process.

At least once a quarter, Board members receive financial reports, operating reports so they can assess Desjardins's situation and status reports on the Federation's projects. The Board ensures that appropriate policies and procedures are in place to facilitate the production and presentation of these reports.

To effectively carry out its duties, the Board holds regular meetings on a predetermined schedule. Board members receive the meeting agenda in advance, along with any relevant documentation, to ensure productive discussions and to facilitate the decision-making process. The Board constantly seeks to increase its efficiency and focus its efforts on strategic issues by optimizing meeting agendas and by delegating certain operational responsibilities to the DGMC. The DGMC's mandate, which clarifies how responsibilities are divided between the Board and senior management, is reviewed annually.

Directors have access to technological tools so they can easily and securely access all meeting-related documentation and framework governing Desjardins's operations. They are required to comply with Desjardins's *Information Security Policy*.

f. Strategic communications

The Board adopts the *Desjardins Group Communications Policy* and strategic communications priorities for Desjardins, in line with Desjardins Group's strategic and financial plans, including actions to be taken and targets. The Federation also draws up an integrated Desjardins-wide communications plan in order to better manage relations with the caisses and their members; the business segments and their clients; employees; socioeconomic, community and non-governmental organizations; opinion makers; the public; the media; rating agencies; governments; and regulatory authorities. 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 compliance team, the Desjardins ethics and professional conduct support team and the caisse complaint-handling procedure; as well as, within Desjardins: the annual general meetings, the Collaboration Forum, the disclosure of quarterly financial results, publications (including our annual report and the Social and Cooperative Responsibility Report), toll-free telephone numbers, intranet portals for employees and for caisse directors, the website (which includes information on the Co-opme program on education, cooperation and dialogue with our members and clients, as well as a Member Relations section and an Investor Relations section), the Federation's member services team, the procedure for reporting violations of regulations and of the *Desjardins Code of Professional Conduct*, newsletters and social media (Facebook, YouTube, LinkedIn, Twitter, Instagram, 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. In 2021, the Federation created the Regulatory Activities Coordination and Advisory Services Administrative Department and adopted the *Policy on the Management of Regulatory Authority Findings and Action Plans*. Because of the complexity of its operations, Desjardins works with over 80 regulatory authorities. The purpose of this new unit is to help build effective and efficient relationships between Desjardins and regulators.

2. Composition and nomination of the Federation's Board of Directors and Board of Ethics and Professional Conduct

The *Act respecting financial services cooperatives* requires the Federation to set out the number of directors, which must not be less than five, in its bylaws. In 2022, the Federation's Board of Directors consisted of 19 members, 18 of whom are independent directors. The final member is the President and CEO of Desjardins Group. Of the 18 independent directors:

- 12 are caisse directors who were elected by the delegates of the Federation member caisses during the annual general meeting. These directors represent our cooperative foundations and have in-depth knowledge of their community and the activities of Desjardins. One position for a director from the caisse network is vacant, but will be filled at the Federation's 2023 annual general meeting.
- 6 are not caisse directors, but caisse members co-opted by the Board of Directors with complementary and diverse skills and experiences.

One seat is reserved for the President and CEO of Desjardins Group, who is elected by a different electoral college than the other members of the Board, consisting of one representative from each Desjardins caisse. The President and CEO never votes to select other members of the Board, which helps the Board and senior management remain independent.

There are also two caisse general managers who have observer status and the right to speak, but not the right to vote. Their participation aims to support the Board of Directors in the evaluation of strategies and objectives to ensure the implementation of orientations in line with the needs of members and clients.

Additionally, the following members of management support the Board with its roles and responsibilities by attending its meetings: the Senior Executive Vice-President and COO; the Executive Vice-President, Finance and CFO; the Executive Vice-President, Cooperation, Director Support and President's Office; and the Secretary General and Vice-President, Governance and Sustainable Development.

Candidates for the positions of elected and co-opted directors and for elected positions on the BEPC are reviewed by the Nomination and Election Committee as outlined in the *Policy Governing the Integrity and Competency of Directors of the Federation, its Subsidiaries and Members of the Board of Ethics and Professional Conduct*. This committee then recommends a pool of candidates for the Board and the BEPC to elect or co-opt. It may also recommend to these bodies that they reject candidates who do not meet their enriched collective profile and strengthening areas.

Members of the Board and the BEPC have four-year renewable terms, and each year around one-quarter of Board and BEPC members are outgoing. They are subject to a limit of three terms, consecutive or not.

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 of cooperative nature; and representation from diverse communities, members and clients. The Federation has designed tools to help electors understand what is expected of directors and what the board needs, so they can make an informed choice when they vote. The Board's role is to put in place strategies to fulfill all of the responsibilities required by its enhanced group profile and to present candidates who contribute to reaching the required skillset mix at the annual general meeting. The BEPC plays the same role for that governing body, which is independent from the Board of Directors. The general meeting's role is to elect people who meet the requirements set by the Board and the BEPC.

Desjardins has adopted a gender parity priority for the boards of directors of the Federation, its caisses and its subsidiaries. Parity is taken into account in the electoral, co-optation and nomination processes. Our goal is to reach parity by 2024.

3. Definition of independent director

In line with the notion of independence defined in CSA *National Instrument 52-110 – Audit Committees* and the AMF *Governance Guideline*, a director is independent if they do not have a significant relationship, directly or indirectly, with Desjardins that, in the opinion of the Board, may affect the independence of their judgment and their ability to act in the best interests of the organization.

The only non-independent member of the Board of Directors is Desjardins's President and CEO, who is a member of Federation management. The directors do not have any business or personal, professional or financial ties to any other members of the Board or to members of the DGMC or anyone reporting to them, nor do they have any interests which, in the opinion of the Board, could significantly interfere with their ability to act in the best interests of the Groupe coopératif Desjardins, or any interests of any other nature which, in the opinion of the Board, could reasonably be perceived as harmful. As a result, the members of the Board, both individually and collectively, are able to exercise objective and impartial judgment on Desjardins business free of undue influence from senior management or third parties. However, given that directors could also have similar roles on the boards of other companies, under certain circumstances a real or potential conflict of interest may arise due to their duties to the Federation and to the other companies.

For guidance in these matters, the Board of Directors refers to the provisions of the *Desjardins Code of Professional Conduct* and the *Conflict of Interest Management Policy*, which govern the actions of its directors, and to the declarations of interests filed annually by the directors. To make sure the assessment follows Basel Committee recommendations, we revised the declaration of interests form in 2020 to add the disclosure of personal, professional and financial ties to other members of the Board or to members of the DGMC and anyone reporting to them. Directors are subject to rules of professional conduct that require them to avoid putting themselves in real or perceived conflict of interest situations. They need to declare any such situation to the governing bodies in question or to their superior and abstain from voting, making any decisions concerning the situation or influencing any votes or decisions.

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	Nadine Groulx	Serge Rousseau
Luc Bachand	Dominique Jodoin	Patricia-Ann Sarrazin-Sullivan
Lisa Baillargeon	Marie-Josée Lamothe	Stéphane Trottier
Jordan Baril-Furino	Maryse Lapierre	
Johanne Charbonneau	Denis Latulippe	
Geneviève Côté*	Michel Magnan	
André Grenier	Paula Parhon**	

* Geneviève Côté was co-opted by the Board of Directors on September 27, 2022 to fill one of the two seats that became vacant during the year.
** Paula Parhon was elected at the annual general meeting on March 25 and 26, 2022.

The terms of Stéphane Corbeil, Michel Doré, Marie-Eve Tremblay and Yvon Vinet ended on March 26, 2022. Michel Tourangeau's term ended on April 6, 2022, and Kateri C. Jourdain's term ended on June 22, 2022.

Non-independent directors and bases for that determination

According to the notion of independence defined in *CSA National Instrument 52-110 – Audit Committees* and the AMF *Governance Guideline*, only Guy Cormier is considered a non-independent director because he is a member of Federation management.

4. Performance reviews and director skills

Performance reviews

The Board and its commissions and committees conduct a review of their performance every two years. A two-year action plan based on these performance reviews is then submitted to the Board by the Corporate Governance and Responsible Finance Commission (CGRFC), which oversees the plan.

This exercise is accompanied by individual meetings between each director, the Chair and the Vice-Chair of the Board and Lead Director. These meetings, whether formal or not, are intended to enhance the performance of decision-making bodies and each director's contribution. These meetings are held regularly throughout the year. The Vice-Chair and Lead Director meets at each meeting, without the Chair of the Board present, with the Board to monitor its independence and ensure exemplary conduct. At the end of each meeting, the members discuss the Board's efficiency and the quality of documentation behind closed doors.

The Board of Ethics and Professional Conduct also conducts performance reviews like this.

Director skills

The Board has adopted an enhanced group profile with criteria to help preselect candidates for election at the general meeting and members co-opted by the Board. The profile also guides the disclosure of how well the membership of the Federation's Board lines up with these criteria. Since the combination of skills and areas of expertise varies with the arrival and departure of directors, the Federation has established competency targets to determine the minimum number of directors with the skills needed to ensure that the Board can operate effectively and fulfil its responsibilities.

On the recommendation of the CGRFC and in accordance with the integrity and competency criteria in the AMF *Governance Guideline*, the Board performs a self-assessment of the skills of its members. Every two years, each member completes a self-assessment grid for this purpose. An external firm holds periodically one-on-one interviews with the Board. The results of the self-assessments and the one-on-one interviews are used to establish the objectives and individual development plans. The Chair and the Vice-Chair and Lead Director are responsible for this process, , which takes into account the results of the self-assessments.

The information below shows that the members of the Federation's Board collectively possess a wide range of experience and complementary skills that enable them to make an active and enlightened contribution to Desjardins's governance. The enhanced group profile adopted by the Board and the skills of its members are reviewed together annually, and the results show what the Board needs to focus on to satisfy this profile.

FEDERATION DIRECTOR SKILLS AND EXPERTISE

The composition of the Board of Directors is a key factor in governance. Member contributions are diverse and complementary, from gender to experience. To achieve the enhanced group profile, the directors—whether elected or co-opted—each contribute to helping the Board of Directors play its role and collectively shoulder all the responsibilities of a domestic systemically important financial institution. There is more information about the members of the Board of Directors on our website: Desjardins.com.

Guy Cormier, BAA, MBA

President and CEO of Desjardins Group and Chair of the Board since 2016. Key areas of expertise: Finance , cooperative governance and strategic management.

Other areas of expertise

- Management and culture
- Economics
- Insurance industry
- Responsible finance
- Digital shifts
- Human resources

Johanne Charbonneau, Accountant, FCPA, MBA, C.Dir.

Co-opted in 2019 and became Vice-Chair of the Board and Lead Director in 2021. Key areas of expertise: Accounting and finance.

Other areas of expertise

- **Auditing**
- **Compliance**
- **Risk management**
- **Savings cooperatives and insurance market**
- **Human resources**

Maryse Lapierre, Notary, LLB, DDN, ASC

Desjardins Group director since 2021 and Secretary of the Board since 2022. Key areas of expertise: Corporate law and notary law.

Other areas of expertise

- Ethics and professional conduct
- Entrepreneurship
- Governance

Louis Babineau, Professor, DBA, ASC

Elected in 2016. Key areas of expertise: **Governance and project management**.

Other areas of expertise

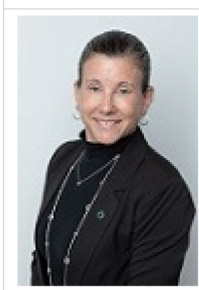
- Information technology
- International cooperation

Luc Bachand, MBA, ICD.D, FICB

Co-opted in 2021. Key areas of expertise: **Capital markets and risk management**.

Other areas of expertise

- Audits, finance and accounting
- Financing
- Mergers and acquisitions
- Governance



Lisa Baillargeon, Professor, PhD, MBA, CPA, C.Adm, ICD.D

Elected in 2019. Key areas of expertise: **Governance and process management**.

Other areas of expertise

- Accounting
- Education and training
- Management

Jordan Baril-Furino, Engineer, MBA

Elected in 2021. Key areas of expertise: **Engineering and consumer habit analysis through data mining**

Other areas of expertise

- Entrepreneurship
- Operational management

Geneviève Côté, Director of the Festival international de la chanson de Granby, Lawyer, ASC, C.Dir.

Desjardins Group director since 2022. Key areas of expertise: **Corporate law and digital transformation**.

Other areas of expertise

- Governance
- Business financing
- Data management and information security
- Canada-wide and international experience

André Grenier, Agrologist and Agribusiness Management Consulting Firm President

Desjardins Group director since 2018. Key area of expertise: **Agribusiness management and financing**.

Other areas of expertise

- Corporate financial analysis
- Corporate strategic consulting
- Mediation, damage assessment and asset valuation

Nadine Groulx, Agricultural and Maple-Producing Entrepreneur

Desjardins Group director since 2017. Key areas of expertise: **Cooperative management, agribusiness and maple syrup production**.

Other areas of expertise

- Entrepreneurship
- Agricultural technology

Dominique Jodoin, Tech Company President and CEO, MBA, MSc

Desjardins Group director since 2020. Key areas of expertise: **Information technology and cybersecurity**.

Other areas of expertise

- Sales and marketing
- Canada-wide and international experience
- Risk management and compliance
- Corporate management

Marie-Josée Lamothe, President of a Digital Transformation Consulting Company and Professor of Practice, BSc

Co-opted in 2019. Key areas of expertise: **Digital transformation and brand management**.

Other areas of expertise

- Digital innovation and artificial intelligence
- Marketing
- Retail market
- IT security and management

Denis Latulippe, Actuary, FCIA, MBA, MSc, ASC

Co-opted in 2021. Key areas of expertise: **Actuarial science, insurance and pension plans**.

Other areas of expertise

- Social security
- Investments and wealth management
- Artificial intelligence applied to wealth management

Michel Magnan, Professor, PhD, FCPA, ASC, C.Dir.

Co-opted in 2021. Key areas of expertise: **Finance and accounting**.

Other areas of expertise

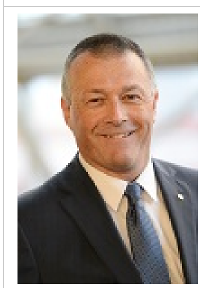
- Risk management and compliance
- Performance management
- Capital markets
- Compensation
- Social and environmental responsibility

Paula Parhon, IT Consulting Firm President, ASC, C.Adm.

Desjardins Group director since 2022. Key areas of expertise: **Information technology in the digital age**.

Other areas of expertise

- Governance
- Business intelligence
- Risk management and compliance



Serge Rousseau, Company Managing Director

Elected in 2014. Key areas of expertise: **Management and cooperative governance**.

Other areas of expertise

- Human and financial resource management
- Social services
- Network management
- Customer service

Patricia-Ann Sarrazin-Sullivan, Architect, C.Adm.

Elected in 2021. Key areas of expertise: **Sustainable architecture and responsible finance**.

Other areas of expertise

- Cooperative culture and business model
- Sustainable development

Stéphane Trottier, Ergonomist, MSc, ASC

Elected in 2016. Key area of expertise: **Ontario financial services**.

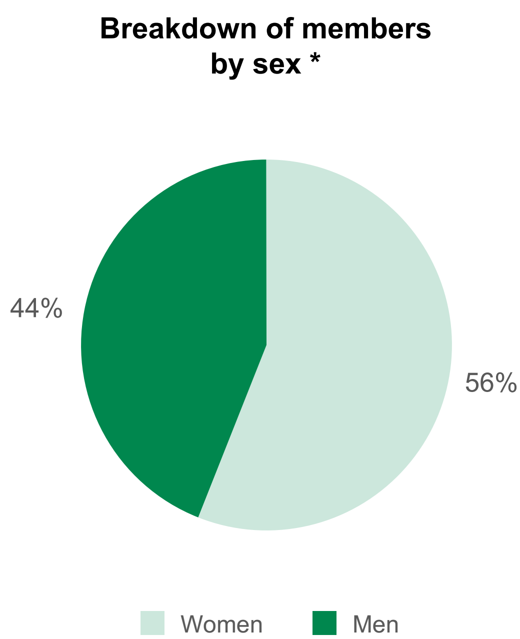
Other areas of expertise

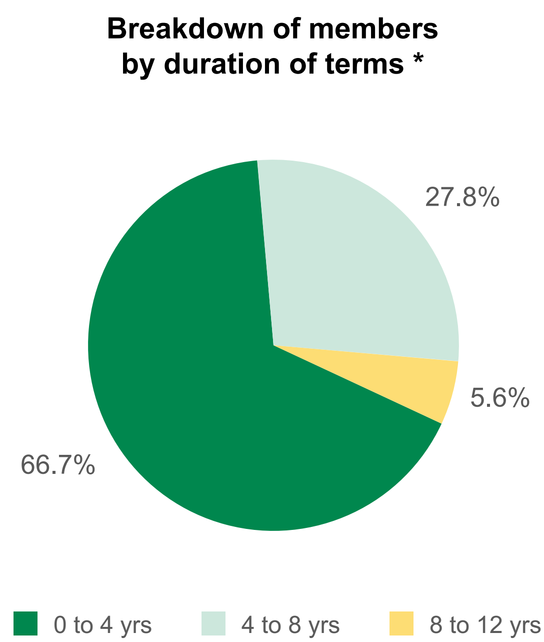
- Business administration
- Occupational ergonomics
- Governance

Observers

	**Kathleen Bilodeau, General Manager, Caisse Desjardins de Sillery—Saint-Louis-de-France**		**Neil Hawthorn, General Manager, Caisse Desjardins de Saint-Eustache–Deux-Montagnes**

INFORMATION ABOUT THE BOARD OF DIRECTORS





* Please note that:
– The group bylaws state that directors cannot serve more than 12 years.
– There is one vacant position on the Federation's Board.

Women's representation on Board commissions and committees:

EC	CCC	AIC	RMC	HRC	TCSPC	CGRFC
2/5 (40 %)	2/5 (40 %)	1/5 (20 %)	5/8 (62,5 %)	2/6 (33 %)	2/5 (40 %)	3/6 (50 %)

EC = Executive Committee; CCC = Cooperation and Culture Commission; AIC = Audit and Inspection Commission; RMC = Risk Management Commission; HRC = Human Resources Commission; TCSPC = CEO Total Compensation and Succession Planning Committee; CGRFC = Corporate Governance and Responsible Finance Commission.

5. Onboarding and training program for new Federation directors and BEPC members

The Federation oversees onboarding and continuous training for its Board members. It develops individual and group knowledge acquisition and enhancement activities, so Board members can learn more about the various aspects of their roles and responsibilities and Desjardins Group's operations. All new directors and members of the BEPC attend orientation sessions where they meet with members of management and receive a reference manual containing all the information they need to carry out their duties. Onboarding sessions are held to ensure effective and efficient integration of new members of Board commissions and committees.

The training program for Board members is based on needs identified through their skills self-assessments. In addition, an external firm periodically holds individual interviews with Board members. The results of the self-assessments and the individual interviews are used to establish individual objectives and development plans. The Corporate Governance and Responsible Finance Commission (CGRFC) reviews the results and proposes the two-year shared skills development program to the Board. 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 and enrichment activities with external experts to help the Board expand its knowledge base for informed and independent decision-making. The Board's commissions and committees suggest new training activities annually based on the needs of their members. The same applies to the Board of Ethics and Professional Conduct.

With a focus on knowledge continuity, skills and collegiality among directors, the Board supports the electoral college with candidate selection to make sure it takes into account the need to strengthen the seniority of the Board and BEPC.

In 2022, directors and members of commissions and committees attended sessions on the following topics:

Topics	Participants
Evolution of global financial sector trends to better understand the competitive environment	CA
Cloud computing (trends, main concepts, market examples and Desjardins positioning)	CA
Technological trends	CA
Google, Apple, Facebook, Amazon, Microsoft and new players / Open financial services	CA
Fundamentals for a recovery plan	CA
Personal information	CA
Equity, diversity and inclusion	CRH
Respect for others and civility	CRH
Value-creating governance	CGFR
Extra-financial reporting	CGFR
Compliance news and trends	CGR
Third-party risk, impacts and lessons learned	CGR
Three lines of defence model	CGR
Management framework for climate-related risk analysis and its development	CGR
Management framework for model risk analysis and its development	CGR
The cooperative ecosystem in Quebec and Canada	CCC
Organizational culture	CCC
Best practices for collaboration mechanisms and stakeholder roles	CCC
IFRS and regulations (collective allowance, rate reform, investment valuation)	CAI
IFRS 17 Insurance Contracts (review of concepts, impact on financial statements, audit approach)	CAI

BoD (Board of Directors); CCC (Cooperation and Culture Commission); AIC (Audit and Inspection Commission); RMC (Risk Management Commission); HRC (Human Resources Commission); CGRFC (Corporate Governance and Responsible Finance Commission).

6. Compensation policy for Federation directors and BEPC members

The Board of Directors reviews, whenever it deems it necessary and at least every five years, its policy on the compensation of Federation directors and BEPC members. It receives recommendations from the Corporate Governance and Responsible Finance Commission, which keeps a close eye on industry developments. The policy's compensation rates are consistent with those of comparable cooperative organizations in Quebec, across Canada and in Europe.

The applicable frameworks on compensation for Desjardins Group officers include guidelines for calculating the compensation for elected caisse and Federation directors, BEPC members and the directors of some Desjardins subsidiaries.

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 at the Federation's general meeting. The total compensation budget (annual stipends plus attendance fees) is reported at the general meeting. A report on changes to the compensation budget is presented at the general meeting every year. The total budget for 2022 was $2,206,000, the same as in 2021.

The policy's compensation rates can be found on page 241 of this section of the Desjardins Group annual report.

7. Independence of the Board of Directors from Desjardins management

Desjardins's governing bodies have established a number of structures and procedures to ensure the Board's independence from management:

- There is only one Board member who is also a member of Desjardins management: the President and CEO of Desjardins, who is also a director elected by an electoral college made up of representatives from all caisses. Since the President and CEO does not select the members of the Board, its legitimacy and independence are ensured.The Board's commissions and committees suggest new training programs annually based on the needs of their members. The same applies to the Board of Ethics and Professional Conduct.

- The Vice-Chair and Lead Director, an independent director who is not from the caisse network, ensures the Board's independence from management at all times. The Vice-Chair and Lead Director presides over Board meetings when the issues being discussed require the recusal of the Chair of the Board and CEO, and over closed-door meetings reserved for independent directors. This person also reports to the Board annually on their activities and actions taken to ensure Board independence. The group bylaws state that the Vice-Chair and Lead Director replaces the Chair when the Chair has a real or perceived conflict of interest or is otherwise unable to act. A description of this position is available in the *Governance Policy*.

- The directors hold periodic informal meetings among themselves. The Chair of the Board and CEO of Desjardins provides updates to the members of the DGMC who assist the Board, since DGMC members are not present at these meetings.

- Closed-door sessions not attended by management (except for the Chair of the Board and CEO) are held at the end of each meeting of the Board and of the Executive Committee. The same is true for Board commissions and committees.

- Closed-door sessions not attended by the President and CEO are held with the individuals in independent oversight functions, namely the Executive Vice-President, Finance and CFO; the Executive Vice-President, Risk Management; the Vice-President and Chief Compliance and Privacy Officer; the Chief Monitoring Officer; and the Chief Security Officer.

- Closed-door sessions between independent directors, not attended by the Chair of the Board and CEO, are held at the end of each meeting of the Board and the commissions and committees this person sits on.

- The Board periodically holds a closed-door meeting with the BEPC.

- The Corporate Governance and Responsible Finance Commission, the CEO Total Compensation and Succession Planning Committee, and the Audit and Inspection Commission are chaired by independent directors who are not caisse directors. The Cooperation and Culture Commission, the Risk Management Commission and the Human Resources Commission are chaired by independent directors from the caisse network.

- The Corporate Governance and Responsible Finance Commission (CGRFC), chaired by the Vice-Chair of the Board and Lead Director and of which only one member is a non-independent party, assumes responsibility for:
  - Managing relations between the Board and the DGMC.
  - Ensuring that the Board fulfills its duties (however, the responsibility of drawing up and overseeing meeting agendas for the Board and its commissions/committees falls to the Chair of the Board and is subject to the process for assessing the effectiveness of governing bodies. Providing a direct line between the Vice-Chair of the Board and Lead Director and the Secretary General, who assumes functional leadership of the CGRFC and the BEPC.

- Only independent directors serve on the CEO Total Compensation and Succession Planning Committee (TCSPC).

- The division of responsibilities between the Board and the DGMC is formally documented in the *Governance Policy* and the mandates of these two governing bodies, which define their respective areas of activity.

- The President and CEO can appoint and replace the Senior Executive Vice-President and COO, but the Board's approval is required. This safeguard allows the Board to assess the relationship between the CEO and the COO.

- The members of the Human Resources Commission (HRC) and the CEO Total Compensation and Succession Planning Committee (TCSPC) are supported, when needed, by an external consultant when dealing with issues involving total compensation for senior management. Since 2021, the composition of these bodies has included an external member. This external member is an independent director with one of our insurance subsidiaries, with expertise in total compensation.

Rationale for combining the functions of Chair of the Board and CEO

The responsibilities of the President and CEO of Desjardins Group are set out in the group bylaws. The functions of Desjardins's Chair of the Board and CEO are concurrent. This decision, which was made at a general meeting of the Federation and reaffirmed in 2018, has been integrated into the group bylaws. Historically, the reason for this choice was to foster unity at the management level, given the decentralized democratic structure of Desjardins Group, while putting in place safeguards to ensure a balance between the desired unity and the required independence of the Board.

The main safeguards, in addition to the ones presented in point 8, Independence of the Board of Directors from Desjardins management, are:

- The CEO is elected by an electoral college made up of a representative from each caisse. This individual's primary responsibility is to ensure the group is always doing what's best for members and clients, the group's interests are protected, democratic bodies are functioning properly and cooperative values are respected.

- The Chair of the Board and CEO has no influence over the choice of the directors who are elected at the annual general meeting, but may help identify the pool of candidates to fill the co-opted director positions. Ultimately, the Board's recommendation of who to appoint to these positions is the responsibility of the Nomination and Election Committee, supported by an external firm that specializes in filling board of director positions. The committee's composition ensures its independence from the President and CEO of Desjardins Group. The Chair of the Board and CEO also has no influence over the selection of BEPC members. The Chair of the Board and CEO is never involved in decisions surrounding the selection of members for these two decision-making bodies.

- The Board created the TCSPC, which is chaired by the Vice-Chair of the Board and Lead Director and made up entirely of independent directors, to eliminate any risk of conflict of interest. TCSPC meetings are closed-door. The committee also holds working sessions with the Board of Directors, which the President and CEO does not attend.

- Owing to the complex nature of Desjardins's management structure and activities, and to the expectations of regulators and the general public, it was deemed essential that the Chair of the Board be sufficiently familiar with the activities, business and projects of both the Federation and Desjardins in order to effectively act as a leader for the democratic and decision-making bodies, the management teams of the Desjardins subsidiaries, managers and employees.

- Desjardins's structure frees its President and CEO from the everyday operational concerns of the Federation and Desjardins. This person can therefore focus on other areas, such as: guiding the organization; defining, developing and overseeing the implementation of long-term strategic directions; listening to members and clients; overseeing development, innovation and governance; democratic and cooperative life; engaging people; and representing Desjardins as a socioeconomic leader.

- The group bylaws confirm that the responsibilities of the President and CEO are tied to those of the Board regarding group priorities and compliance with regulatory guidelines and other frameworks.

- With a view to freeing the President and CEO from operational matters, the Senior Executive Vice-President and COO oversees all Desjardins business segments and support functions. The Desjardins Group Monitoring Office (DGMO) reports functionally to the AIC and administratively to Desjardins Group's President and CEO. The AIC and Federation's BEPC are responsible for ensuring that the DGMO has the means to achieve its mandate in complete independence.

8. 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 TCSPC. The TCSPC is chaired by the Vice-Chair and Lead Director in accordance with the established independence standards. The President and CEO is not present for the committee's deliberations.

The degree to which these objectives are achieved is measured through a year-end review process. The TCSPC supervises the performance review of Desjardins's President and CEO and sets out how Board members participate in the process.

Senior Executive Vice-President and COO

The annual objectives of the Senior Executive Vice-President and COO are set by the Board, on the recommendation of the President and CEO, after first being presented to the Human Resources Commission.

Executive vice-presidents on the DGMC

The objectives of the executive vice-presidents on the DGMC are set by the President and CEO and the Senior Executive Vice-President and COO are set by the Board, and provided to the HRC and the Board for information purposes.

b. Variable compensation evaluation

President and CEO

The compensation paid to the President and CEO is determined by an evaluation of the annual objectives by the Board of Directors and the achievement of certain strategic planning priority targets.

Senior Executive Vice-President and COO and executive vice-presidents on the DGMC

The Board has established guidelines for setting objectives for the various indicators to ensure sound management of Desjardins's general incentive plan. The results are reviewed by the HRC and approved by the Board.

9. External consultants

A director may ask the Board to retain the services of an external consultant at the Federation's expense. The Board is reminded about this option annually. However, to ensure that such services are relevant, a request must be submitted to the Corporate Governance and Responsible Finance Commission.

Mandates and membership of the Federation's commissions, committees and BEPC

As at December 31, 2022

The Board creates committees and commissions and defines their mandates in order to support and streamline its guidance, planning, monitoring and control activities. These commissions and committees are made up entirely or almost entirely of independent parties. At the end of each meeting, the Board and these commissions and committees hold two closed-door sessions: one with the Chair of the Board and CEO, and a second one without the Chair of the Board and CEO or members of management, including observers. The composition and mandates for these bodies are reviewed annually. Any work carried out by a commission or committee is documented in a factual report, which is presented at the next Board meeting, and the commission or committee chair gives Board members a summary of the issues discussed.

The detailed mandates of these bodies are available on Desjardins.com.

Note: In this section, mong the directors who are members of the commissions and committees of the Fédération's Board of Directors, only the President and Chief Executive Officer of Desjardins Group is not an independent director.

EXECUTIVE COMMITTEE

In principle, this committee has the same functions and powers as the Board, with the exception of those which the Board may reserve for itself or assign to another committee or commission. The scope of this committee's mandate is limited to matters pertaining to the Federation's powers of intervention at the caisse level and the review of certain financial commitments so that strategic decisions remain the responsibility of the Board.

It is composed of five directors:
- Guy Cormier, Chair of the Board and Chair of the Committee
- Serge Rousseau
- Nadine Groulx
- Dominique Jodoin [i]
- Marie-Josée Lamothe

[i] Appointed on June 7, 2022.

Michel Tourangeau was member unitl April 6, 2022.

COOPERATION AND CULTURE COMMISSION

This commission assists the Board with issues related to Desjardins's cooperative and democratic culture as it pertains to our mission and values and their consideration in commercial and management practices. It ensures the effective and efficient implementation of mechanisms for collaboration, participation and connection with the network.

It is composed of five directors, plus one general manager observer:
- Nadine Groulx, Chair
- Louis Babineau
- André Grenier
- Dominique Jodoin
- Maryse Lapierre

Kathleen Bilodeau (caisse general manager) is an observer.

Kateri C. Jourdain was a member until June 7, 2022.

AUDIT AND INSPECTION COMMISSION

The Audit and Inspection Commission (AIC), established under the *Act Respecting Financial Services Cooperatives,* acts as the audit committee for the Federation's caisse inspection activities. Its members are all independent directors, including two representatives from Desjardins's insurance subsidiaries (Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group) who can participate in deliberations but cannot propose, second or vote on any recommendations made to the Board. Its chair is an independent director who is an FCPA.

The roles and responsibilities of this commission 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 internal controls for financial disclosure and assessing their accuracy. It has a direct line of communication with the DGMO, which oversees the internal audit of Desjardins subsidiaries and components and the inspection of Quebec and Ontario caisses. It also has a line of communication with the external auditors, should the need arise to discuss and review any issues. The 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. Functionally, the Chief Monitoring Officer reports to the AIC. Administratively, this person reports to the President and CEO of Desjardins Group. The commission works with the Federation's BEPC to ensure the independence and objectivity of the internal audit function, which is fulfilled by the DGMO. The commission 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 commission also works with the BEPC to make a recommendation to the Board on appointing or removing the Chief Monitoring Officer as the person in charge of the internal audit function.

It is composed of five directors, including two representatives from Desjardins's insurance subsidiaries (Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group) and an observer:
- Michel Magnan, Chair
- Luc Bachand
- Lisa Baillargeon
- Jordan Baril-Furino
- André Grenier [i]

[i] Appointed on June 7, 2022.

By the Chair's invitation, Robert St-Aubin and Clarence Turgeon (chairs of the Audit and Risk Management Committees at Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group, respectively) attend meetings with this commission as representatives of these two insurance subsidiaries. These two people can participate in deliberations but cannot propose, second or vote on any recommendations made to the Board.

Stéphane Corbeil and Michel Doré were members until March 26, 2022; Louis Babineau was a member until June 7, 2022.

Kathleen Bilodeau (caisse general manager) is an observer.

RISK MANAGEMENT COMMISSION

The main role of the Risk Management Commission (RMC) is to assist the Board with overall strategies and directions for risk management[(1)]. It ensures the implementation of an integrated risk management framework and standards and policies that establish the rules for accepting, monitoring, managing and reporting the material risks that Desjardins is exposed to. The RMC also monitors compliance with Desjardins's risk appetite framework and examines the steps that need to be taken when established limits have been exceeded. It also plays a role in monitoring Desjardins's investments.

It has eight members, including six directors and two external members in accordance with the *Policy on commission and committee membership* and two observers:

- Louis Babineau [(i)], Chair
- Christine Sayegh Filgiano [(i)], external member and independent director at Desjardins Financial Security Life Assurance Company
- Francine Côté, external member and independent director at Desjardins General Insurance Group
- Paula Parhon [(i)]
- Dominique Jodoin
- Marie-Josée Lamothe
- Patricia-Ann Sarrazin-Sullivan
- Stéphane Trottier

[(i)] Appointed on June 7, 2022.

Michel Doré was a member until March 26, 2022, and André Grenier and Claudia Champagne, external memberand independant director, were members until June 7, 2022.

Neil Hawthorn (caisse general manager) and Michel Magnan are observers.

HUMAN RESOURCES COMMISSION

The Human Resources Commission (HRC) supports the Board in the following areas: governance and risk management of issues relating to human resources and overall compensation across Desjardins; equity, diversity and inclusion; 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 has six members, including 5 directors and one external member in accordance with the *Policy on commission and committee membership*:

- Serge Rousseau, Chair
- Johanne Charbonneau, Vice-Chair of the Board and Lead Director
- Guy Cormier, Chair of the Board
- Denis Latulippe
- Julien Ponce, external member and independent director at Desjardins General Insurance Group
- Maryse Lapierre [(i)]

[(i)] Appointed on June 7, 2022.

Marie-Eve Tremblay was a member until April 6, 2022.

CEO TOTAL COMPENSATION AND SUCCESSION PLANNING COMMITEE

This committee, whose members are all independent directors, supports the Board with questions about compensation, working conditions, annual objectives and their assessment, and succession planning for the President and CEO. The "succession" aspect of his mandate was formalized in December 2022.

It has five independant members, including four directors and one external member in accordance with the *Policy on commission and committee membership*:

- Johanne Charbonneau, Chair and Vice-Chair of the Board and Lead Director
- Denis Latulippe
- Julien Ponce, external member of the Board and independent director at Desjardins General Insurance Group
- Serge Rousseau
- Maryse Lapierre [(i)]

[(i)] Appointed members on June 7, 2022.

Marie-Eve Tremblay was a member until March 26, 2022.

[(1)] Risk management includes all security risks (information security, personal data protection, financial crime prevention, fraud prevention and physical security), regulatory non-compliance risks and climate risk.

CORPORATE GOVERNANCE AND RESPONSIBLE FINANCE COMMISSION

This commission supports the Board in applying and updating Desjardins's corporate governance, sustainable development and responsible financing framework. It monitors best practices and examines guidelines and reports issued by regulatory authorities. It also assists the Board in administering its relationship with management and maintaining its independence. It oversees the performance review program for members of the Board and its commissions and committees, as well as the integration and skills development program for Federation directors. In addition, it examines Desjardins's Social and Cooperative Responsibility Report and recommends its adoption to the Board. It administers various policies, including the *Governance Policy*, D*esjardins Group Officer Compensation Policy*, the *Policy Governing the Integrity and Competency of Directors of the Federation, Its Subsidiaries and Members of the Board of Ethics and Professional Conduct*, and the *Desjardins Group Sustainable Development Policy*.

It is composed of six directors:

- Johanne Charbonneau, Chair and Vice-Chair of the Board and Lead Director
- Lisa Baillargeon
- Guy Cormier, Chair of the Board
- Nadine Groulx
- Michel Magnan
- Serge Rousseau

NOMINATION AND ELECTION COMMITTEE

This committee oversees the proper conduct of the election and co-optation process for positions on the Board of Directors and Board of Ethics and Professional Conduct. It reviews candidates for positions on the Board, the BEPC and the boards of subsidiaries based on their enhanced group profiles and skills assessment criteria. The committee also oversees the election of the President and CEO of Desjardins Group. It provides guidelines for the electoral process, ensures compliance with them and sets up processes that enable the electoral college to properly fulfill its role. It also establishes any other measures or rules necessary for the electoral and co-optation processes to run properly. In addition, it makes any other decisions about these processes within the limits of its powers and responsibilities as defined in its mandate. This mandate is adopted by the Board of Directors in accordance with the group bylaws. The committee is accountable to the Board.

It is composed of five independant members, including an independent director from the Federation Board of Directors, in accordance with the group bylaws:

- Louis Brunelle, Chair
- Hélène Lee-Gosselin, Vice-Chair
- Nicole Blanchette [i]
- Johanne Charbonneau, Vice-Chair of the Board and Lead Director
- Martine Lafrance

[i] Appointed on September 27, 2022.

Doryne Bourque was a member until May 2, 2022.

DESJARDINS GROUP RETIREMENT COMMITTEE

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the *Desjardins Group Pension Plan Regulation*, the Desjardins Group Retirement Committee (DGRC) is in charge of administering the Desjardins Group Pension Plan (DGPP), managing the pension fund and paying members and their survivors the benefits they are entitled to. The members share the role of trustee for the pension fund. It held 4 meetings in 2021.

The Federation assumes the responsibilities of the DGPP's sponsor. The Federation's Board has decision-making powers in certain areas, including the *Desjardins Group Pension Plan Regulation*, the nature and terms of benefit payments to members and retirees, contribution rates and the use of any surplus. The Federation stands surety for the obligations (payment of benefits) resulting from the participation of all Desjardins employers in the DGPP.

The DGRC has 11 members: six employer representatives (including the Chair), two who represent active members, two who represent non-active members and beneficiaries, and one external member. The employer representatives and the external member are appointed by the Federation's Board, and those who represent active members, non-active members and beneficiaries are elected.

Employer representatives:
- Denis Latulippe [i], Chair
- Claudia Champagne [ii], independent director at Desjardins Financial Security Life Assurance Company
- Maryse Lapierre [ii], Secretary
- Bernard Morency, independent director at Desjardins General Insurance Group
- Patricia-Ann Sarrazin-Sullivan [ii]
- Stéphane Trottier, Vice-Chair

[i] Appointed president on June 7, 2022.
[ii] Appointed on June 7, 2022.

Stéphane Corbeil, Marie-Eve Tremblay and Yvon Vinet remained on the committee until their replacement on June 7, 2022.

Active member representatives:
- Dominic Laurin
- Brigitte Chabarekh, observer

External member:
- Marc Saint-Pierre

Non-active member and beneficiary representatives:
- Jacques Dignard
- Robert Desbiens, observer

DGRC INVESTMENT COMMITTEE

Under the responsibility of the DGRC, which adopts the investment policy, the Investment Committee's mandate is to ensure that the policy is applied, respected and followed. The committee selects investment vehicles, awards mandates to portfolio managers and ensures that each investment meets expectations. It held 28 meetings in 2022.

It has five members and an observer:
- Sylvain Gareau, Chair
- Patrick Chillis, Secretary
- Louis Beaulieu, observer
- Frédéric Godbout
- François Hudon
- Éric Lemay

BOARD OF ETHICS AND PROFESSIONAL CONDUCT

Pursuant to the *Act Respecting Financial Services Cooperatives*, the Federation has a Board of Ethics and Professional Conduct (BEPC) that is independent from its Board of Directors. The BEPC's five members are directors of caisses. The BEPC is supported by a team that reports to the Office of the Secretary General and Governance and Sustainable Development Division, which enables it to implement decisions resulting from its mandate.

The main responsibilities of this Board are to :
- ensure the independence and objectivity of the Office of the Ombudsman and the Federation's inspection service for the caisses (DGMO), and to work with the Audit and Inspection Commission to make recommendations to the Board regarding the appointment or removal of the person responsible for managing this service;
- adopt 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;
- support the caisses and the Federation in applying the rules of conduct, in particular by developing informative tools and activities along with an advisory services offer;
- issuing advice, observations and recommendations on ethical and professional conduct issues, particularly in cases of misconduct.

The BEPC holds closed-door meetings that are not attended by management.

It has five members:
- Michel Guénette [i], Chair
- Katia Cyr
- Ahmed Naciri
- Annie Vaillancourt
- Michel Yelle [i]

[i] Re-elected by acclamation on March 26, 2022.

DESJARDINS GROUP MANAGEMENT COMMITTEE

This committee supports the President and CEO and the Board in their responsibility of giving Desjardins a unified management structure. The DGMC helps the Board incorporate the strategic directions of the cooperative network, business segments and support functions and implement business development strategies. It also oversees operations in accordance with the rules and requirements set by the Board and other Desjardins governing bodies and regulatory authorities. The DGMC is responsible for operational matters with economic, environmental and social significance that have an impact on Desjardins. It makes sure that all Desjardins's operations are above board and that its managers and employees act with integrity. The mandates of the DGMC and its committees were reviewed in the fall of 2020. It held 18 regular meetings and 4 special meetings in 2021.

It is composed of 13 management members, including 6 women (46%):

- **Guy Cormier**
  President and CEO of Desjardins Group
- **Réal Bellemare**
  Senior Executive Vice-President and COO
- **Jean-Yves Bourgeois**
  Executive Vice-President Business Services
- **Francine Champoux [i]**
  Executive Vice-President Risk Management
- **Marie-Huguette Cormier**
  Executive Vice-President Human Resources and Communications
- **Denis Dubois**
  Executive Vice-President Wealth Management and Life and Health Insurance
  President and COO, Desjardins Financial Security
- **Johanne Duhaime**
  Executive Vice-President Information Technology
- **Isabelle Garon [ii]**
  Executive Vice-President Cooperation, Director Support and President's Office
- **Di-Thai Hua [iii]**
  Executive Vice-President Operations
- **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 COO, Desjardins General Insurance Group
- **Alain Leprohon**
  Executive Vice-President Finance and CFO

[i] Will retire on March 31, 2023. The search for a replacement is underway.

[ii] Appointed on April 4, 2022, following the launch of the new Cooperation, Director Support and President's Office Executive Division. Until that date, she was Vice-President President's Office, Cooperation and Director Support.

[iii] Appointed on February 24, 2022, following the launch of the new Operations Executive Division. Until that date, he was Vice-president Accès Desjardins.

DGMC members are deemed to be Federation managers within the meaning of section 93 of the *Act Respecting Financial Services Cooperatives.* The following individuals are also considered Federation managers:

- Steeve Talbot, Chief Monitoring Officer
- Nicolas Coulombe, Chief Security Officer
- Marie-Andrée Alain, Vice-President and Chief Compliance and Privacy Officer
- Luc Boucher, Vice-President and Chief Legal Officer
- Pauline D'Amboise, Secretary General and Vice-President, Governance and Sustainable Development

The DGMC has Desjardins-wide coordination committees in the following areas:

- Disclosure
- Environmental, social and governance issues
- Finance and risk management
- Data governance
- Investment plan steering
- Climate change risk management

DIRECTOR COMPENSATION

Certain Desjardins components, namely the Federation and Desjardins Capital Inc., are subject to obligations regarding the disclosure of director compensation. As required by CSA *National Instrument 51-102 Respecting Continuous Disclosure Obligations*, the compensation of directors from these components is presented below and in the Federation's Annual Information Form. The Annual Information Form and the disclosure document are available on the SEDAR website (www.sedar.com) under the *Fédération des caisses Desjardins du Québec*'s profile.

Compensation rates for the members of the boards of directors of the Federation, Desjardins Technology Group and Desjardins Trust Inc., and the members of the Board of Ethics and Professional Conduct of the Federation

	Federation (1)	Subsidiaries
Chair of the Board of Directors (2)	**$0 Position is held by the President and CEO of Desjardins Group**	**$12,620**
Annual stipend for the chair of a commission or committee of the Board of Directors (3)	**$8,120 (not including the Audit and Inspection Commission)**	**$8,120**
Additional annual stipend for the chair of the Audit and Inspection Commission	**$16,240**	**N/A**
Annual stipend for the Vice-Chair of the Board of Directors	**$25,020**	**N/A**
Annual stipend for a member of the Board of Directors (4)	**$59,020**	**$12,020**
Annual stipend for a member of a commission or a committee of the Board of Directors (5)	**$2,530**	**$2,530**
Additional annual stipend for a member of the Audit and Inspection Commission	**$2,530**	**$2,530 (Audit and Risk Management Committee)**
Attendance fee for a meeting of the Board of Directors	**$1,510 (daily maximum)**	**$1,510 (daily maximum)**
Attendance fee for a meeting of a commission or committee of the Board of Directors (6)	**$1,510 (daily maximum) $755 (per half-day)**	**$1,510 (daily maximum) $755 (per half-day)**
Attendance fee for a short meeting (conference call, etc.)	**$255**	**$255**
Attendance fee for a meeting of the Board of Ethics and Professional Conduct or the Professional Conduct Committee(7)	**$3,020 (for the chair) $1,510 (for members)**	**$755 (per half-day)**

*** Rates came into effect January 1, 2022.

N/A: Not applicable

(1) The director compensation indicated for the Federation includes, where applicable, the portion paid to members of the Board to also serve as directors of Desjardins Trust Inc. Starting January 2023, only nine directors on the Board will be Desjardins Trust directors.

(2) The position of chair of the boards of directors of the following subsidiaries is held by a member of the Federation's Board: Desjardins International Development, Desjardins General Insurance Group Inc. and Desjardins Financial Security Life Assurance Company. On an exceptional basis, chairs can be chosen from among the directors from the caisse network who sit on the boards of these subsidiaries. In that case, a member of the Federation's Board will serve as vice-chair.

(3) The attendance fee is doubled in lieu of the annual stipend for the chairs of commissions or committees that hold fewer than four meetings per year, except for the chair of the CEO Total Compensation and Succession Planning Committee.

(4) A single stipend is paid for their roles on the board or any commission or committee of the Federation and Desjardins Trust. For the Federation, the annual stipend also covers directors' roles as members of the community collaboration groups and of the Collaboration Forum.

(5) A Board member's annual stipend includes all of the commissions and committees they sit on for the Federation and Desjardins Trust boards. In other words, a single stipend is paid for all positions held for each of these entities.

(6) The maximum daily attendance fee for the Federation and Desjardins Trust is $1,510, 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 as observers 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 $1,510 for the chair and $755 for members.

Director compensation

The compensation paid to each member in 2022 for the directors of the Federation and Desjardins Trust Inc. (Desjardins Trust) or for other duties listed below is detailed as follows:

Name	Compensation received as a director of the Federation and Desjardins Trust		Other fees [1]		2022 TOTAL ($)
	Attendance fees ($)	Annual stipend ($)	Attendance fees ($)	Annual stipend ($)	
Babineau, Louis (Chair of the Board, DGIG) [2]	52,200.32	64,839.53	15,930.00	36,000.00	168,969.85
Bachand, Luc	39,128.99	64,080.00	456.33	3,558.14	107,223.46
Baillargeon, Lisa (Chair of the Board, DID) [2]	51,874.73	61,550.00	6,435.59	42,200.00	162,060.32
Baril-Furino, Jordan	40,718.86	61,550.00	1,131.46	13,527.70	116,928.02
Bilodeau, Kathleen *	—	32,040.00	—	—	32,040.00
Charbonneau, Johanne [4]	64,071.04	102,810.00	1,020.00	24,483.36	192,384.40
Corbeil, Stéphane	12,242.66	15,387.50	402.67	8,898.58	36,931.41
Cormier, Guy [3]	—	—	—	—	—
Côté, Geneviève	4,805.00	14,755.00	—	780.08	20,340.08
Doré, Michel	15,887.47	17,417.50	355.35	1,577.50	35,237.82
Grenier, André (Chair of the Board, DSF) [2]	47,938.99	60,309.25	456.33	7,116.28	115,820.85
Groulx, Nadine	43,441.83	67,140.00	2,591.16	23,380.00	136,552.99
Hawthorn, Neil *	—	30,687.58	—	—	30,687.58
Jodoin, Dominique	46,769.48	61,550.00	1,655.83	7,116.28	117,091.59
Jourdain, Kateri C.	22,710.32	29,510.00	510.00	3,155.00	55,885.32
Lamothe, Marie-Josée	40,959.48	61,550.00	1,655.83	15,150.00	119,315.31
Lapierre, Maryse	41,625.32	59,020.00	—	7,426.42	108,071.74
Latulippe, Denis	37,585.32	61,550.00	—	27,402.56	126,537.88
Magnan, Michel	58,539.81	81,497.58	1,527.67	18,003.28	159,568.34
Parhon, Paula	33,300.00	44,265.00	—	—	77,565.00
Rousseau, Serge (Vice-Chair of the Board, DFS) [2]	53,575.71	67,140.00	1,484.62	6,607.08	128,807.41
Sarrazin-Sullivan, Patricia-Ann	43,345.32	59,020.00	—	7,426.42	109,791.74
Tourangeau, Michel	11,395.70	15,574.72	1,704.62	4,665.56	33,340.60
Tremblay, Marie-Eve	12,665.32	14,755.00	—	5,743.58	33,163.90
Trottier, Stéphane	41,835.32	59,020.00	—	13,170.00	114,025.32
Vinet, Yvon	10,610.32	14,755.00	255.00	12,584.94	38,205.26
Total	827,227.31	1,221,773.66	37,572.46	289,972.76	2,376,546.19

* Kathleen Bilodeau and Neil Hawthorn, caisse general managers, sit on the Federation's Board as observers. As observers, they each receive an annual stipend, but no attendance fees.

N/A : Not applicable

(1) Amounts received for: chairing the board of a subsidiary; sitting on the Desjardins Group Retirement Committee (DGRC) or the DGRC Investment Committee; sitting on the board of directors of Desjardins Financial Corporation Inc., and the Desjardins Security Fund; and contributing to other ad hoc committees.

(2) DID = Desjardins International Development, DGIG = Desjardins General Insurance Group Inc., DFS = Desjardins Financial Security Life Assurance Company, DSF = Desjardins Security Fund. On an exceptional basis, chairs can be chosen from among the directors from the caisse network who sit on the boards of these subsidiaries. In that case, a member of the Federation's Board will serve as vice-chair.

(3) 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 and Desjardins Financial Corporation Inc.

(4) Johanne Charbonneau receives compensation for her roles as Vice-Chair of the Board and Lead Director, Chair of the Corporate Governance and Responsible Finance Commission and Chair of the CEO Total Compensation and Succession Planning Committee.

Compensation of members of the Federation's Board of Ethics and Professional Conduct

Name	Attendance fees ($)
Cyr, Katia	6,990.00
Guénette, Michel	10,960.00
Naciri, Ahmed	6,735.00
Vaillancourt, Annie	6,990.00
Yelle, Michel	6,990.00
Total	38,665.00

Record of attendance for the members of the Federation's board of directors

Nom, prénom	BoD (regular)	BoD (special)	EC	CCC	AIC	RMC	HRC	TCSPC	CGRFC	DGRC
Babineau, Louis	11/11	12/12	—	12/14	4/4	6/6	—	—	—	—
Bachand, Luc	10/11	10/12	—	—	10/10	—	—	—	—	—
Baillargeon, Lisa	11/11	11/12	—	—	10/10	—	—	—	18/20	—
Baril-Furino, Jordan	11/11	11/12	—	—	9/10	—	—	—	—	—
Bilodeau, Kathleen	11/11	8/12	—	14/14	8/10	—	—	—	—	—
Charbonneau, Johanne	11/11	11/12	—	—	—	—	8/8	5/5	19/20	—
Corbeil, Stéphane	3/3	2/2	—	—	3/3	—	—	—	—	3/3
Cormier, Guy	11/11	12/12	5/5	—	—	—	8/8	—	19/20	—
Côté, Geneviève	2/2	3/3	—	—	—	—	—	—	—	—
Doré, Michel	3/3	2/2	—	—	3/3	3/3	—	—	—	—
Grenier, André	11/11	11/12	—	13/14	6/6	5/5	—	—	—	—
Groulx, Nadine	9,5/11	12/12	5/5	14/14	—	—	—	—	19/20	—
Hawthorn, Neil	10,5/11	12/12	—	—	—	10/11	—	—	—	—
Jodoin, Dominique	10/11	11/12	2/2	14/14	—	11/11	—	—	—	—
Jourdain, Kateri C.	5/5	6/6	—	7/7	—	—	—	—	—	—
Lamothe, Marie-Josée	10/11	10/12	5/5	—	—	9/11	—	—	—	—
Lapierre, Maryse	11/11	12/12	—	13/14	—	—	3/3	2/2	—	2/2
Latulippe, Denis	11/11	10/12	—	—	—	—	8/8	5/5	—	5/5
Magnan, Michel	11/11	9/12	—	—	10/10	10/11	—	—	19/20	—
Parhon, Paula	8/8	10/10	—	—	—	6/6	—	—	—	—
Rousseau, Serge	11/11	12/12	5/5	—	—	—	8/8	5/5	18/20	—
Sarrazin-Sullivan, Patricia-Ann	11/11	12/12	—	—	—	11/11	—	—	—	2/2
Tourangeau, Michel	3/3	2/2	1/1	—	—	—	—	—	—	—
Tremblay, Marie-Eve	3/3	2/2	—	—	—	—	4/4	2/2	—	3/3
Trottier, Stéphane	11/11	12/12	—	—	—	10/11	—	—	—	5/5
Vinet, Yvon	3/3	2/2	—	—	—	—	—	—	—	3/3

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, TCSPC = CEO Total Compensation and Succession Planning Committee, CGRFC = Corporate Governance and Responsible Finance Commission, DGRC = Desjardins Group Retirement Committee.

Board members commit to attending Board meetings and meetings of the commissions and committees to which they are invited, and to staying for the entire meeting. Each member of the Board must attend at least 75% of the meetings to which they are invited. Directors may be absent for professional or personal reasons, but justification is required in all instances.

The Board of Directors held 11 regular meetings over 19 days and 12 special meetings in 2022. The attendance rate of the directors at the Board meetings is 96.2%.

Record of attendance for the members of the Federation's Board of Ethics and Professional Conduct

Name	
Cyr, Katia	**11/11**
Guénette, Michel	**10/11**
Naciri, Ahmed	**10/11**
Vaillancourt, Annie	**11/11**
Yelle, Michel	**11/11**

Main components and subsidiaries[1]

As at December 31, 2022

Components and subsidiaries	Main activities
DESJARDINS CAISSES IN QUÉBEC AND CAISSE DESJARDINS ONTARIO CREDIT UNION INC.	Cooperative financial institutions
FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC	Planning, supervision, coordination, treasury and development of Desjardins Group, Desjardins Group's financial agent on the Canadian and international markets and payment solution and credit card issuance
COLLABRIA FINANCIAL SERVICES INC.	Payment solution and credit card issuance
DESJARDINS FINANCIAL SERVICES FIRM INC.	Mutual fund brokerage and financial planning services
DESJARDINS CAPITAL MANAGEMENT INC.	Development and venture capital fund management
DESJARDINS FINANCIAL HOLDING INC.	Holding company
Desjardins Financial Corporation Inc.	Holding company
Desjardins Global Asset Management Inc.	Asset management
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
FONDS DE SÉCURITÉ DESJARDINS	Financial reserve for the Desjardins caisses

(1) Additional information on Desjardins Group's activities is presented in Section 2.2 "Analysis of business segment results" in the 2022 Management's Discussion and Analysis.